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

FORM 10-QSB

(Mark One)

__X__ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2004

___ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______ to ______

COMMISSION FILE NUMBER 1-5735

UNION FINANCIAL BANCSHARES, INC.
(Exact name of small business issuer as specified 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: (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 1,967,261 shares, $0.01 par value, of common stock issued and outstanding as of October 26, 2004.

UNION FINANCIAL BANCSHARES, INC.

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Item 1. Financial Statements
UNION FINANCIAL BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
September 30, 2004 and December 31, 2003 (unaudited)

ASSETS	**September 30, 2004**	**December 31, 2003**
	(DOLLARS IN THOUSANDS)	
Cash	$ 2,151	$ 1,515
Short term interest-bearing deposits	2,807	27,187
Total cash and cash equivalents	4,958	28,702
Investments and mortgage-backed securities	154,921	123,789
Loans , net	167,626	153,301
Real estate acquired through foreclosure	300	374
Office properties and equipment, net	5,830	6,415
Federal Home Loan Bank Stock, at cost	3,313	3,900
Federal Reserve Stock, at cost	539	539
Accrued interest receivable	1,807	1,655
Intangible assets	4,371	4,848
Cash surrender value of life insurance	5,166	5,025
Other assets	1,811	2,117
TOTAL ASSETS	**$ 350,642**	**$ 330,665**
LIABILITIES		
Deposit accounts	$ 224,459	$ 223,131
Advances from the Federal Home Loan Bank and other borrowings	66,000	68,500
Securities sold under agreements to repurchase	24,000	5,000
Corporate obligated floating rate capital securities	8,000	8,000
Accrued interest on deposits	338	285
Advances from borrowers for taxes and insurance	241	59
Other liabilities	1,553	183
TOTAL LIABILITIES	**324,591**	**305,158**
SHAREHOLDERS' EQUITY		
Serial preferred stock, no par value, authorized - 500,000 shares, issued and outstanding - None	--	--
Common stock - $0.01 par value, authorized - 5,000,000 shares, issued and outstanding - 1,967,261 shares at 9/30/04 and 1,969,770 at 12/31/03	21	20
Additional paid-in capital	12,061	11,906
Accumulated other comprehensive income	319	99
Retained earnings, substantially restricted	14,826	13,848
Treasury stock, at cost	(1,176)	(366)
TOTAL SHAREHOLDERS' EQUITY	**26,051**	**25,507**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 350,642**	**$ 330,665**

See notes to consolidated financial statements.

UNION FINANCIAL BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
Three and Nine Months Ended September 30, 2004 and 2003 (unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
	(DOLLARS IN THOUSANDS EXCEPT PER SHARE)		(DOLLARS IN THOUSANDS EXCEPT PER SHARE)	
Interest Income:				
Loans	$ 2,643	$ 2,628	$ 7,599	$ 8,006
Deposits and federal funds sold	5	11	20	16
Mortgage-backed securities	463	602	1,442	2,051
Interest and dividends on investment securities	1,172	890	3,464	2,523
Total Interest Income	**4,283**	**4,131**	**12,525**	**12,596**
Interest Expense:				
Deposit accounts	960	1,098	2,881	3,430
Trust preferred corporate obligation	109	98	308	302
Advances from the FHLB and other borrowings	745	869	2,191	2,686
Total Interest Expense	**1,814**	**2,065**	**5,380**	**6,418**
Net Interest Income	**2,469**	**2,066**	**7,145**	**6,178**
Provision for loan losses	390	120	775	545
Net Interest Income After Provision for Loan Losses	**2,079**	**1,946**	**6,370**	**5,633**
Non-Interest Income:				
Fees for financial services	485	437	1,507	1,325
Loan servicing fees(costs)	16	(47)	49	(145)
Net gain on sale of loans	30	--	72	--
Net gain (loss) on sale of investments	(8)	189	(8)	591
Total Non-Interest Income	**523**	**579**	**1,620**	**1,771**
Non-Interest Expense:				
Compensation and employee benefits	880	925	2,782	2,570
Occupancy and equipment	496	515	1,455	1,399
Deposit insurance premiums	8	10	24	26
Professional services	67	89	226	267
Advertising/Public relations	40	72	121	170
Real estate operations	48	15	111	37
Deposit premium intangible	159	159	477	477
Items processing	67	58	190	169
Telephone	34	29	111	96
Other	136	126	418	373
Total Non-Interest Expense	**1,935**	**1,998**	**5,915**	**5,584**
Income Before Income Taxes	**667**	**527**	**2,075**	**1,820**
Income tax expense	159	101	510	413
Net Income	**$ 508**	**$ 426**	**$ 1,565**	**$ 1,407**
Basic Net Income Per Common Share	**$ 0.26**	**$ 0.22**	**$ 0.80**	**$ 0.72**
Diluted Net Income Per Common Share	**$ 0.25**	**$ 0.21**	**$ 0.76**	**$ 0.68**
Weighted Average Number of Common Shares Outstanding				
Basic	**1,954,680**	**1,963,396**	**1,957,055**	**1,964,870**
Diluted	**2,022,522**	**2,073,361**	**2,049,073**	**2,069,405**

See notes to consolidated financial statements.

UNION FINANCIAL BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Nine Months Ended September 30, 2004 and 2003 (unaudited)

	Nine Months Ended September 30, 2004 (IN THOUSANDS)	Nine Months Ended September 30, 2003 (IN THOUSANDS)
OPERATING ACTIVITIES:		
Net income	$1,565	$1,407
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	775	545
Amortization of intangibles	477	1,017
Depreciation expense	738	808
Recognition of deferred income, net of costs	(250)	(83)
Deferral of fee income, net of costs	262	99
Gain on investment transactions	(64)	(652)
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	(152)	30
(Increase) decrease in other assets	239	(1,500)
Increase in other liabilities	1,552	267
Increase (decrease) in accrued interest payable	53	(75)
Net cash provided by operating activities	5,195	1,863
INVESTING ACTIVITIES:		
Purchase of investment and mortgage-backed securities:		
Available for sale	(96,907)	(126,925)
Proceeds from sale of investment and mortgage-backed securities	4,702	28,613
Proceeds from maturity of investment and mortgage-backed securities:		
Available for sale	46,939	47,067
Principal repayments on mortgage-backed securities:		
Available for sale	14,346	32,155
Net (increase) decrease in loans	(15,040)	6,218
Purchase of FHLB stock	--	(604)
Redemption of FHLB stock	587	--
Purchase of office properties and equipment	(153)	(704)
Net cash used by investing activities	(45,526)	(14,180)
FINANCING ACTIVITIES:		
Proceeds from the dividend reinvestment plan	84	81
Dividends paid in cash ($0.30 per share -2004 and $0.30 per share - 2003)	(587)	(590)
Proceeds from the exercise of stock options	72	160
Share repurchase program	(810)	(366)
Repayment of borrowings	--	(8,700)
Proceeds from term borrowings	16,500	--
Increase in deposit accounts	1,328	19,810
Net cash provided by financing activities	16,587	10,395
NET DECREASE IN CASH AND CASH EQUIVALENTS	(23,744)	(1,922)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	28,702	6,939
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$4,958	$5,017
SUPPLEMENTAL DISCLOSURES:		
Cash paid for:		
Income taxes	$120	$429
Interest	5,327	6,381
Non-cash transactions:		
Loans foreclosed	$647	$295

See notes to consolidated financial statements.

UNION FINANCIAL BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003 (UNAUDITED)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings, Substantially Restricted	Accumulated Other Comprehensive Income	Treasury Stock At Cost	Total Shareholders' Equity
				(In Thousands, Except Share Data)			
BALANCE AT DECEMBER 31, 2002	1,963,252	$20	$11,621	$14,438	$1,726	$ --	$27,805
Net income				1,407			1,407
Other comprehensive income							
Unrealized losses on securities:							
Unrealized holding losses arising during period					(2,281)		(2,281)
Comprehensive loss							(874)
Options exercised	16,889		160				160
Dividend reinvestment plan contributions	5,248		81				81
Share repurchase program	(20,286)					(366)	(366)
Cash dividend ($.30 per share)				(590)			(590)
BALANCE AT SEPTEMBER 30, 2003	1,965,103	$20	$11,862	$15,255	($555)	($366)	$26,216
BALANCE AT DECEMBER 31, 2003	1,969,770	$20	$11,906	$13,848	$99	($366)	$25,507
Net income				1,565			1,565
Other comprehensive income							
Unrealized gains on securities:							
Unrealized holding gains arising during period					220		220
Comprehensive income							1,785
Stock option activity	40,043	1	71				72
Dividend reinvestment plan contributions	5,280		84				84
Share repurchase program	(47,832)					(810)	(810)
Cash dividend ($.30 per share)				(587)			(587)
BALANCE AT SEPTEMBER 30, 2004	1,967,261	$21	$12,061	$14,826	$319	($1,176)	$26,051

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, N.A. (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 or nine months ended September 30, 2004 are not necessarily indicative of the results which may be expected for the entire calendar year. Certain amounts in the prior year's financial statements have been reclassified to conform with current year classifications.

On July 27, 2003, the Bank converted its charter to that of a national bank.

On October 21, 2003, the Board of Directors of Union Financial changed the fiscal year end of the Corporation from September 30 to December 31, effective December 31, 2003.

Recently Issued Accounting Standards

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement on Financial Accounting Standards ("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 Principles 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 did 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 was 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 FASB 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 Corporation'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 applied immediately to variable interest entities created after January 31, 2003. The consolidation requirements applied to existing entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements applied in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The adoption of FIN No. 46 did not have a material effect on the Corporation's financial position or results of operations.

In March 2004, the FASB issued an exposure draft on "Share-Based Payment". The proposed statement addresses the accounting for transactions in which an enterprise receives employee services in exchange for a) equity instruments of the enterprise or b) liabilities that are based on the fair value of the enterprises's equity instruments or that may be settled by the issuance of such equity instruments. This proposed statement would eliminate the ability to account for share-based compensation transactions using APB Opinion No. 25, "Accounting for Stock Issued to Employees", and generally would require instead that such transactions be accounted for using a fair-value-based method. This statement, if approved, will be effective for awards that are granted, modified, or settled in fiscal years beginning after a) December 15, 2004 for public entities and nonpublic entities that used the fair-value-based method of accounting under the original provisions of SFAS No.123 for recognition or pro forma disclosure purposes and b) December 15, 2005 for all other nonpublic entities. Earlier application is encouraged provided that financial statements for those earlier years have not yet been issued. Retrospective application of this statement is not permitted. The adoption of this statement, if approved, will not have any impact on the Corporation's financial position or results of operations.

Additional accounting standards that have been issued or proposed by the FASB 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 and nine months ended September 30, 2004 and 2003 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 $56,766,000 and $63,692,000 of debt securities at September 30, 2004 and December 31, 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 securities to cover additional advances from the Federal Home Loan Bank that exceed the qualifying mortgages balance along with security repurchase lines with various brokerage houses.

4. Contingencies and Loan Commitments

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

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Total credit exposure at September 30, 2004 related to these items is summarized below:

Loan Commitments:	Contract Amount
Approved loan commitments	$ 2,567,000
Unadvanced portions of loans and credit lines	34,081,000
Total loan commitments	$ 36,648,000

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 September 30, 2004 consisted of fixed and adjustable rate loans at rates ranging from 5.0% to 6.5%. Commitments to originate loans generally expire within 30 to 60 days.

Commitments to fund credit lines (principally variable rate, consumer lines secured by real estate and overdraft protection) totaled approximately $71,567,000 at September 30, 2004. Of these lines, the outstanding loan balances totaled approximately $37,486,000.

5. Corporation Obligated Floating Rate Capital Securities

On December 18, 2001, the Trust issued $8,000,000 of floating rate capital securities through a pooled trust preferred securities offering. The proceeds from this issuance, along with the Corporation's $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. A rate cap of 12.50% is effective through December 18, 2006. The Corporation has, through the Trust agreement establishing the Trust, the Guarantee Agreement, the notes and the related Debentures, taken together, fully irrevocably and unconditionally guaranteed all of the Trust's obligations under the capital securities.

A summary of the Trust securities issued and outstanding follows:

Name	Amount Outstanding at September 30, 2004	2003	Rate	Prepayment Option Date	Maturity	Distribution Payment Frequency
Union Financial Statutory Trust I	$8,000,000	$8,000,000	5.13%	December 18, 2006	December 18, 2031	Quarterly

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

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

For the purposes of these financial statements the Trust's operations have been consolidated.

Beginning with the first reporting period ending after December 15, 2004, as a result of the adoption of FIN No. 46, 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 may contain certain "forward-looking statements" concerning the future operations of the Corporation and the Bank. These forward-looking statements are generally identified by the use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," or similar expressions. Management intends to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this statement for the express purpose of availing the Corporation of the protections of such safe harbor with respect to all forward-looking statements contained in this report to describe future plans and strategies. Management's ability to predict results or the effect of future plans or strategies is inherently uncertain. Factors which could effect actual results include interest rate trends, the general economic climate in the Corporation's and the Bank's market area and the country as a whole, the ability of the Corporation and the Bank to control costs and expenses, competitive products and pricing, loan delinquency rates, and changes in federal and state regulation. These factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements.

Financial Condition

Assets

Total assets of the Corporation increased $19,977,000, or 6.04%, to $350,642,000 at September 30, 2004 from $330,665,000 at December 31, 2003. Investment and mortgage-backed securities increased approximately $31,132,000, or 25.15%, from December 31, 2003 to September 30, 2004, due to the purchase of shorter-term agency and municipal securities for tax benefits that was funded primarily with additional borrowings.

Loans increased $14,325,000, or 9.34%, to $167,626,000 at September 30, 2004. 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 $16,734,000, or 18.45%, while outstanding residential mortgage loans decreased $3,394,000 or 5.11%. Real estate acquired through foreclosure decreased $74,000, or 19.79%, to $300,000 at September 30, 2004 from $374,000 at December 31, 2003. The decrease was due to the disposition of four real estate properties during the year offset by the addition of two real estate properties.

Liabilities

Total liabilities increased $19,433,000, or 6.37%, to $324,591,000 at September 30, 2004 from $305,158,000 at December 31, 2003. Deposits increased $1,328,000, or 0.60%, to $224,459,000 at September 30, 2004 from $223,131,000 at December 31, 2003. The increase was due primarily to growth in lower cost demand accounts partially offset by a reduction in higher cost certificates of deposit accounts.

Borrowings from the Federal Home Loan Bank (FHLB) decreased $2,500,000, or 3.65%, to $66,000,000 at September 30, 2004 from $68,500,000 at December 31, 2003. Securities sold under agreement to repurchase increased $19,000,000 to $24,000,000 at September 30, 2004 from $5,000,000 at December 31, 2003. During this period, securities sold under agreement to repurchase provided a lower cost funding alternative to Federal Home Loan Bank advances. The increase in repurchase agreements funded the additional loan growth and security purchases for the year. Other liabilities increased $1,370,000 to $1,553,000 at September 30, 2004 from $183,000 at December 31, 2003, due primarily to an increase in accrued liabilities. The accrued liabilities balances at December 31, 2003 represented a three month period as a result of the conversion from a September 30 fiscal year to a December 31 calendar year.

Shareholders' Equity

Shareholders' equity increased $544,000, or 2.13%, to $26,051,000 at September 30, 2004 from $25,507,000 at December 31, 2003 due to net income of $1,565,000 and a $220,000 increase in unrealized gains on securities available for sale, offset by the repurchase of 47,832 shares at a cost of $810,000 and the payment of $0.30 per share quarterly dividends.

Liquidity

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

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

During the nine months ended September 30, 2004, the Corporation's loan originations totaled $56,165,000. At September 30, 2004, the Corporation's investment in agency and mortgage-backed securities totaled $154,921,000. Additionally, outstanding loan commitments (including commitments to fund credit lines) totaled $36,648,000 at September 30, 2004. Management of the Corporation anticipates that it will have sufficient funds available to meet its current loan commitments.

During the nine months ended September 30, 2004, total deposits increased $1,328,000. 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 September 30, 2004, totaled $97,046,000. The Corporation relies primarily on competitive rates, customer service, and long-standing relationships with customers to retain deposits. From time to time, the Corporation will also offer special products to its customers to increase retention and to attract new deposits. Based upon the Corporation's experience with deposit retention and current retention strategies, management believes that, although it is not possible to predict future terms and conditions upon renewal, a significant portion of such deposits will remain with the Corporation. If the Corporation requires funds beyond its ability to generate them internally, additional sources of funds are available through FHLB advances and securities sold under agreements to repurchase. At September 30, 2004, the Corporation had $66,000,000 of FHLB borrowings and $24,000,000 of securities sold under agreements to repurchase.

Capital Management

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 September 30, 2004, the Bank's capital position, as calculated under regulatory guidelines, exceeds these minimum requirements as follows (dollars in thousands):

	Requirement	**Actual**	**Excess**
Tangible capital	$ 5,200	$29,124	$23,924
Tangible capital to adjusted total assets	1.50%	8.40%	6.90%
Core capital	$13,868	$29,124	$15,256
Core capital to adjusted total assets	4.00%	8.40%	4.40%
Risk based capital	$15,824	$31,224	$15,400
Risk based capital to risk weighted assets	8.00 %	15.79 %	7.79 %

On January 29, 2003, the Corporation announced that the Board of Directors had approved a stock repurchase program authorizing the Corporation to repurchase up to 98,000, or 5% of the outstanding shares of the Corporation's common stock. The shares are to be repurchased either through open market purchases or privately negotiated transactions and will be made from time to time depending on market conditions and other factors. Repurchased shares will be held in treasury and will be available for the Corporation's benefit plans. The repurchase program is expected to improve the Corporation's operating performance on a per share basis, enhance, in the long term, the market price per share of the Corporation's common stock and increase the liquidity of the Corporation's common stock. During the quarter ending September 30, 2004, the Corporation repurchased 18,468 shares. As of September 30, 2004, the Corporation had repurchased a total of 68,118 shares under this authorization.

Results of operations for the nine months ended September 30, 2004 and 2003

General

Net income increased $158,000, or 11.23%, to $1,565,000 for the nine months ended September 30, 2004 as compared to the same period in 2003 as an increase in net interest income was partially offset by increases in provision for loan losses and non-interest expense along with a reduction in non-interest income.

Interest Income

Interest income decreased $71,000, or 0.56%, to $12,525,000 for the nine months ended September 30, 2004 as compared to the same period in 2003. Interest income on loans decreased by 5.08%, or $407,000, to $7,599,000 for the nine months ended September 30, 2004 from $8,006,000 for the nine months ended September 30, 2003, due primarily to declining market interest rates along with a smaller average balance of loans due to our decreased emphasis on mortgage loan originations. Interest on deposits and federal funds sold, combined with interest and dividends on investment and mortgage-backed securities increased $336,000, or 7.32%, for the nine months ended September 30, 2004 to $4,926,000 from $4,590,000 during the same period in 2003. The increase was due primarily to increased investments in mortgage-backed securities and government agency securities, offset by decreased yields due to the lower interest rate environment.

Interest Expense

Interest expense decreased $1,038,000, or 16.17%, to $5,380,000 for the nine months ended September 30, 2004 as compared to the nine months ended September 30, 2003. Interest expense on deposit accounts decreased $549,000, or 16.01%, to $2,881,000 for the nine months ended September 30, 2004 from $3,430,000 during the same period in 2003 due to lower cost of deposits as a result of deposit composition and lower market rates. The Corporation continues to target lower cost demand deposit accounts from traditional higher cost certificates of deposits. Interest expense on borrowings decreased $495,000, or 18.43%, for the nine months ended September 30, 2004 as compared to the same period in the previous year due to lower borrowing rates due to the use of securities sold under agreement to repurchase instead of FHLB advances and the lower interest rate environment.

Provision for Loan Losses

During the nine months ended September 30, 2004, the provision for loan losses was $775,000 as compared to $545,000 for the same period in the previous year, primarily due to increased charge-offs and a loan portfolio consisting of a higher percentage of consumer and commercial loans which generally carry greater risk offset by a decrease in non-accrual loans. During the nine months ended September 30, 2004, non-accrual loans decreased $1,543,000 from $2,829,000 at December 31, 2003 to $1,286,000 at September 30, 2004. Loans 30-89 days past due and still accruing also decreased $6,422,000 from $7,636,000 at December 31, 2003 to $1,214,000 at September 30, 2004. The reduction in delinquent and non performing loans is a result of increased emphasis and focus from the Credit Administration area of the Bank that was brought about from the charter change in the previous year. During the nine months ended September 30, 2004, bad debt charge-offs, net of recoveries, was $1,058,000 as compared to $254,000 for the same period in the previous year. The increase in bad debt charge-offs over the previous year includes approximately $859,000 from two commercial loans that were written down due to a reduction in the market value of the supporting loan collateral. The increase in the provision also reflects the Corporation's continued movement from longer term, fixed rate residential mortgage loans to shorter term, floating rate consumer and commercial loans. Consumer and commercial loans carry higher risk weighted rates in the reserve calculation as compared to residential mortgage loans. Management believes the Corporation's loan loss allowance is adequate to absorb possible loan losses inherent in the portfolio. The Corporation's loan loss allowance at September 30, 2004 was approximately 1.24% of the Corporation's outstanding loan portfolio and 163.30% of non-performing loans compared to 1.51% of the Corporation's outstanding loan portfolio and 80.85% of non-performing loans at December 31, 2003.

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

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

Balance at beginning of year	$2,383
Provision for loan losses	775
Charge-offs, net	<1,058>
	$2,100

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

	September 30, 2004	December 31, 2003
Non-accruing loans which are contractually past due 90 days or more:		
Real Estate	$ 299	$ 896
Commercial	886	1,720
Consumer	101	213
Total	$1,286	$ 2,829
Percentage of loans receivable, net	0.77%	1.85%
Percentage of allowance for loan losses to total loans outstanding	1.24%	1.51%
Allowance for loan losses	$2,100	$2,368
Real estate acquired through foreclosure and repossessed assets, net of allowances	$ 300	$ 374

Non-Interest Income

Total non-interest income decreased $151,000, or 8.53%, to $1,620,000 for the nine months ended September 30, 2004 from $1,771,000 for the same period in the previous year due primarily to $591,000 from the gain on sale of investments in 2003 compared to a loss on sale of securities of $8,000 for the current year. Fees from financial services increased $182,000, or 13.74%, to $1,507,000 for the nine months ended September 30, 2004 from $1,325,000 for the same period in the previous year. The increase was due primarily to increases in demand deposit accounts over the previous year. Loan servicing fees for the nine months ended September 30, 2004 was $49,000 compared to loan servicing costs of ($145,000) for the same period in the previous year. The increase in loan servicing fees was due to the amortization of servicing expense with all costs being fully amortized in the previous year. Mortgage banking fees from the gain on sale of loans for the nine months ended September 30, 2004 was $72,000 compared to $0 for the same period in the previous year as the Corporation sold $7,512,000 in fixed rate mortgage loans during the year as part of its interest rate risk strategies. The sales represent loans funded and sold through a third party on a servicing released basis.

Non-Interest Expense

For the nine months ended September 30, 2004, total non-interest expense increased $331,000, or 5.93%, to $5,915,000 from $5,584,000 for the same period in 2003. On June 16, 2003, the Corporation opened its York County regional banking center and therefore, expense categories for 2004 reflect additions for the new banking center. Compensation and employee benefits increased $212,000, or 8.25%, to $2,782,000 for the nine month period ended September 30, 2004 from $2,570,000 for the same period in 2003, due primarily to staff additions resulting from the new branch. Occupancy and equipment expense increased $56,000, or 4.00%, to $1,455,000 for the nine months ended September 30, 2004 from $1,399,000 for the same period in 2003, due to higher rent expense due to the new office. Professional services expense decreased $41,000, or 15.36%, to $226,000 for the nine months ended September 30, 2004 from $267,000 for the same period in 2003 due to lower legal expenses as a result of previous year costs incurred from the Corporation's conversion to a national bank charter. Advertising expense decreased $49,000, or 28.82%, to $121,000 for the nine months ended September 30, 2004 from $170,000 for the same period in 2003, due to the previous year promotional costs incurred related to the new banking center opening.

Real estate operations costs increased $74,000, or 200.00%, to $111,000 for the nine months ended September 30, 2004 from $37,000 for the same period in 2003, due to higher disposition costs associated with foreclosed real estate properties. Items processing expense increased $21,000, or 12.43%, to $190,000 for the nine months ended September 30, 2004 from $169,000 for the same period in 2003, due to an increase in demand accounts. Telephone expense increased $15,000, or 15.63%, to $111,000 for the nine months ended September 30, 2004 from $96,000 for the same period in 2003, due to additional expense from the new office. Other expense increased $45,000, or 12.06%, to $418,000 for the nine months ended September 30, 2004 from $373,000 for the same period in 2003, due primarily to higher general expenses 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.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

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

The following table provides certain information with regard to shares repurchased by the Corporation during the third quarter of 2004.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per share	(c) Total Number of Shares Purchased as part of Publicly Announced Programs	(d) Maximum Number of Shares that may be purchased under Program
July 1, 2004 through July 31, 2004	15	$16.51	15	48,335
August 1, 2004 through August 31, 2004	5,644	$16.04	5,644	42,691
September 1, 2004 through September 30, 2004	12,809	$16.31	12,809	29,882
Total	18,468	$16.23	18,468	N/A

(1) On January 29, 2003, the Corporation announced that the Board of Directors had approved a stock repurchase program authorizing the Corporation to repurchase up to 98,000 shares of the Corporation's common stock. The repurchase program will continue until it is completed or terminated by the Board of Directors.

Item 3. Defaults upon Senior Securities

Not applicable.

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

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

Exhibits

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

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

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

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

SIGNATURES

In accordance with the requirements 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.
(Registrant)

Date: October 29, 2004	By: /s/ Dwight V. Neese Dwight V. Neese, CEO
Date: October 29, 2004	By: /s/ Richard H. Flake Richard H. Flake, CFO

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 small business issuer as of, and for, the periods presented in this report;

4. The small business issuer'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 small business issuer 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 small business issuer, 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 small business issuer'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

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

5. The small business issuers's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer'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 small business issuer'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 small business issuer's internal control over financial reporting.

Date: October 29, 2004

/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 small business issuer as of, and for, the periods presented in this report;

4. The small business issuer'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 small business issuer 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 small business issuer, 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 small business issuer'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 small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer'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 small business issuer'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 small business issuer's internal control over financial reporting.

Date: October 29, 2004

/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 September 30, 2004 as filed with the Securities and Exchange Commission (the "Report"), I, Dwight V. Neese, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

Date: October 29, 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 September 30, 2004 as filed with the Securities and Exchange Commission (the "Report"), I, Richard H. Flake, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Richard H. Flake
Richard H. Flake
Executive Vice President and Chief Financial Officer

Date: October 29, 2004