



Second Quarter Report
June 30, 2013

Uwharrie Capital Corp

www.UwharrieCapitalCorp.com

August 30, 2013

Dear Shareholder:

Each quarter we look forward to sharing our progress with you, our shareholders, as we diligently work toward building a financial services company that is *making a difference* in the communities we serve. In spite of a challenging banking environment, we remain positioned well to benefit from economic recovery, and we are taking the necessary steps in order to grow our Company in our own and other markets. Though we still face unprecedented situations within the economic and regulatory landscape in which we are operating, we continue to make headway and are committed to our strategy, our vision and our mission.

Total Assets as of June 30, 2013 were \$529.7 million, \$4.1 million greater than the same period in 2012. New loans, however, continue to be a challenge for the Company and the industry. Total loans outstanding have declined \$21.3 million or 6.2% from a year ago. Loans as a percentage of Total Assets are down 4.1%, which reduces the banks' Interest Income as lack of loan demand means we have to invest excess funds in lower yielding securities or overnight funds. We have elected to stay liquid with our investments due to the potential increase in interest rates, sacrificing current yield for future benefit. This balance sheet mix is not particular to Uwharrie Capital Corp, but rather the banking industry as a whole. Despite the decline in loans, deposits increased \$19.0 million or 4.3% annually as we continue to grow in our current markets. The growth in deposits allowed us to reduce wholesale borrowings, which reduces interest expense and helps mitigate the Net Interest Margin compression we are currently experiencing from the decline in loans. Our Net Interest Margin (the difference between what we pay for funding and what we earn from loans and investments) is down \$322 thousand from June 30, 2012, but is up \$145 thousand or 3.6% since March 31, 2013. This is signaling a possible bottoming of margin compression.

During the second quarter, as required by regulation, the Company took a one-time, pre-tax charge of \$680 thousand due to an updated annual appraisal obtained on one piece of foreclosed property. Appraisals continue to be a challenge for the industry, which reflect more stressed sales than economic values. The appraised value of any property may or may not reflect the true market value. This can only be determined upon final sale. We believe the valuation which resulted in this write-down does not reflect the intrinsic value of the property. Any additional adjustments, albeit positive or negative, will be reflected at the time of actual sale.

Despite this write-down, asset quality continues to improve at your Company. Non-performing Assets reached its lowest point in three years. Asset quality trends and modestly improved economic conditions led to significant income recognition as required reserves in our allowance for loan and lease losses was reduced.

Net Income After Taxes for Q2 2013 was \$156 thousand compared to the same period during 2012 of \$401 thousand. Excluding the aforementioned one-time charge of \$680 thousand, Net Income would have been \$605 thousand, slightly better than a 50% increase year-over-year. Year-to-date Net Income Available to Common Shareholders is \$476 thousand, including this charge and after all dividends paid.

During the first six months of 2013, we paid \$217 thousand to Preferred Shareholders in our respective local communities through dividends on our preferred stock issued at year end. All new preferred stock offerings are replacing our TARP proceeds. We are currently offering the final replacement preferred stock to fully repay TARP. Sales of this final preferred offering are going well. We have subscriptions in hand for close to \$2.5 million which leaves approximately \$300 thousand remaining to sell by September 15th. We encourage each of you and friends of

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Uwharrie Capital Corp and Subsidiaries

Consolidated Balance Sheets

(Amounts in thousands except share and per share data)	June 30, 2013	June 30, 2012
Assets		
Cash and due from banks	\$ 10,294	\$ 7,761
Interest-earning deposits with banks	36,836	37,387
Investment securities available for sale	120,571	98,324
Loans held for sale	676	1,287
Loans held for investment	321,793	343,107
Less: Allowance for loan losses	5,481	7,069
Net loans held for investment	<u>316,312</u>	<u>336,038</u>
Interest receivable	1,840	1,968
Premises and equipment, net	14,041	14,998
Restricted stock	1,824	2,504
Bank-owned life insurance	6,456	6,300
Goodwill	-	987
Other real estate owned	9,454	8,892
Other assets	11,354	9,139
Total assets	<u>\$ 529,658</u>	<u>\$ 525,585</u>
Liabilities		
Deposits:		
Demand, noninterest-bearing	\$ 74,268	\$ 68,253
Interest checking and money market accounts	222,114	193,201
Savings accounts	46,922	41,269
Time deposits, \$100,000 and over	47,671	55,511
Other time deposits	69,992	83,722
Total deposits	<u>460,967</u>	<u>441,956</u>
Interest payable	232	272
Short-term borrowed funds	9,372	18,751
Long-term debt	11,168	14,678
Other liabilities	4,810	3,663
Total liabilities	<u>486,549</u>	<u>479,320</u>
Redeemable common stock held by Employee Stock Ownership Plan (ESOP)	1,686	1,584
Shareholders' Equity		
Preferred stock, no par value: 10,000,000 shares authorized; 2,258 and 10,000 shares of series A issued and outstanding	2,258	10,000
500 shares of series B issued and outstanding	500	500
Discount on preferred stock	(50)	(150)
Common stock, \$1.25 par value: 20,000,000 shares authorized; issued and outstanding or in process of issuance 7,478,104 and 7,568,978 shares, respectively. Book value per share \$4.14 in 2013 and \$4.54 in 2012.	9,348	9,461
Additional paid-in capital	12,034	12,370
Unearned ESOP compensation	(861)	(810)
Undivided profits	10,614	11,157
Accumulated other comprehensive income (loss)	(173)	2,153
Total Uwharrie Capital shareholders' equity	<u>33,670</u>	<u>44,681</u>
Noncontrolling interest	7,753	-
Total shareholders' equity	<u>41,423</u>	<u>44,681</u>
Total liabilities and shareholders' equity	<u>\$ 529,658</u>	<u>\$ 525,585</u>

Uwharrie Capital Corp and Subsidiaries

Consolidated Statements of Income

(Amounts in thousands except share and per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Interest Income				
Interest and fees on loans	\$ 4,449	\$ 4,941	\$ 8,876	\$ 10,148
Interest on investment securities	364	433	702	860
Interest-earning deposits with banks and federal funds sold	54	40	109	72
Total interest income	<u>4,867</u>	<u>5,414</u>	<u>9,687</u>	<u>11,080</u>
Interest Expense				
Interest paid on deposits	489	643	1,034	1,325
Interest on borrowed funds	209	280	460	596
Total interest expense	<u>698</u>	<u>923</u>	<u>1,494</u>	<u>1,921</u>
Net Interest Income				
Provision for (recovery of) loan losses	(405)	363	(774)	703
Net interest income after provision (recovery of) for loan losses	<u>4,574</u>	<u>4,128</u>	<u>8,967</u>	<u>8,456</u>
Noninterest Income				
Service charges on deposit accounts	392	436	797	868
Other service fees and commissions	841	861	1,634	1,591
Gain (loss) on sale of securities	-	16	14	16
Gain on sale of other assets	(22)	25	225	296
Income from mortgage loan sales	642	667	1,482	1,476
Other income	109	118	224	238
Total noninterest income	<u>1,962</u>	<u>2,123</u>	<u>4,376</u>	<u>4,485</u>
Noninterest Expense				
Salaries and employee benefits	3,060	3,157	6,152	6,263
Occupancy expense	276	285	550	570
Equipment expense	186	183	354	371
Data processing	192	223	392	434
Other operating expenses	2,572	1,774	4,467	3,750
Total noninterest expense	<u>6,286</u>	<u>5,622</u>	<u>11,915</u>	<u>11,388</u>
Income before income taxes	250	629	1,428	1,553
Provision for income taxes	94	228	509	452
Net Income	<u>\$ 156</u>	<u>\$ 401</u>	<u>\$ 919</u>	<u>\$ 1,101</u>
Consolidated net income				
Less: Net income attributable to noncontrolling interest	(114)	-	(217)	-
Net income attributable to Uwharrie Capital	<u>\$ 42</u>	<u>\$ 401</u>	<u>\$ 702</u>	<u>\$ 1,101</u>
Dividends - preferred stock	<u>(65)</u>	<u>(161)</u>	<u>(226)</u>	<u>(323)</u>
Net income available to common shareholders	<u>\$ (23)</u>	<u>\$ 240</u>	<u>\$ 476</u>	<u>\$ 778</u>
Net Income Per Common Share (1)				
Basic	\$ (0.00)	\$ 0.03	\$ 0.07	\$ 0.10
Assuming dilution	\$ (0.00)	\$ 0.03	\$ 0.07	\$ 0.10
Weighted Average Common Shares Outstanding (1)				
Basic	7,287,662	7,431,969	7,297,048	7,435,053
Assuming dilution	7,287,662	7,431,969	7,297,048	7,435,053

Uwharrie Capital Corp

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the Company to take advantage of this opportunity. This stock is paying a dividend rate of 5.3% per annum, and will be issued on or before October 1, 2013, once fully subscribed. Also, preferred stock dividends typically have a tax advantage over ordinary income (such as interest from CD's or other savings investments, but you should consult your tax advisor regarding a potential tax advantage.)

Lastly, we are in the final stages of the consolidation of our three subsidiary banks, and look forward to becoming Uwharrie Bank on September 1, 2013. Overall, our operating expenses have improved during the first half of 2013, but the full cost savings from the consolidation will not be realized for some months following the merger and the conversion of customer accounts into a single entity. Customer account conversions will not be completed until November 8, 2013. This transition has required substantial planning and execution by our associates and vendors, but in the end will improve efficiencies, thus reducing operating, regulatory and governance expenses. The one thing that will not change is the core values of your company, and the high level of customer service in all of our markets.

It is an exciting time to be part of the Uwharrie Capital Corp family. We thank you for supporting the Company both as shareholders and customers. As always, we remind you that the best way to enhance your investment in Uwharrie Capital Corp is to do business with your banking and investment subsidiaries and encourage others to do so as well.

Sincerely,
UWHARRIE CAPITAL CORP



Roger L. Dick
President and Chief Executive Officer



Brendan P. Duffey
Chief Operating Officer