



**Third Quarter Report**  
September 30, 2010

# Uwharrie Capital Corp

[www.UwharrieCapitalCorp.com](http://www.UwharrieCapitalCorp.com)

December 8, 2010

Dear Shareholder:

Earnings from operations have remained strong during 2010 thanks to a very strong core deposit base at all our banks and good yields on our earning assets which have provided some of the strongest net margin income in the industry. Additionally, our Strategic Investment Advisors and its asset management services continue to grow and make a positive contribution to our earnings. Once again, in the low rate environment, our mortgage team has had another outstanding year contributing additional fee income. Net income increased for the quarter ended September 30, 2010 at \$497 thousand compared to \$290 thousand for the same quarter in 2009. Year to date, net income decreased \$451 thousand from \$1.8 million for the nine months ended September 30, 2009 compared to \$1.4 million at September 30, 2010. The reason for the decline in the 9-month comparison is due to a greater portion of mortgage income coming in the earlier part of the prior year versus 2010 when it is occurring later in the year. We anticipate continued strong mortgage fee income for the balance of 2010 and consequently, our earnings for 2010 should exceed 2009.

Unfortunately, while having one of the strongest years in earnings from operations, the economic environment and the financial crisis of the moment is requiring that a good portion of these earnings be set aside as additions to our loan loss provision. During the third quarter of 2010, we put \$2.0 million into the allowance, compared to \$295 thousand for the same period of 2009. Year to date 2010 \$3.1 million has been expensed to the loan loss provision, compared to \$863 thousand for the same nine month period of 2009. Management recognizes the systemic risk in the environment and will continue to take the necessary steps, even at the expense of current earnings, to assure our solid long-term positioning.

Our “customer first” approach to relationship banking has enabled Uwharrie Capital Corp and its subsidiaries to continue to capture market share and profitably grow our balance sheet. We are blessed by the confidence our communities have in us and our growth continues to be from local deposits and loans as opposed to “hot money” and purchased assets. We are growing locally, at home. Total assets ended the quarter at \$529 million, up from \$477 million at September 30, 2009, representing 10.8% or \$51.5 million growth in assets. Core banking activities remain strong with growth in loans for the quarter of \$13.0 million and growth in deposits of \$15.7 million. For the nine months ended September 30, 2010, loans increased \$32.1 million to \$385.8 million and deposits grew \$48.8 million to \$425.5 million in spite of the fact that economic growth declined or remained flat in some of the counties in our markets.

All of this tells a strong story about the continued positive growth and development of our community banks in these challenging times. Our stock price should be reflecting this in terms of better prices. Bank stocks today are not trading at the values to earnings that they historically have due to the uncertainty of a global economy and fears of a “double dip.” We are confident that our share price along with other banks will begin to return to a more rational range of values as confidence in a recovery of our economy improves. Bank stocks in general are selling at discounts to book value. This has only happened once or twice in the last 50 years. The lack of liquidity in today’s market explains more about the valuation of investments than does the traditional function of expected future earnings. By analogy, it’s like going to a Saturday estate auction and seeing a fine Chippendale piece of furniture worth many thousands of dollars but the only bidders are a couple of folks who just have \$5 between them. This fine piece of great value is sold for \$5 at such an auction. Similarly, the value of many securities, like

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## Uwharrie Capital Corp and Subsidiaries

### Consolidated Balance Sheets

| (Amounts in thousands except share and per share data)        | September 30,<br>2010 | September 30,<br>2009 |
|---|-----------------------|-----------------------|
| <b>Assets</b>   |                       |                       |
| Cash and due from banks                                       | \$ 16,505             | \$ 10,947             |
| Investment securities available for sale                      | 90,983                | 85,277                |
| Federal funds sold  | -                     | -                     |
| Loans held for sale   | 3,096                 | 1,332                 |
| Loans held for investment                                     | 385,843               | 351,794               |
| Less: Allowance for loan losses                               | 7,462                 | 4,828                 |
| Net loans held for investment                                 | <u>378,381</u>        | <u>346,966</u>        |
| Interest receivable   | 2,179                 | 2,174                 |
| Premises and equipment, net                                   | 14,546                | 13,480                |
| Federal Home Loan Bank stock                                  | 3,379                 | 3,201                 |
| Bank-owned life insurance                                     | 5,902                 | 5,652                 |
| Other real estate owned                                       | 3,887                 | 2,623                 |
| Goodwill  | 987                   | 987                   |
| Other assets  | 9,501                 | 8,065                 |
| Total assets  | <u>\$ 529,346</u>     | <u>\$ 480,704</u>     |
| <b>Liabilities</b>  |                       |                       |
| Deposits:   |                       |                       |
| Demand, noninterest-bearing                                   | \$ 48,085             | \$ 43,825             |
| Interest checking and money market accounts                   | 182,052               | 120,616               |
| Savings accounts  | 36,783                | 32,796                |
| Time deposits, \$100,000 and over                             | 67,367                | 71,220                |
| Other time deposits   | 91,262                | 103,030               |
| Total deposits  | <u>425,549</u>        | <u>371,487</u>        |
| Interest payable  | 380                   | 456                   |
| Short-term borrowed funds                                     | 22,010                | 29,816                |
| Long-term debt  | 32,587                | 31,648                |
| Other liabilities   | 2,616                 | 2,807                 |
| Total liabilities   | <u>483,142</u>        | <u>436,214</u>        |
| <b>Shareholders' Equity</b>                                   |                       |                       |
| Preferred Stock, no par value: 10,000,000 shares authorized;  |                       |                       |
| 10,000 shares of series A issued and outstanding              | 10,000                | 10,000                |
| 500 shares of series B issued and outstanding                 | 500                   | 500                   |
| Discount on preferred stock                                   | (325)                 | (425)                 |
| Common stock, \$1.25 par value: 20,000,000 shares authorized; |                       |                       |
| issued and outstanding or in process of issuance              |                       |                       |
| 7,593,929 and 7,407,851 shares, respectively.                 |                       |                       |
| Book value per share \$4.54 in 2009 and \$4.17 in 2008. (1)   | 9,492                 | 9,492                 |
| Additional paid-in capital                                    | 14,032                | 14,029                |
| Unearned ESOP compensation                                    | (711)                 | (683)                 |
| Undivided profits   | 10,939                | 11,345                |
| Accumulated other comprehensive income (loss)                 | 2,277                 | 232                   |
| Total shareholders' equity                                    | <u>46,204</u>         | <u>44,490</u>         |
| Total liabilities and shareholders' equity                    | <u>\$ 529,346</u>     | <u>\$ 480,704</u>     |

## Uwharrie Capital Corp and Subsidiaries

### Consolidated Statements of Income

| (Amounts in thousands except share and per share data)   | Three Months Ended<br>September 30, |               | Nine Months Ended<br>September 30, |                 |
|--|-------------------------------------|---------------|------------------------------------|-----------------|
|  | 2010                                | 2009          | 2010                               | 2009            |
| <b>Interest Income</b>                                   |                                     |               |                                    |                 |
| Interest and fees on loans                               | \$ 5,393                            | \$ 5,281      | \$ 16,187                          | \$ 15,874       |
| Interest on investment securities                        | 722                                 | 931           | 2,222                              | 2,846           |
| Other interest income                                    | 9                                   | 14            | 27                                 | 57              |
| Total interest income                                    | <u>6,124</u>                        | <u>6,226</u>  | <u>18,436</u>                      | <u>18,777</u>   |
| <b>Interest Expense</b>                                  |                                     |               |                                    |                 |
| Interest paid on deposits                                | 1,035                               | 1,491         | 3,167                              | 4,656           |
| Interest on borrowed funds                               | 443                                 | 438           | 1,289                              | 1,356           |
| Total interest expense                                   | <u>1,478</u>                        | <u>1,929</u>  | <u>4,456</u>                       | <u>6,012</u>    |
| <b>Net Interest Income</b>                               |                                     |               |                                    |                 |
|  | 4,646                               | 4,297         | 13,980                             | 12,765          |
| Provision for loan losses                                | 2,053                               | 295           | 3,096                              | 863             |
| Net interest income after provision<br>for loan losses   | <u>2,593</u>                        | <u>4,002</u>  | <u>10,884</u>                      | <u>11,902</u>   |
| <b>Noninterest Income</b>                                |                                     |               |                                    |                 |
| Service charges on deposit accounts                      | 583                                 | 616           | 1,712                              | 1,751           |
| Other service fees and commissions                       | 782                                 | 595           | 2,211                              | 1,627           |
| Gain on sale of securities                               | 1,520                               | 124           | 1,484                              | 104             |
| Loss on sale of nonmarketable securities                 | -                                   | -             | -                                  | (172)           |
| Total other-than-temporary impairment loss               | -                                   | -             | -                                  | (1,782)         |
| Portion of loss recognized in other comprehensive income | -                                   | (183)         | -                                  | 1,395           |
| Net impairment recognized in other comprehensive income  | -                                   | (183)         | -                                  | (387)           |
| Income from mortgage loan sales                          | 880                                 | 364           | 1,616                              | 2,931           |
| Other income   | 172                                 | 117           | 340                                | 281             |
| Total noninterest income                                 | <u>3,937</u>                        | <u>1,633</u>  | <u>7,363</u>                       | <u>6,135</u>    |
| <b>Noninterest Expense</b>                               |                                     |               |                                    |                 |
| Salaries and employee benefits                           | 2,975                               | 2,822         | 8,689                              | 8,581           |
| Occupancy expense  | 322                                 | 302           | 860                                | 789             |
| Equipment expense  | 210                                 | 186           | 568                                | 547             |
| Data processing  | 212                                 | 203           | 623                                | 592             |
| Other operating expenses                                 | 2,087                               | 1,802         | 5,453                              | 4,966           |
| Total noninterest expense                                | <u>5,806</u>                        | <u>5,315</u>  | <u>16,193</u>                      | <u>15,475</u>   |
| Income before income taxes                               | 724                                 | 320           | 2,054                              | 2,562           |
| Provision for income taxes                               | 227                                 | 30            | 687                                | 744             |
| <b>Net Income</b>  | <u>\$ 497</u>                       | <u>\$ 290</u> | <u>\$ 1,367</u>                    | <u>\$ 1,818</u> |
| <b>Net Income</b>  | \$ 497                              | \$ 290        | \$ 1,367                           | \$ 1,818        |
| <b>Dividends - preferred stock</b>                       | <u>(161)</u>                        | <u>(160)</u>  | <u>(484)</u>                       | <u>(481)</u>    |
| <b>Net income available to common shareholders</b>       | <u>\$ 336</u>                       | <u>\$ 130</u> | <u>\$ 883</u>                      | <u>\$ 1,337</u> |
| <b>Net Income Per Common Share (1)</b>                   |                                     |               |                                    |                 |
| Basic  | \$ 0.04                             | \$ 0.02       | \$ 0.12                            | \$ 0.18         |
| Assuming dilution  | \$ 0.04                             | \$ 0.02       | \$ 0.12                            | \$ 0.18         |
| <b>Weighted Average Common Shares Outstanding (1)</b>    |                                     |               |                                    |                 |
| Basic  | 7,490,196                           | 7,476,197     | 7,487,875                          | 7,472,033       |
| Assuming dilution  | 7,490,196                           | 7,476,197     | 7,487,875                          | 7,472,033       |



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that of our own company, is being sold in similar auctions, which is what the stock exchange is on a daily basis. And like the estate sale, there is a shortage of bidders that creates the lack of liquidity which is affecting current prices. But remain confident that reason and rational thinking will return and so will values for Chippendale pieces as well as community bank stocks ... farm land and homes are suffering the same lack of liquidity and their loss in values similarly reflect it.

Our values and our mission remain the same. Uwharrie Capital Corp is a multibank holding company for locally-owned, community-focused banks, owned for and by the People seeking to invest their resources back into their own communities. Our mission is to provide capital, jobs and opportunities to local businesses and citizens to allow them to control their own destiny and for the benefit of their children. Working together with this shared vision as evidenced in these times of economic adversity, we continue to grow and prosper and create real value not just to our bottom lines but in our communities and the places we call home. Thank you for your continued support and we wish you and your family a healthy and blessed holiday.

Sincerely,

UWHARRIE CAPITAL CORP

Roger L. Dick

President and Chief Executive Officer

*Happy Holidays*

*from*

**Uwharrie Capital Corp**  
and its subsidiaries.

*Please enjoy our 2011  
annual community calendar.*

