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U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended September 30, 2002

OR

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

Commission File Number 1-5735

Union Financial Bancshares, Inc.
(Name of small business issuer in its charter)

Delaware	57-1001177
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
203 West Main Street, Union, South Carolina	29379
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number:

Securities registered pursuant to Section 12(b) of the Exchange Act: None

Securities registered pursuant to Section 12(g) of the Exchange Act: Common stock, par value $.01 per share
(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 X No __

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or other information statements incorporated by reference in Part III of this Form 10-KSB or any amendments to this Form 10-KSB. X

The issuer's gross revenues for the fiscal year ended September 30, 2002 were approximately $19,669,000.

As of November 13, 2002, there were 1,958,069 shares of the registrant's common stock issued and outstanding. The aggregate market value of the voting stock held by non-affiliates, computed by reference to the average bid and asked price on November 25, 2002, was approximately $23,894,000 (1,803,311 shares at $13.25 per share). Solely for the purposes of this calculation it is assumed that directors and executive officers are affiliates of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Shareholders for the Fiscal Year Ended September 30, 2002 (Part II).

2. Portions of the Proxy Statement for the 2003 Annual Meeting of Shareholders (Part III).

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PART I

ITEM 1. BUSINESS

GENERAL

Union Financial Bancshares, Inc. ("Union Financial") is the savings and loan holding company for Provident Community Bank (the "Bank"). Union Financial has no material assets or liabilities other than its investment in the Bank. Union Financial's business activity consists primarily of directing the activities of the Bank. Accordingly, the information set forth in this report, including financial statements and related data, relates primarily to the Bank. Union Financial and the Bank are collectively referred to as "the Corporation" herein.

The Bank is a federally-chartered, capital stock savings bank headquartered in Union, South Carolina. The Bank's operations are conducted through its main office and five full-service banking centers, all of which are located in the upstate area of South Carolina. The Corporation opened a temporary facility in York County with a full service facility to be completed by the second quarter of the fiscal year. The Bank is a member of the Federal Home Loan Bank ("FHLB") and its deposits are insured up to applicable limits by the Savings Association Insurance Fund ("SAIF") of the Federal Deposit Insurance Corporation ("FDIC").

The business of the Bank consists primarily of attracting deposits from the general public and originating mortgage loans on residential properties located in Laurens, Union and Fairfield counties in South Carolina. The Bank also makes commercial real estate, construction, commercial and consumer loans and invests in obligations of the federal government and its agencies and of state and local municipalities. The Bank purchases both fixed and adjustable rate mortgage-backed securities issued by Freddie Mac, Fannie Mae and Ginnie Mae. The Bank has purchased variable rate mortgages originated by other organizations. See "Lending Activities." The principal sources of funds for the Bank's lending activities include deposits received from the general public, interest and principal repayments on loans and, to a lesser extent, borrowings from the FHLB-Atlanta. The Bank's primary source of income is interest earned on loans and investments. The Bank's principal expense is interest paid on deposit accounts and borrowings and expenses incurred in operating the Bank.

This annual report contains certain "forward-looking statements" within the meaning of the federal securities laws. These forward-looking statements are generally identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project" or similar expressions. These forward-looking statements include, but are not limited to, estimates and expectation of future performance with respect to the financial condition and results of operations of the Corporation and other factors. These forward-looking statements are not guarantees of future performance and are subject to various factors that could cause actual results to differ materially from these forward-looking statements. These factors include, but are not limited to, changes in general economic and market conditions and the legal and regulatory environment in which Union Financial and the Bank operate and the development of an interest rate environment that adversely affects the Corporation's interest rate spread or other income anticipated from the Corporation's operations. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. The Corporation does not undertake-- and specifically disclaims any obligation-- to publicly release the results of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

COMPETITION

The Corporation faces competition in both the attraction of deposit accounts and in the origination of mortgage, commercial and consumer loans. Its most direct competition for savings deposits has historically derived from other thrift institutions and commercial banks located in and around Union, Laurens and Fairfield County, South Carolina. The Corporation faces additional significant competition for investor funds from money market instruments and mutual funds. It competes for savings by offering depositors a variety of savings accounts, convenient office locations and other services.

The Corporation competes for loans principally through the interest rates and loan fees it charges and the efficiency and quality of the services it provides borrowers, real estate brokers and home builders. The Corporation's

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competition for real estate loans comes principally from other thrift institutions, commercial banks and mortgage banking companies.

Competition has increased and is likely to continue to increase as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Technological advances, for example, have lowered barriers to market entry, allowed banks to expand their geographic reach by providing services over the Internet and made it possible for non-depositing institutions to offer products and services that traditionally have been provided by banks. The Gramm-Leach-Bliley Act, which permits affiliation among banks, securities firms and insurance companies, also has changed and may continue to change the competitive environment in which the Bank conducts business. As of September 30, 2002, a local commercial bank and an office of a regional commercial bank were located in Union County, South Carolina. The Corporation is the largest financial institution based in Union County, South Carolina.

AVERAGE BALANCES, INTEREST AND AVERAGE YIELDS/COST

The following table sets forth certain information for the periods indicated regarding: (1) average balances of assets and liabilities; (2) the total dollar amounts of interest income from average interest-earning assets and interest expense on average interest-bearing liabilities; and (3) average yields and costs. Such yields and costs for the periods indicated are derived by dividing income or expense by the average monthly balance of assets or liabilities, respectively, for the periods presented. Average balances are derived from month-end balances. Management does not believe that the use of month-end balances instead of daily balances results in any material difference in the information presented.

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	YEAR ENDED SEPTEMBER 30,					
	2002			2001		
	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/COST	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/COST
	(DOLLARS IN THOUSANDS)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest-earning assets:						
Loans receivable, net (1).............	$ 165,085	$ 12,519	7.58%	$ 163,665	$ 14,487	8.85%
Mortgage-backed securities............	73,397	4,012	5.47	48,721	2,894	5.94
Investment securities:						
Taxable...............................	14,606	1,015	6.95	19,872	1,417	7.13
Nontaxable............................	17,648	731	4.14	2,276	108	4.75
Total investment securities..............	32,254	1,745	5.41	22,148	1,525	6.88
Overnight deposits....................	8,246	86	1.03	5,526	112	2.03

Total interest-earning assets.......	278,983	18,361	6.58	240,060	19,018	7.92
Non-interest-earning assets...............	18,365			21,998		
Total assets........................	$ 297,347			$ 262,058		
Interest-bearing liabilities:						
Savings accounts......................	15,336	146	0.95	$ 15,354	279	1.82
Negotiable order of withdrawal accounts.............................	37,862	425	1.12	31,779	604	1.90
Certificate accounts...................	142,953	5,430	3.80	140,576	7,939	5.65
FHLB advances and other borrowings.....	74,918	3,774	5.04	47,169	2,791	5.92
Total interest-bearing liabilities..	271,069	9,775	3.61	234,878	11,613	4.94
Non-interest-bearing liabilities.......	1,576			4,907		
Total liabilities..................	272,645			239,785		
Shareholders' equity..................	24,702			22,273		
Total liabilities and shareholders' equity	$ 297,348			$ 262,058		
Net interest income.......................		$ 8,586			$ 7,405	
Interest rate spread (2)..................			2.97%			2.98%
Net interest margin (3)		3.08%			3.08%	
Ratio of average interest-earning assets to average interest-bearing liabilities..	1.03x			1.02x		

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<S>	YEAR ENDED SEPTEMBER 30, 2000 AVERAGE BALANCE <C>	INTEREST <C>	AVERAGE YIELD/COST <C>
	(DOLLARS IN THOUSANDS)		
Interest-earning assets:			
Loans receivable, net (1).............	$ 183,692	$ 15,272	8.31%
Mortgage-backed securities............	29,157	1,711	5.87
Investment securities:			
Taxable...............................	19,962	1,411	7.07
Nontaxable............................	1,824	84	4.60
Total investment securities...............	21,786	1,495	6.86
Overnight deposits....................	3,411	77	2.25

Total interest-earning assets	238,046	18,555	7.79
Non-interest-earning assets	19,794		
Total assets	$ 257,840		
Interest-bearing liabilities:			
Savings accounts	$ 16,407	319	1.94
Negotiable order of withdrawal accounts	28,519	474	1.66
Certificate accounts	139,621	7,574	5.42
FHLB advances and other borrowings	49,517	2,808	5.67
Total interest-bearing liabilities	234,064	11,175	4.77
Non-interest-bearing liabilities	3,657		
Total liabilities	237,721		
Shareholders' equity	20,119		
Total liabilities and shareholders' equity	$ 257,840		
Net interest income		$ 7,380	
Interest rate spread (2)			3.02%
Net interest margin (3)		3.10%	
Ratio of average interest-earning assets to average interest-bearing liabilities	1.02x		

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(1) Average loans receivable includes nonaccruing loans. Interest income does not include interest on loans 90 days or more past due.

(2) Represents difference between weighted average yield on all interest-earning assets and weighted average rate on all interest-bearing liabilities.

(3) Represents net interest income before provision for loan losses as a percentage of average interest-earning assets.

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LENDING ACTIVITIES

General. Set forth below is selected data relating to the composition of the Corporation's loan portfolio on the dates indicated (dollars in thousands):

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	AT SEPTEMBER 30,							
	2002		2001		2000		1999	
	AMOUNT	PERCENT	AMOUNT	PERCENT	AMOUNT	PERCENT	AMOUNT	PERCENT
First mortgage loans:								
Conventional............	$ 88,746	54.92%	$ 99,593	63.01%	$ 116,735	69.56%	$ 105,094	70.35%
Commercial loans.........	6,961	4.31	1,937	1.22	4,844	2.89	3,172	2.12
Construction loans.......	5,514	3.41	12,259	7.76	12,335	7.35	17,039	11.40
Participation loans purchased..............	--	--	353	0.22	366	0.22	377	0.25
Total mortgage loans..	101,221	62.64	114,142	72.21	134,280	80.02	125,682	84.12
Second mortgage loans.......	11,174	6.92	10,163	6.43	9,848	5.87	8,499	5.69
Consumer and installment loans......................	25,646	15.87	20,653	13.06	20,336	12.12	16,388	10.97
Commercial loans............	27,945	17.29	19,955	12.63	10,719	6.39	7,748	5.19
Savings account loans.......	1,723	1.07	2,009	1.27	1,971	1.17	1,435	0.96
Total loans...........	167,709	103.79	166,922	105.60	177,154	105.57	159,752	106.93
Less:								
Undisbursed loans in process.................	(3,204)	(1.97)	(6,108)	(3.86)	(5,445)	(3.24)	(9,964)	(6.67)
Loan discount unamortized............	(1,685)	(1.04)	(1,922)	(1.22)	(2,718)	(1.62)	--	--
Allowance for loan losses..................	(1,371)	(0.85)	(1,080)	(0.68)	(1,360)	(0.81)	(836)	(0.56)
Deferred loan fees.......	127	0.07	251	0.16	176	0.10	449	0.30
Net loans receivable.....	$ 161,576	100.00	$ 158,063	100.00	$ 167,807	100.00	$ 149,401	100.00

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	AT SEPTEMBER 30,	
	1998	
	AMOUNT	PERCENT
First mortgage loans:		
Conventional............	$ 110,190	77.49%
Commercial loans.........	4,193	2.95

Construction loans.......	12,838	9.03
Participation loans purchased..............	665	0.47
Total mortgage loans..	127,886	89.94
Second mortgage loans.......	5,857	4.12
Consumer and installment loans.....................	10,679	7.51
Commercial loans............	3,539	2.49
Savings account loans.......	1,551	1.09
Total loans...........	149,512	105.15
Less:		
Undisbursed loans in process.................	(6,625)	(4.66)
Loan discount unamortized.............	--	--
Allowance for loan losses................	(827)	(0.59)
Deferred loan fees.......	142	0.10
Net loans receivable.....	$ 142,202	100.00

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The following table sets forth, at September 30, 2002, certain information regarding the dollar amount of principal repayments for loans becoming due during the periods indicated (in thousands). Demand loans (loans having no stated schedule of repayments and no stated maturity) and overdrafts are reported as due in one year or less.

	DUE WITHIN ONE YEAR	DUE AFTER 1 YEAR THROUGH 5 YEARS	DUE AFTER 5 YEARS	TOTAL
First mortgage loans:				
Conventional loans	$ 1,474	$ 8,203	$ 86,030	$ 95,707
Construction loans (1).........	5,514	--	--	5,514
Second mortgage loans	--	--	11,174	11,174
Consumer and installment loans ...	12,526	11,867	1,253	25,646
Commercial loans	6,136	19,694	2,115	27,945
Savings account loans	1,723	--	--	1,723
Total	$ 27,373	$ 39,764	$ 100,572	$ 167,709

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(1) Includes construction/permanent loans.

The actual average life of mortgage loans is substantially less than their contractual term because of loan repayments and because of enforcement of due-on-sale clauses which give the Corporation the right to declare a loan immediately due and payable if, among other things, that the borrower sells the real property subject to the mortgage and the loan is not repaid. The average life of mortgage loans tends to increase, however, when current mortgage loan rates substantially exceed rates on existing mortgage loans.

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The following table sets forth, at September 30, 2002, the dollar amount of loans due after September 30, 2003 which have fixed rates of interest and which have adjustable rates of interest (in thousands).

	FIXED	ADJUSTABLE	TOTAL
Mortgage loans	$ 47,077	$ 25,347	$ 74,424
Commercial loans ...	19,157	2,652	21,809
All other loans	28,601	17,502	46,103
Total	$ 94,835	$ 45,501	$ 140,336

Real Estate Loans. The Corporation originates conventional mortgage loans to enable borrowers to purchase existing single family homes or to construct new homes. The Corporation's residential real estate loan portfolio also includes loans on multi-family dwellings (more than five units). At September 30, 2002, approximately $101.2 million, or 62.6% of the Corporation's net loan portfolio consisted of loans secured by residential real estate (net of undisbursed principal).

Office of Thrift Supervision regulations limit the amount which federally chartered savings institutions may lend in relationship to the appraised value of the real estate securing the loan, as determined by an appraisal at the time of loan origination. Federal regulations permit a maximum loan-to-value ratio of 100% for one-to-four family dwellings and 80% for all other real estate loans. The Corporation's lending policies, however, limit the maximum loan-to-value ratio on one-to-four-family real estate mortgage loans to 80% of the lesser of the appraised value or the purchase price. Any single-family loan made in excess of an 80% loan-to-value ratio and any commercial real estate loan in excess of a 75% loan-to-value ratio is required to have private mortgage insurance or additional collateral. In the past, the Corporation has originated some commercial real estate loans in excess of a 75% loan-to-value ratio without private mortgage insurance or additional collateral.

The loan-to-value ratio, maturity and other provisions of the loans made by the Corporation have generally reflected a policy of making less than the maximum loan permissible under applicable regulations, market conditions, and underwriting standards established by the Corporation. Mortgage loans made by the Corporation are generally long-term loans (15-30 years), amortized on a monthly basis, with principal and interest due each month. In the Corporation's experience, real estate loans remain outstanding for significantly shorter periods than their contractual terms. Borrowers may refinance or prepay loans, at their option, with no prepayment penalty.

The Corporation offers a full complement of mortgage lending products with both fixed and adjustable rates. Due to the nature of the Corporation's marketplace, only a small percentage of "local" loans are adjustable-rate mortgage loans ("ARMs"). The majority of adjustable-rate loans in the portfolio are originated outside of Union, Fairfield, and Laurens County by third party originators. The Corporation has established a network of third party loan brokers who originate loans for the Corporation, as well as other originators, throughout the state of South Carolina. These loans are originated and underwritten using the same terms and conditions as loans originated by the Corporation. The Corporation offers ARMs tied to U.S. Treasury Bills with a maximum interest rate adjustment of 2% annually and 6% over the life of the loan. At September 30, 2002, the Corporation had approximately $27.9 million of ARMs, or 16.9% of the Corporation's total loans receivable.

At September 30, 2002, 42.4% of the Corporation's loan portfolio consisted of long-term, fixed-rate real estate loans. Net interest income depends to a large extent on how successful the Corporation is in "matching" interest-earning assets and interest-bearing liabilities. The Corporation has taken steps to reduce its exposure to rising interest rates. For a discussion of these steps, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report.

Commercial real estate loans constituted approximately $6.9 million, or 4.3%, of the Corporation's net loan portfolio at September 30, 2002. Commercial real estate loans consist of permanent loans secured by multi-family loans, generally apartment houses, as well as commercial and industrial properties, including office buildings, warehouses, shopping centers, hotels, motels and other special purpose properties. Commercial real estate loans are originated and purchased for inclusion in the Corporation's portfolio. These loans generally have 20 to 30 year amortization schedules

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and are callable or have balloon payments after five years. Typically, the loan documents provide for adjustment of the interest rate every one to three years. Fixed-rate loans secured by multi-family residential and commercial properties have terms ranging from 20 to 25 years.

Loans secured by commercial properties may involve greater risk than single-family residential loans. Such loans generally are substantially larger than single-family residential loans. The payment experience on loans secured by commercial properties typically depends on the successful operation of the properties, and thus may be subject to a greater extent to adverse conditions in the real estate market or in the economy generally.

Construction Loans. The Corporation engages in construction lending that is primarily secured by single family residential real estate and, to a much lesser extent, commercial real estate. The Corporation grants construction loans to individuals with a takeout for permanent financing from another financial institution, and to approved builders on both presold and unsold properties.

Loan brokers are the Corporation's primary source for construction loans. The loan broker sends the Corporation both individuals seeking construction financing for their personal dwelling or builders seeking lines of credit for the construction of single family residences on both presold and unsold properties. Construction loans to individuals are originated for a term of one year or less or are originated to convert to permanent loans at the end of the construction period. Construction loans are originated to builders for a term not to exceed 12 months. Generally, draw inspections are handled by the appraiser who initially appraised the property; however, in some instances the draw inspections are performed by the originating brokerage firm.

Construction financing affords the Corporation the opportunity to achieve higher interest rates and fees with shorter terms to maturity than do single-family permanent mortgage loans. However, construction loans are generally considered to involve a higher degree of risk than single-family permanent mortgage lending due to: (i) the concentration of principal among relatively few borrowers and development projects; (ii) the increased difficulty at the time the loan is made of estimating the building costs and selling price of the property to be built; (iii) the increased difficulty and costs of monitoring the loan; (iv) the higher degree of sensitivity to increases in market rates of interest; and (v) the increased difficulty of working out loan problems. Speculative construction loans have the added risk associated with identifying an end-purchaser for the finished property.

At September 30, 2002, the Corporation had approximately $5.5 million outstanding in construction loans, including approximately $3.2 million in undisbursed proceeds. Of the $5.5 million in construction loans at September 30, 2002, approximately $748,000 were "speculative," meaning that, at the time the loan was made, there was no sales contract or permanent loan in place for the finished home. Substantially all of these loans were secured by one- to four-family residences.

Consumer Loans. Federal regulations permit federally chartered thrift institutions to make secured and unsecured consumer loans up to 35% of the institution's assets. In addition, a federal thrift institution has lending authority above the 35% category for certain consumer loans, such as home equity loans, property improvement loans, mobile home loans and loans secured by savings accounts. The Corporation's consumer loan portfolio consists primarily of automobile loans on new and used vehicles, mobile home loans, boat loans, home equity loans, second mortgage loans, loans secured by savings accounts and unsecured loans. As of September 30, 2002, consumer loans amounted to $38.5 million, or 23.0% of the Corporation's total loan portfolio. The Corporation makes consumer loans to serve the needs of its customers and as a way to improve the interest-rate sensitivity of the Corporation's loan portfolio.

Consumer loans tend to bear higher rates of interest and have shorter terms to maturity than residential mortgage loans. However, nationally, consumer loans have historically tended to have a higher rate of default than residential mortgage loans. Additionally, consumer loans entail greater risk than do residential mortgage loans, particularly in the case of loans that are unsecured or secured by rapidly depreciating assets such as automobiles. In these cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. The remaining deficiency often does not warrant further substantial collection efforts against the borrower beyond obtaining a deficiency judgment. In addition, consumer

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loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy.

Commercial Loans. The Corporation makes commercial business loans primarily in its market area to small businesses. The Corporation offers secured commercial loans with maturities of up to 20 years. The term for repayment will normally be limited to the lesser of the expected useful life of the asset being financed or a fixed amount of time, generally less than seven years. These loans have adjustable rates of interest indexed to the prime rate as reported in The Wall Street Journal and are payable on demand, subject to annual review and renewal. When making commercial loans, the Corporation considers the financial statements of the borrower, the borrower's payment history of both corporate and personal debt, the debt service capabilities of the borrower, the projected cash flows of the business, the viability of the industry in which the customer operates and the value of the collateral. Commercial loans are generally secured by a variety of collateral, primarily accounts receivable, inventory and equipment, and are generally supported by personal guarantees. Depending on the collateral used to secure the loans, commercial loans are made in amounts of up to 80% of the value of the collateral securing the loan. The Corporation's largest commercial loan relationship was a $2.3 million loan secured by real estate located in Rock Hill, South Carolina. This loan was performing according to its original terms at September 30, 2002.

Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment or other income, and which are secured by real property whose value tends to be more easily ascertainable, commercial loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial loans may depend substantially on the success of the business itself. Further, any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value.

Loan Solicitation and Processing. Loan originations come from both walk-in customers and loan brokers. The loan origination process for walk-in customers includes an initial interview with an officer of the Corporation for the purpose of obtaining a formal application. Upon receipt of a loan application from a prospective borrower, a credit report is ordered to verify specific information relating to the loan applicant's employment, income and credit standing. This information may be further verified by personal contacts with other reference sources. An appraisal of the real estate intended to secure the proposed loan is undertaken by pre-approved, independent fee appraisers. As soon as the required information has been obtained and the appraisal completed, the loan is submitted to the authorized officer, loan committees or full Board of Directors for review. The Corporation utilizes various officers and loan committees for the approval of real estate loans. The President/Chief Executive Officer has the authority to approve loan requests up to and including $500,000 in secured credit and up to and including $500,000 in unsecured credit. The President/Chief Executive Officer or the Chief Credit Officer along with two members of the Board Loan Committee has the authority to approve loan requests up to $1,000,000 secured and $500,000 unsecured. The Board of Directors has appointed a Board Loan Committee comprised of two members elected annually from the Board of Directors and four senior executive officers of the Bank. A quorum of three members, including at least one Board member, is required for any action. This Committee has the authority to approve all secured and unsecured loan requests with the exception of a single loan request exceeding $2,000,000 in secured credit and exceeding $1,000,000 in unsecured credit, which require approval of the entire Board of Directors.

Loan applicants are promptly notified of the decision of the Corporation by telephone, setting forth the terms and conditions of the decision. If approved, these terms and conditions include the amount of the loan, interest rate, amortization term, and a brief description of the real estate to be mortgaged to the Corporation. The Corporation also issues a commitment letter to the potential borrower which typically remains in effect for 60 days. The Corporation's experience is that very few commitments go unfunded. See "Loan Commitments." The borrower is required to pay all origination costs incurred in connection with the particular loan closing.

Loan Originations, Purchases and Sales. The Corporation purchases loans from mortgage brokers primarily located in South Carolina. The loan types purchased are primarily adjustable rate residential loans. The Corporation had total purchases through the broker network of $6.6 million in fiscal 2002. The Corporation reduced broker loan purchases beginning in fiscal 2001 to provide an increased capital allocation for consumer and commercial lending. At September

30, 2002, the Bank was servicing $45.8 million of loans for others.

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The Corporation purchases participation interests in loans originated by other institutions. These participation interests are on both residential and commercial properties and carry either a fixed or adjustable interest rate.

The following table sets forth the Corporation's loan origination and sale activity for the periods indicated (in thousands):

	YEAR ENDED SEPTEMBER 30,		
	2002	2001	2000
Loans originated:			
First mortgage loans:			
Conventional loans	$ 9,926	$ 28,795	$ 34,321
Construction loans	6,625	11,726	16,526
Total mortgage loans originated ..	16,551	40,521	50,847
Consumer loans	12,318	15,467	15,523
Commercial loans	57,838	27,359	13,357
Total loans originated	$ 86,707	$ 83,347	$ 79,727
Loans purchased	$ 5,275	$ 30,851	$ 44,102
Loans sold	--	$ 32,868	$ 43,508

Loan Commitments. The Corporation's commitments to make conventional mortgage loans on existing residential dwellings are normally made for periods of up to 60 days from the date of loan approval. See "Financial Condition, Liquidity and Capital Resources" in the Annual Report.

Loan Origination and Other Fees. In addition to interest earned on loans and fees for making loan commitments, the Corporation charges origination fees or "points" for originating loans. Loan origination fees are usually a percentage of the principal amount of the mortgage loan, typically between 0.5% and 2%, depending on the terms and conditions. Other fees collected include late charges applied to delinquent payments and fees collected in connection with loan modifications. The Corporation charges a 5% late charge fee on payments delinquent 15 days or more on new loan originations, loan modifications, loan assumptions and loans currently in the Corporation's portfolio where applicable. The 5% late charge is calculated on the delinquent monthly principal and interest payment amount. Late charges and modification fees do not constitute a material source of income. Current accounting standards require fees received (net of certain loan origination costs) for originating loans to be deferred and amortized into interest income over the contractual life of the loan. As of September 30, 2002, the Corporation had net deferred loan fees of approximately $251,000.

Problem Assets. When a borrower fails to make a required payment on a loan, the Corporation attempts to cure the default by contacting the borrower. In general, borrowers are contacted after a payment is more than 30 days past due. In most cases, defaults are cured promptly. If the delinquency on a mortgage loan is not cured through the Corporation's normal collection procedures, or an acceptable arrangement is not worked out with the borrower, the Corporation will institute measures to remedy the default, including commencing a foreclosure action.

Loans are reviewed on a regular basis and an allowance for uncollectible interest is established against accrued interest receivable when, in the opinion of management, the collection of additional interest is doubtful. An allowance for uncollectible interest on real estate loans and consumer loans is established when either principal or interest is more than 90 days past due. Subsequent payments are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate collectibility of the loan. See Notes 1 and 3 of Notes to Consolidated Financial Statements.

The Corporation generally determines a loan to be impaired at the time management believes that it is probable that the principal and interest may be uncollectible. Management has determined that, generally, a failure to make a payment within a 90-day period constitutes a minimum delay or shortfall and does not generally constitute an impaired loan. However, management reviews each past due loan on a loan-by-loan basis and may determine a loan to be impaired prior to the loan becoming over 90 days past due, depending upon the circumstances of that particular loan. A loan is classified as non accrual at the time management believes that the collection of interest is improbable, generally when a loan becomes

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90 days past due. The Corporation's policy for charge-off of impaired loans is on a loan-by-loan basis. At the time management believes the collection of interest and principal is remote, the loan is charged off. The Corporation's policy is to evaluate impaired loans based on the fair value of the collateral. Interest income from impaired loans is recorded using the cash method.

Real estate acquired by the Corporation as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned below. When such property is acquired it is recorded at the lower of the unpaid principal balance of the related loan or its fair market value less selling costs. Any subsequent write-down of the property is charged to income.

The following table sets forth information with respect to the Corporation's non-performing assets for the periods indicated (dollars in thousands). It is the policy of the Corporation to cease accruing interest on loans 90 days or more past due. As of and for the years ended September 30, 2002 and 2001, loans totaled $809,293 and $121,075 respectively, that were classified within the meaning of Statement of Financial Accounting Standards ("SFAS") No. 15. The increase in impaired loans over the previous year was due to higher loan delinquencies as a result of higher than state average unemployment from plant layoffs and closings in the surrounding communities. Also, at the dates indicated, there were no loans which are not disclosed in the following table about which there was known information of possible credit problems of the borrowers' ability to comply with the present repayment terms:

<TABLE>
<CAPTION>

	AT SEPTEMBER 30,				
	2002	2001	2000	1999	1998
<S>	<C>	<C>	<C>	<C>	<C>
Loans accounted for on a non accrual basis:					
Real estate	$ 916	$ 626	$ 763	$ 43	$ 581
Commercial	524	160	247	--	--
Consumer	426	9	106	141	115
Total	1,866	795	1,116	184	696
Accruing loans which are contractually past due 90 days or more	--	--	--	--	--
Real estate owned, net	356	77	459	241	35
Total non-performing assets	$ 2,222	$ 872	$ 1,575	$ 425	$ 731
Percentage of loans receivable net	1.37%	0.56%	0.94%	0.28%	0.55%

</TABLE>

Interest income that would have been recorded for the year ended September 30, 2002 had nonaccruing loans been current in accordance with their original terms amounted to approximately $112,000. There was no interest included in interest income on such loans for the year ended September 30, 2002.

Allowance for Loan Losses. In originating loans, the Corporation recognizes that losses will be experienced and that the risk of loss will vary with, among other things, the type of loan being made, the creditworthiness of the borrower over the term of the loan, general economic conditions and, in the case of a secured loan, the quality of the security for the loan. To cover losses inherent in the portfolio of performing loans, the Corporation maintains an allowance for loan losses. Management's periodic evaluation of the adequacy of the allowance is based on a number of factors, including management's evaluation of the collectibility of the loan portfolio, the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans and economic conditions. The amount of the allowance is based on the estimated value of the collateral securing the loan and other analysis pertinent to each situation.

The Corporation increases its allowance for loan losses by charging provisions for loan losses against income. The allowance for loan losses is maintained at an amount management considers adequate to absorb losses inherent in the portfolio. Although management believes that it uses the best information available to make such determinations, future adjustments to the allowance for loan losses may be necessary and results of operations could be significantly and adversely affected if circumstances differ substantially from the assumptions used in making the determinations.

The provision 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 weights assigned to each performing group is developed from previous loan loss experience and as the loss experience changes,

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the category weight is adjusted accordingly. In addition, as the loan categories increase and decrease in balance, the provision for loan loss calculation will adjust accordingly.

While the Corporation believes it has established its existing allowance for loan losses in accordance with generally accepted accounting principles, there can be no assurance that regulators, in reviewing the Corporation's loan portfolio, will not request the Corporation to significantly increase its allowance for loan losses. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that substantial increases will not be necessary should the quality of any loans deteriorate as a result of the factors discussed above. Any material increase in the allowance for loan losses will adversely affect the Corporation's financial condition and results of operations. Management periodically evaluates the adequacy of the allowance based upon historical delinquency rates, the size of the Corporation's loan portfolio and various other factors. See Notes 1 and 3 of Notes to Consolidated Financial Statements for information concerning the Corporation's provision and allowance for possible loan losses.

The following table sets forth an analysis of the Corporation's allowance for loan losses for the periods indicated (dollars in thousands):

<TABLE>
<CAPTION>

	AT SEPTEMBER 30,				
	2002	2001	2000	1999	1998
Balance at beginning of year	$ 1,080	$ 1,360	$ 836	$ 827	$ 928
Loans charged off:					
Real estate	(127)	(180)	(85)	--	--
Commercial	(542)	(211)	--	--	--
Consumer	(82)	(176)	(129)	(106)	(127)
Total charge-offs	(751)	(567)	(214)	(106)	(127)
Recoveries:					
Real estate	36	4	--	--	--
Commercial	--	8	--	--	--
Consumer	16	35	64	10	26
Total recoveries	52	47	64	10	26
Net charge-offs	(699)	(520)	(150)	(96)	(101)
Merger additions	--	--	449	--	--
Provision for loan losses (1).............	990	240	225	105	--
Balance at end of year	$ 1,371	$ 1,080	$ 1,360	$ 836	$ 827
Ratio of net charge-offs to average gross loans outstanding during the period	0.42%	0.32%	0.08%	0.07%	0.07%

</TABLE>

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(1) See "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report for a discussion of the factors responsible for changes in the provision for loan losses between the periods.

The Corporation experienced bad debt charge-offs, net of recoveries, of approximately $699,000 in fiscal 2002 compared to $520,000 for fiscal 2001. The increase in bad debt charge-offs over the previous year includes approximately $500,000 from one commercial loan that was written down due to a reduction in the market value of the supporting loan collateral. The allowance for loan losses to total loans ratio at the end of fiscal 2002 was 0.83% compared to 0.67% at the end of fiscal 2001. Nonperforming assets which includes repossessed assets and loans on non accrual increased to $2,2 million at September 30, 2002 from $872,000 at September 30, 2001.

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The following table sets forth the breakdown of the allowance for loan losses by loan category and the percentage of loans in each category to total loans for the periods indicated. Management believes that the allowance can be allocated by category only on an approximate basis. The allocation of the allowance to each category is not necessarily indicative of further losses and does not restrict the use of the allowance to absorb losses in any category (dollars in thousands):

<TABLE>
<CAPTION>

	AT SEPTEMBER 30,									
	2002		2001		2000		1999		1998	
	AMOUNT	% OF LOANS IN EACH CATEGORY TO TOTAL LOANS	AMOUNT	% OF LOANS IN EACH CATEGORY TO TOTAL LOANS	AMOUNT	% OF LOANS IN EACH CATEGORY TO TOTAL LOANS	AMOUNT	% OF LOANS IN EACH CATEGORY TO TOTAL LOANS	AMOUNT	% OF LOANS IN EACH CATEGORY TO TOTAL LOANS
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Real estate.....	$ 357	27.98%	$ 400	73.55%	$ 600	79.76%	$ 400	80.77%	$ 400	85.90%
Commercial......	778	60.97	100	1.23	200	2.89	75	2.12	100	2.90
Consumer........	141	11.05	500	25.22	500	17.35	311	17.11	277	11.20
Unallocated.....	95	N/A	80	N/A	60	N/A	50	N/A	50	N/A
Total allowance for loan losses.	$ 1,371	100.00%	$ 1,080	100.00%	$ 1,360	100.00%	$ 836	100.00%	$ 827	100.00%

</TABLE>

The Corporation adjusts balances on real estate acquired in settlement of loans to the lower of cost or market based on appraised value when the property is received in settlement. These values reflect current market conditions and sales experience. See Notes 1 and 3 of Notes to Consolidated Financial Statements.

Asset Classification. The Office of Thrift Supervision (the "OTS") requires savings institutions to classify problem assets. Under this classification system, problem assets of insured institutions are classified as "substandard," "doubtful" or "loss," depending on the presence of certain characteristics. An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the institution will sustain some loss if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified as "substandard" with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as "loss" are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets that do not currently expose the insured institution to sufficient risk to warrant classification in the above-mentioned categories but possess weaknesses are designated "special mention."

When an institution classifies problem assets as either substandard or doubtful, it is required to establish general allowances for loan losses in an amount deemed prudent by management. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When an institution classifies problem assets or a portion of assets as loss, it is required either to establish a specific allowance for losses equal to 100% of the amount of the asset or a portion thereof so classified or to charge-off such amount. An institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the OTS which can order the establishment of additional general or specific loss allowances.

The following table sets forth the number and amount of classified loans at September 30, 2002 (dollars in thousands):

<PAGE>

<TABLE>
<CAPTION>

	LOSS		DOUBTFUL		SUBSTANDARD		SPECIAL MENTION	
	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Real estate.............	--	$ --	--	$ --	30	$ 1,413	24	$ 929
Commercial..............	--	--	--	--	7	2,002	3	226
Consumer................	--	--	--	--	16	532	17	422
Total...................	--	$ --	--	$ --	53	$ 3,947	44	$ 1,577

</TABLE>

INVESTMENT ACTIVITIES

SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," requires that investments be categorized as "held to maturity," "trading securities" or "available for sale," based on management's intent as to the ultimate disposition of each security. SFAS No. 115 allows debt securities to be classified as "held to maturity" and reported in financial statements at amortized cost only if the reporting entity has the positive intent and ability to hold those securities to maturity. Securities that might be sold in response to changes in market interest rates, changes in the security's prepayment risk, increases in loan demand, or other similar factors cannot be classified as "held to maturity." Debt and equity securities held for current resale are classified as "trading securities." The Corporation currently does not use or maintain a trading account. Such securities are reported at fair value, and unrealized gains and losses on such securities would be included in earnings. Debt and equity securities not classified as either "held to maturity" or "trading securities" are classified as "available for sale." Such securities are reported at fair value, and unrealized gains and losses on such securities are excluded from earnings and reported as a net amount in a separate component of equity.

The following table sets forth the Corporation's investment and mortgage-backed securities portfolio at the dates indicated (dollars in thousands):

<TABLE>
<CAPTION>

	AT SEPTEMBER 30,					
	2002		2001		2000	
	CARRYING VALUE	PERCENT OF PORTFOLIO	CARRYING VALUE	PERCENT OF PORTFOLIO	CARRYING VALUE	PERCENT OF PORTFOLIO
<S>	<C>	<C>	<C>	<C>	<C>	<C>
AVAILABLE FOR SALE:						
Investment securities:						
U.S. Agency obligations	$ 10,599	9.01%	$ 13,494	17.35%	$ 15,286	52.28%
Corporate securities	3,717	3.16	--	--	--	--
Municipal securities	14,597	12.41	9,726	12.50	1,669	5.71
Total investment securities ...	28,913	24.58	23,220	29.85	16,955	57.98
Mortgage-backed and related securities	88,720	75.42	54,582	70.15	12,285	42.02
Total available for sale	$ 117,633	100.00%	$ 77,802	100.00%	$ 29,240	100.00%
HELD TO MATURITY:						
Investment securities:						
U.S. Agency obligations	$ --	--%	$ 950	8.40%	$ 2,477	6.58%
Mortgage-backed and related						

securities	--	--	10,365	91.60	35,175	93.42
Total held to maturity	$ --	--	$ 11,315	100.00%	$ 37,652	100.00%

</TABLE>

During the quarter ended December 31, 2001 the Corporation reclassified approximately $24.0 million in mortgage backed securities from held to maturity to available for sale as part of the adoption of FASB 133, "Accounting for Derivative Instruments and Hedging Activities." The purpose of this transfer was to allow for the sale of the fixed rate securities in order to reduce interest rate risk exposure.

The Corporation purchases mortgage-backed securities, both fixed-rate and adjustable-rate, from Freddie Mac, Fannie Mae and Ginnie Mae with maturities from five to 30 years. The Corporation also purchases adjustable-rate Small Business Administration securities that are backed by the full faith and credit of the U.S. government.

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The Corporation also purchases mortgage derivative securities in the form of collateralized mortgage obligations ("CMOs"). While these securities possess minimal credit risk due to the Federal guarantee backing the U. S. government agencies, they do possess liquidity risk and interest rate risk. The amortized cost and fair value of the CMOs at September 30, 2002 was approximately $3.4 million. See Note 2 of Notes to Consolidated Financial Statements for more information regarding investment and mortgage-backed securities.

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The following table sets forth at amortized cost and market value the maturities and weighted average yields of the Corporation's investment and mortgage-backed securities portfolio at September 30, 2002 (dollars in thousands):

<TABLE>
<CAPTION>

	AMOUNT DUE OR REPRICING WITHIN:					
	ONE YEAR OR LESS		OVER ONE TO FIVE YEARS		OVER FIVE TO TEN YEARS	
	CARRYING VALUE	WEIGHTED AVERAGE YIELD	CARRYING VALUE	WEIGHTED AVERAGE YIELD	CARRYING VALUE	WEIGHTED AVERAGE YIELD

<S>	<C>	<C>	<C>	<C>	<C>	<C>
AVAILABLE FOR SALE:						
Investment securities:						
U.S. Agency obligations	$ 1,371	5.98%	$ 356	6.44%	$ 8,351	6.25%
Corporate securities	--	--	--	--	--	--
Municipal securities	30	4.30	171	4.40	--	--
Total investment securities ..	1,401	5.94	527	5.78	8,351	6.25
Mortgage-backed and related securities	20,435	4.16	27,773	4.89	5,044	6.21
Total available for sale	$ 21,836	4.27	$ 28,300	4.91	$ 13,395	6.23

<CAPTION>

	AMOUNT DUE OR REPRICING WITHIN:			
	OVER TEN YEARS		TOTAL	
	CARRYING VALUE	WEIGHTED AVERAGE YIELD	CARRYING VALUE	WEIGHTED AVERAGE YIELD
<S>	<C>	<C>	<C>	<C>
AVAILABLE FOR SALE:				
Investment securities:				
U.S. Agency obligations	$ 520	6.50%	$ 10,598	6.23%
Corporate securities	3,717	6.68	3,717	6.68
Municipal securities	14,396	4.53	14,597	4.53
Total investment securities ..	18,633	5.01	28,912	5.43
Mortgage-backed and related securities	35,469	6.73	88,721	5.53
Total available for sale	$ 54,102	6.14	$ 117,633	5.51

</TABLE>

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At September 30, 2002, approximately $43.8 million of mortgage-backed securities were adjustable-rate securities.

DEPOSITS AND BORROWINGS

Deposits are the major source of the Corporation's funds for lending and other investment purposes. In addition to deposits, the Corporation derives funds from principal repayments and interest payments on loans and investment and mortgage-backed securities. Principal repayments and interest payments are a relatively stable source of funds, although principal prepayments tend to slow when interest rates increase. Deposit inflows and outflows may be significantly influenced by general market interest rates and money market conditions. During fiscal year 2002, the Corporation experienced a net increase in deposits of approximately $6.2 million due to the result of various deposit promotion programs with continued emphasis on increasing core deposits. The Corporation borrowed funds to support the remaining growth experienced in fiscal 2002.

Deposits. Local deposits are, and traditionally have been, the primary source of the Corporation's funds for use in lending and for other general business purposes. The Corporation offers a number of deposit accounts including NOW accounts, money market savings accounts, passbook and statement savings accounts, individual retirement accounts and certificate of deposit accounts. Deposit accounts vary as to terms regarding withdrawal provisions, deposit provisions and interest rates.

The Corporation adjusts the interest rates offered on its deposit accounts as necessary so as to remain competitive with other financial institutions in Union, Laurens and Fairfield County.

The following table sets forth the time deposits of the Corporation classified by rates as of the dates indicated (in thousands):

<TABLE>
<CAPTION>

	AT SEPTEMBER 30,		
	2002	2001	2000
<S>	<C>	<C>	<C>
Up to 2.0%	$ 16,830	$ --	$ --
2.01% to 4.0%	90,116	18,152	440
4.01% to 6.0%	29,103	98,064	53,052
6.01% to 8.0%	2,791	24,187	88,666
Total savings certificates	$ 138,840	$ 140,403	$ 142,158

</TABLE>

The following table sets forth the maturities of time deposits at September 30, 2002 (in thousands):

	AMOUNT
Within three months	$ 42,841
After three months but within six months	22,281

After six months but within one year	31,468
After one year but within three years	32,465
After three years but within five years	9,625
After five years but within ten years	160
Total	$ 138,840

Certificates of deposit with maturities of less than one year decreased from $116.8 million at September 30, 2001 to $96.6 million at September 30, 2002. Historically, the Bank has been able to retain a significant amount of its deposits as they mature. In addition, management of the Bank believes that it can adjust the offering rates of savings certificates to retain deposits in changing interest rate environments.

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The following table indicates the amount of the Bank's jumbo certificates of deposit by time remaining until maturity as of September 30, 2002 (in thousands). Jumbo certificates of deposit are certificates in amounts of $100,000 or more.

MATURITY PERIOD	AMOUNT
Three months or less	$ 10,145
Over three through six months	5,276
Over six months through 12 months	7,449
Over 12 months	10,004
Total jumbo certificates	$ 32,874

See Note 6 of Notes to Consolidated Financial Statements for additional information about deposit accounts.

Borrowings. The Corporation utilizes advances from the FHLB agreements and other borrowings (treasury, tax and loan deposits, security repurchase agreements and trust preferred capital obligations) to supplement its supply of lendable funds for granting loans, making investments and meeting deposit withdrawal requirements. See "Regulation and Supervision -- Federal Home Loan Bank System."

The following tables set forth certain information regarding borrowings by the Bank at the dates and for the periods indicated (dollars in thousands):

<TABLE>
<CAPTION>

AT SEPTEMBER 30,

	2002	2001	2000
Balance outstanding at end of period:			
FHLB advances and other borrowings	$ 82,000	$ 57,007	$ 47,687
Weighted average rate paid on:			
FHLB advances and other borrowings	5.04%	5.92%	6.28%

	YEAR ENDED SEPTEMBER 30,		
	2002	2001	2000
Maximum amount of borrowings outstanding at any month end:			
FHLB advances and other borrowings	$ 82,000	$ 57,007	$ 55,852
Approximate average short-term borrowings outstanding with respect to:			
FHLB advances and other borrowings	74,936	47,169	17,927
Approximate weighted average rate paid on:			
FHLB advances and other borrowings	4.94%	5.41%	6.57%

At September 30, 2002, the Corporation had unused short-term lines of credit to purchase federal funds from unrelated banks totaling $15 million. 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. At September 30, 2002, the Corporation had unused lines of credit with the FHLB of Atlanta totaling $27 million.

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SUBSIDIARY ACTIVITIES

Under OTS regulations, the Bank generally may invest up to 3% of its assets in service corporations, provided that at least one-half of the investment in excess of 1% is used primarily for community, inner-city and community development projects. In 1997, the Bank formed Provident Financial Services, Inc. for the purpose of engaging in securities brokerage activities for the benefit of the Bank's customers.

EMPLOYEES

The Corporation has 70 full-time employees and 7 part-time employees. None of the employees are represented by a collective bargaining unit. The Corporation believes that relations with its employees are excellent.

REGULATION AND SUPERVISION

GENERAL

As a savings and loan holding company, Union Financial is required by federal law to file reports with, and otherwise comply with, the rules and regulations of the OTS. The Bank is subject to extensive regulation, examination and supervision by the OTS, as its primary federal regulator, and the FDIC, as the deposit insurer. The Bank is a member of the FHLB and its deposit accounts are insured up to applicable limits by the SAIF managed by the FDIC. The Bank must file reports with the OTS and the FDIC concerning its activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other savings institutions. The OTS and/or the FDIC conduct periodic examinations to test the Bank's safety and soundness and compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulatory requirements and policies, whether by the OTS, the FDIC or Congress, could have a material adverse impact on Union Financial, the Bank and their operations. Certain of the regulatory requirements applicable to the Bank and to Union Financial are referred to below or elsewhere herein. The description of statutory provisions and regulations applicable to savings institutions and their holding companies set forth in this report does not purport to be a complete description of such statutes and regulations and their effects on Union Financial and the Bank.

HOLDING COMPANY REGULATION

Union Financial is a nondiversified unitary savings and loan holding company within the meaning of federal law. The Gramm-Leach-Bliley Act of 1999 provides that no company may acquire control of a savings association after May 4, 1999 unless it engages only in the financial activities permitted for financial holding companies under the law or for multiple savings and loan holding companies as described below. Further, the Gramm-Leach-Bliley Act specifies that, subject to a grandfather provision, existing savings and loan holding companies may only engage in such activities. The Company does qualify for the grandfathered activities. Permissible holding company activities include banking services such as lending, trust services, insurance activities and underwriting, investment banking and real estate investment.

A savings and loan holding company is prohibited from, directly or indirectly, acquiring more than 5% of the voting stock of another savings institution or savings and loan holding company, without prior written approval of the OTS and from acquiring or retaining control of a depository institution that is not insured by the FDIC. In evaluating applications by holding companies to acquire savings institutions, the OTS considers the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on the risk to the deposit insurance funds, the convenience and needs of the community and competitive factors.

The OTS may not approve any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions: (i) the approval of interstate supervisory acquisitions by savings and loan holding companies and (ii) the acquisition of a savings institution in another state if the

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laws of the state of the target savings institution specifically permit such acquisitions. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

Although savings and loan holding companies are not subject to specific capital requirements or specific restrictions on the payment of dividends or other capital distributions, federal regulations do prescribe such restrictions on subsidiary savings institutions as described below. The Bank must notify the OTS 30 days before declaring any dividend to Union Financial. In addition, the financial impact of a holding company on its subsidiary institution is a matter that is evaluated by the OTS and the agency has authority to order cessation of activities or divestiture of subsidiaries deemed to pose a threat to the safety and soundness of the institution.

Acquisition of the Company. Under the Federal Change in Bank Control act ("CIBCA"), a notice must be submitted to the Office of Thrift Supervision if any person (including a company), a group acting in concert, seeks to acquire 10% or more of the Company's outstanding voting stock, unless the Office of Thrift Supervision has found that the acquisition will not result in a change in control of the Company. Under the CIBCA, the Office of Thrift Supervision has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the anti-trust effects of the acquisition. Any company that so acquires control would then be subject to regulation as a savings and loan holding company.

FEDERAL SAVINGS INSTITUTION REGULATION

Business Activities. The activities of federal savings institutions are governed by federal law and regulations. These laws and regulations delineate the nature and extent of the activities in which federal associations may engage. In particular, many types of lending authority for federal savings banks, e.g., commercial, non-residential real property loans and consumer loans, are limited to a specified percentage of the institution's capital or assets.

Capital Requirements. The OTS capital regulations require savings institutions to meet three minimum capital standards: a 1.5% tangible capital ratio, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS rating system) and an 8% risk-based capital ratio. In addition, the prompt corrective action standards discussed below also establish, in effect, a minimum 2% tangible capital standard, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS financial institution rating system), and, together with the risk-based capital standard itself, a 4% Tier I risk-based capital standard. The OTS regulations also require that, in meeting the tangible, leverage and risk-based capital standards, institutions must generally deduct investments in and loans to subsidiaries engaged in activities as principal that are not permissible for a national bank.

The risk-based capital standard for savings institutions requires the maintenance of Tier I (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100%, assigned by the OTS capital regulation based on the risks believed inherent in the type of asset. Core (Tier I) capital is defined as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus, and minority interests in equity accounts of consolidated subsidiaries less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of unrealized gains on available-for-sale equity securities with readily determinable fair values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

The capital regulations also incorporate an interest rate risk component. Savings institutions with "above normal" interest rate risk exposure are subject to a deduction from total capital for purposes of calculating their risk-based capital requirements. The OTS deferred implementation of the interest rate risk capital charge and repealed the interest rate risk component in May 2002, concluding that it was unnecessary in light of other tools available to measure and control interest rate risk. At September 30, 2002, the Bank met each of its capital requirements.

The following table presents the Bank's capital position at September 30, 2002.

	ACTUAL CAPITAL	REQUIRED CAPITAL	EXCESS AMOUNT	CAPITAL ACTUAL PERCENT	CAPITAL REQUIRED PERCENT
			(DOLLARS IN THOUSANDS)		
Tangible	$ 25,679	$ 4,561	$ 21,118	8.44%	1.50%
Core (Leverage)	25,679	12,164	13,515	8.44	4.00
Risk-based	27,050	12,587	14,463	17.19	8.00

Prompt Corrective Regulatory Action. The OTS is required to take certain supervisory actions against undercapitalized institutions, the severity of which depends upon the institution's degree of undercapitalization. Generally, a savings institution that has a ratio of total capital to risk weighted assets of less than 8%, a ratio of Tier I (core) capital to risk-weighted assets of less than 4% or a ratio of core capital to total assets of less than 4% (3% or less for institutions with the highest examination rating) is considered to be "undercapitalized." A savings institution that has a total risk-based capital ratio less than 6%, a Tier I capital ratio of less than 3% or a leverage ratio that is less than 3% is considered to be "significantly undercapitalized" and a savings institution that has a tangible capital to assets ratio equal to or less than 2% is deemed to be "critically undercapitalized." Subject to a narrow exception, the OTS is required to appoint a receiver or conservator for an institution that is "critically undercapitalized." The regulation also provides that a capital restoration plan must be filed with the OTS within 45 days of the date a savings institution receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." Compliance with the plan must be guaranteed by any parent holding company. In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. The OTS could also take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

Insurance of Deposit Accounts. Deposits of the Bank are presently insured by the SAIF. The FDIC maintains a risk-based assessment system by which institutions are assigned to one of three categories based on their capitalization and one of three subcategories based on examination ratings and other supervisory information. An institution's assessment rate depends upon the categories to which it is assigned. Assessment rates for SAIF member institutions are determined semiannually by the FDIC and currently range from zero basis points for the healthiest institutions to 27 basis points for the riskiest.

The FDIC has authority to increase insurance assessments. A significant increase in SAIF insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. Management cannot predict what insurance assessment rates will be in the future.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation ("FICO") to recapitalize the predecessor to the SAIF. During fiscal 2002, FICO payments for SAIF members approximated 1.73 basis points of assessable deposits.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the OTS. The management of the Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

Loans to One Borrower. Federal law provides that savings institutions are generally subject to the limits on loans to one borrower applicable to national banks. A savings institution may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of its unimpaired capital and surplus. An additional amount may be lent,

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equal to 10% of unimpaired capital and surplus, if secured by specified readily-marketable collateral. At September 30, 2002, the Bank's limit on loans to one borrower was $4.1 million and the Bank's largest aggregate outstanding balance of loans to one borrower was $2.3 million.

QTL Test. Federal law requires savings institutions to meet a qualified thrift lender test. Under the test, a savings association is required to either qualify as a "domestic building and loan association" under the Internal Revenue Code or maintain at least 65% of its "portfolio assets" (total assets less: (i) specified liquid assets up to 20% of total assets; (ii) intangibles, including goodwill; and (iii) the value of property used to conduct business) in certain "qualified thrift investments" (primarily residential mortgages and related investments, including certain mortgage-backed securities) in at least nine months out of each 12 month period.

A savings institution that fails the qualified thrift lender test is subject to certain operating restrictions and may be required to convert to a bank charter. As of September 30, 2002, the Bank met the qualified thrift lender test. Recent legislation has expanded the extent to which education loans, credit card loans and small business loans may be considered "qualified thrift investments."

Limitation on Capital Distributions. OTS regulations impose limitations upon all capital distributions by a savings institution, including cash dividends, payments to repurchase its shares and payments to shareholders of another institution in a cash-out merger. Under the regulations, an application to and the prior approval of the OTS is required prior to any capital distribution if the institution does not meet the criteria for "expedited treatment" of applications under OTS regulations (i.e., generally, safety and soundness, compliance and Community Reinvestment Act examination ratings in the two top categories), the total capital distributions for the calendar year exceed net income for that year plus the amount of retained net income for the preceding two years, the institution would be undercapitalized following the distribution or the distribution would otherwise be contrary to a statute, regulation or agreement with OTS. If an application is not required, the institution must still provide prior notice to OTS of the capital distribution if, like the Bank, it is a subsidiary of a holding company. If the Bank's capital fell below its regulatory requirements or the OTS notified it that it was in need of more than normal supervision, the Bank's ability to make capital distributions could be restricted. In addition, the OTS could prohibit a proposed capital distribution by any institution, which would otherwise be permitted by the regulation, if the OTS determines that such distribution would constitute an unsafe or unsound practice.

Assessments. Savings institutions are required to pay assessments to the OTS to fund the agency's operations. The general assessments, paid on a semi-annual basis, are computed upon the savings institution's total assets, including consolidated subsidiaries, as reported in the Bank's latest quarterly thrift financial report.

Transactions with Related Parties. The Bank's authority to engage in transactions with "affiliates" (e.g., any company that controls or is under common control with an institution, including Union Financial and its non-savings institution subsidiaries) is limited by federal law. The aggregate amount of covered transactions with any individual affiliate is limited to 10% of the capital and surplus of the savings institution. The aggregate amount of covered transactions with all affiliates is limited to 20% of the savings institution's capital and surplus. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type described in federal law. The purchase of low quality assets from affiliates is generally prohibited. The transactions with affiliates must be on terms and under circumstances, that are at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies. In addition, savings institutions are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no savings institution may purchase the securities of any affiliate other than a subsidiary.

The Bank's authority to extend credit to executive officers, directors and

10% shareholders ("insiders"), as well as entities such persons control, is also governed by federal law. Such loans are required to be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment. An exception exists for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to insiders over other employees. The law limits both the individual and aggregate amount of loans the Bank may make to insiders based, in part, on the Bank's capital position and requires certain board approval procedures to be followed.

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Enforcement. The OTS has primary enforcement responsibility over savings institutions and has the authority to bring actions against the institution and all institution-affiliated parties, including stockholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors to institution of receivership, conservatorship or termination of deposit insurance. Civil penalties cover a wide range of violations and can amount to $25,000 per day, or even $1 million per day in especially egregious cases. The FDIC has the authority to recommend to the Director of the OTS that enforcement action to be taken with respect to a particular savings institution. If action is not taken by the Director, the FDIC has authority to take such action under certain circumstances. Federal law also establishes criminal penalties for certain violations.

Standards for Safety and Soundness. The federal banking agencies have adopted Interagency Guidelines prescribing Standards for Safety and Soundness. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the OTS determines that a savings institution fails to meet any standard prescribed by the guidelines, the OTS may require the institution to submit an acceptable plan to achieve compliance with the standard.

FEDERAL HOME LOAN BANK SYSTEM

The Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank provides a central credit facility primarily for member institutions. The Bank, as a member of the Federal Home Loan Bank of Atlanta, is required to acquire and hold shares of capital stock in the Federal Home Loan Bank of Atlanta in an amount at least equal to 1.0% of the aggregate principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year, or 1/20 of its advances (borrowings) from the Federal Home Loan Bank of Atlanta, whichever is greater. The Bank was in compliance with this requirement with an investment in Federal Home Loan Bank stock at September 30, 2002, of $2.9 million.

The Federal Home Loan Banks are required to provide funds for the resolution of insolvent thrifts and to contribute funds for affordable housing programs. These requirements could reduce the amount of dividends that the Federal Home Loan Banks pay to their members and could also result in the Federal Home Loan Banks imposing a higher rate of interest on advances to their members. If dividends were reduced, or interest on future Federal Home Loan Bank advances increased, the Bank's net interest income would likely also be reduced. Recent legislation has changed the structure of the Federal Home Loan Banks' funding obligations for insolvent thrifts, revised the capital structure of the Federal Home Loan Banks and implemented entirely voluntary membership for Federal Home Loan Banks. Management cannot predict the effect that these changes may have with respect to its Federal Home Loan Bank membership.

FEDERAL RESERVE SYSTEM

The Federal Reserve Board regulations require savings institutions to maintain non-interest earning reserves against their transaction accounts (primarily NOW and regular checking accounts). The regulations generally provide that reserves be maintained against aggregate transaction accounts as follows: a 3% reserve ratio is assessed on net transaction accounts up to and including $41.3 million and a 10% reserve ratio is applied above $41.3 million. The first $5.7 million of otherwise reservable balances (subject to adjustments by the Federal Reserve Board) are exempted from the reserve requirements. The Bank complies with the foregoing requirements.

FEDERAL AND STATE TAXATION

FEDERAL TAXATION

General. Union Financial and the Bank report their income on a fiscal year, consolidated basis and the accrual method of accounting, and are subject to federal income taxation in the same manner as other corporations with some exceptions, including particularly the Bank's reserve for bad debts discussed below. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable

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to Union Financial or the Bank. For its 2002 taxable year, Union Financial is subject to a maximum federal income tax rate of 34%.

Bad Debt Reserves. For fiscal years beginning prior to December 31, 1995, thrift institutions which qualified under certain definitional tests and other conditions of the Internal Revenue Code were permitted to use certain favorable provisions to calculate their deductions from taxable income for annual additions to their bad debt reserve. A reserve could be established for bad debts on qualifying real property loans (generally secured by interests in real property improved or to be improved) under (i) the percentage of taxable income method or (ii) the experience method. The reserve for nonqualifying loans was computed using the experience method.

Congress repealed the reserve method of accounting for bad debts for tax years beginning after 1995 and required savings institutions to recapture (i.e., take into income) certain portions of their accumulated bad debt reserves. Thrift institutions eligible to be treated as "small banks" (assets of $500 million or less) are allowed to use the experience method applicable to such institutions, while thrift institutions that are treated as large banks (assets exceeding $500 million) are required to use only the specific charge-off method. Thus, the percentage of taxable income method of accounting for bad debts is no longer available for any financial institution.

A thrift institution required to change its method of computing reserves for bad debts will treat such change as a change in method of accounting, initiated by the taxpayer, and having been made with the consent of the Internal Revenue Service. Any Section 481(a) adjustment required to be taken into income with respect to such change generally will be taken into income ratably over a six-taxable year period, beginning with the first taxable year beginning after 1995, subject to a 2-year suspension if the "residential loan requirement" is satisfied.

Under the residential loan requirement provision, the required recapture will be suspended for each of two successive taxable years, beginning with the Bank's 1996 taxable year, in which the Bank originates a minimum of certain residential loans based upon the average of the principal amounts of such loans made by the Bank during its six taxable years preceding its current taxable year.

Distributions. If the Bank makes "non-dividend distributions" to Union Financial, such distributions will be considered to have been made from the Bank's unrecaptured tax bad debt reserves (including the balance of its reserves as of December 31, 1987) to the extent thereof, and then from the Bank's supplemental reserve for losses on loans, to the extent thereof, and an amount based on the amount distributed (but not in excess of the amount of such reserves) will be included in the Bank's income. Non-dividend distributions include distributions in excess of the Bank's current and accumulated earnings and profits, as calculated for federal income tax purposes, distributions in redemption of stock, and distributions in partial or complete liquidation. Dividends paid out of the Bank's current or accumulated earnings and profits will not be so included in its income.

The amount of additional taxable income triggered by a non-dividend is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Thus, if the Bank makes a non-dividend distribution to Union Financial, approximately one and one-half times the amount of such distribution (but not in excess of the amount of such reserves) would be includable in income for federal income tax purposes, assuming a 35% federal corporate income tax rate. The Bank does not intend to pay dividends that would result in a recapture of any portion of its bad debt reserves.

STATE TAXATION

South Carolina. The Bank is subject to tax under South Carolina law. South Carolina law allows a savings and loan association to use the federal bad debt deduction method for the purpose of computing net income subject to state tax, and the present South Carolina tax rate on taxable income is 6%. In order to calculate taxable income for South Carolina taxation purposes, a corporation begins with its federal taxable income and then modifies it to take into account certain adjustments. Adjustments which would be common to most financial institutions include an addition for state taxes deducted on the federal return, and a subtraction for interest on certain federal obligations and securities. South Carolina income tax is deductible for federal income tax purposes. In addition, Union Financial is subject to South Carolina taxes as a regular corporation and pays taxes based on its shareholders' equity.

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Delaware. As a Delaware holding company not earning income in Delaware, Union Financial is exempted from Delaware corporate income tax, but is required to file an annual report with and pay an annual franchise tax to the State of Delaware.

ITEM 2. DESCRIPTION OF PROPERTY

The Corporation owns its main office, located at 203 West Main Street in Union, South Carolina, which was opened in 1977. At September 30, 2002, the Corporation also owned a banking center which opened in April 1989, located at 508 North Duncan By-Pass, Union, South Carolina, a branch office, acquired in 1997, in Laurens, South Carolina, an operations center located in Union, South Carolina, which opened in 1998 and a branch office in Jonesville, South Carolina, which opened as a full service facility in 1999. As a result of the merger with South Carolina Community Bancshares in November 1999, the Corporation acquired two branch locations in Winnsboro, South Carolina. The Corporation opened a temporary facility in York County with a full service facility to be completed by the second quarter of the fiscal year. The net book value of the Corporation's investment in premises and equipment totaled approximately $6.5 million at September 30, 2002. See Note 4 of Notes to Consolidated Financial Statements. All property is in good condition and meets the operating needs of the Corporation.

ITEM 3. LEGAL PROCEEDINGS

Neither Union Financial nor the Bank is engaged in any legal proceedings of a material nature at the present time. From time to time, the Bank is involved in routine legal proceedings occurring in the ordinary course of business wherein it enforces the Bank's security interest in mortgage loans the Bank has made.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended September 30, 2002.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The information contained under the section captioned "Common Stock Market Price and Dividend Information" in the Annual Report to Shareholders (the "Annual Report") is incorporated herein by reference.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report is incorporated herein by reference.

ITEM 7. FINANCIAL STATEMENTS

The financial statements contained in the Annual Report are incorporated herein by reference.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

No changes in or disagreements with the Corporation's independent accountants on accounting and financial disclosure has occurred during the two most recent fiscal years.

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PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

For information concerning the Board of Directors of Union Financial, the information contained under the section captioned "Proposal I -- Election of Directors" and "Directors' Compensation" in the Proxy Statement is incorporated herein by reference. Reference is made to the cover page of this Form 10-KSB and to the section captioned "Compliance with Section 16(a) of the Exchange Act" for information regarding compliance with section 16(a) of the Exchange Act.

EXECUTIVE OFFICERS OF THE REGISTRANT

Certain executive officers of the Bank also serve as executive officers of Union Financial. The day-to-day management duties of the executive officers of Union Financial and the Bank relate primarily to their duties as to the Bank. The executive officers of Union Financial currently are as follows:

Name	Age(1)	Position as of September 30, 2002
Dwight V. Neese	52	President, Chief Executive Officer and Director
Richard H. Flake	54	Executive Vice President - Chief Financial Officer
Lud W. Vaughn	52	Senior Vice President - Chief Credit Officer
Wanda J. Wells	46	Vice President - Corporate Secretary

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(1) At September 30, 2002.

Dwight V. Neese was appointed as President and Chief Executive Officer of the Bank effective September 5, 1995. As President and Chief Executive Officer of Provident Community Bank and the Corporation, Mr. Neese is responsible for daily operations of the Bank and implementation of the policies and procedures approved by the Board of Directors.

Richard H. Flake joined Union Financial in September 1995.

Lud W. Vaughn joined Union Financial in April 2002. Prior to joining Union Financial, Mr. Vaughn was Senior Vice President for Bank of America in Rock Hill, South Carolina.

Wanda J. Wells has been employed by Union Financial since 1975.

ITEM 10. EXECUTIVE COMPENSATION

The information contained under the section captioned "Executive Compensation" in the Proxy Statement is incorporated herein by reference.

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ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

(a) Security Ownership of Certain Beneficial Owners

Information required by this item is incorporated herein by reference to the section captioned "Stock Ownership" in the Proxy Statement.

(b) Security Ownership of Management

Information required by this item is incorporated herein by reference to the section captioned "Stock Ownership" in the Proxy Statement.

(c) Management of Union Financial knows of no arrangements, including any pledge by any person of securities of Union Financial, the operation of which may at a subsequent date result in a change in control of the registrant.

(d) Equity Compensation Plan Information

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PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (a)	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (b)	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS (EXCLUDING SECURITIES REFLECTED IN COLUMN (A)) (c)
<S>	<C>	<C>	<C>
Equity compensation plans approved by security holders	184,193	$ 8.13	79,930
Equity compensation plans not approved by security holders	--	--	--

Total	184,193	$ 8.13	79,930

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ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated herein by reference to the section captioned "Transactions with Management" in the Proxy Statement.

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PART IV

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

3(a) Certificate of Incorporation(1)
3(b) Bylaws(2)
3(c) Certificate of Amendment of Certificate of Incorporation dated January 22, 1997(3)
10(a) Employment Agreement with Dwight V. Neese(4)
10(b) Employment Agreement with Richard H. Flake(2)
10(c) Union Financial Bancshares, Inc. 1995 Stock Option Plan(5)
10(d) Union Financial Bancshares, Inc. 2001 Stock Option Plan(6)
13 2002 Annual Report to Shareholders
21 Subsidiaries of the Registrant
23 Consent of Independent Auditor
99(a) Chief Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99(b) Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) There were no reports on Form 8-K filed during the fourth quarter of fiscal 2002.

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(1) Incorporated herein by reference to Union Financial's Registration Statement on Form S-4 (File No. 33-80808) filed with the Securities and Exchange Commission on June 29, 1994.
(2) Incorporated herein by reference to Union Financial's Form 10-KSB for the year ended September 30, 1999.
(3) Incorporated herein by reference to Exhibit 3(c) to Union Financial's Form 10-KSB for the year ended September 30, 1997.
(4) Incorporated herein by reference to Union Financial's Form 10-KSB for the year ended September 30, 1996.
(5) Incorporated herein by reference to Exhibit A to Union Financial's Proxy

Statement for its 1996 Annual Meeting of Stockholders.

(6) Incorporated herein by reference to Appendix A to Union Financial's Proxy Statement for its 2000 Annual Meeting of Stockholders.

ITEM 14. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures. The Corporation maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Corporation files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures performed within 90 days of the filing date of this report, the chief executive officer and the chief financial officer of the Corporation concluded that the Corporation's disclosure controls and procedures were adequate.

(b) Changes in internal controls. The Corporation made no significant changes in its internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation of those controls by the chief executive officer and chief financial officer.

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SIGNATURES

In accordance with the requirements of Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNION FINANCIAL BANCSHARES, INC.

Date: December 2, 2002

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

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Dwight V. Neese

Dwight V. Neese
(Principal Executive Officer)

Date: December 2, 2002

By: /s/ Carl L. Mason

Carl L. Mason
Director

Date: December 2, 2002

By: /s/ Richard H. Flake

Richard H. Flake
(Principal Financial and
Accounting Officer)

Date: December 2, 2002

By: /s/ John S. McMeekin

John S. McMeekin
Director

Date: December 2, 2002

By: /s/ Mason G. Alexander

Mason G. Alexander
Director

Date: December 2, 2002

By: /s/ Philip C. Wilkins

Philip C. Wilkins
Director

Date: December 2, 2002

By: /s/ James W. Edwards

James W. Edwards
Director

Date: December 2, 2002

By: /s/ William M. Graham

William M. Graham
Director

Date: December 2, 2002

By: /s/ Louis M. Jordan

Louis M. Jordan
Director

Date: December 2, 2002

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CERTIFICATION

I, Dwight V. Neese, certify, that:

1. I have reviewed this annual report on Form 10-KSB of Union Financial Bancshares, Inc.;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

    a. designed such disclosure controls and procedures 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 annual report is being prepared;

    b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

    c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

    a. all significant deficiencies in the design or operation of the internal controls which could adversely affect the registrant's ability to record process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in

this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect the internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 2, 2002 /s/ Dwight V. Neese

Dwight V. Neese
President and Chief Executive Officer

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CERTIFICATION

I, Richard H. Flake, certify, that:

1. I have reviewed this annual report on Form 10-KSB of Union Financial Bancshares, Inc.;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a. designed such disclosure controls and procedures 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 annual report is being prepared;

   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

    a. all significant deficiencies in the design or operation of the internal controls which could adversely affect the registrant's ability to record process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect the internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 2, 2002

/s/ Richard H. Flake

Richard H. Flake
Executive Vice President and Chief
Financial Officer

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