FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

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FILER

UNION FINANCIAL BANCSHARES INC

CIK:**926164**| IRS No.: **570264560** | State of Incorp.:**DE** | Fiscal Year End: **0930**
Type: **10QSB** | Act: **34** | File No.: **033-80808** | Film No.: **03546121**
SIC: **6035** Savings institution, federally chartered

Mailing Address
203 WEST MAIN STREET
C/O PROVIDENT COMMUNITY BANK
UNION SC 29379

Business Address
203 WEST MAIN ST
C/O PROVIDENT COMMUNITY BANK
UNION SC 29379
8644279000

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 December 31, 2002

_____ 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)	(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

The Corporation had 1,963,252 shares, $0.01 par value, common stock issued and outstanding as of January 27, 2003.

UNION FINANCIAL BANCSHARES, INC.

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Item 1. Financial Statements
UNION FINANCIAL BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2002 (unaudited) and September 30, 2002

<TABLE>
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ASSETS	December 31, 2002	September 30, 2002
	(DOLLARS IN THOUSANDS)	
<S>	<C>	<C>
Cash	$ 1,996	$ 1,346
Short term interest-bearing deposits	4,943	7,385
Total cash and cash equivalents	6,939	8,731
Investment and mortgage-backed securities	140,324	117,633
Loans , net	159,354	161,576
Office properties and equipment, net	6,469	6,523
Federal Home Loan Bank Stock, at cost	3,835	2,900
Accrued interest receivable	1,957	1,728
Intangible assets	5,484	5,643
Cash surrender value of life insurance	4,786	4,724
Other assets	2,444	1,510
TOTAL ASSETS	$ 331,592	$ 310,968
LIABILITIES		
Deposit accounts	$ 200,422	$ 200,303
Advances from the Federal Home Loan Bank and other borrowings	76,700	57,000
Securities sold under agreements to repurchase	17,000	17,000
Corporate obligated floating rate capital securities	8,000	8,000
Accrued interest on deposits	439	427
Advances from borrowers for taxes and insurance	61	414
Other liabilities	1,165	626
TOTAL LIABILITIES	303,787	283,770
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 - 1,963,252 shares at 12/31/02 and 1,958,069 at 9/30/02	20	20
Additional paid-in capital	11,621	11,573
Accumulated other comprehensive gain	1,726	1,421
Retained earnings, substantially restricted	14,438	14,184
TOTAL SHAREHOLDERS' EQUITY	27,805	27,198
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 331,592	$ 310,968

</TABLE>

See notes to consolidated financial statements.

UNION FINANCIAL BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME

Three Months Ended December 31, 2002 (unaudited) and 2001 (unaudited)

<TABLE>
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<S>	December 31, 2002 (DOLLARS IN THOUSANDS) <C>	Three Months Ended December 31, 2001 (DOLLARS IN THOUSANDS) <C>
Interest Income:		
Loans	$ 2,908	$ 3,168
Deposits and federal funds sold	6	6
Mortgage-backed securities	939	949
Interest and dividends on investment securities	474	446
Total Interest Income	4,327	4,569
Interest Expense:		
Deposit accounts	1,229	1,776
Trust preferred corporate obligation	113	17
Advances from the FHLB and other borrowings	941	779
Total Interest Expense	2,283	2,572
Net Interest Income	2,044	1,997
Provision for loan losses	180	90
Net Interest Income After Provision for Loan Losses	1,864	1,907
Non-Interest Income:		
Fees for financial services	447	333
Loan servicing costs	(67)	(69)
Net gains on sale of investments	60	--
Total Non-Interest Income	440	264
Non-Interest Expense:		
Compensation and employee benefits	749	690
Occupancy and equipment	407	392
Deposit insurance premiums	9	9
Professional services	112	68
Advertising/Public relations	42	52
Real estate operations	21	7
Deposit premium intangible	159	83
Goodwill amortization	--	82
Other	196	223
Total Non-Interest Expense	1,695	1,606
Income Before Income Taxes	609	565
Income tax expense	157	137
Net Income	$ 452	$ 428
Basic Net Income Per Common Share	$ 0.23	$ 0.22
Diluted Net Income Per Common Share	$ 0.22	$ 0.21
Weighted Average Number of Common Shares Outstanding		
Basic	1,960,527	1,926,896
Diluted	2,048,138	1,995,896

</TABLE>

See notes to consolidated financial statements.

UNION FINANCIAL BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Three Months Ended December 31, 2002 (unaudited) and 2001 (unaudited)

<TABLE>
<CAPTION>

<S>	Three Months Ended December 31, 2002 (IN THOUSANDS) <C>	December 31, 2001 (IN THOUSANDS) <C>
OPERATING ACTIVITIES:		
Net income	$ 452	$ 428
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	180	90
Amortization of intangibles	159	165
Depreciation expense	240	216
Recognition of deferred income, net of costs	(54)	(12)
Deferral of fee income, net of costs	53	58
Changes in operating assets and liabilities:		
Increase in accrued interest receivable	(229)	(160)
Increase in other assets	(996)	(256)
Increase (decrease) in other liabilities	186	(1,238)
Increase (decrease) in accrued interest payable	12	(17)
Net cash provided by (used by) operating activities	3	(726)
INVESTING ACTIVITIES:		
Purchase of investment and mortgage-backed securities:		
Held to maturity	--	(5,157)
Available for sale	(38,596)	(19,263)
Proceeds from sale of investment and mortgage-backed securities	5,059	--
Proceeds from maturity of investment and mortgage-backed securities:		
Available for sale	4	3,530
Principal repayments on mortgage-backed securities:		
Held to maturity	--	180
Available for sale	10,842	2,534
Net (increase) decrease in loans	2,348	(471)
Purchase of FHLB stock	(935)	--
Redemption of FHLB stock	--	--
Purchase of office properties and equipment	(186)	(75)
Net cash used by investing activities	($21,464)	($18,722)
FINANCING ACTIVITIES:		
Proceeds from the dividend reinvestment plan	29	29
Dividends paid in cash ($0.10 per share -2002 and $0.10 per share - 2001)	(198)	(163)
Proceeds from the exercise of stock options	19	8
Proceeds from term borrowings	19,700	14,695
Proceeds from issuance of trust preferred corporate obligations	--	8,000
Increase (Decrease) in deposit accounts	119	(2,236)
Net cash provided by financing activities	19,669	20,333
NET (DECREASE)\INCREASE IN CASH AND CASH EQUIVALENTS	(1,792)	885
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	8,731	6,608
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 6,939	$ 7,493
SUPPLEMENTAL DISCLOSURES:		
Cash paid for:		
Income taxes	$ 104	$ 1,106
Interest	2,271	2,589
Non-cash transactions:		
Loans foreclosed	$ 113	$ 162

</TABLE>

See notes to consolidated financial statements.

UNION FINANCIAL BANCSHARES, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
THREE MONTHS ENDED DECEMBER 31, 2002 AND 2001 (UNAUDITED)

<TABLE>
<CAPTION>

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings Substantially Restricted	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	(In Thousands, Except Share Data)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE AT SEPTEMBER 30, 2001	1,924,478	$ 20	$ 11,321	$ 13,217	($182)	$ 24,376
Net income				428		428
Other comprehensive income						
Unrealized losses on securities:						
Unrealized holding losses arising during period						
Comprehensive income					(239)	(239)
						189
Options exercised	660		6			6
Dividend reinvestment plan contributions	2,987		29			29
Cash dividend ($.10 per share)				(192)		(192)
BALANCE AT DECEMBER 31, 2001	1,928,125	20	11,356	13,453	(421)	24,408
BALANCE AT SEPTEMBER 30, 2002	1,958,069	20	11,573	14,184	1,421	27,198
Net income				452		452
Other comprehensive income						
Unrealized gains on securities:						
Unrealized holding gains arising during period					305	305
Comprehensive income						757
Options exercised	3,000		19			19
Dividend reinvestment plan contributions	2,183		29			29
Cash dividend ($.10 per share)				(198)		(198)
BALANCE AT DECEMBER 31, 2002	1,963,252	$ 20	$ 11,621	$ 14,438	$ 1,726	$ 27,805

</TABLE>

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 federally charted stock savings 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, 2002 are not necessarily indicative of the results which may be expected for the entire fiscal year. The consolidated balance sheet as of September 30, 2002 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.

Recently Issued Accounting Standards

In June 2001, the FASB issued SFAS No. 142 - Goodwill and Other Intangible Assets. This SFAS addresses how goodwill and other intangible assets should be accounted for at their acquisition (except for those acquired in a business combination) and after they have been initially recognized in the financial statements. The statement is effective for all fiscal years beginning after December 15, 2001. The Corporation adopted this process effective for the current fiscal year. The adoption did not have a material effect on the financial position of the Corporation.

In December 2002, the FASB issued SFAS No. 148 Accounting for Stock-Based Compensation--Transition and Disclosure--an amendment of FASB Statement No. 123. This Statement amends 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. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company adopted this standard effective December 31, 2002. The disclosures

required by this standard will be included in the Company's next quarterly filing. SFAS No. 148 had no impact upon adoption as the Company has not elected the fair value treatment of stock-based compensation.

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, 2002 and 2001 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 $59,754,000 and $24,063,000 of debt securities at December 31, 2002 and September 30, 2002, respectively, were pledged by the Bank as collateral to secure deposits of the State of South Carolina, and Union and Laurens 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

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, 2002 related to these items is summarized below:

Loan Commitments:	Contract Amount
Approved loan commitments	$ 169,000
Unadvanced portions of loans and credit lines	15,770,000
Total loan commitments	$ 15,939,000

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, 2002 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 $42,026,000 at December 31, 2002. Of these lines, the outstanding loan balances totaled approximately $26,256,000. 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, 2002 of approximately $2,327,000.

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, 2002	2001	Rate	Prepayment Option Date	Maturity	Distribution Payment Frequency
Union Financial Statutory Trust I	$8,000,000	$8,000,000	5.01%	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.

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

Forward Looking Statements

Management's discussion and analysis of financial condition and results of operations and other portions of this Form 10-Q 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 $20,624,000, or 6.63%, to $331,592,000 at December 31, 2002 from $310,968,000 at September 30, 2002. Investments and mortgage-backed securities increased approximately $22,691,000, or 19.29%, from September 30, 2002 to December 31, 2002, due to the purchase of mortgage backed securities and municipal securities that was funded with additional borrowings. The securities purchases offset lower loan demand and provided additional balance sheet growth.

Loans decreased $2,222,000, or 1.38%, to $159,354,000 at December 31, 2002. The Corporation continues to focus on consumer and commercial lending with reduced emphasis on residential mortgage loans. Consumer and commercial loans outstanding during this period increased $6,955,000, or 11.25%, while outstanding residential mortgage loans decreased $9,177,000 or 8.90%.

Liabilities

Total liabilities increased $20,017,000, or 7.05%, to $303,787,000 at

December 31, 2002 from $283,770,000 at September 30, 2002.

Borrowings from the Federal Home Loan Bank (FHLB) increased $19,700,000, or 34.56%, to $76,700,000 at December 31, 2002 from $57,000,000 at September 30, 2002. The increases in borrowings from the FHLB were utilized to fund additional growth for the Corporation. Other liabilities increased $539,000, or 86.06%, to $1,165,000 at December 31, 2002 from $626,000 at September 30, 2002 due to an increase in loan suspense as a result of a change in loan funding procedures.

Shareholders' Equity

Shareholders' equity increased $607,000, or 2.23%, to $27,805,000 at December 31, 2002 from $27,198,000 at September 30, 2002 due to net income year to date, along with an increase in unrealized gains in securities available for sale, offset by the payment of $0.10 per share quarterly dividends.

Trust Preferred Securities

On November 14, 2001, the Corporation established the Trust as a business trust for the purpose of issuing trust preferred securities in a private placement conducted as part of a pooled offering sponsored by First Tennessee Capital Markets and Keefe Bruyette & Woods, Inc. On December 18, 2001, the Trust issued $8,000,000 in trust preferred securities in the form of floating rate capital securities and issued approximately $248,000 of trust common securities to Union Financial. The Trust used the proceeds of these issuances to purchase $8,248,000 of Union Financial's floating rate junior subordinated deferrable interest debentures due December 18, 2031 (the "Debentures"). The interest rate on the Debentures and the trust preferred securities is variable and adjustable quarterly at 3.60% over three-month LIBOR, with an initial rate of 5.60%. A rate cap of 12.50% is effective through December 18, 2006. The Debentures are the sole assets of the Trust and are subordinate to all of Union Financial's existing and future obligations for borrowed money, its obligations under letters of credit and certain derivative contracts, and any guarantees by Union Financial of any such obligations. The trust preferred securities generally rank equal to the trust common securities in priority of payment, but will rank prior to the trust common securities if and so long as Union Financial fails to make principal or interest payments on the Debentures. Concurrently with the issuance of the Debentures and the trust preferred and common securities, Union Financial issued a guarantee related to the trust securities for the benefit of the holders.

The Debentures, the common securities issued by the Trust, and the related income effects are eliminated within Union Financial's financial statements. Union Financial's obligations under the Debentures, the related debenture, the trust agreement relating to the trust securities, and the guarantee constitute a full and unconditional guarantee by Union Financial of the obligations of the Trust under the trust preferred securities.

The stated maturity of the Debentures is December 18, 2031. In addition, the Debentures are subject to redemption at par at the option of Union Financial, 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 Union Financial 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.

Union Financial used the proceeds of the offering for general corporate purposes, to fund dividends to shareholders and for contributions to the capital of the Bank.

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, 2002, the Corporation's loan originations totaled $19,200,000. At December 31, 2002, the Corporation's investment in investment and mortgage-backed securities totaled $140,300,000. Additionally, outstanding loan commitments (including commitments to fund credit lines) totaled $15,900,000 at December 31, 2002. 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, 2002, total deposits increased $119,000. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by the Corporation and its local competitors and other factors. 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, 2002, totaled $58,900,000. 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, 2002, the Corporation had $76,700,000 of FHLB borrowings and $17,000,000 of securities sold under agreements to repurchase.

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, 2002, the Bank's capital position, as calculated under regulatory guidelines, exceeds these minimum requirements as follows (dollars in thousands):

	Requirement	Actual	Excess
Tangible capital	$ 4,882	$26,435	$21,553
Tangible capital to adjusted total assets	1.50%	8.12%	6.62%
Core capital	$13,216	$26,435	$13,219
Core capital to adjusted total assets	4.00%	8.12%	4.12%
Risk based capital	$12,738	$27,941	$15,203
Risk based capital to risk weighted assets	8.00%	17.55%	9.55%

Results of operations for the three months ended December 31, 2002 and 2001

General

Net income increased $24,000, or 5.61%, to $452,000 for the three months ended December 31, 2002 as compared to the same period in 2001. Increases in net interest income and non- interest income were partially offset by an increase in the provision for loan losses and increases in non-interest expense.

Interest Income

Interest income decreased $242,000, or 5.30%, for the three months ended December 31, 2002 as compared to the same period in 2001. Interest income on loans decreased by 8.21%, or $260,000, to $2,908,000 for the three months ended December 31, 2002 from $3,168,000 for the three months ended December 31, 2001, due primarily to declining market interest rates along with a smaller average balance of loans. Interest and dividends on investment and

mortgage-backed securities increased $18,000, or 1.29%, for the three months ended December 31, 2002 to $1,413,000 from $1,395,000 during the same period in 2001. The increase was due primarily to increased investments in mortgage-backed securities and municipal securities.

Interest Expense

Interest expense decreased $289,000, or 11.24%, for the three months ended December 31, 2002 as compared to the three months ended December 31, 2001, due primarily to lower deposit rates from a declining market interest rate environment. Interest expense on deposit accounts decreased $547,000, or 30.80%, to $1,229,000 for the three months ended December 31, 2002 from $1,776,000 during the same period in 2001. Interest expense on borrowings increased $162,000, or 20.80%, for the three months ended December 31, 2002 as compared to the same period in the previous year due to a higher level of borrowings offset by lower market interest rates during the period. The Corporation has also extended borrowing terms during this period to improve interest rate risk exposure. The Corporation also recorded $113,000 for the three months ended December 31, 2002 compared to $17,000 for the three months ended December 31, 2001 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, 2002, the provision for loan losses was $180,000 as compared to $90,000 for the same period in the previous year. The increase in the provision reflects the implementation of a risk weighted loan loss reserve methodology that is intended to more closely track the level of risk of different types of loans. During this same period, non-accrual loans increased $337,000 from $1,866,000 at September 30, 2002 to $2,203,000 at December 31, 2002. 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 Bank's loan loss allowance is adequate to absorb future loan losses inherent in the portfolio. The Bank's loan loss allowance at December 31, 2002 was approximately .93% of the Bank's outstanding loan portfolio and 68.32% of non-performing loans compared to .71% of the Bank's outstanding loan portfolio and 107.42% of non-performing loans at December 31, 2001.

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	$1,371
Provision for loan losses	180
(Charge-offs) recoveries, net	(46)
Balance at end of quarter	$1,505

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

	December 31, 2002	September 30, 2002
Non-accruing loans which are contractually past due 90 days or more:		
Real Estate	$1,036	$ 916
Commercial	925	524
Consumer	242	426
Total	$2,203	$ 1,866
Percentage of loans receivable, net	1.38%	1.15%
Percentage of allowance for loan losses to total loans receivable, net	0.93%	0.85%
Allowance for loan losses	$1,505	$ 1,371
Real estate acquired through foreclosure and repossessed assets, net of allowances	$ 356	$ 356

Non-accrual loans increased $337,000 to $2,203,000 for the period ending December 31, 2002 from $1,866,000 at September 30, 2002. The increase in commercial loans was the result of the classification of one local loan that is well supported by commercial real estate. 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 increased $176,000, or 66.67%, to $440,000 for the three months ended December 31, 2002 from $264,000 for the same period in the previous year. Fees from financial services increased $114,000, or 34.23%, to $447,000 for the three months ended

December 31, 2002 from $333,000 for the same period in the previous year. The increase was due primarily to the development of new fee income programs that were implemented during the first quarter of the 2003 fiscal year. Gain on the sale of investments was $60,000 for the three months ended December 31, 2002 as the Corporation sold investments with higher price volatility. The sale will improve interest rate exposure for the Corporation.

Non-Interest Expense

For the three months ended December 31, 2002, total non-interest expense increased $89,000, or 5.54%, to $1,695,000 from $1,606,000 for the same period in 2001. Compensation and employee benefits increased $59,000, or 8.55%, to $749,000 for the three month period ended December 31, 2002 from $690,000 for the same period in 2001 due primarily to staff additions resulting from a new branch opening that is scheduled for completion in the third quarter of the current fiscal year. Occupancy and equipment expense increased $15,000, or 3.83%, to $407,000 for the three months ended December 31, 2002 from $392,000 for the same period in 2001, due to higher depreciation and equipment expense. Professional services expense increased $44,000, or 64.71%, to $112,000 for the three months ended December 31, 2002 from $68,000 for the same period in 2001 due to higher legal and audit expenses. Advertising and public relations expense decreased $10,000, or 19.23%, to $42,000 for the three months ended December 31, 2002 from $52,000 for the same period in 2001 due to reductions in advertising expenses. Real estate operations expense increased $14,000, or 200.00%, to $21,000 for the three months ended December 31, 2002 from $7,000 for the same period in 2001 due to higher disposition costs for loan foreclosures and asset repossessions. Other expense decreased $27,000, or 12.11%, to

$196,000 for the three months ended December 31, 2002 from $223,000 for the same period in 2001 due primarily to lower telephone expense that resulted from reductions in long distance usage.

Item 3. Controls and Procedures

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

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

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

Exhibits

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

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

Reports on Form 8-K

None

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: February 4, 2003	By: /s/ Dwight V. Neese
	Dwight V. Neese, CEO
Date: February 4, 2003	By: /s/ Richard H. Flake
	Richard H. Flake, CFO

CERTIFICATION

I, Dwight V. Neese, certify that:

1. I have reviewed this report on 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 quarterly 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 quarterly report;

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

   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

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

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

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

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

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

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

Date: February 4, 2003	/s/Dwight V. Neese
	Dwight V. Neese

President and Chief Executive Officer

CERTIFICATION

I, Richard H. Flake, certify that:

1. I have reviewed this report on 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 quarterly 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 quarterly report;

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

    a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

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

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

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

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

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

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

Date: February 4, 2003

/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, 2002 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. (S)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 4, 2003

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, 2002 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. (S)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 4, 2003