

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

**FORM 8-K**  
**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): January 17, 2006

UNION FINANCIAL BANCSHARES, INC.  
(Exact name of registrant as specified in its charter)

<u>Delaware</u> (State or other Jurisdiction of incorporation or organization)	<u>1-5735</u> (Commission File Number)	<u>57-1001177</u> (IRS Employer Identification No.)
--	--	---

<u>203 West Main Street, Union, South Carolina</u> (Address of principal executive offices)	<u>29379-0886</u> (Zip Code)
--	---------------------------------

Registrant's telephone number, including area code: (864) 427-9000

Not Applicable  
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 2.02      Results of Operations and Financial Condition.**

On January 17, 2006, Union Financial Bancshares, Inc., the holding company for Provident Community Bank, N.A., announced its financial results for the quarter and year ended December 31, 2005. The press release announcing financial results for the quarter and year end December 31, 2005 is included as Exhibit 99.1 and incorporated herein by reference.

**Item 9.01      Financial Statements and Exhibits.**

- (a) Financial Statement of Businesses Acquired: Not applicable
- (b) Pro Forma Information: Not applicable
- (c) Exhibits

<u>Number</u>	<u>Description</u>
99.1	Press Release Dated January 17, 2006

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

UNION FINANCIAL BANCSHARES, INC.

Dated: January 17, 2006

By: s/s Dwight V. Neese  
Dwight V. Neese  
President and Chief Executive Officer



**FOR IMMEDIATE RELEASE**

**UNION FINANCIAL BANCSHARES, INC.  
REPORTS 25% INCREASE IN FOURTH QUARTER EARNINGS  
AND RECORD RESULTS FOR 2005**

**Union, South Carolina** - January 18, 2006: Union Financial Bancshares, Inc. (NASDAQ: UFBS) today reported earnings of \$740,000 for the three months ended December 31, 2005 compared to earnings of \$592,000 for the fourth quarter of 2004, a 25.0% increase. Earnings per share were \$0.38 per share (diluted) for the fourth quarter of 2005, versus \$0.29 per share (diluted) for the fourth quarter of 2004. The Company reported record net income of \$2.5 million or \$1.26 per share (diluted), for the year ended December 31, 2005, a 14% increase over net income of \$2.2 million, or \$1.05 per share (diluted), for 2004.

Net interest income before the loan loss provision for the fourth quarter increased \$153,000, or 6.0%, to \$2.7 million compared to \$2.5 million for the same period in the previous year. The increase was due primarily to higher average loan balances over the previous year along with an increase in yield on loans that resulted from a higher concentration of commercial loans. The increase in interest income was partially offset by higher deposit costs as a result of rising rates and increased borrowings. The provision for loan losses for the fourth quarter totaled \$100,000 compared to \$475,000 for the same period in the previous year. The decrease in provision for loan losses as compared to the previous year was due to a \$1.1 million reduction in classified loans to \$3.4 million compared to \$4.5 million for the same period in the previous year, offset by a 12.6% increase in net loans over the previous year, and a higher concentration of commercial loans in the portfolio, which carry a higher risk of default.

Non-interest income for the fourth quarter decreased \$80,000, or 11.7%, to \$601,000 compared to \$681,000 for the same period in the previous year. The decrease was due to lower fees generated from third party investment brokerage and financing receivables program due to a reduction in product volumes, offset by higher fees for financial services that resulted from an increase in transaction accounts. The Company also recorded a loss on the sale of investments of \$54,000 that resulted from a restructuring of the investment portfolio to reduce exposure to government equity securities. Non-interest expense for the fourth quarter increased \$210,000, or 10.7%, to \$2.2 million compared to \$2.0 million for the same period in the previous year. The increase was due primarily to higher employee benefits and advertising costs.

At December 31, 2005, assets totaled \$370.8 million, a 5.5% increase from \$351.6 million at December 31, 2004. Net loans receivable increased \$21.5 million, or 12.6%, during the period to \$192.6 million at December 31, 2005, compared to \$171.1 million at December 31, 2004. The net growth in loans was driven by a 25% increase in the consumer/commercial loan sector as the Company continues to focus on this lending segment with specialized loan officers and products. Growth in lower cost transaction accounts resulted in deposits increasing 5.3% to \$239.6 million at December 31, 2005 compared to \$227.6 million at December 31, 2004. Cash on hand and the increase in deposits along with an increase in borrowings of \$8.2 million funded the increase in loans.

Commenting on the earning results, Dwight V. Neese, President and Chief Executive Officer, stated: "We are extremely pleased with our 2005 year-end results. Not only did our twelve month results show an earnings increase of 14% over the previous fiscal year, our earnings per share also rose 20%. We saw growth in loans and deposits for the year, with solid increases across the board in both our consumer and business lines. We look forward to focusing on our operations over the coming quarters and building long-term value for our shareholders."

*In other news*, the Company has announced plans to open two more banking centers in Rock Hill at Manchester Village and Westminster Towers and to expand into Greenville County with the acquisition of an existing banking center in Simpsonville. All locations have received regulatory approval and are anticipated to open during the first half of 2006.

The Company also declared a quarterly cash dividend of \$0.10 per share payable on February 15, 2006 to shareholders of record on January 31, 2006. Union Financial Bancshares has a dividend reinvestment plan and information about the plan can be obtained from Registrar and Transfer Company at 800-368-5948.

Union Financial Bancshares is the holding company for Provident Community Bank, N.A., which operates seven banking locations in the upstate of South Carolina. At December 31, 2005, Union Financial had \$371 million in total assets and total stockholders' equity of \$25.3 million. Please visit our website at [www.providentonline.com](http://www.providentonline.com) or contact Wanda J. Wells, SVP/Shareholder Relations Officer at [wwells@providentonline.com](mailto:wwells@providentonline.com) or Richard H. Flake, EVP/CFO at [rflake@providentonline.com](mailto:rflake@providentonline.com).

*Certain matters set forth in this news release may contain forward-looking statements that are provided to assist in the understanding of anticipated future financial performance. However, such performance involves risks and uncertainties that may cause actual results to differ materially from those in such statements. For a discussion of certain factors that may cause such forward-looking statements to differ materially from the Corporation's actual results, see the Corporation's Quarterly Reports on Form 10-Q for the quarters ended September 30, 2005, June 30, 2005 and March 31, 2005 and the Corporation's Annual Report in Form 10-K for the year ended December 31, 2004.*

---

## Union Financial Bancshares, Inc.

*Fourth Quarter - Year Ended December 31, 2005*

---

### Financial Highlights

*(\$ in thousands, except share data)*

<b>Balance Sheet</b>	At	At	<b>\$ Change</b>	<b>% Change</b>
	December 31, 2005	December 31, 2004		
Total assets	\$370,795	\$351,598	\$19,197	5.46%
Cash and interest-earning deposits	8,380	13,197	(4,817)	-36.50%
Investments & mortgage-backed securities	146,283	143,494	2,789	1.94%
Loans receivable (net)	192,577	171,094	21,483	12.56%
Goodwill & intangible assets	3,576	4,212	(636)	-15.10%
Deposits	239,603	227,589	12,014	5.28%
Advances & other borrowings	95,715	87,500	8,215	9.39%
Stockholders' equity	25,333	26,019	(686)	-2.64%
Outstanding shares	1,905,897	1,957,989	(52,092)	-2.66%
Book value per share	\$13.29	\$13.29	\$0.00	0.02%

<b>Income Statement</b>	<b>Three Months Ended</b>		<b>Twelve Months Ended</b>	
	December 31,		December 31,	
	2005	2004	2005	2004
Net interest income	\$2,714	\$2,561	\$10,243	\$9,706
Provision for loan losses	100	475	869	1,250
Net interest income after loan loss provision	2,614	2,086	9,374	8,456
Noninterest income	601	681	2,543	2,561
Noninterest expense	2,174	1,964	8,537	8,140
Income tax	301	211	914	721
Net income	\$740	\$592	\$2,466	\$2,156
Earnings per share: basic	\$0.39	\$0.30	\$1.29	\$1.10
Earnings per share: diluted	\$0.38	\$0.29	\$1.26	\$1.05

<b>Key Financial Ratios</b>	<b>Twelve Months Ended</b>	
	December 31,	
	2005	2004
Return on average assets	0.68%	0.61%
Return on average stockholders' equity	9.68%	8.40%
Operating expense to average assets	2.17%	2.14%
Capital to average assets	9.17%	9.64%

---