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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

-------- For the quarterly period ended

X TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

----- EXCHANGE ACT OF 1934 For the transition period from October 1, 2003 to December 31, 2003

COMMISSION FILE NUMBER 1-5735

UNION FINANCIAL BANCSHARES, INC.

(Exact name of small business issuer as specified in its charter)

Delaware	57-1001177
(State or other Jurisdiction of Incorporation)	(I.R.S. Employer Identification No.)
203 West Main Street, Union, South Carolina	29379
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (864) 429-1864

Check whether the issuer (1) filed all reports required 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

The Corporation had 1,969,770 shares, $0.01 par value, common stock issued and outstanding as of January 30, 2004.

UNION FINANCIAL BANCSHARES, INC.

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Item 1. Financial Statements

UNION FINANCIAL BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2003 (unaudited) and September 30, 2003 (audited)

	December 31, 2003	September 30, 2003
ASSETS	(DOLLARS IN THOUSANDS)	
Cash	$ 1,515	$ 1,860
Short term interest-bearing deposits	27,187	3,157
Total cash and cash equivalents	28,702	5,017
Investment and mortgage-backed securities	123,789	157,438
Loans , net	153,301	152,921
Office properties and equipment, net	6,415	6,366
Federal Home Loan Bank Stock, at cost	3,900	3,900
Federal Reserve Stock, at cost	539	539
Accrued interest receivable	1,655	1,927
Intangible assets	4,848	5,007
Cash surrender value of life insurance	5,025	4,971
Other assets	2,491	3,219
TOTAL ASSETS	$330,665	$ 341,305
LIABILITIES		
Deposit accounts	$223,131	$ 220,232
Advances from the Federal Home Loan Bank and other borrowings	68,500	74,000
Securities sold under agreements to repurchase	5,000	11,000
Corporate obligated floating rate capital securities	8,000	8,000
Accrued interest on deposits	285	364
Advances from borrowers for taxes and insurance	59	310
Other liabilities	183	1,183

TOTAL LIABILITIES	305,158	315,089
SHAREHOLDERS' EQUITY		
Serial preferred stock, no par value, authorized - 500,000 shares, issued and outstanding - None		
Common stock - $0.01 par value, authorized - 2,500,000 shares, issued and outstanding - 1,969,770 shares at 12/31/03 and 1,965,103 at 9/30/03	20	20
Additional paid-in capital	11,906	11,862
Accumulated other comprehensive gain (loss)	99	(555)
Retained earnings, substantially restricted	13,848	15,255
Treasury stock, at cost	(366)	(366)
TOTAL SHAREHOLDERS' EQUITY	25,507	26,216
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$330,665	$ 341,305

See notes to consolidated financial statements.

UNION FINANCIAL BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
Three Months Ended December 31, 2003 and 2002 (unaudited)

	Three Months Ended December 31 2003	Three Months Ended December 31 2002
	(DOLLARS IN THOUSANDS EXCEPT PER SHARE)	
Interest Income:		
Loans	$ 2,433	$ 2,908
Deposits and federal funds sold	21	6
Mortgage-backed securities	485	939
Interest and		

dividends on investment securities	848	474
Total Interest Income	3,787	4,327
Interest Expense:		
Deposit accounts	1,031	1,229
Trust preferred corporate obligation	100	113
Advances from the FHLB and other borrowings	1,174	941
Total Interest Expense	2,305	2,283
Net Interest Income	1,482	2,044
Provision for loan losses	725	180
Net Interest Income After Provision for Loan Losses	757	1,864
Non Interest Income:		
Fees for financial services	423	447
Loan servicing costs	(142)	(67)
Net gain (loss) on sale of investments	(700)	60
Total Non Interest Income	(419)	440
Non Interest Expense:		
Compensation and employee benefits	981	749
Occupancy and equipment	517	407

Deposit insurance premiums	6	9
Professional services	92	112
Advertising/Public relations	78	42
Real estate operations	69	21
Deposit premium intangible	159	159
Other	288	196
Total Non Interest Expense	2,190	1,695
Income (Loss) Before Income Taxes	(1,852)	609
Income tax expense (benefit)	(642)	157
Net Income (Loss)	$ (1,210)	$ 452
Basic Net Income (Loss) Per Common Share	$ (0.62)	$ 0.23
Diluted Net Income (Loss) Per Common Share	$ (0.62)	$ 0.22
Weighted Average Number of Common Shares Outstanding		
Basic	1,967,217	1,960,527
Diluted	1,967,217	2,048,138

See notes to consolidated financial statements.

UNION FINANCIAL BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Three Months Ended December 31, 2003 and 2002 (unaudited)

	Three Months Ended December 31,	
December 31,	2003	2002
	(IN THOUSANDS)	(IN THOUSANDS)
OPERATING ACTIVITIES:		
Net income (loss)	($1,210)	$452
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	725	180
Amortization of intangibles	159	159
Depreciation expense	264	240
Recognition of deferred income, net of costs	(37)	(54)
Deferral of fee income, net of costs	22	53
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	272	(229)
(Increase) decrease in other assets	1,267	(996)
Increase (decrease) in other liabilities	(1,251)	186
Increase (decrease) in accrued interest payable	(79)	12
Net cash provided by operating activities	132	3
INVESTING ACTIVITIES:		
Purchase of investment and mortgage-backed securities:		
Available for sale	(5,654)	(38,596)
Proceeds from sale of investment and mortgage-backed securities	30,187	5,059
Proceeds from maturity of investment and mortgage-backed securities:		
Available for sale	91	4
Principal repayments on mortgage-backed securities:		
Available for sale	9,025	10,842
Net (increase) decrease in loans	(1,026)	2,348

Purchase of FHLB stock	--	(935)
Purchase of office properties and equipment	(316)	(186)
Net cash provided (used) by investing activities	$32,307	(21,464)
FINANCING ACTIVITIES:		
Proceeds from the dividend reinvestment plan	27	29
Dividends paid in cash ($0.10 per share -2003 and $0.10 per share - 2002)	(197)	(198)
Proceeds from the exercise of stock options	17	19
Proceeds from term borrowings	--	19,700
Repayment of term borrowings	(11,500)	-
Increase in deposit accounts	2,899	119
Net cash provided (used) by financing activities	(8,754)	19,669
NET (DECREASE) YEN INCREASE IN CASH AND CASH EQUIVALENTS	23,685	(1,792)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5,017	8,731
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$28,702	$6,939
SUPPLEMENTAL DISCLOSURES:		
Cash paid for:		
Income taxes	$59	$104
Interest	2,384	2,271
Non-cash transactions:		
Loans foreclosed	$295	$113

See notes to consolidated financial statements.

UNION FINANCIAL BANCSHARES, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
THREE MONTHS ENDED DECEMBER 31, 2003 AND 2002 (UNAUDITED)

	Common Stock		Additional Paid-in	Retained Earnings Substantially	Accumulated Other Comprehensive	Treasury	Total Shareholders'
	Shares	Amount	Capital	Restricted	Income	Stock At Cost	Equity
	(In Thousands, Except Share Data)						
BALANCE AT SEPTEMBER 30, 2002	1,958,069	20	11,573	14,184	1,421		27,198
Net income				452			452
Other comprehensive income							
Unrealized gains on securities:							
Unrealized holding gains arising during period					305		305
Comprehensive income							757
Options exercised	3,000		19				19
Dividend reinvestment plan contributions	2,183		29				29
Cash dividend ($.10 per share)				(198)			(198)
BALANCE AT DECEMBER 31, 2002	1,963,252	$20	$11,621	$14,438	$1,726		$27,805
BALANCE AT SEPTEMBER 30, 2003	1,965,103	20	11,862	15,255	(555)	(366)	26,216
Net income (loss)				(1,210)			(1,210)
Other comprehensive income							
Unrealized gains on securities:							
Unrealized holding gains arising during period					654		654

Comprehensive loss							(556)
Options exercised	3,006	17					17
Dividend reinvestment plan contributions	1,661	27					27
Share repurchase program							
Cash dividend ($.10 per share)				(197)			(197)
BALANCE AT DECEMBER 31, 2003	1,969,770	$20	$11,906	$13,848	$99	($366)	$25,507

UNION FINANCIAL BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Presentation of Consolidated Financial Statements

The accompanying unaudited consolidated financial statements of Union Financial Bancshares, Inc. (the "Corporation" or "Union Financial") were prepared in accordance with instructions for Form 10-QSB and, therefore, do not include all disclosures necessary for a complete presentation of consolidated financial condition, results of operations, and cash flows in conformity with generally accepted accounting principles. However, all adjustments which are, in the opinion of management, necessary for the fair presentation of the interim consolidated financial statements have been included. All such adjustments are of a normal and recurring nature. The consolidated financial statements include the Corporation's wholly owned subsidiaries, Provident Community Bank (the "Bank"), a national bank, and Union Financial Statutory Trust I (the "Trust"), a statutory trust created under the laws of the state of Connecticut. The results of operations for the three months ended December 31, 2003 are not necessarily indicative of the results which may be expected for the entire calendar year. The consolidated balance sheet as of September 30, 2003 has been derived from the Corporation's audited financial statements presented in the annual report to shareholders. Certain amounts in the prior year's financial statements have been reclassified to conform with current year classifications.

On July 27, 2003, the Bank was granted approval to change from an OTS charter to an OCC charter.

On October 21, 2003, the Board of Directors of Union Financial Bancshares, Inc. changed the fiscal year end of the Company from September 30 to December 31, effective December 31, 2003. Accordingly, the unaudited consolidated condensed financial statements are presented for the transition period from October 1, 2003 to December 31, 2003.

Recently Issued Accounting Standards

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-based Compensation--Transition and Disclosure", an amendment of FASB Statement No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee

compensation. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 and Accounting Pronouncement Board ("APB") Opinion No. 28, "Interim Financial Reporting", to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. While SFAS No. 148 does not amend SFAS No. 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions of SFAS No. 148 are applicable to all companies with stock-based employee compensation, regardless of whether they account for that compensation using the fair value method of SFAS No. 123 or the intrinsic value method of APB Opinion No. 25. The provisions of SFAS No. 148 are effective for annual financial statements for fiscal years ending after December 15, 2002, and for financial reports containing condensed financial statements for interim period beginning after December 15, 2002. The Corporation has adopted the disclosure provisions of SFAS No. 148 which had no impact on the financial condition or operating results of the Corporation.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts and loan commitments that relate to the origination of mortgage loans held for sale, and for hedging activities under SFAS No. 133. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS No. 149 will not have a material impact on the financial condition or operating results of the Corporation.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances.) Many of those instruments were previously classified as equity. SFAS No. 150 is generally effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have a material impact on the financial condition or operating results of the Corporation.

In November 2002, the FASB issued Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". FIN No. 45 requires a company, at the time it issues a guarantee, to recognize an initial liability for the fair value of obligations assumed under the guarantee and elaborates on existing disclosure requirements related to guarantees and warranties. The initial recognition requirements of FIN No. 45 are effective for guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial

statements of periods ending after December 15, 2002. The adoption of FIN No. 45 did not have a material effect on the Company's financial position or results of operations.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities." FIN No. 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns, or both. FIN No. 46 also requires disclosures about variable interest entities that a company is not required to consolidate, but in which it has a significant variable interest. FIN No. 46 provides guidance for determining whether an entity qualifies as a variable interest entity by considering, among other considerations, whether the entity lacks sufficient equity or its equity holders lack adequate decision-making ability. The consolidation requirements of FIN No. 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to existing entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The adoption of FIN No. 46 will require the Company to discontinue consolidation of the trust preferred securities. The Company believes this will not have a material effect on the Company' s financial position or results of operations.

Additional accounting standards that have been issued or proposed by the FASB that do not require adoption until a future date are not expected to have a material impact on the

consolidated financial statements upon adoption

2. Income Per Share

Basic income per share amounts for the three months ended December 31, 2003 and 2002 were computed based on the weighted average number of common shares outstanding during the period. Diluted income per share adjusts for the dilutive effect of outstanding common stock options during the periods.

3. Assets Pledged

Approximately $34,932,000 and $ 40,635,000 of debt securities at December 31, 2003 and September 30, 2003, respectively, were pledged by the Bank as collateral to secure deposits of the State of South Carolina, and Union, Laurens and York counties. The Bank pledges as collateral for Federal Home Loan Bank advances the Bank's Federal Home Loan Bank stock and has entered into a blanket collateral agreement with the Federal Home Loan Bank whereby the Bank maintains, free of other encumbrances, qualifying mortgages (as defined) with unpaid principal balances equal to, when discounted at 75% of the unpaid principal balances, 100% of total advances. The Bank will also pledge

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securities to cover additional advances from the Federal Home Loan Bank that exceed the qualifying mortgages balance along with security repurchase lines with various brokerage houses.

4. Contingencies and Loan Commitments

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These instruments expose the Bank to credit risk in excess of the amount recognized on the balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Total credit exposure at December 31, 2003 related to these items is summarized below:

Loan Commitments:	Contract Amount
Approved loan commitments	$ 3,640,000
Unadvanced portions of loans and credit lines	23,354,000
Total loan commitments	$ 26,994,000

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

Commitments outstanding at December 31, 2003 consist of fixed and adjustable rate loans provided above at rates ranging from 5.0% to 6.5%. Commitments to originate loans generally expire within 30 to 60 days.

Commitments to fund credit lines (principally variable rate, consumer lines secured by real estate and overdraft protection) totaled approximately $58,522,000 at December 31, 2003. Of these lines, the outstanding loan balances totaled approximately $31,528,000. The Bank also has commitments to fund warehouse lines of credit for various mortgage banking companies totaling $3,000,000, which had an outstanding balance at December 31, 2003 of $0.

5. Corporation Obligated Floating Rate Capital Securities

On November 14, 2001, the Corporation sponsored the creation of the Trust. The Corporation is the owner of all of the common securities of the Trust. On December 18, 2001, the Trust issued $8,000,000 in the form of floating rate capital securities through a pooled trust preferred securities offering. The proceeds from this issuance, along with the Corporation's $248,000 capital contribution for the Trust's common securities, were used to acquire $8,248,000 aggregate principal amount of the Corporation's floating rate junior subordinated deferrable interest debentures due December 18, 2031 (the "Debentures"), which constitute the sole asset of the Trust. The interest rate on the Debentures and the capital securities is variable and adjustable quarterly at 3.60% over the three-month LIBOR, with an initial rate of 5.60%. A rate cap of 12.50% is effective through December 18, 2006. The Corporation has, through the Trust agreement establishing the Trust, the Guarantee Agreement, the notes and the related Debenture, taken together, fully irrevocably and unconditionally guaranteed all of the Trust's obligations under the capital securities.

A summary of the Trust securities issued and outstanding follows:

Name	Amount Outstanding at December 31, 2003	Amount Outstanding at December 31, 2002	Rate	Prepayment Option Date	Maturity	Distribution Payment Frequency
Union Financial Statutory Trust I	$8,000,000	$8,000,000	4.77%	December 18, 2006	December 18, 2031	Quarterly

The stated maturity of the Debentures is December 18, 2031. In addition, the Debentures are subject to redemption at par at the option of the Corporation, subject to prior regulatory approval, in whole or in part on any interest payment date after December 18, 2006. The Debentures are also subject to redemption prior to December 18, 2006 at 107.5% of par after the occurrence of certain events that would either have a negative tax effect on the Trust or the Corporation or would result in the Trust being treated as an investment company that is required to be registered under the Investment Company Act of 1940. Upon repayment of the Debentures at their stated maturity or following their redemption, the Trust will use the proceeds of such repayment to redeem an equivalent amount of outstanding trust preferred securities and trust common securities.

The Corporation has the right, at one or more times, to defer interest payments on the Debentures for up to twenty consecutive quarterly periods. All deferrals will end on an interest payment date and will not extend beyond December 18, 2031, the stated maturity date of the Debentures. If the Corporation defers interest payments on the Debentures, the Trust will also defer distributions on the capital securities. During any deferral period, each installment of interest that would otherwise have been due and payable will bear additional interest (to the extent payment of such interest would be legally enforceable) at the applicable distribution rate, compounded quarterly.

For the purposes of these financial statements the Trusts operations have been consolidated.

Effective March 31, 2004, as a result of the adoption of FIN 46, Variable Interest Entities, the Corporation will no longer be allowed to consolidate the Trust's activities. The Corporation expects assets to increase by $248,000 and no impact on the income statement as a result of the adoption of this standard.

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

Forward Looking Statements

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

Financial Condition

During the transition quarter ending December 31, 2003, the Corporation initiated a balance sheet restructuring that is designed to increase the net interest margin and enhance future earnings. The restructuring

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costs included the sale of $31.3 million in low yielding mortgage backed securities that resulted in a pretax loss of $700,000 and the prepayment of a $5 million 6.25% Federal Home Loan advance with two years remaining that carried a $381,000 penalty. The purpose of the restructuring was to lessen exposure to interest rate risk.

Assets

Total assets of the Corporation decreased $10,640,000, or 3.12%, to $330,665,000 at December 31, 2003 from $341,305,000 at September 30, 2003. Investments and mortgage-backed securities decreased approximately $33,649,000, or 21.37%, from September 30, 2003 to December 31, 2003, due to the sale of lower yielding mortgage backed securities. The securities carried a weighted average yield of 2.28%. The proceeds from the sale were invested in mortgage-backed and government agency securities with an average yield of 4%. However, these new securities were purchased in January, 2004 and the timing of the settlement of the securities purchased contributed to the decrease in investments and mortgage-backed securities. These funds were included as short term interest bearing accounts at December 31, 2003.

Loans increased $380,000, or .25%, to $153,301,000 at December 31, 2003. The Corporation continues to focus on consumer and commercial lending with reduced emphasis on residential mortgage loans. Consumer and commercial loans outstanding during this period increased $5,749,000, or 6.77%, while outstanding residential mortgage loans decreased $3,965,000 or 5.63%. Other assets decreased $728,000, or 22.62%, to $2,491,000 at December 31, 2003 from $3,219,000 at September 30, 2003, due to a reduction in prepaid expenses and a decrease in financing receivable balances.

Liabilities

Total liabilities decreased $9,931,000, or 3.15%, to $305,158,000 at December 31, 2003 from $315,089,000 at September 30, 2003. Deposits increased $2,899,000, or 1.32%, to $223,131,000 at December 31, 2003 from $220,232,000 at September 30, 2003. The increase was due primarily to growth in demand accounts as a result of deposit growth from the new banking center located in York County.

Borrowings from the Federal Home Loan Bank (FHLB) decreased $5,500,000, or 7.43%, to $68,500,000 at December 31, 2003 from $74,000,000 at September 30, 2003. Securities sold under agreement to repurchase decreased $6,000,000 or 54.55% to $5,000,000 at December 31, 2003 from $11,000,000 at September 30, 2003. The decrease in borrowings from FHLB was due to the advance prepayment of $5,000,000. The decrease in repurchase agreements was due to the maturity of a $6,000,000

agreement. Other liabilities decreased $1,000,000, or 84.53%, to $183,000 at December 31, 2003 from $1,183,000 at September 30, 2003, due to a reduction in current and deferred income taxes payable due to the loss recorded during the transition quarter.

Shareholders' Equity

Shareholders' equity decreased $709,000, or 2.70%, to $25,507,000 at December 31, 2003 from $26,216,000 at September 30, 2003 due to net loss for the quarter and the payment of $0.10 per share quarterly dividends offset by an increase in unrealized gains in securities available for sale.

Liquidity

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

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

During the three months ended December 31, 2003, the Corporation's loan originations totaled $13,431,000. At December 31, 2003, the Corporation's investment in agency and mortgage-backed securities totaled $123,789,000. Additionally, outstanding loan commitments (including commitments to fund credit lines) totaled $26,994,000 at December 31, 2003. Management of the Corporation anticipates that it will have sufficient funds available to meet its current loan commitments.

During the three months ended December 31, 2003, total deposits increased $2,899,000. The Corporation closely monitors its liquidity position on a daily basis. Certificates of deposit, which are scheduled to mature in one year or less from December 31, 2003, totaled $101,688,000. The Corporation relies primarily on competitive rates, customer service, and long-standing relationships with customers to retain deposits. From time to time, the Corporation will also offer competitive special products to its customers to increase retention and to attract new deposits.

Based upon the Corporation's experience with deposit retention and current retention strategies, management believes that, although it is not possible to predict future terms and conditions upon renewal, a significant portion of such deposits will remain with the Corporation. If the Corporation requires funds beyond its ability to generate them internally, additional sources of funds are available through FHLB advances and securities sold under agreements to repurchase. At December 31, 2003, the Corporation had $68,500,000 of FHLB borrowings and $5,000,000 of securities sold under agreements to repurchase.

On January 29, 2003, the Corporation announced that the Board of Directors had approved a stock repurchased program authorizing the Corporation to repurchase up to 98,000 shares of the Corporation's common stock. During the quarter ending December 31, 2003, the Corporation did not repurchase any shares. As of December 31, 2003, the Corporation had repurchased a total of 20,286 shares under this authorization.

Capital Resources

The capital requirement of the Bank consists of three components: (1) tangible capital, (2) core capital and (3) risk based capital. Tangible capital must equal or exceed 1.5% of adjusted total assets. Core capital must be a minimum of 4% of adjusted total assets and risk based capital must be a minimum of 8% of risk weighted assets.

As of December 31, 2003, the Bank's capital position, as calculated under regulatory guidelines, exceeds these minimum requirements as follows (dollars in thousands):

	Requirement	Actual	Excess
Tangible capital	$ 5,094	$27,753	$22,587
Tangible capital to adjusted total assets	1.50%	8.17%	6.67%
Core capital	$13,584	$27,753	$14,169
Core capital to adjusted total assets	4.00%	8.17%	4.17%
Risk based capital	$14,101	$29,958	$15,857
Risk based capital to risk weighted assets	8.00%	17.00%	9.00%

Results of operations for the three months ended December 31, 2003 and 2002

General

During the transition quarter ending December 31, 2003, the Corporation initiated a balance sheet restructuring that is designed to increase the net interest margin and enhance future earnings. The restructuring included the sale of $31.3 million in low yielding mortgage backed securities that resulted in a pretax loss of $700,000 and the prepayment of a $5 million 6.25% Federal Home Loan advance with two years remaining that carried a $381,000 penalty. The purpose of the restructuring was to lessen exposure to interest rate risk.

As a result of the Bank's balance sheet restructuring, the Corporation recorded a net loss of $1,210,000 the three months ended December 31, 2003 as compared to net income of $452,000 for the three months ended December 31, 2002.

Interest Income

Interest income decreased $540,000, or 12.48%, for the three months ended December 31, 2003 as compared to the same period in 2002. Interest income on loans decreased by 16.33%, or $475,000, to $2,433,000 for the three months ended December 31, 2003 from $2,908,000 for the three months ended December 31, 2002, due primarily to declining market interest rates along with a smaller average balance of loans. Interest and dividends on investment and mortgage-backed securities decreased $80,000, or 5.66%, for the three months ended December 31, 2003 to $1,333,000 from $1,413,000 during the same period in 2002. The decrease was due primarily to the balance sheet restructuring during the

quarter where approximately $31 million in mortgage-backed securities with a weighted average yield of 2.28% was sold at a pretax loss of $700,000 and reinvested in mortgage-backed and agency securities with a weighted average yield of approximately 4%. The Corporation had approximately $27 million in overnight funds at December 31, 2003 as a result of the sale with the settlement of the new security purchases to occur during January, 2004.

Interest Expense

Interest expense increased $22,000, or .96 %, for the three months ended December 31, 2003 as compared to the three months ended December 31, 2002. As part of the balance sheet restructuring that occurred during the quarter ending December 31, 2003, the Corporation prepaid a $5 million, 6.25% Federal Home Loan advance with two years remaining to maturity that carried a $381,000 penalty.

Interest expense on deposit accounts decreased $198,000, or 16.11%, to $1,031,000 for the three months ended December 31, 2003 from $1,229,000 during the same period in 2002. The Corporation continues to move toward lower cost demand deposit accounts from traditional thrift higher cost certificate of deposits. Interest expense on borrowings increased $233,000, or 24.76%, for the three months ended December 31, 2003 as compared to the same period in the previous year due to the prepayment penalty of $381,000. The Corporation also recorded $100,000 for the three months ended December 31, 2003 compared to $113,000 for the three months ended December 31, 2002 for interest expense on the trust preferred securities that were issued on December 18, 2001.

Provision for Loan Loss

During the three months ended December 31, 2003, the provision for loan losses was $725,000 as compared to $180,000 for the same period in the previous year. During this same period, non-accrual loans increased $726,000 from $2,203,000 at December 31, 2002 to $2,929,000 at December 31, 2003. During the quarter ending December 31, 2003, one commercial loan in the amount of $781,000 was downgraded from substandard to doubtful and a second commercial loan in the amount of $2,413,000 was downgraded from special mention to substandard. Both downgrades were required as a result of an analysis of the underlying collateral. The increased provision also reflects the Corporation's continued movement from longer term, fixed rate residential mortgage loans to shorter term, floating rate consumer and commercial loans. Consumer and commercial loans carry higher risk weighted rates in the reserve calculation as compared to residential mortgage loans. Management believes the Corporation's loan loss allowance is adequate to absorb probable loan losses inherent in the portfolio. The Corporation's loan loss allowance at December 31, 2003 was approximately 1.51% of the Corporation's outstanding loan portfolio and 80.85% of non-performing loans compared to .93% of the Corporation's outstanding loan portfolio and 68.32% of non-performing loans at December 31, 2002.

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, 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.

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

Balance at beginning of quarter	$1,842
Provision for loan losses	725
(Charge-offs) recoveries, net	(199)
Balance at end of quarter	$2,368

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

	December 31, 2003	September 30, 2003
Non-accruing loans which are contractually past due 90 days or more:		
Real Estate	$ 896	$ 408
Commercial	1,720	2,437
Consumer	213	209
Total	$2,829	$ 3,054
Percentage of loans receivable, net	1.80%	2.00 %
Percentage of allowance for loan losses to total loans outstanding	1.51%	1.19 %
Allowance for loan losses	$2,368	$1,842
Real estate acquired through foreclosure and repossessed assets, net of allowances	$ 373	$ 652

Loans 30-89 days past due and still accruing at December 31, 2003 were $7,636,000 compared to $7,435,000 at December 31, 2002. These loans are supported by mortgages, equipment, and automobiles that should reduce the risk of loss for the Corporation.

Non-Interest Income

Total non-interest income decreased $859,000, or 195.23%, to $(419,000) for the three months ended December 31, 2003 from $440,000 for the same period in the previous year due primarily to a loss on the sale of securities of $700,000. Fees from financial services decreased $24,000, or 5.37%, to $423,000 for the three months ended December 31, 2003 from $447,000 for the same period in the previous year. The decrease was due primarily to a reduction in service charge income for the quarter. Loan servicing costs increased

$75,000, or 111.94%, to $142,000 for the three months ended December 31, 2003 from $67,000 for the same period in the previous year. The increase was due to higher amortization expense from loan prepayment speeds. In addition, the Corporation charged off the remaining mortgage servicing rights during the quarter as part of its transition from a traditional thrift to a commercial bank. The loss on sale of investments of $700,000 for the three months ended December 31, 2003 was part of the balance sheet restructuring that occurred during the quarter.

Non-Interest Expense

For the three months ended December 31, 2003, total non-interest expense increased $495,000, or 29.20%, to $2,190,000 from $1,695,000 for the same period in 2002. On June 16, 2003, the Corporation opened the new York County regional banking center and therefore, expense categories reflect additions for the new banking center. Compensation and employee benefits increased $232,000, or 30.97%, to $981,000 for the three month period ended December 31, 2003 from $749,000 for the same period in 2002, due primarily to staff additions resulting from the new branch opening. Occupancy and equipment expense increased $ 110,000, or 27.03%, to $517,000 for the three months ended December 31, 2003 from $407,000 for the same period in 2002, due to higher depreciation and rent expense due to the new office. Professional services expense decreased $20,000, or 17.86%, to $92,000 for the three months ended December31, 2003 from $112,000 for the same period in 2002 due to lower legal expenses as a result of previous year costs incurred from the Corporation's charter change to a national bank charter. Advertising expense increased $36,000, or 85.71%, to $78,000 for the three months ended December 31, 2003 from $42,000 for the same period in 2002, due to ongoing promotional cost incurred related to the new banking center opening.

Real estate operations costs increased $48,000, or 228.57%, to $69,000 for the three months ended December 31, 2003 from $21,000 for the same period in 2002, due to higher disposition costs associated with foreclosed real estate properties. Other expense increased $92,000, or 46.94%, to $ 288,000 for the three months ended December 31, 2003 from $196,000 for the same period in 2002, due primarily to higher telephone, office supplies, and postage expense that resulted from the new office opening in York County.

Item 3. Controls and Procedures

The Corporation's management, including the Corporation's principal executive officer and principal financial officer, have evaluated the effectiveness of the Corporation's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Corporation's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Corporation files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Corporation's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. In addition, based on that evaluation, no change in the Corporation's internal control over financial reporting occurred during the quarter ended December 31, 2003 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 2. Changes in Securities

The Corporation has the right, at one or more times, unless an event of default exists under the floating rate junior subordinated deferrable interest debentures due December 18, 2031 (the "Debentures"), to defer interest payments on the Debentures for up to 20 consecutive quarterly periods. During this time, the Corporation will be prohibited from declaring or paying cash dividends on its common stock.

Item 3. Defaults upon Senior Securities

Not applicable.

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

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

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Exhibits
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3        Certificate of Amendment to Certificate of Incorporation

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

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

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

32(d)    Chief Financial Officer Certification Pursuant to Section 906
         of the Sarbanes-Oxley Act of 2002
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Reports on Form 8-K

On October 22, 2003, the Board of Directors of Union Financial Bancshares, Inc. (the "Company") filed a form 8-K in which it announced that it changed its fiscal year end from September 30 to December 31, effective December 31, 2003.

On October 22, 2003, the Company furnished a Form 8-K in which it announced its finanical results for the quarter and year ended September 30, 2003. The press release announcing finanical results was attached by exhibit.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNION FINANCIAL BANCSHARES, INC.

(Registrant)

Date: 2/9/04	By: Dwight V. Neese
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	Dwight V. Neese, CEO
Date: 2/9/04	By: Richard H. Flake
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	Richard H. Flake, CFO

Exhibit 3

CERTIFICATE OF AMENDMENT
OF

CERTIFICATE OF INCORPORATION

(Pursuant to 8 Del C. Section 242)

Union Financial Bancshares, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the state of Delaware, does hereby certify:

First: That the board of directors of said corporation, at a meeting duly convened and held, adopted a resolution proposing and declaring advisable the following amendment to the certificate of incorporation of said corporation:

"RESOLVED, that the Board hereby proposes that the first sentence of Article VII of the Company's Certificate of Incorporation shall be replaced with the following:

The aggregate number of shares of all classes of capital stock which the Corporation has authority to issue is 5,500,000 of which 5,000,000 are to be shares of common stock, $.01 par value per share, and of which 500,000 are to be shares of serial preferred stock, $.01 par value per share."

Second: That thereafter, pursuant to a resolution of its board of directors, at the annual meeting of the stockholders of said corporation a majority of the outstanding shares of common stock was voted in favor of the amendment.

Third: That the aforesaid amendment was duly adopted in accordance with the applicable provisions of Sections 242 of the General Corporation Law of the State of Delaware.

In witness whereof, said Union Financial Bancshares, Inc. has caused this certificate to be signed by Dwight V. Neese, its President and Chief Executive Officer, and Wanda J. Wells, its Secretary, its authorized officers, this 28th day of January, 2004.

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By /S/DWIGHT V. NEESE
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   Dwight V. Neese
   President and Chief Executive Officer


By /S/ WANDA J. WELLS
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   Wanda J. Wells
   Secretary
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EXHIBIT 31 (a)

CERTIFICATION

I, Dwight V. Neese, certify that:

1. I have reviewed this Form 10-QSB of Union Financial Bancshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

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

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

Date: 2/9/04

/s/ Dwight V. Neese

Dwight V. Neese
President and Chief Executive Officer

EXHIBIT 31 (b)

CERTIFICATION

I, Richard H. Flake, certify that:

1. I have reviewed this Form 10-QSB of Union Financial Bancshares, Inc.;

2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

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

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

Date: 2/9/04

/s/ Richard H. Flake

Richard H. Flake
Executive Vice President and
Chief Financial Officer

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,
AS ADDED BY

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Union Financial Bancshares, Inc. (the "Company") on Form 10-QSB for the quarter ended December 31, 2003 as filed with the Securities and Exchange Commission (the "Report"), I, Dwight V. Neese, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or
15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

/s/ Dwight V. Neese

Dwight V. Neese
President and Chief Executive Officer

Date: February 9, 2004

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADDED BY

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Union Financial Bancshares, Inc. (the "Company") on Form 10-QSB for the quarter ended December 31, 2003 as filed with the Securities and Exchange Commission (the "Report"), I, Richard H. Flake, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

/s/ Richard H. Flake

Richard H. Flake
Executive Vice President and Chief Financial Officer

Date: February 9, 2004

End of Filing

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