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Dear Shareholder:

We are pleased to report to you on the progress and development made by your company in 2017. We are meeting our targets for growth, asset quality and earnings. Total assets for the year ended December 31, 2017, were \$576.4 million. This is a 5.14% growth over the previous year. The asset quality of our balance sheet is one of the best in our Company's history. Our deposit base reflects a core of stable community-based funding that allows us to invest back into our Main Street economies. Our Mortgage and Wealth Management divisions continue to provide us diversity in our income stream.

Net income for the year ended December 31, 2017, was \$1.6 million, a \$596 thousand decline from 2016 year-end of \$2.2 million. This decline in earnings was due to three large period expenses. We have begun to implement a new core processing system in order to keep us competitive and relevant in our technology. De-conversion and consulting fees associated with this implementation resulted in one-time expenses of \$350 thousand in 2017.

Additionally, development costs associated with the expansion into the Charlotte market for a branch at Rea Road were \$130 thousand last year. Finally, and most impactful, was the advent of the Tax Cut and Jobs Act of 2017 President Trump signed at year-end, decreasing corporate tax rate from 35% to 21%. This Act resulted in a one-time substantial write-down of our deferred tax assets of \$806 thousand. The write-down will be recovered in the lower tax rate environment in approximately 18 months, resulting in greater after-tax earnings. Most banks in the country also had a similar affect on their reported 2017 earnings from a write-down of their assets as a result of this Act.

These three expenses — totaling \$1.3 million — are not normal recurring operating expenses. With the exception of the write-down for the deferred tax assets, management could have chosen not to upgrade to new technology or develop a new office in a growing community. Had we chosen to operate to maximize short-term earnings and not had the one-time tax adjustment, the reported earnings for 2017 would have been \$2.9 million, a 32% improvement over the \$2.2 million reported for year-end 2016. While these investments in new technology, new markets, and new products suppress our earnings in the short-run,

they are necessary to achieve our long-term strategic initiatives. We will be rewarded financially as well as remain a vigorous survivor and continue to fulfill our important mission long-term.

Going forward, we are confident we are preparing our Company to remain viable in a world of disruption, a word we hear a lot today in the business community. Entire industries are being decimated by new, well-funded technology-based companies. Since 2002, 52% of the Fortune 500 companies no longer exist. As of December 31, 2017, the Wilshire 5000, a market capitalization weighted index of the 5,000 largest stocks traded in America, contained only 3,492 listed stocks; there are no longer enough listed securities to make up 5,000. Community banks have been on the decline, as well, due to increasing regulatory complexity and an accommodative monopolistic environment. Today, just five banks control 47% of the nation's \$17 trillion banking assets.

Monopolistic accommodation is a threat to our democratic institutions and the functioning of free markets. How much power are we comfortable having consolidated into the hands of a few large businesses? In our American history, the injustice and abuse of wealth concentration was the seeding of a revolution that birthed our nation.

Uwharrie Capital Corp has its roots in understanding the dangers of monopoly and the need for a community of people to have control over wealth and their means to economic security and well-being. That is why we started this Company and why we say we are about more than just money. We are a community bank owned by and for the people we serve. Our mission is to empower ourselves with the financial literacy and capital resources necessary to sustain and create our desired future; these principles are not for sale. We remain focused on securing financial futures for the members of our community: customers, associates, and shareholders.

Guided by our values and vision, your investment continues to grow. Thank you for being an investor and member of our growing community.

Sincerely,

Uwharrie Capital Corp



Roger L. Dick
President and Chief Executive Officer



Brendan P. Duffey
Chief Operating Officer