



Third Quarter Report
September 30, 2008

Uwharrie Capital Corp

www.UwharrieCapitalCorp.com

December 19, 2008

Dear Shareholder:

Management is pleased to announce another solid quarter of operational and financial performance and value creation for our shareholders and for our communities. Uwharrie Capital Corp is well positioned to continue to weather the financial storm that we are facing as a nation, and we continue to perform well under these conditions. In these volatile times, we remain a safe, sound and capital strong organization. Your Company is making good on its promise to *make a difference* in the places we call home.

Uwharrie Capital Corp experienced excellent growth for the twelve months ended September 30, 2008. Total assets grew from \$393.0 million to \$425.3 million, an increase of \$32.3 million or 8.2%. This increase was largely due to the growth in the loan portfolio. Loans increased \$31.8 million from \$310.0 million to \$341.8 million for the period.

Earnings from operations were \$1.0 million during the third quarter of 2008 compared to \$1.1 million in the same period last year. During the quarter ended September 30, 2008, the Company expensed additional reserves to its loan loss provision in light of increased economic risk. Third quarter earnings, after this provision and taxes, were \$343 thousand compared to \$774 thousand for the same period last year.

For the nine months ending September 30, 2008, earnings were \$1.890 million compared to \$2.149 million for the first nine months of 2007, representing a 12.1% decrease. This decline is primarily due to loan loss provisions of \$786 thousand in 2008 compared to negative \$120 thousand in 2007. During the prior year, the Company experienced recovery of some previously charged off loans, reducing the expense recognized in 2007.

You have already received notification of your Board's declaration of a 3% stock dividend payable to shareholders December 4, 2008. The stock dividend serves as a reward for shareholders that is consistent with both the strength of the Company and our future growth plans. Growth opportunities demand capital, and the payment of a stock dividend allows us to retain capital while providing the best value to our shareholders. Individuals who are still in their peak-earning years and do not need the additional tax burden, will not have to recognize income generated by a stock dividend.

In order to provide liquidity to our shareholders, the Company has in place a repurchase program that allows shareholders to convert the stock to cash. It is our practice to annually repurchase an equal amount of shares that the dividend represents, which means the dividend is not dilutive to our shareholders. While this has been our process for many years, Jeremy Siegel, Ph.D. in finance and one of the world's top investing experts, contends that this is the more efficient way to pay a dividend.

When you can invest in a company that helps create new jobs, assists families through the financial demands of life, and contributes to making our communities better places while making a fair profit ... capitalism is at its best. *Together, we are making a difference!*

We will continue to work to bring jobs and commerce back home, creating a vibrant **local** economy,

(Continued on back)

Uwharrie Capital Corp and Subsidiaries

Consolidated Balance Sheets

(Amounts in thousands except share and per share data)	September 30, 2008	September 30, 2007
Assets		
Cash and due from banks	\$ 13,318	\$ 14,742
Investment securities available for sale	43,009	43,828
Federal funds sold	2,808	620
Loans held for sale	1,073	4,194
Loans held for investment	341,830	309,817
Less: Allowance for loan losses	4,143	3,394
Net loans held for investment	<u>337,687</u>	<u>306,423</u>
Interest receivable	2,041	2,110
Premises and equipment, net	10,297	8,733
Federal Home Loan Bank stock	2,092	1,792
Bank-owned life insurance	5,459	5,256
Goodwill	987	987
Other assets	6,553	4,283
Total assets	<u>\$ 425,324</u>	<u>\$ 392,968</u>
Liabilities		
Deposits:		
Demand, noninterest-bearing	\$ 48,437	\$ 45,737
Interest checking and money market accounts	115,196	107,593
Savings accounts	25,886	26,172
Time deposits, \$100,000 and over	57,409	44,454
Other time deposits	97,683	93,594
Total deposits	<u>344,611</u>	<u>317,550</u>
Interest payable	498	440
Short-term borrowed funds	9,461	25,705
Long-term debt	36,753	16,692
Other liabilities	2,222	1,597
Total liabilities	<u>393,545</u>	<u>361,984</u>
Shareholders' Equity		
Common stock, \$1.25 par value: 20,000,000 shares authorized;		
Issued and outstanding or in the process of issuance		
7,407,851 and 7,255,822 shares, respectively.		
Book value per share \$4.17 in 2008 and \$4.03 in 2007. (1)		
	9,259	9,070
Common stock dividend distributable	0	0
Additional paid-in capital	13,408	12,783
Unearned ESOP compensation	(752)	(815)
Undivided profits	10,883	9,651
Accumulated other comprehensive income (loss)	(1,019)	295
Total shareholders' equity	<u>31,779</u>	<u>30,984</u>
Total liabilities and shareholders' equity	<u>\$ 425,324</u>	<u>\$ 392,968</u>

(1) Net income per share, book value per share and weighted average shares outstanding have been adjusted to reflect the 3% stock dividends in 2008 and 2007.

Uwharrie Capital Corp and Subsidiaries

Consolidated Statements of Income

(Amounts in thousands except share and per share data)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Interest Income				
Interest and fees on loans	\$ 5,652	\$ 6,174	\$ 17,290	\$ 17,693
Interest on investment securities	599	596	1,997	1,634
Other interest income	16	76	59	711
Total interest income	<u>6,267</u>	<u>6,846</u>	<u>19,346</u>	<u>20,038</u>
Interest Expense				
Interest paid on deposits	1,879	2,352	6,159	7,179
Interest on borrowed funds	468	612	1,421	1,815
Total interest expense	<u>2,347</u>	<u>2,964</u>	<u>7,580</u>	<u>8,994</u>
Net Interest Income				
Provision for loan losses	529	18	786	(120)
Net interest income after provision for loan losses	<u>3,391</u>	<u>3,864</u>	<u>10,980</u>	<u>11,164</u>
Noninterest Income				
Service charges on deposit accounts	599	550	1,666	1,609
Other service fees and commissions	737	750	2,239	2,169
Gain on sale of securities	-	-	-	(76)
Income from mortgage loan sales	206	235	1,004	678
Other income	108	125	501	314
Total noninterest income	<u>1,650</u>	<u>1,660</u>	<u>5,410</u>	<u>4,694</u>
Noninterest Expense				
Salaries and employee benefits	2,620	2,493	7,921	7,414
Occupancy expense	250	219	709	645
Equipment expense	178	150	474	456
Data processing	194	188	586	551
Other operating expenses	1,300	1,364	3,907	3,704
Total noninterest expense	<u>4,542</u>	<u>4,414</u>	<u>13,597</u>	<u>12,770</u>
Income before income taxes	499	1,110	2,793	3,088
Provision for income taxes	156	336	903	939
Net Income	<u>\$ 343</u>	<u>\$ 774</u>	<u>\$ 1,890</u>	<u>\$ 2,149</u>
Net Income Per Common Share (1)				
Basic	\$ 0.05	\$ 0.10	\$ 0.25	\$ 0.29
Assuming dilution	\$ 0.05	\$ 0.10	\$ 0.25	\$ 0.29
Weighted Average Shares Outstanding (1)				
Basic	7,495,903	7,566,368	7,481,606	7,631,112
Assuming dilution	7,541,820	7,703,672	7,525,329	7,743,681

Uwharrie Capital Corp

P.O. Box 338
132 North First Street
Albemarle, NC 28002-0338
Phone: 704-982-4415
Fax: 704-982-4355

Making a Difference!

www.UwharrieCapitalCorp.com



Uwharrie Capital Corp

(Continued from front)

that is more self-sustaining and secure. From this, we will all have a better quality of life and prosperity. We face the future with confidence, committed to our founding vision, and with our excellent group of associates, directors and shareholders, we will find opportunities in this time of uncertainty and evolution. At a time when our world is in the midst of so much change, we feel blessed to be in the position to effectively and positively influence the direction and economic future of our communities.

Going into this holiday season, we take the opportunity to express our thanks to you, our customers and shareholders, for your support and commitment to our community banking philosophy. Warmest wishes to you and your family for the coming holiday season. We look forward to continuing to serve you in 2009.

Sincerely,

UWHARRIE CAPITAL CORP

A handwritten signature in blue ink, appearing to read "Roger L. Dick", is written over a light blue horizontal line.

Roger L. Dick
President and Chief Executive Officer