



Uwharrie

CAPITAL CORP

Third Quarter Report – September 30, 2014

www.Uwharrie.com

December 2, 2014

Dear Shareholder:

As we complete the third quarter of 2014 and head into the holiday season, we have a great deal for which to be thankful. Our problem assets continue to decline. The capital position of our company is strong and operationally we are experiencing new efficiencies as a result of combining our three bank charters last year.

As a result, we finished third quarter with earnings up 35% when compared to the first nine months of last year. Net income for the nine-month period ended September 30, 2014, was \$1.5 million. But more importantly for you as a shareholder, the net income available to common shareholders was \$1.1 million or 15 cents per share versus \$520 thousand or 7 cents per share for the same period last year, a 110% increase. Net income available to common shareholders takes into consideration the payment of dividends on preferred stock.

Net income for the three-month period ended September 30, 2014, was \$399 thousand versus \$218 thousand for the same period in 2013, an 83% improvement. Three months ended September 30, 2014, net income available to common shareholders was \$250 thousand or \$0.03 per share versus \$43 thousand for the three months ended September 30, 2013 – nearly a six fold increase.

It is important to note that this improvement in earnings, while reflecting an improvement in our economy, was accomplished with no increase in assets. Uwharrie Capital Corp and its subsidiary, Uwharrie Bank, reported consolidated total assets of \$517.0 million at September 30, 2014, versus \$517.3 million at December 31, 2013. At a time when the traditional interest margin business, historically the major contributor to bank earnings, is being compressed, it is necessary that banks develop new non-margin income sources.

Our investment advisory and insurance subsidiaries had their best year ever. Both Strategic Investment Advisors and the Strategic Investment Group, with their combined contribution to improved earnings, reflect diversification of our earnings base and a critical source of ongoing non-margin income.

A great deal of time and energy has been spent this year by your Board and Management developing a strategy going forward that will continue to develop new fee income sources that compliment the continued growth and development of your community banking organization. Looking forward, we plan on being around a long time to continue “*making a difference*” in the communities we serve, while rewarding you, our shareholder, with good returns on your investment. Please partner with us by allowing us to be your financial services provider and remember to refer your family, friends and neighbors to your bank. Working together, we can build and improve our communities by keeping our dollars working locally.

We appreciate your patience during this Great Recession. It now appears we are heading into better times for the communities, families and businesses we serve. As community financial organizations generally reflect the

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Uwharrie Capital Corp and Subsidiaries

Consolidated Balance Sheets

(Amounts in thousands except share and per share data)	September 30, 2014	December 31, 2013
Assets		
Cash and due from banks	\$ 5,715	\$ 7,947
Interest-earning deposits with banks	49,087	64,447
Investment securities available for sale	113,924	100,280
Loans held for sale	1,402	1,139
Loans held for investment	309,978	307,348
Less: Allowance for loan losses	3,466	5,095
Net loans held for investment	<u>306,512</u>	<u>302,253</u>
Interest receivable	1,498	1,747
Premises and equipment, net	15,008	13,781
Restricted stock	1,038	1,184
Bank-owned life insurance	6,615	6,516
Other real estate owned	5,858	7,170
Other assets	10,371	10,856
Total assets	<u>\$ 517,028</u>	<u>\$ 517,320</u>
Liabilities		
Deposits:		
Demand, noninterest-bearing	\$ 81,024	\$ 74,493
Interest checking and money market accounts	237,549	228,933
Savings accounts	38,148	41,512
Time deposits, \$100,000 and over	40,223	44,690
Other time deposits	57,318	64,080
Total deposits	<u>454,262</u>	<u>453,708</u>
Interest payable	182	224
Short-term borrowed funds	3,771	5,509
Long-term debt	9,561	11,163
Other liabilities	5,498	4,491
Total liabilities	<u>473,274</u>	<u>475,095</u>
Redeemable common stock held by Employee Stock Ownership Plan (ESOP)	1,820	1,716
Shareholders' Equity		
Common stock, \$1.25 par value: 20,000,000 shares authorized; issued and outstanding or in process of issuance 7,301,375 and 7,445,931 shares, respectively.	9,127	9,307
Book value per share \$4.30 in 2014 and \$4.02 in 2013.	11,325	11,922
Additional paid-in capital	-	(989)
Unearned ESOP compensation	10,976	10,289
Undivided profits	(56)	(562)
Accumulated other comprehensive income (loss)	<u>31,372</u>	<u>29,967</u>
Total Uwharrie Capital shareholders' equity	<u>10,562</u>	<u>10,542</u>
Noncontrolling interest	41,934	40,509
Total shareholders' equity	<u>\$ 517,028</u>	<u>\$ 517,320</u>
Total liabilities and shareholders' equity		

Uwharrie Capital Corp and Subsidiaries

Consolidated Statements of Income

(Amounts in thousands except share and per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Interest Income				
Interest and fees on loans	\$ 4,120	\$ 4,368	\$ 12,285	\$ 13,244
Interest on investment securities	498	486	1,488	1,188
Interest-earning deposits with banks and federal funds sold	36	24	120	133
Total interest income	<u>4,654</u>	<u>4,878</u>	<u>13,893</u>	<u>14,565</u>
Interest Expense				
Interest paid on deposits	329	454	1,042	1,488
Interest on borrowed funds	141	183	463	643
Total interest expense	<u>470</u>	<u>637</u>	<u>1,505</u>	<u>2,131</u>
Net Interest Income				
	4,184	4,241	12,388	12,434
Provision for (recovery of) loan losses	(271)	227	(756)	(547)
Net interest income after provision (recovery of) for loan losses	<u>4,455</u>	<u>4,014</u>	<u>13,144</u>	<u>12,981</u>
Noninterest Income				
Service charges on deposit accounts	367	408	1,104	1,205
Other service fees and commissions	986	870	2,893	2,504
Gain (loss) on sale of securities	5	-	26	14
Gain on sale of other assets	231	53	471	278
Income from mortgage loan sales	282	361	701	1,843
Other income	92	118	283	342
Total noninterest income	<u>1,963</u>	<u>1,810</u>	<u>5,478</u>	<u>6,186</u>
Noninterest Expense				
Salaries and employee benefits	3,093	3,037	9,079	9,189
Occupancy expense	278	295	823	845
Equipment expense	164	180	511	534
Data processing	181	186	551	578
Other operating expenses	2,112	1,860	5,416	6,326
Total noninterest expense	<u>5,828</u>	<u>5,558</u>	<u>16,380</u>	<u>17,472</u>
Income before income taxes	590	266	2,242	1,695
Provision for income taxes	191	48	710	557
Net Income	<u>\$ 399</u>	<u>\$ 218</u>	<u>\$ 1,532</u>	<u>\$ 1,138</u>
Consolidated net income				
	\$ 399	\$ 218	\$ 1,532	\$ 1,138
Less: Net income attributable to noncontrolling interest	(149)	(111)	(442)	(328)
Net income attributable to Uwharrie Capital	250	107	1,090	810
Dividends - preferred stock	-	(64)	-	(290)
Net income available to common shareholders	<u>\$ 250</u>	<u>\$ 43</u>	<u>\$ 1,090</u>	<u>\$ 520</u>
Net Income Per Common Share				
Basic	\$ 0.03	\$ 0.01	\$ 0.15	\$ 0.07
Assuming dilution	\$ 0.03	\$ 0.01	\$ 0.15	\$ 0.07
Weighted Average Common Shares Outstanding				
Basic	7,310,169	7,414,138	7,326,957	7,433,232
Assuming dilution	7,310,169	7,414,138	7,326,957	7,433,232

Uwharrie Capital Corp

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health and well-being of the economic community they serve, we too, look forward to and are thankful for a return to more prosperous times.

It is our pleasure to enclose your Uwharrie Capital Corp 2015 Calendar. This year's calendar is focused on restoration and renovations in Anson, Cabarrus and Stanly counties. We hope you will enjoy the collection of nostalgic photographs along with a more current look at these historic properties. Best wishes to you and your family during the holiday season and thank you for your continued support.

Sincerely,

UWHARRIE CAPITAL CORP



Roger L. Dick
President and Chief Executive Officer



Brendan P. Duffey
Chief Operating Officer

Happy Holidays

from

Uwharrie
CAPITAL CORP
and its subsidiaries.

*Please enjoy our 2015
community calendar.*

This Report may contain, among other things, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, without limitation, (i) statements regarding certain of the Company's goals and expectations with respect to earnings, income per share, revenue, expenses and the growth rate in such items, as well as other measures of economic performance, including statements relating to estimates of credit quality trends, and (ii) statements preceded by, followed by or that include the words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan," "projects," "outlook," or similar expressions. These statements are based upon the current belief and expectations of the Company's management and are subject to significant risks and uncertainties that are subject to change based on various factors (many of which are beyond the Company's control).