

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2005

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER 1-5735

UNION FINANCIAL BANCSHARES, INC.

(Exact name of Registrant as specified in its Charter)

Delaware

(State or other Jurisdiction of  
Incorporation or Organization)

57-1001177

(I.R.S. Employer  
Identification No.)

203 West Main Street, Union, South Carolina 29379

(Address of Principal Executive Offices)

(864) 429-1864

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act.) Yes  No

The Corporation had 1,913,727 shares, \$0.01 par value, of common stock issued and outstanding as of April 25, 2005.

# UNION FINANCIAL BANCSHARES, INC.

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**Item 1. Financial Statements**  
**UNION FINANCIAL BANCSHARES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**March 31, 2005 and December 31, 2004 (unaudited)**

<b>ASSETS</b>	<b>March 31, 2005</b>	<b>December 31, 2004</b>
	<small>(DOLLARS IN THOUSANDS)</small>	
Cash	\$ 2,352	\$ 1,586
Short term interest-earning deposits	8,362	11,611
Total cash and cash equivalents	<u>10,714</u>	<u>13,197</u>
Investment and mortgage-backed securities		
Held to maturity	1,625	1,630
Available for sale	142,077	141,864
Total investment and mortgage-backed securities	<u>143,702</u>	<u>143,494</u>
Loans, net	176,332	171,094
Office properties and equipment, net	5,421	5,635
Federal Home Loan Bank Stock, at cost	3,561	3,522
Federal Reserve Stock, at cost	539	539
Accrued interest receivable	1,760	2,068
Intangible assets	4,053	4,212
Cash surrender value of life insurance	5,255	5,206
Other assets	3,082	2,631
<b>TOTAL ASSETS</b>	<b><u>\$ 354,419</u></b>	<b><u>\$ 351,598</u></b>
 <b>LIABILITIES</b>		
Deposit accounts	\$ 236,131	\$ 227,589
Advances from the Federal Home Loan Bank and other borrowings	63,500	63,500
Securities sold under agreements to repurchase	20,000	24,000
Floating rate junior subordinated deferrable interest debentures	8,247	8,247
Accrued interest on deposits	362	333
Advances from borrowers for taxes and insurance	108	40
Other liabilities	1,519	1,870
<b>TOTAL LIABILITIES</b>	<b><u>329,867</u></b>	<b><u>325,579</u></b>
 <b>SHAREHOLDERS' EQUITY</b>		
Serial preferred stock, no par value, authorized - 500,000 shares, issued and outstanding - None	--	--
Common stock - \$.01 par value, authorized - 5,000,000 shares, issued and outstanding - 1,913,069 shares at 3/31/05 and 1,957,989 at 12/31/04	19	20
Additional paid-in capital	12,178	12,109
Accumulated other comprehensive income(loss)	(873)	109
Retained earnings, substantially restricted	15,565	15,221
Treasury stock, at cost	(2,337)	(1,440)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b><u>24,552</u></b>	<b><u>26,019</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b><u>\$ 354,419</u></b>	<b><u>\$ 351,598</u></b>

UNION FINANCIAL BANCSHARES, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
Three Months Ended March 31, 2005 and 2004 (unaudited)

	Three Months Ended	
	March 31 2005	March 31 2004
	(DOLLARS IN THOUSANDS EXCEPT PER SHARE)	
<b>Interest Income:</b>		
Loans	\$ 2,823	\$ 2,458
Deposits and federal funds sold	58	12
Mortgage-backed securities	388	470
Interest and dividends on investment securities	1,142	1,102
<b>Total Interest Income</b>	<u>4,411</u>	<u>4,042</u>
<b>Interest Expense:</b>		
Deposit accounts	1,139	979
Floating rate junior subordinated deferrable interest debentures	128	99
Advances from the FHLB and other borrowings	694	704
<b>Total Interest Expense</b>	<u>1,961</u>	<u>1,782</u>
<b>Net Interest Income</b>	<u>2,450</u>	<u>2,260</u>
Provision for loan losses	208	135
<b>Net Interest Income After Provision for Loan Losses</b>	<u>2,242</u>	<u>2,125</u>
<b>Non-Interest Income:</b>		
Fees for financial services	543	575
Loan servicing fees	15	17
Net gain on sale of loans	11	35
Net gain on sale of investments	8	--
<b>Total Non-Interest Income</b>	<u>577</u>	<u>627</u>
<b>Non-Interest Expense:</b>		
Compensation and employee benefits	1,015	1,015
Occupancy and equipment	509	508
Deposit insurance premiums	8	8
Professional services	88	77
Advertising/Public relations	38	36
Loan operations	42	27
Deposit premium intangible	159	159
Items processing	32	65
Telephone	46	38
Other	165	147
<b>Total Non-Interest Expense</b>	<u>2,102</u>	<u>2,080</u>
<b>Income Before Income Taxes</b>	<u>717</u>	<u>672</u>
Income tax expense	178	163
<b>Net Income</b>	<u>\$ 539</u>	<u>\$ 509</u>
<b>Basic Net Income Per Common Share</b>	<u>\$ 0.28</u>	<u>\$ 0.26</u>
<b>Diluted Net Income Per Common Share</b>	<u>\$ 0.27</u>	<u>\$ 0.25</u>
<b>Dividend Per Common Share</b>	<u>\$ 0.10</u>	<u>\$ 0.10</u>
<b>Weighted Average Number of Common Shares Outstanding</b>		
<b>Basic</b>	<u>1,928,946</u>	<u>1,966,560</u>
<b>Diluted</b>	<u>1,992,002</u>	<u>2,068,639</u>

See notes to consolidated financial statements.

**UNION FINANCIAL BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Three Months Ended March 31, 2005 and 2004 (unaudited)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2005</b>	<b>2004</b>
	<small>(IN THOUSANDS)</small>	
<b>OPERATING ACTIVITIES:</b>		
Net income	\$539	\$509
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	208	135
Amortization of intangibles	159	159
Depreciation expense	236	240
Recognition of deferred income, net of costs	(87)	(66)
Deferral of fee income, net of costs	86	76
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	308	(220)
Increase in other assets	(255)	(578)
Increase (decrease) in other liabilities	(283)	1,564
Increase in accrued interest payable	29	28
Net cash provided by operating activities	<u>940</u>	<u>1,847</u>
<b>INVESTING ACTIVITIES:</b>		
Purchase of investment and mortgage-backed securities:		
Available for sale	(18,360)	(84,500)
Proceeds from sale of investment and mortgage-backed securities	4,370	--
Proceeds from maturity of investment and mortgage-backed securities:		
Available for sale	10,078	31,734
Principal repayments on mortgage-backed securities:		
Available for sale	2,477	4,068
Net increase in loans	(5,445)	(1,660)
(Purchase) redemption of FHLB stock	(39)	289
Purchase of office properties and equipment	(22)	(28)
Net cash used by investing activities	<u>(6,941)</u>	<u>(50,097)</u>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from the dividend reinvestment plan	26	31
Dividends paid in cash (\$0.10 per share -2005 and \$0.10 per share - 2004)	(196)	(197)
Proceeds from the exercise of stock options	43	20
Share repurchase program	(897)	(240)
Proceeds from term borrowings	--	24,000
Repayment of term borrowings	(4,000)	(1,275)
Increase in deposit accounts	8,542	4,060
Net cash provided by financing activities	<u>3,518</u>	<u>26,399</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,483)</b>	<b>(21,851)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b><u>13,197</u></b>	<b><u>28,702</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b><u>\$10,714</u></b>	<b><u>\$6,851</u></b>
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Cash paid for:		
Income taxes	\$100	\$ --
Interest	1,932	1,782
Non-cash transactions:		
Loans foreclosed	\$ --	\$647

See notes to consolidated financial statements.

**UNION FINANCIAL BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
Three Months Ended March 31, 2005 and 2004 (unaudited)

	<u>Common</u> <u>Shares</u>	<u>Stock</u> <u>Amount</u>	<u>Additional</u> <u>Paid-in</u> <u>Capital</u>	<u>Retained</u> <u>Earnings,</u> <u>Substantially</u> <u>Restricted</u>	<u>Accumulated</u> <u>Other</u> <u>Comprehensive</u> <u>Income</u>	<u>Treasury Stock</u> <u>At Cost</u>	<u>Total</u> <u>Shareholders'</u> <u>Equity</u>
	<i>(Dollars in Thousands, Except Share Data)</i>						
BALANCE AT DECEMBER 31, 2003	1,969,770	\$20	\$11,906	\$13,848	\$99	(\$366)	\$25,507
Net income				509			509
Other comprehensive income, net of tax							
Unrealized holding gains arising during period					703		703
Comprehensive income							1,212
Stock option activity	3,045		20				20
Dividend reinvestment plan contributions	1,877		31				31
Share repurchase program	(13,803)					(240)	(240)
Cash dividend (\$.10 per share)				(197)			(197)
	<hr/>						
BALANCE AT MARCH 31, 2004	1,960,889	\$20	\$11,957	\$14,160	\$802	(\$606)	\$26,333
BALANCE AT DECEMBER 31, 2004	1,957,989	\$20	\$12,109	\$15,221	\$109	(\$1,440)	\$26,019
Net income				539			539
Other comprehensive income, net of tax							
Unrealized holding losses arising during period					(990)		(990)
Less reclassification adjustment for gains included in net income					8		8
Comprehensive loss							(443)
Stock option activity	6,206		43				43
Dividend reinvestment plan contributions	1,540		26				26
Share repurchase program	(52,666)	(1)		1		(897)	(897)
Cash dividend (\$.10 per share)				(196)			(196)
	<hr/>						
BALANCE AT MARCH 31, 2005	1,913,069	\$19	\$12,178	\$15,565	(\$873)	(\$2,337)	\$24,552

## UNION FINANCIAL BANCSHARES, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

#### 1. Presentation of Consolidated Financial Statements

The accompanying unaudited consolidated financial statements of Union Financial Bancshares, Inc. (the "Corporation" or "Union Financial") were prepared in accordance with instructions for Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of consolidated financial condition, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments which are, in the opinion of management, necessary for the fair presentation of the interim consolidated financial statements have been included. All such adjustments are of a normal and recurring nature. The results of operations for the three months ended March 31, 2005 are not necessarily indicative of the results which may be expected for the entire calendar year. Certain amounts in the prior year's financial statements have been reclassified to conform with current year classifications.

#### **Recently Issued Accounting Standards**

The following is a summary of recent authoritative pronouncements that affect accounting, reporting, and disclosure of financial information by the Corporation:

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123(R)"). SFAS No. 123(R) will require companies to measure all employee stock-based compensation awards using a fair value method and record such expense in its financial statements. In addition, the adoption of SFAS No. 123(R) requires additional accounting and disclosure related to the income tax and cash flow effects resulting from share-based payment arrangements. SFAS No. 123(R) is effective beginning as of the first annual reporting period beginning after June 15, 2005. The Corporation is currently evaluating the impact that the adoption of SFAS No. 123(R) will have on its financial position, results of operations and cash flows. The cumulative effect of adoption, if any, will be measured and recognized in the statement of income on the date of adoption.

In April 2005, the Securities and Exchange Commission's Office of the Chief Accountant and its Division of Corporation Finance has released Staff Accounting Bulletin (SAB) No. 107 to provide guidance regarding the application of FASB Statement No. 123 (revised 2004), "Share-Based Payment". SFAS No. 123 covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SAB No. 107 provides interpretive guidance related to the interaction between Statement No. 123R and certain SEC rules and regulations, as well as the staff's view regarding the

valuation of share-based payment arrangements for public companies. SAB No. 107 also reminds public companies of the importance of including disclosures within filings made with the SEC relating to the accounting for share-based payment transactions, particularly during the transition to SFAS No. 123R.

In December 2003, the FASB issued FASB Interpretation No. 46 (revised), “Consolidation of Variable Interest Entities” (“FIN No. 46(R)”), which addresses consolidation by business enterprises of variable interest entities. FIN No. 46(R) requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity’s activities or entitled to receive a majority of the entity’s residual returns, or both. FIN No. 46(R) also requires disclosures about variable interest entities that a company is not required to consolidate, but in which it has a significant variable interest. FIN No. 46(R) provides guidance for determining whether an entity qualifies as a variable interest entity by considering, among other considerations, whether the entity lacks sufficient equity or its equity holders lack adequate decision-making ability. The consolidation requirements of FIN No. 46(R) applied immediately to variable interest entities created after January 31, 2003. The consolidation requirements applied to the Corporation’s existing variable interest entities in the first reporting period ending after December 15, 2004. Certain of the disclosure requirements applied to all financial statements issued after December 31, 2003, regardless of when the variable interest entity was established. In accordance with these rules, the Corporation deconsolidated the Trust as of December 31, 2004, which was formed to raise capital by issuing trust preferred securities. The full and unconditional guarantee by the Corporation for the trust preferred securities remains in effect.

In November 2003, the Emerging Issues Task Force (“EITF”) reached a consensus that certain quantitative and qualitative disclosures should be required for debt and marketable equity securities classified as available for sale or held to maturity under SFAS No. 115 and SFAS No. 124 that are impaired at the balance sheet date but for which other-than-temporary impairment has not been recognized. Accordingly, the EITF issued EITF No. 03-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.” This issue addresses the meaning of other-than-temporary impairment and its application to investments classified as either available for sale or held to maturity under SFAS No. 115 and provides guidance on quantitative and qualitative disclosures. The disclosure requirements of EITF No. 03-1 were effective for annual financial statements for fiscal years ending after June 15, 2004. The effective date for the measurement and recognition guidance of EITF No. 03-1 has been delayed. The FASB staff has issued a proposed Board-directed FASB Staff Position (“FSP”), FSP EITF 03-1-a, “Implementation Guidance for the Application of Paragraph 16 of Issue No. 03-1.” The proposed FSP would provide implementation guidance with respect to debt securities that are impaired solely due to interest rates and/or sector spreads and analyzed for other-than-temporary impairment under the measurement and recognition requirements of EITF No. 03-1. The delay of the effective date for the measurement and recognition requirements of EITF No. 03-1 will be superseded concurrent with the final

issuance of FSP EITF 03-1-a. Adopting the disclosure provisions of EITF No. 03-1 did not have any impact on the Corporation's financial position or results of operations.

Additional accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

## 2. Income Per Share

Basic income per share amounts for the three months ended March 31, 2005 and 2004 were computed based on the weighted average number of common shares outstanding during the period. Diluted income per share adjusts for the dilutive effect of outstanding common stock options during the periods.

## 3. Assets Pledged

Approximately \$71,549,000 and \$62,396,000 of debt securities at March 31, 2005 and December 31, 2004, respectively, were pledged by Provident Community Bank, N.A. (the "Bank") as collateral to secure deposits of the State of South Carolina, and Union, Laurens and York counties. The Bank pledges as collateral for Federal Home Loan Bank advances the Bank's Federal Home Loan Bank stock and has entered into a blanket collateral agreement with the Federal Home Loan Bank whereby the Bank maintains, free of other encumbrances, qualifying mortgages (as defined) with unpaid principal balances equal to, when discounted at 75% of the unpaid principal balances, 100% of total advances. The Bank will also pledge securities to cover additional advances from the Federal Home Loan Bank that exceed the qualifying mortgages balance along with security repurchase lines with various brokerage houses.

## 4. Contingencies and Loan Commitments

In the ordinary course of business, the Bank enters into financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These instruments expose the Bank to credit risk in excess of the amount recognized on the balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Total credit exposure at March 31, 2005 related to these items is summarized below:

<u>Loan Commitments:</u>	<u>Contract Amount</u>
Approved loan commitments	\$ 2,108,000
Unadvanced portions of loans and credit lines	<u>35,845,000</u>
Total loan commitments	<u>\$ 37,953,000</u>

Loan commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Loan commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the counter party. Collateral held is primarily residential and commercial property.

Commitments outstanding at March 31, 2005 consisted of fixed and adjustable rate loans at rates ranging from 5.0% to 6.5%. Commitments to originate loans generally expire within 30 to 60 days.

Commitments to fund credit lines (principally variable rate, consumer lines secured by real estate and overdraft protection) totaled approximately \$78,844,000 at March 31, 2005. Of these lines, the outstanding loan balances totaled approximately \$42,999,000.

#### 5. Floating Rate Junior Subordinated Deferrable Interest Debentures

On December 18, 2001, the Trust issued \$8,000,000 of floating rate capital securities through a pooled trust preferred securities offering. The proceeds from this issuance, along with the Corporation's \$247,000 capital contribution for the Trust's common securities, were used to acquire \$8,247,000 aggregate principal amount of the Corporation's floating rate junior subordinated deferrable interest debentures due December 18, 2031 (the "Debentures"), which constitute the sole asset of the Trust. The interest rate on the Debentures and the capital securities is variable and adjustable quarterly at 3.60% over the three-month LIBOR. A rate cap of 12.50% is effective through December 18, 2006. The Corporation has, through the Trust agreement establishing the Trust, the Guarantee Agreement, the notes and the related Debentures, taken together, fully irrevocably and unconditionally guaranteed all of the Trust's obligations under the capital securities.

A summary of the Trust securities issued and outstanding follows:

<u>Name</u>	<u>Amount Outstanding at March 31,</u>		<u>Rate</u>	<u>Prepayment Option Date</u>	<u>Maturity</u>	<u>Distribution Payment Frequency</u>
	<u>2005</u>	<u>2004</u>				
Union Financial Statutory Trust I	\$8,000,000	\$8,000,000	6.11%	December 18, 2006	December 18, 2031	Quarterly

The stated maturity of the Debentures is December 18, 2031. In addition, the Debentures are subject to redemption at par at the option of the Corporation, subject to prior regulatory approval, in whole or in part on any interest payment date after December 18, 2006. The Debentures are also subject to redemption prior to December 18, 2006 at 107.5% of par after the occurrence of certain events that would either have a negative tax effect on the Trust or the Corporation or would result in the Trust being treated as an investment company that is required to be registered under the Investment Company Act of 1940.

The Corporation has the right, at one or more times, to defer interest payments on the Debentures for up to twenty consecutive quarterly periods. During any deferral period, each installment of interest that would otherwise have been due and payable will bear additional interest (to the extent payment of such interest would be legally enforceable) at the applicable distribution rate, compounded quarterly. Additionally, during any deferral period, the Corporation will be prohibited from declaring or paying cash dividends on its common stock.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### Forward Looking Statements

Management's discussion and analysis of financial condition and results of operations and other portions of this Form 10-Q may contain certain "forward-looking statements" concerning the future operations of the Corporation and the Bank. These forward-looking statements are generally identified by the use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," or similar expressions. Management intends to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this statement for the express purpose of availing the Corporation of the protections of such safe harbor with respect to all forward-looking statements contained in this report to describe future plans and strategies. Management's ability to predict results or the effect of future plans or strategies is inherently uncertain. Factors which could effect actual results include interest rate trends, the general economic climate in the Corporation's and the Bank's market area and the country as a whole, the ability of the Corporation and the Bank to control costs and expenses, competitive products and pricing, loan delinquency rates, and changes in federal and state regulation. These factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements.

### Financial Condition

#### Assets

Total assets of the Corporation increased \$2,821,000, or 0.80%, to \$354,419,000 at March 31, 2005 from \$351,598,000 at December 31, 2004. Investment and mortgage-backed securities increased approximately \$208,000, or 0.14%, from December 31, 2004 to March 31, 2005, due to the purchase of shorter-term agency securities.

Loans increased \$5,238,000, or 3.06%, to \$176,332,000 at March 31, 2005. The Corporation continues to focus on consumer and commercial lending with reduced emphasis on residential mortgage loans. Consumer and commercial loans outstanding during this period increased \$6,445,000, or 5.89%, while outstanding residential mortgage loans decreased \$2,638,000 or 4.25%. Short term interest earning deposits decreased \$3,249,000, or 27.98%, to \$8,362,000, from December 31, 2004 to March 31, 2005, as these deposits were used to fund growth in loans and investments. Other assets increased \$451,000, or 17.14%, to \$3,082,000, from December 31, 2004 to March 31, 2005, due to an increase in a deferred tax receivable that was generated by the quarterly mark to market adjustment for investments available for sale.

## Liabilities

Total liabilities increased \$4,288,000, or 1.32%, to \$329,867,000 at March 31, 2005 from \$325,579,000 at December 31, 2004. Deposits increased \$8,542,000, or 3.75%, to \$236,131,000 at March 31, 2005 from \$227,589,000 at December 31, 2004. The increase was due primarily to growth in lower cost demand accounts partially offset by a reduction in higher cost certificates of deposit accounts. The Corporation continues to target lower cost demand deposit accounts versus traditional higher cost certificates of deposits.

Securities sold under agreement to repurchase decreased \$4,000,000 to \$20,000,000 at March 31, 2005 from \$24,000,000 at December 31, 2004 as these borrowings were paid down with the additional growth in deposits. Other liabilities decreased \$351,000 to \$1,519,000 at March 31, 2005 from \$1,870,000 at December 31, 2004, due primarily to a reduction in accrued liabilities.

## Shareholders' Equity

Shareholders' equity decreased \$1,467,000, or 5.64%, to \$24,552,000 at March 31, 2005 from \$26,019,000 at December 31, 2004 due to a \$982,000 increase in unrealized losses on securities available for sale, the repurchase of 52,666 shares at a cost of \$897,000 and the payment of a \$0.10 per share quarterly dividend at a cost of \$196,000, offset by net income of \$539,000.

## Liquidity

Liquidity is the ability to meet demand for loan disbursements, deposit withdrawals, repayment of debt, payment of interest on deposits and other operating expenses. The primary sources of liquidity are deposits, loan repayments, borrowings, maturity of securities and interest payments.

While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit outflows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. The primary investing activities of the Corporation are the origination of commercial and consumer loans, and the purchase of investment, municipal and mortgage-backed securities. These activities are funded primarily by principal and interest payments on loans and investment securities, deposit growth, securities sold under agreements to repurchase and the utilization of FHLB advances.

During the three months ended March 31, 2005, the Corporation's loan originations totaled \$12,592,000. At March 31, 2005, the Corporation's investment in agency and mortgage-backed securities totaled \$143,702,000. Additionally, outstanding loan commitments (including commitments to fund credit lines) totaled \$37,953,000 at March 31, 2005. Management of the Corporation anticipates that it will have sufficient funds available to meet its current loan commitments.

During the three months ended March 31, 2005, total deposits increased \$8,542,000. The Corporation closely monitors its liquidity position on a daily basis. Certificates of deposit, which are scheduled to mature in one year or less from March 31, 2005, totaled \$95,881,000. The Corporation relies primarily on competitive rates, customer service, and long-standing relationships with customers to retain deposits. From time to time, the Corporation will also offer special products to its customers to increase retention and to attract new deposits. Based upon the Corporation's experience with deposit retention and current retention strategies, management believes that, although it is not possible to predict future terms and conditions upon renewal, a significant portion of such deposits will remain with the Corporation. If the Corporation requires funds beyond its ability to generate them internally, additional sources of funds are available through FHLB advances and securities sold under agreements to repurchase. At March 31, 2005, the Corporation had \$63,500,000 of FHLB borrowings and \$20,000,000 of securities sold under agreements to repurchase. At March 31, 2005, the Corporation had unused short-term lines of credit to purchase federal funds from unrelated banks totaling \$24,000,000. These lines of credit are available on a one-to-ten day basis for general purposes of the Corporation. All of the lenders have reserved the right to withdraw these lines at their option.

### Capital Management

The Bank and the Corporation are subject to various regulatory capital requirements administered by banking regulators. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Corporation's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action. The Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulations to ensure capital adequacy require the Bank and the Corporation to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets (as defined in the regulations). Management believes, as of March 31, 2005, that the Bank and the Corporation meet the capital adequacy requirements to which they are subject.

As of March 31, 2005 and 2004, the Bank was "well capitalized" under the regulatory framework for prompt corrective action based on its capital ratio calculations. In order to be "well capitalized", the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since March 31, 2005 that management believes have changed the Bank's classification.

Under present regulations of the Office of the Comptroller of the Currency, the Bank must have core capital (leverage requirement) equal to 4.0% of assets, of which 1.5% must be tangible capital, excluding intangible assets. The Bank must also maintain risk-based regulatory capital as a percent of risk weighted assets at least equal to 8.0%. In measuring compliance with capital standards, certain adjustments must be made to capital and total assets.

The following tables present the total risk-based, Tier 1 risk-based and Tier 1 leverage requirements for the Corporation and the Bank (dollars in thousands).

March 31, 2005

	<u>Actual</u>		<u>Regulatory Minimum</u>		<u>“Well Capitalized”</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
	\$	%	\$	%	\$	%
<b>Leverage ratio</b>						
Corporation	29,174	8.25%	14,151	4.00%	n/a	n/a
Bank	28,305	8.00%	14,151	4.00%	17,688	5.00%
<b>Tier 1 capital ratio</b>						
Corporation	29,174	14.11%	8,270	4.00%	n/a	n/a
Bank	28,305	13.68%	8,274	4.00%	12,411	6.00%
<b>Total risk-based capital ratio</b>						
Corporation	31,344	15.16%	16,540	8.00%	n/a	n/a
Bank	30,475	14.73%	16,548	8.00%	20,685	10.00%

During fiscal 2003, the Corporation implemented a share repurchase program under which the Corporation may repurchase up to 5% of the outstanding shares or 98,000 shares. The program was expanded by an additional 5% in fiscal 2004. The shares are to be repurchased either through open market purchases or privately negotiated transactions and will be made from time to time depending on market conditions and other factors. Repurchased shares will be held in treasury and will be available for the Corporation’s benefit plans. The repurchase program is expected to improve the Corporation’s operating performance on a per share basis, enhance, in the long term, the market price per share of the Corporation’s common stock and increase the liquidity of the Corporation’s common stock. During the quarter ended March 31, 2005, the Corporation

repurchased 52,666 shares. As of March 31, 2005, the Corporation had repurchased a total of 135,651 shares under this authorization.

### **Off-Balance Sheet Risk**

In the normal course of operations, the Corporation engages in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded in its financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customer's requests for funding and take the form of legally binding agreements to lend money to customers at predetermined interest rates for a specified period of time. Outstanding loan commitments (including commitments to fund credit lines) totaled \$37,953,000 at March 31, 2005. Management of the Corporation anticipates that it will have sufficient funds available to meet its current loan commitments. Each customer's credit worthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on the credit evaluation of the borrower. Collateral varies but may include accounts receivable, inventory, property, plant and equipment, commercial and residential real estate. The credit risk on these commitments is managed by subjecting each customer to normal underwriting and risk management processes.

At March 31, 2005, the undisbursed portion of construction loans was \$2,249,000 and the unused portion of credit lines was \$33,596,000. Funding for these commitments is expected to be provided from deposits, loan and mortgage-backed securities principal repayments, maturing investments and income generated from operations.

For the period ended March 31, 2005, the Corporation did not engage in any off-balance sheet transactions reasonably likely to have a material effect on its financial condition, results of operation and cash flows.

## **Results of operations for the three months ended March 31, 2005 and 2004**

### **General**

Net income increased \$30,000, or 5.89%, to \$539,000 for the three months ended March 31, 2005 as compared to the same period in 2004 as an increase in net interest income was partially offset by increases in provision for loan losses and non-interest expense along with a reduction in non-interest income.

### **Interest Income**

Interest income increased \$369,000, or 9.13%, to \$4,411,000 for the three months ended March 31, 2005 as compared to the same period in 2004. Interest income on loans increased by 14.85%, or \$365,000, to \$2,823,000 for the three months ended March 31, 2005 from \$2,458,000 for the three months ended March 31, 2004, due primarily to increasing market interest rates along with a higher average balance of loans due to our increased emphasis on commercial and consumer loan originations. Interest on deposits and federal funds sold, combined with interest and dividends on investment and mortgage-backed securities increased \$4,000, or 0.25%, for the three months ended March 31, 2005 to \$1,588,000 from \$1,584,000 during the same period in 2004 due to higher yields, offset by lower average balances. Total investment securities as of March 31, 2005 have decreased by \$29,102,000, or 16.84%, when compared to the same period in 2004 while total loans have increased \$21,131,000, or 13.61% during the same period.

### **Interest Expense**

Interest expense increased \$179,000, or 10.04%, to \$1,961,000 for the three months ended March 31, 2005 as compared to the three months ended March 31, 2004. Interest expense on deposit accounts increased \$160,000, or 16.34%, to \$1,139,000 for the three months ended March 31, 2005 from \$979,000 during the same period in 2004 due to higher cost of deposits as a result of higher market rates offset by growth in lower costing transaction accounts. The Corporation continues to target lower cost demand deposit accounts versus traditional higher cost certificates of deposits. Interest expense on borrowings decreased \$10,000, or 1.42%, for the three months ended March 31, 2005 as compared to the same period in the previous year due to lower borrowing levels offset by higher market interest rates. Interest expense on floating rate junior subordinated deferrable interest debentures increased \$29,000, or 29.29%, to \$128,000 for the three months ended March 31, 2005 from \$99,000 during the same period in 2004 due to higher market rates.

### **Provision for Loan Losses**

During the three months ended March 31, 2005, the provision for loan losses was \$208,000 as compared to \$135,000 for the same period in the previous year, primarily due to net growth in loans of 13.61% over the previous year. The increase in the

provision also reflects the Corporation's continued movement from longer term, fixed rate residential mortgage loans to shorter term, floating rate consumer and commercial loans. Consumer and commercial loans carry higher risk weighted rates in the reserve calculation as compared to residential mortgage loans. The provision was also affected by an improvement in asset quality. Classified loans decreased \$1,498,000 from \$6,029,000 at March 31, 2004 to \$4,531,000 at March 31, 2005. In addition, non performing loans decreased \$452,000 from \$1,441,000 at March 31, 2004 to \$989,000 at March 31, 2005. Loans 30-89 days past due and still accruing also decreased \$514,000 from \$4,844,000 at March 31, 2004 to \$4,330,000 at March 31, 2005. The reduction in delinquent and non performing loans was a result of increased emphasis and focus from the Credit Administration area of the Bank. During the three months ended March 31, 2005, bad debt charge-offs, net of recoveries, was \$63,000 as compared to \$219,000 for the same period in the previous year. Management believes the Corporation's loan loss allowance is adequate to absorb possible loan losses inherent in the portfolio. The Corporation's loan loss allowance at March 31, 2005 was approximately 1.23% of the Corporation's outstanding loan portfolio and 172.99% of non-performing loans compared to 1.46% of the Corporation's outstanding loan portfolio and 94.19% of non-performing loans at March 31, 2004.

The allowance for loan loss calculation includes a segmentation of loan categories subdivided by residential mortgage, commercial and consumer loans. Each category is rated for all loans including performing groups. The weight assigned to each performing group is developed from previous loan loss experience and as the loss experience changes, the category weight is adjusted accordingly. In addition, as the loan categories increase and decrease in balance, the allowance for loan loss calculation will adjust accordingly.

The changes in the allowance for loan losses consisted of the following (in thousands):

Balance at beginning of year	\$2,026
Provision for loan losses	208
Charge-offs, net	<u>-63</u>
	<u>\$2,171</u>

The following table sets forth information with respect to the Bank's non-performing assets at the dates indicated (dollars in thousands):

	<u>March 31, 2005</u>	<u>December 31, 2004</u>
Non-accruing loans which are contractually past due 90 days or more:		
Real Estate	\$ 325	\$ 217
Commercial	339	142
Consumer	<u>325</u>	<u>391</u>
Total	<u>\$ 989</u>	<u>\$ 750</u>
Percentage of loans receivable, net	<u>0.56%</u>	<u>0.44%</u>
Percentage of allowance for loan losses to total loans outstanding	<u>1.24%</u>	<u>1.18%</u>
Allowance for loan losses	<u>\$2,171</u>	<u>\$2,026</u>
Real estate acquired through foreclosure and repossessed assets, net of allowances	<u>\$ 265</u>	<u>\$ 364</u>

## Non-Interest Income

Total non-interest income decreased \$50,000, or 7.97%, to \$577,000 for the three months ended March 31, 2005 from \$627,000 for the same period in the previous year. Fees from financial services decreased \$32,000, or 5.57%, to \$543,000 for the three months ended March 31, 2005 from \$575,000 for the same period in the previous year. The decrease was due primarily to lower fees generated from third party investment brokerage and financing receivables programs due to a reduction in product volumes. Gain on sale of loans for the three months ended March 31, 2005 was \$11,000 compared to \$35,000 for the same period in the previous year due to lower residential loan originations as a result of the rising interest rate environment along with the Corporation's shift in focus to consumer/commercial loans. The sales represent loans funded and sold through a third party on a servicing released basis.

## Non-Interest Expense

For the three months ended March 31, 2005, total non-interest expense increased \$22,000, or 1.06%, to \$2,102,000 from \$2,080,000 for the same period in 2004. Compensation and employee benefits remained at \$1,015,000 for the three month period ended March 31, 2005 and March 31, 2004, as increases in benefits costs were offset by lower third party brokerage expenses. Professional services expense increased \$11,000, or 14.29%, to \$88,000 for the three months ended March 31, 2005 from \$77,000 for the same period in 2004 due to higher audit expense. Loan operations costs increased \$15,000, or 55.56%, to \$42,000 for the three months ended March 31, 2005 from \$27,000 for the same period in 2004, due to higher costs associated with foreclosures. Items processing expense decreased \$33,000, or 50.77%, to \$32,000 for the three months ended March 31, 2005 from \$65,000 for the same period in 2004. The Corporation entered into a new items processing contract that was effective January 1, 2005 that reduced the long term expense for demand accounts. Telephone expense increased \$8,000, or 21.05%, to \$46,000 for the three months ended March 31, 2005 from \$38,000 for the same period in 2004, due to installation charges incurred for two new banking center systems. Other expense increased \$18,000, or 12.24%, to \$165,000 for the three months ended March 31, 2005 from \$147,000 for the same period in 2004, due primarily to higher expenses for corporate charitable contributions and dues as a result of increased emphasis on community development.

## **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The Corporation is committed to following a program of asset and liability management in an effort to manage the fluctuations in earnings caused by movements in interest rates. A significant portion of the Corporation's income results from the spread between the yield realized on its interest-earning assets and the rate of interest paid on its deposits and other borrowings. Differences in the timing and volume of repricing assets versus the timing and volume of repricing liabilities expose the Corporation to interest rate risk.

Management's policies are directed at minimizing the impact on earnings of movements in interest rates.

The Corporation's Asset/Liability Committee makes pricing and marketing decisions on deposit and loan products in conjunction with managing the Corporation's interest rate risk. In addition, the Asset/Liability Committee reviews the Bank's securities portfolio, FHLB advances and other borrowings as well as the Bank's asset and liability policies.

The primary objective of Asset/Liability management at the Corporation is to manage interest rate risk and achieve reasonable stability in net interest income throughout interest rate cycles in order to maintain adequate liquidity. This is achieved by maintaining the proper balance of rate-sensitive earning assets and rate-sensitive costing liabilities. The relationship of rate-sensitive earning assets to rate-sensitive costing liabilities is the principal factor in projecting the effect that fluctuating interest rates will have on future net interest income. Rate-sensitive assets and interest-bearing liabilities are those that can be repriced to current market rates within a relatively short time period. Management monitors the rate sensitivity of earning assets and interest-bearing liabilities over the entire life of these instruments.

The Corporation has established policies and monitors results to control interest rate sensitivity. Although the Corporation utilizes measures such as static gap, which is simply the measurement of the difference between interest-sensitive assets and interest-sensitive liabilities repricing for a particular time period, just as important a process is the evaluation of how particular assets and liabilities are impacted by changes in interest rates or selected indices as they reprice. Asset/liability modeling techniques are utilized by the Corporation to assess varying interest rate and balance sheet mix assumptions.

**Net Interest Income Simulation Analysis.** We analyze our interest rate sensitivity position to manage the risk associated with interest rate movements through the use of interest income simulation. The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are "interest sensitive." An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period.

Our goal is to manage asset and liability positions to moderate the effects of interest rate fluctuations on net interest income. Interest income simulations utilizing interest rate shocks are completed quarterly and presented to the Asset/Liability Committee. The simulations provide an estimate of the impact of changes in interest rates on net interest income under a range of assumptions. The interest rate shocks are compared to board approved policy limits and are reviewed by the Asset/Liability Committee on a quarterly basis. The simulation incorporates assumptions regarding the potential timing in the repricing of certain assets and liabilities when market rates change and the changes in spreads between different market rates. The simulation analysis incorporates management's current assessment of the risk that pricing margins will change adversely over time due to competition or other factors.

Simulation analysis is only an estimate of our interest rate risk exposure at a particular point in time. We continually review the potential effect changes in interest rates could have on the repayment of rate sensitive assets and funding requirements of rate sensitive liabilities.

The table below sets forth an approximation of our exposure as a percentage of estimated net interest income for the next twelve month period using interest income simulation. The simulation uses projected repricing of assets and liabilities on the basis of contractual maturities, anticipated repayments and scheduled rate adjustments. Prepayment rates can have a significant impact on interest income simulation. When interest rates rise, prepayments tend to slow. When interest rates fall, prepayments tend to rise.

The following table reflects changes in estimated net interest income from rate shocks of 1%-2% in a rising and falling interest rate environment for the Corporation.

At March 31, 2005

200 basis point increase in rates	+4.57%
100 basis point increase in rates	+3.15%
100 basis point decrease in rates	-3.71%

The 200 and 100 basis point change in rates in the above table is assumed to occur evenly over the following twelve months. Based on the scenario above, net interest income would be positively affected in the twelve-month period if rates rose by 100 and 200 basis points, but would be adversely affected if rates declined by 100 basis points.

**Item 4. Controls and Procedures**

The Corporation's management, including the Corporation's principal executive officer and principal financial officer, have evaluated the effectiveness of the Corporation's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Corporation's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Corporation files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Corporation's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in the Corporation's internal control over financial reporting identified in connection with the evaluation required by Rule 13(a)-15(e) that occurred

during the Corporation's last fiscal quarter that has materially affected or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **Item 1.        Legal Proceedings**

The Corporation is involved in various claims and legal actions arising in the normal course of business. Management believes that these proceedings are immaterial to the Corporation's financial condition and results of operations.

### **Item 2.        Unregistered Sales of Equity Securities and Use of Proceeds**

The following table provides certain information with regard to shares repurchased by the Corporation during the first quarter of 2005.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per share	(c) Total Number of Shares Purchased as part of Publicly Announced Programs	(d) Maximum Number of Shares that may be purchased under Program
January 1, 2005 through January 31, 2005				113015
February 1, 2005 through February 28, 2005	45300	\$17.00	45300	67715
March 1, 2005 through March 31, 2005	7366	\$17.26	7366	60349
Total	52666	\$17.04	52666	N/A

During fiscal 2003, the Corporation implemented a share repurchase program under which the Corporation may repurchase up to 5% of the outstanding shares or 98,000 shares. The program was expanded by an additional 5% in fiscal 2004. The repurchase program will continue until it is completed or terminated by the Board of Directors.

**Item 3.**      Defaults upon Senior Securities

Not applicable.

**Item 4.**      Submission of Matters to a Vote of Security Holders

None

**Item 5.**      Other Information

None

**Item 6.**      Exhibits

3      Bylaws of Union Financial Bancshares, Inc.

31(a)   Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer

31(b)   Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer

32(a)   Chief Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32(b)   Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**SIGNATURES**

Pursuant to the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**UNION FINANCIAL BANCSHARES, INC.**  
**(Registrant)**

Date: \_\_\_\_\_

By:  
Dwight V. Neese, CEO

Date: \_\_\_\_\_

By:  
Richard H. Flake, CFO

**AMENDED AND RESTATED**

**BYLAWS**

**OF**

**UNION FINANCIAL BANCSHARES, INC.**

**ARTICLE I**

**Home Office**

The home office of Union Financial Bancshares, Inc. (herein the "Corporation") shall be at 203 West Main Street, Union, South Carolina. The Corporation may also have offices at such other places within or without the State of South Carolina as the board of directors shall from time to time determine.

**ARTICLE II**

**Stockholders**

SECTION 1. Place of Meetings. All annual and special meetings of stockholders shall be held at the home office of the Corporation or at such other place within or without the State in which the home office of the Corporation is located as the board of directors may determine and as designated in the notice of such meeting.

SECTION 2. Annual Meeting. A meeting of the stockholders of the Corporation for the election of directors and for the transaction of any other business of the Corporation shall be held annually at such date and time as the board of directors may determine.

SECTION 3. Special Meetings. Special meetings of the stockholders for any purpose or purposes may be called at any time by the majority of the board of directors or by a committee of the board of directors in accordance with the provisions of the Corporation's Certificate of Incorporation.

SECTION 4. Conduct of Meetings. Annual and special meetings shall be conducted in accordance with the rules and procedures established by the board of directors. The board of directors shall designate, when present, either the chairman of the board or president to preside at such meetings.

SECTION 5. Notice of Meetings. Written notice stating the place, day and hour of the meeting and the purpose or purposes for which the meeting is called shall be mailed by the secretary or the officer performing his duties, not less than ten days nor more than sixty days before the meeting to each stockholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the stockholder at his address as it appears on the stock transfer books or records of the Corporation as of the record date prescribed in Section 6 of this Article II, with postage thereon prepaid. If a stockholder be present at a meeting, or in writing waive notice thereof before or after the meeting, notice of the meeting to such stockholder shall be unnecessary. When any stockholders' meeting, either annual or special, is adjourned for thirty days, notice of the adjourned meeting shall be given as in the case of an original meeting. It shall not be necessary to give any notice of the time and

place of any meeting adjourned for less than thirty days or of the business to be transacted at such adjourned meeting, other than an announcement at the meeting at which such adjournment is taken.

SECTION 6. Fixing of Record Date. For the purpose of determining stockholders entitled to notice of or to vote at any meeting of stockholders, or any adjournment thereof, or stockholders entitled to receive payment of any dividend, or in order to make a determination of stockholders for any other proper purpose, the board of directors shall fix in advance a date as the record date for any such determination of stockholders. Such date in any case shall be not more than sixty days, and in case of a meeting of stockholders, not less than ten days prior to the date on which the particular action, requiring such determination of stockholders, is to be taken. When a determination of stockholders entitled to vote at any meeting of stockholders has been made as provided in this section, such determination shall apply to any adjournment thereof.

SECTION 7. Voting Lists. The officer or agent, having charge of the stock transfer books for shares of the Corporation shall make, at least ten days before each meeting of shareholders, a complete record of the stockholders entitled to vote at such meeting or any adjournment thereof, arranged in alphabetical order, with the address of and the number of shares held by each. The record, for a period of ten days before such meeting, shall be kept on file at the principal office of the Corporation, and shall be subject to inspection by any shareholder for any purpose germane to the meeting at any time during usual business hours. Such record shall also be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any stockholder for any purpose germane to the meeting during the whole time of the meeting. The original stock transfer books shall be prima facie evidence as to who are the stockholders entitled to examine such record or transfer books or to vote at any meeting of stockholders.

SECTION 8. Quorum. A majority of the outstanding shares of the Corporation entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of stockholders. If less than a majority of the outstanding shares are represented at a meeting, a majority of the shares so represented may adjourn the meeting from time to time without further notice. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified. The stockholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

SECTION 9. Proxies. At all meetings of stockholders, a stockholder may vote by proxy executed in writing by the stockholder or by his duly authorized attorney in fact. Proxies solicited on behalf of the management shall be voted as directed by the stockholder or, in the absence of such direction, as determined by a majority of the board of directors. No proxy shall be valid after eleven months from the date of its execution unless otherwise provided in the proxy.

SECTION 10. Voting. At each election for directors every stockholder entitled to vote at such election shall be entitled to one vote for each share of stock held by him. Unless otherwise provided in the Certificate of Incorporation, by Statute, or by these Bylaws, a majority of those votes cast by stockholders at a lawful meeting shall be sufficient to pass on a transaction or matter.

SECTION 11. Voting of Shares in the Name of Two or More Persons. When ownership of stock stands in the name of two or more persons, in the absence of written directions to the Corporation to the contrary, at any meeting of the stockholders of the Corporation any one or more of such stockholders may cast, in person or by proxy, all votes to which such ownership is entitled. In the event an attempt is made to cast conflicting votes, in person or by proxy, by the several persons in whose name shares of stock stand, the vote or votes to which these persons are entitled

shall be cast as directed by a majority of those holding such stock and present in person or by proxy at such meeting, but no votes shall be cast for such stock if a majority cannot agree.

SECTION 12. Voting of Shares by Certain Holders. Shares standing in the name of another corporation may be voted by any officer, agent or proxy as the bylaws of such corporation may prescribe, or, in the absence of such provision, as the board of directors of such corporation may determine. Shares held by an administrator, executor, guardian or conservator may be voted by him, either in person or by proxy, without a transfer of such shares into his name. Shares standing in the name of a trustee may be voted by him, either in person or by proxy, but no trustee shall be entitled to vote shares held by him without a transfer of such shares into his name. Shares standing in the name of a receiver may be voted by such receiver, and shares held by or under the control of a receiver may be voted by such receiver without the transfer thereof into his name if authority to do so is contained in an appropriate order of the court or other public authority by which such receiver was appointed.

A stockholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee and thereafter the pledgee shall be entitled to vote the shares so transferred.

Neither treasury shares of its own stock held by the Corporation, nor shares held by another corporation, if a majority of the shares entitled to vote for the election of directors of such other corporation are held by the Corporation, shall be voted at any meeting or counted in determining the total number of outstanding shares at any given time for purposes of any meeting.

SECTION 13. Inspectors of Election. In advance of any meeting of stockholders, the board of directors may appoint any persons, other than nominees for office, as inspectors of election to act at such meeting or any adjournment thereof. The number of inspectors shall be either one or three. If the board of directors so appoints either one or three inspectors, that appointment shall not be altered at the meeting. If inspectors of election are not so appointed, the chairman of the board or the president may make such appointment at the meeting. In case any person appointed as inspector fails to appear or fails or refuses to act, the vacancy may be filled by appointment by the board of directors in advance of the meeting or at the meeting by the chairman of the board or the president.

Unless otherwise prescribed by applicable law, the duties of such inspectors shall include: determining the number of shares of stock and the voting power of each share, the shares of stock represented at the meeting, the existence of a quorum, the authenticity, validity and effect of proxies; receiving votes, ballots or consents; hearing and determining all challenges and questions in any way arising in connection with the right to vote; counting and tabulating all votes or consents; determining the result; and such acts as may be proper to conduct the election or vote with fairness to all stockholders.

SECTION 14. Nominating Committee. The board of directors shall act as a nominating committee for selecting the management nominees for election as directors. Except in the case of a nominee substituted as a result of the death or other incapacity of a management nominee, the nominating committee shall deliver written nominations to the secretary at least twenty days prior to the date of the annual meeting. Provided such committee makes such nominations, no nominations for directors except those made by the nominating committee shall be voted upon at the annual meeting unless other nominations by stockholders are made in writing and delivered to the secretary of the Corporation in accordance with the provisions of the Corporation's Certificate of Incorporation.

SECTION 15. New Business. Any new business to be taken up at the annual meeting shall be stated in writing and filed with the secretary of the Corporation in accordance with the provisions of the Corporation's Certificate of Incorporation. This provision shall not prevent the consideration and approval or disapproval at the annual meeting of reports of officers, directors and committees, but in connection with such reports no new business shall be acted upon at such annual meeting unless stated and filed as provided in the Corporation's Certificate of Incorporation.

### **ARTICLE III**

#### **Board of Directors**

SECTION 1. General Powers. The business and affairs of the Corporation shall be under the direction of its board of directors. The board of directors may also elect a chairman of the board from among its members. The board of directors shall designate, when present, either the chairman of the board or the president to preside at its meetings.

SECTION 2. Number, Term and Election. The board of directors shall initially consist of seven (7) members and shall be divided into three classes as nearly equal in number as possible. The members of each class shall be elected for a term of three years and until their successors are elected or qualified. One class shall be elected by ballot annually. The board of directors shall be classified in accordance with the provisions of the Corporation's Certificate of Incorporation.

SECTION 3. Qualification. Each director shall at all times be the beneficial owner of not less than 100 shares of capital stock of the Corporation.

SECTION 4. Regular Meetings. A regular meeting of the board of directors shall be held without other notice than this Bylaw immediately after, and at the same place as, the annual meeting of stockholders. The board of directors may provide, by resolution, the time and place for the holding of additional regular meetings without other notice than such resolution.

SECTION 5. Special Meetings. Special meetings of the board of directors may be called by or at the request of the chairman of the board or the president, or by one third of the directors. The persons authorized to call special meetings of the board of directors may fix any place in the State of South Carolina as the place for holding any special meeting of the board of directors called by such persons.

Members of the board of directors may participate in special meetings by means of conference telephone or similar communications equipment by which all persons participating in the meeting can hear each other. Such participation shall constitute presence in person but directors will not receive any compensation for participation in meetings by conference telephone.

SECTION 6. Notice. Written notice of any special meeting shall be given to each director at least two days previous thereto delivered personally or by telegram or at least five days previous thereto delivered by mail at the address at which the director is most likely to be reached. Such notice shall be deemed to be delivered when deposited in the United States mail so addressed, with postage thereon prepaid if mailed or when delivered to the telegraph company if sent by telegram. Any director may waive notice of any meeting by a writing filed with the secretary. The attendance of a director at a meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any meeting of the board of directors need be specified in the notice or waiver of notice of such meeting.

SECTION 7. Quorum. A majority of the number of directors fixed by Section 2 of this Article III shall constitute a quorum for the transaction of business at any meeting of the board of directors, but if less than such majority is present at a meeting, a majority of the directors present may adjourn the meeting from time to time. Notice of any adjourned meeting shall be given in the same manner as prescribed by Section 6 of this Article III.

SECTION 8. Manner of Acting. The act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the board of directors, unless a greater number is prescribed by these Bylaws, the Certificate of Incorporation, or the laws of Delaware.

SECTION 9. Action Without a Meeting. Any action required or permitted to be taken by the board of directors at a meeting may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the directors.

SECTION 10. Resignation. Any director may resign at any time by sending a written notice of such resignation to the home office of the Corporation addressed to the chairman of the board or the president. Unless otherwise specified herein such resignation shall take effect upon receipt thereof by the chairman of the board or the president.

SECTION 11. Vacancies. Any vacancy occurring in the board of directors shall be filled in accordance with the provisions of the Corporation's Certificate of Incorporation. Any directorship to be filled by reason of an increase in the number of directors may be filled by the affirmative vote of two thirds of the directors then in office. The term of such director shall be in accordance with the provisions of the Corporation's Certificate of Incorporation.

SECTION 12. Removal of Directors. Any director or the entire board of directors may be removed only in accordance with the provisions of the Corporation's Certificate of Incorporation.

SECTION 13. Compensation. Directors, as such, may receive a stated fee for their services. By resolution of the board of directors, a reasonable fixed sum, and reasonable expenses of attendance, if any, may be allowed for actual attendance at each regular or special meeting of the board of directors. Members of either standing or special committees may be allowed such compensation for actual attendance at committee meetings as the board of directors may determine. Nothing herein shall be construed to preclude any director from serving the Corporation in any other capacity and receiving remuneration therefor.

SECTION 14. Presumption of Assent. A director of the Corporation who is present at a meeting of the board of directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his dissent or abstention shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who votes in favor of such action.

SECTION 15. Advisory Directors. The board of directors may by resolution appoint advisory directors to the board, and shall have such authority and receive such compensation and reimbursement as the board of directors shall provide. Advisory director or directors emeriti shall not have the authority to participate by vote in the transaction of business.

SECTION 16. Age Limitation. No person of an age seventy-two years (72) or older will be eligible for election, reelection, appointment or reappointment to the board of directors of the Corporation. No director shall serve as such following the day of his or her seventy-second (72nd) birthday.

## **ARTICLE IV**

### **Committees of the Board of Directors**

The board of directors may, by resolution passed by a majority of the whole board, designate one or more committees, as they may determine to be necessary or appropriate for the conduct of the business of the Corporation, and may prescribe the duties, constitution and procedures thereof. Each committee shall consist of one or more directors of the Corporation. The board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee.

The board of directors shall have power, by the affirmative vote of a majority of the authorized number of directors, at any time to change the members of, to fill vacancies in, and to discharge any committee of the board. Any member of any such committee may resign at any time by giving notice to the Corporation provided, however, that notice to the board, the chairman of the board, the chief executive officer, the chairman of such committee, or the secretary shall be deemed to constitute notice to the Corporation. Such resignation shall take effect upon receipt of such notice or at any later time specified therein; and, unless otherwise specified therein, acceptance of such resignation shall not be necessary to make it effective. Any member of any such committee may be removed at any time, either with or without cause, by the affirmative vote of a majority of the authorized number of directors at any meeting of the board called for that purpose.

## **ARTICLE V**

### **Officers**

SECTION 1. Positions. The officers of the Corporation shall be a president, one or more vice presidents, a secretary and a treasurer, each of whom shall be elected by the board of directors. The board of directors may also designate the chairman of the board as an officer. The president shall be the chief executive officer unless the board of directors designates the chairman of the board as chief executive officer. The offices of the secretary and treasurer may be held by the same person and a vice president may also be either the secretary or the treasurer. The board of directors may designate one or more vice presidents as executive vice president or senior vice president. The board of directors may also elect or authorize the appointment of such other officers as the business of the Corporation may require. The officers shall have such authority and perform such duties as the board of directors may from time to time authorize or determine. In the absence of action by the board of directors, the officers shall have such powers and duties as generally pertain to their respective offices.

SECTION 2. Election and Term of Office. The officers of the Corporation shall be elected annually by the board of directors at the first meeting of the board of directors held after each annual meeting of the shareholders. If the election of officers is not held at such meeting, such election shall be held as soon thereafter as possible. Each officer shall hold office until his successor shall have been duly elected and qualified or until his death or until he shall resign or shall have been removed in the manner hereinafter provided. Election or appointment of an officer, employee or agent shall not of itself create contract rights. The board of directors may authorize the Corporation to enter into an employment contract with any officer in accordance with state law; but no such contract shall impair the right of the board of directors to remove any officer at any time in accordance with Section 3 of this Article V.

SECTION 3. Removal. Any officer may be removed by vote of two thirds of the board of directors whenever, in its judgment, the best interests of the Corporation will be served thereby, but such removal, other than for cause, shall be without prejudice to the contract rights, if any, of the person so removed.

SECTION 4. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or otherwise, may be filled by the board of directors for the unexpired portion of the term.

SECTION 5. Remuneration. The remuneration of the officers shall be fixed from time to time by the board of directors and no officer shall be prevented from receiving such salary by reason of the fact that he is also a director of the Corporation.

## ARTICLE VI

### Contracts, Loans, Checks and Deposits

SECTION 1. Contracts. To the extent permitted by applicable law, and except as otherwise prescribed by the Corporation's Certificate of Incorporation or these Bylaws with respect to certificates for shares, the board of directors may authorize any officer, employee, or agent of the Corporation to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation. Such authority may be general or confined to specific instances.

SECTION 2. Loans. No loans shall be contracted on behalf of the Corporation and no evidence of indebtedness shall be issued in its name unless authorized by the board of directors. Such authority may be general or confined to specific instances.

SECTION 3. Checks, Drafts, Etc. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by one or more officers, employees or agents of the Corporation in such manner as shall from time to time be determined by resolution of the board of directors.

SECTION 4. Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in any of its duly authorized depositories as the board of directors may select.

## ARTICLE VII

### Certificates for Shares and Their Transfer

SECTION 1. Certificates for Shares. The shares of the Corporation shall be represented by certificates signed by the chairman of the board of directors or by the president or a vice president and by the treasurer or by the secretary of the Corporation, and may be sealed with the seal of the Corporation or a facsimile thereof. Any or all of the signatures upon a certificate may be facsimiles if the certificate is countersigned by a transfer agent, or registered by a registrar, other than the Corporation itself or an employee of the Corporation. If any officer who has signed or whose facsimile signature has been placed upon such certificate shall have ceased to be such officer before the certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer at the date of its issue.

SECTION 2. Form of Share Certificates. All certificates representing shares issued by the Corporation shall set forth upon the face or back that the Corporation will furnish to any shareholder upon request and without charge a full statement of the designations, preferences, limitations, and relative rights of the shares of each class authorized to be issued, the variations in the relative rights and preferences between the shares of each such series so far as the same have been fixed and determined, and the authority of the board of directors to fix and determine the relative rights and preferences of subsequent series.

Each certificate representing shares shall state upon the face thereof: that the Corporation is organized under the laws of the State of Delaware; the name of the person to whom issued; the number and class of shares; the date of issue; the designation of the series, if any, which such certificate represents; the par value of each share represented by such certificate, or a statement that the shares are without par value. Other matters in regard to the form of the certificates shall be determined by the board of directors.

SECTION 3. Payment for Shares. No certificate shall be issued for any shares until such share is fully paid.

SECTION 4. Form of Payment for Shares. The consideration for the issuance of shares shall be paid in accordance with the provisions of the Corporation's Certificate of Incorporation.

SECTION 5. Transfer of Shares. Transfer of shares of capital stock of the Corporation shall be made only on its stock transfer books. Authority for such transfer shall be given only by the holder of record thereof or by his legal representative, who shall furnish proper evidence of such authority, or by his attorney thereunto authorized by power of attorney duly executed and filed with the Corporation. Such transfer shall be made only on surrender for cancellation of the certificate for such shares. The person in whose name shares of capital stock stand on the books of the Corporation shall be deemed by the Corporation to be the owner thereof for all purposes.

SECTION 6. Stock Ledger. The stock ledger of the Corporation shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list required by Section 7 of Article II or the books of the Corporation, or to vote in person or by proxy at any meeting of stockholders.

SECTION 7. Lost Certificates. The board of directors may direct a new certificate to be issued in place of any certificate theretofore issued by the Corporation alleged to have been lost, stolen, or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen, or destroyed. When authorizing such issue of a new certificate, the board of directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen, or destroyed certificate, or his legal representative, to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen, or destroyed.

SECTION 8. Beneficial Owners. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and shall not be bound to recognize any equitable or other claim to or interest in such shares on the part of any other person, whether or not the Corporation shall have express or other notice thereof, except as otherwise provided by law.

EXHIBIT 31 (a)  
CERTIFICATION

I, Dwight V. Neese, certify that:

1. I have reviewed this Form 10-Q of Union Financial Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely

affect the registrant's ability to record, process, summarize and report financial information; and

- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: \_\_\_\_\_

\_\_\_\_\_  
Dwight V. Neese  
President and Chief Executive Officer

EXHIBIT 31 (b)  
CERTIFICATION

I, Richard H. Flake, certify that:

1. I have reviewed this Form 10-Q of Union Financial Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely

## **ARTICLE VIII**

### **Fiscal Year; Annual Audit**

The fiscal year of the Corporation shall end on the 31<sup>st</sup> day of December of each year. The Corporation shall be subject to an annual audit as of the end of its fiscal year by independent public accountants appointed by and responsible to the board of directors.

## **ARTICLE IX**

### **Dividends**

Subject to the provisions of the Certificate of Incorporation and applicable law, the board of directors may, at any regular or special meeting, declare dividends on the Corporation's outstanding capital stock. Dividends may be paid in cash, in property or in the Corporation's own stock.

## **ARTICLE X**

### **Corporate Seal**

The corporate seal of the Corporation shall be in such form as the board of directors shall prescribe.

## **ARTICLE XI**

### **Amendments**

In accordance with the Corporation's Certificate of Incorporation, these Bylaws may be repealed, altered, amended or rescinded by the stockholders of the Corporation only by vote of not less than 80% of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors (considered for this purpose as one class) cast at a meeting of the stockholders called for that purpose (provided that notice of such proposed repeal, alteration, amendment or rescission is included in the notice of such meeting). In addition, the board of directors may repeal, alter, amend or rescind these Bylaws by vote of two thirds of the board of directors at a legal meeting held in accordance with the provisions of these Bylaws.

Effective as of October 21, 2003

affect the registrant's ability to record, process, summarize and report financial information; and

- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: \_\_\_\_\_

\_\_\_\_\_  
Richard H. Flake  
Executive Vice President and Chief Financial  
Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADDED BY  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Union Financial Bancshares, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2005 as filed with the Securities and Exchange Commission (the "Report"), I, Dwight V. Neese, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

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Dwight V. Neese  
President and Chief Executive Officer

Date: May \_\_\_\_, 2005

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADDED BY  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Union Financial Bancshares, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2005 as filed with the Securities and Exchange Commission (the "Report"), I, Richard H. Flake, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

\_\_\_\_\_  
Richard H. Flake  
Executive Vice President and Chief Financial  
Officer

Date: May\_\_\_\_, 2005