Uwharrie
CAPITAL CORP
making a difference®

PO Box 338 | Albemarle, NC 28002
704.982.4415 *tel* | 704.982.4355 *fax*
uwharrie.com

April 16, 2019

Dear Shareholder:

Your Board of Directors is pleased to extend this invitation for you to join our corporate family at the **Uwharrie Capital Corp Annual Meeting of Shareholders on Tuesday, May 14, 2019, at the Stanly County Agri-Civic Center, Albemarle, NC**.

- Buffet Dinner & Fellowship . . . . . 4:30 p.m. – 6:30 p.m.
- Business Meeting . . . . . 6:30 p.m.

Our objective for the Annual Meeting is for us, as a corporate family of associates, directors, and shareholders, to reflect on what has been accomplished by everyone working together and to learn about our company's future plans.

In preparation for our Annual Meeting, you have received our bound *Notice of Annual Meeting/Proxy Statement/Annual Report* booklet and *Appointment of Proxy (Proxy Sheet for voting)*. The *Shareholder Letter* and *"We are Community"* enclosures communicate our 2018 highlights and philosophy, respectively. Complete financial statements and notes are contained in the Annual Report, which is the back section of the Proxy Statement booklet. The Proxy Statement explains the two items to be voted on at the meeting: (1) Election of Directors; and (2) Ratification of Appointment of Independent Registered Public Accounting Firm.

Remember, we cannot conduct the legal business meeting without a majority of votes, and this would cause unnecessary expense to your company. **You are encouraged to VOTE BY INTERNET which is the quickest way to ensure your vote is recorded timely before the meeting; however, you may also vote by Telephone or Proxy Card (mail). See Voting Instructions on your Appointment of Proxy sheet. If you are voting by Proxy Card, please mail it as soon as possible in the postage-paid envelope to ensure timely receipt by Broadridge, our Stock Transfer Agent, who is tabulating votes.**

Please mail your green DINNER RESERVATION CARD directly to Uwharrie Capital Corp (no postage is required on the pre-addressed card).

Thank you for your continued support as a member of our corporate family. *You are making a difference!* We look forward to seeing you **Tuesday, May 14, 2019**.

REMINDER – ACTION NEEDED: To eliminate your burden of maintaining stock certificates from prior years (which are still valid), we encourage you to turn in all stock certificates currently in your possession for exchange to paperless book-entry form. Our Investor Relations team can assist you with this process (Lisa Hartsell, Tonya Lowder and Tamara Singletary; 704-982-4415).

Sincerely,

Tamara M. Singletary

Tamara M. Singletary
Executive Vice President - Investor Relations
and Corporate Secretary

Enclosures

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Uwharrie Capital Corp

132 North First Street
Albemarle, North Carolina 28001

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
and
NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS

NOTICE is hereby given that the Annual Meeting of Shareholders of Uwharrie Capital Corp (the "Company") will be held as follows:

Place:	Stanly County Agri-Civic Center 26032 Newt Road Albemarle, North Carolina	
Date:	Tuesday, May 14, 2019	
Time:	4:30 p.m. – 6:30 p.m. 6:30 p.m.	Buffet Dinner & Fellowship Business Meeting

The purposes of the meeting are:

1. To elect seven directors to three-year terms, one director to a two-year term, and two directors to one-year terms;

2. To ratify the appointment of Dixon Hughes Goodman LLP as the Company's independent registered public accounting firm for 2019; and

3. To transact such other business as may properly be presented for action at the meeting.

You are invited to attend the annual meeting in person. However, even if you plan to attend, you are requested to complete, sign and date the enclosed appointment of proxy and return it promptly in the envelope provided for that purpose or to vote via the internet in order to ensure that a quorum is present at the meeting. The giving of an appointment of proxy will not affect your right to revoke it or to attend the meeting and vote in person.

We have elected to furnish our proxy solicitation materials via U.S. mail and also to notify you of the availability of our proxy materials on the internet. The notice of annual meeting, proxy statement, proxy card and annual report are available at www.proxyvote.com .

By Order of the Board of Directors

Roger L. Dick
President and Chief Executive Officer

April 16, 2019

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Uwharrie Capital Corp

132 North First Street
Albemarle, North Carolina 28001
704-982-4415

PROXY STATEMENT

Mailing Date: On or About April 16, 2019

ANNUAL MEETING OF SHAREHOLDERS

This Proxy Statement is being furnished in connection with the solicitation by the Board of Directors of Uwharrie Capital Corp (the "Company") of appointments of proxy for use at the annual meeting of the Company's shareholders (the "Annual Meeting") to be held on May 14, 2019, at 6:30 p.m., at the Stanly County Agri-Civic Center, 26032 Newt Road, Albemarle, North Carolina, and at any adjournments thereof. The Company's proxy solicitation materials are being mailed on or about April 16, 2019 to shareholders of record as of March 14, 2019.

Voting of Proxies

Persons named in the enclosed appointment of proxy to represent shareholders at the Annual Meeting are Roger L. Dick, Brendan P. Duffey and Christy D. Stoner (the "Proxies"). Shares represented by each appointment of proxy that is properly executed, returned and not revoked, will be voted in accordance with the directions contained therein. If no directions are given, such shares will be voted "**FOR**" the election of each of the ten nominees for director named in Proposal 1 and "**FOR**" Proposal 2. If, at or before the time of the Annual Meeting, any nominee named in Proposal 1 has become unavailable for any reason, the Proxies will be authorized to vote for a substitute nominee. On such other matters as may come before the meeting, the Proxies will be authorized to vote in accordance with their best judgment.

Record Date

The close of business on March 14, 2019 has been fixed as the record date (the "Record Date") for the determination of shareholders entitled to notice of and to vote at the Annual Meeting. Only shareholders of record on the Record Date will be eligible to vote on the proposals described herein.

Voting Securities

The Company's voting securities are the shares of its common stock, par value $1.25 per share, of which 20,000,000 shares are authorized and 7,126,541 shares were outstanding on March 14, 2019. There were approximately 2,681 record shareholders of the Company's common stock on March 14, 2019. This number does not include shareholders for whom shares are held in "nominee" or "street" name.

The Company's Articles of Incorporation also authorize the issuance of up to 10,000,000 shares of preferred stock, no par value, having such rights, privileges and preferences as the Board of Directors shall designate from time to time. As of March 14, 2019, there were no shares of the Company's preferred stock outstanding.

Voting Procedures; Quorum; Votes Required for Approval

At the Annual Meeting, each shareholder will be entitled to one vote for each share of common stock held of record on the Record Date on each matter submitted for voting and, in the election of directors, for each director to be elected. Shareholders will not be entitled to vote cumulatively in the election of directors.

A majority of the shares of the Company's common stock issued and outstanding on the Record Date must be present in person or by proxy to constitute a quorum for the conduct of business at the Annual Meeting.

Assuming a quorum is present, in the case of Proposal 1 below, the ten nominees receiving the greatest number of votes shall be elected. In the case of Proposal 2, for such proposal to be approved, the number of votes cast in favor of the proposal must exceed the number of votes cast against the proposal. Abstentions and broker non-votes will have no effect.

Revocation of Appointment of Proxy

Any shareholder who executes an appointment of proxy has the right to revoke it at any time before it is exercised by filing with the Secretary of the Company either an instrument revoking it or a duly executed appointment of proxy bearing a later date, or by attending the Annual Meeting and voting in person.

Expenses of Solicitation

The Company will pay the cost of preparing, assembling and mailing this Proxy Statement. Appointments of proxy also may be solicited personally, by mail, internet or telephone by the directors, officers and employees of the Company and its subsidiaries without additional compensation. The Company will reimburse banks, brokers and other custodians, nominees and fiduciaries for their costs in sending the proxy materials to beneficial owners.

Authorization to Vote on Adjournment and Other Matters

Unless the Secretary of the Company is instructed otherwise, by signing an appointment of proxy, shareholders will be authorizing the Proxies to vote in their discretion regarding any procedural motions that may come before the Annual Meeting. For example, this authority could be used to adjourn the Annual Meeting if the Company believes it is desirable to do so. Adjournment or other procedural motions could be used to obtain more time before a vote is taken in order to solicit additional appointments of proxy to establish a quorum or to provide additional information to shareholders. However, appointments of proxy voted against any one of the proposals will not be used to adjourn the Annual Meeting. The Company does not have any plans to adjourn the meeting at this time, but intends to do so, if needed, to promote shareholder interests.

Beneficial Ownership of Securities by Directors, Nominees and Executive Officers

As of April 9, 2019, no shareholder known to management beneficially owned more than 5% of the Company's common stock.

The following table lists the individual beneficial ownership of the Company's common stock as of April 9, 2019, by the Company's current directors, nominees for director and named executive officers, and by all current directors, nominees, and executive officers of the Company as a group. Current directors, nominees and executive officers as a group beneficially owned 8.04% of the Company's common stock on such date.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership[(1)(2)]	Percent of Class
Merlin Amirtharaj	1,023	*
R. David Beaver, III	34,707 [(3)]	*
Dean M. Bowers	6,003 [(4)]	*
Joe S. Brooks	32,919 [(5)]	*
James O. Campbell	2,711	*
Raymond R. Cranford, Jr.	5,723 [(6)]	*
Roger L. Dick	289,937 [(7)]	4.09
Brendan P. Duffey	66,244 [(8)]	*
Tara G. Eudy	1,491	*
Deidre B. Foster	1,023	*
Allen K. Furr	5,424 [(9)]	*
Thomas M. Hearne, Jr.	21,110	*
Matthew R. Hudson	1,023	*
Harvey H. Leavitt, III	3,704 [(10)]	*
Samuel M. Leder	1,971 [(11)]	*
W. Chester Lowder	3,902 [(12)]	*
Wesley A. Morgan	3,559	*
Cynthia L. Mynatt	3,326	*
James E. Nance	42,820 [(13)]	*
Chris M. Poplin	8,958 [(14)]	*
Frank A. (Alex) Rankin, III	21,042	*
Randy T. Russell	918	*
Vernon A. Russell	7,550 [(15)]	*
Matthew A. Shaver, MD	1,597 [(16)]	*
S. Todd Swaringen	1,654	*
All current directors, nominees and executive officers as a group (25 persons)	570,339	8.04%

* Less than 1% of outstanding shares.

(1) Except as otherwise noted, to the best knowledge of management of the Company, the individuals named or included in the group above exercise sole voting and investment power with respect to all shares shown as beneficially owned. The calculations of the percentage of class beneficially owned by each individual are based on a total of 7,097,227 shares outstanding on April 9, 2019. As of such date, none of the identified individuals owned any stock options entitling the option holder to acquire shares of Company common stock.

(2) Includes shares over which the named individual shares voting and investment power as follows: Mrs. Amirtharaj – 1,023 shares; Mr. Beaver – 17,449 shares; Mr. Brooks – 16,807 shares; Mr. Duffey – 1,202 shares; Mrs. Foster – 1,023 shares; Mr. Furr – 419 shares; Mr. Hudson – 1,023 shares; Mr. Leder – 266 shares; Mr. Lowder – 2,519 shares; Mr. Nance – 13,972 shares; Mr. Poplin – 8,958 shares; and Dr. Shaver – 1,023 shares.

(3) Includes 13,889 shares held by the Uwharrie Capital Corp Supplemental Executive Retirement Plan for the benefit of R. David Beaver, III, with respect to which Frank Rogers Brafford, II, serves as trustee.

(4) Includes 920 shares held by Mr. Bowers as custodian for his child.

(5) Includes 358 shares held by Mr. Brooks's adult child.

(6) Includes 640 shares held by Mr. Cranford as custodian for his daughter. Mr. Cranford's term as a director will end on May 14, 2019.

(7) Includes 220,286 shares held by the Uwharrie Capital Corp Supplemental Executive Retirement Plan for the benefit of Roger L. Dick, with respect to which Frank Rogers Brafford, II, serves as trustee.

(8) Includes 51,340 shares held by the Uwharrie Capital Corp Supplemental Executive Retirement Plan for the benefit of Brendan P. Duffey, with respect to which Frank Rogers Brafford, II, serves as trustee.

(9) Includes 198 shares held by Mr. Furr's spouse and 8 shares held by his spouse as custodian for a minor daughter.

(10) Includes 183 shares held by Mr. Leavitt's spouse.

(11) Includes 131 shares held by Mr. Leder as custodian for his minor son.

(12) Includes 733 shares held by Mr. Lowder's adult child.

(13) Includes 14,348 shares held by Mr. Nance as custodian for his daughters and 7,174 shares owned by Mr. Nance's spouse.

(14) Includes 4,491 shares held by a trust of which Mr. Poplin is a co-trustee. In this capacity, Mr. Poplin shares voting and investment control over these shares.

(15) Includes 2,092 shares held by Mr. Russell's spouse.

(16) Includes 574 shares held by Dr. Shaver's mother-in-law as custodian for his spouse.

Section 16(a) Beneficial Ownership Reporting Compliance

Directors and executive officers of the Company are required by federal law to file reports with the Securities and Exchange Commission ("SEC") regarding the amount of and changes in their beneficial ownership of the Company's common stock. To the knowledge of the management of the Company based upon information supplied to the Company by the directors and executive officers, all required reports of directors and executive officers of the Company were timely filed during the fiscal year ended December 31, 2018.

PROPOSAL 1: ELECTION OF DIRECTORS

Nominees

The Company's Bylaws currently provide for a Board of Directors composed of not less than twelve nor more than twenty-one members divided into three classes of directors who are elected to staggered terms of three years. The Board of Directors has set the number of directorships at twenty. The Board of Directors has nominated the ten persons named in the following table for election by shareholders at the Annual Meeting as directors of the Company, each to serve for the term of office indicated or otherwise until their respective successors are duly elected and qualified.

Name and Age	Length of Term	Position with Company	Year First Elected	Principal Occupation and Business Experience for the Past Five Years
One-Year Terms:				
Merlin Amirtharaj (60)	1 year	New Nominee	N/A	Retired; previously, Associate Vice President of the School of Business and Technology, Stanly Community College, Albemarle, NC
Matthew A. Shaver, MD (36)	1 year	New Nominee	N/A	General Surgeon, Atrium Health Stanly, and Medical Director of Albemarle Surgical Associates, Albemarle, NC
Two-Year Term:				
Deidre B. Foster (47)	2 years	New Nominee	N/A	Community Volunteer and Non-Profit Board Member, Charlotte, NC
Three-Year Terms:				
Thomas M. Hearne, Jr. (68)	3 years	Director	2004	Retired; previously, Geopavement Engineer, North Carolina Department of Transportation, Harrisburg, NC
Matthew R. Hudson (41)	3 years	New Nominee	N/A	General Manager and Vice President, Hudson Pool Distributors, Inc., New London, NC
Harvey H. Leavitt, III (60)	3 years	Director	2007	Owner/Operator, Leavitt Funeral Home, Wadesboro, NC
Cynthia L. Mynatt (63)	3 years	Director	2003	President, Ben Mynatt Buick – GMC, Concord, NC
James E. Nance (67)	3 years	Director	1984	Founder and Managing Member, North State Acquisitions, LLC (real estate firm specializing in highway and municipal right of way negotiations, acquisitions, and claim settlements)

Name and Age	Length of Term	Position with Company	Year First Elected	Principal Occupation and Business Experience for the Past Five Years
Chris M. Poplin (55)	3 years	New Nominee	N/A	Chief Financial Officer and Chief Operating Officer, Faison Enterprises, Inc., Charlotte, NC (a private equity firm focused on commercial real estate)
Vernon A. Russell (62)	3 years	New Nominee	N/A	Attorney and Owner, Vernon A. Russell, Attorney at Law, PLLC, Concord, NC, March 2019–Present; previously, Principal and Partner, Plummer Russell & Plummer, PLLC (law firm)

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" EACH OF THE NOMINEES NAMED IN PROPOSAL 1 ABOVE.

Incumbent Directors

The Company's current Board of Directors includes ten directors whose terms will continue after the Annual Meeting. The following table contains information about those ten incumbent directors.

Name and Age	Current Term Expires	Year First Elected	Principal Occupation and Business Experience for the Past Five Years
Dean M. Bowers (50)	2021	2018	Regional Sales Manager/Co-Owner, Quality Equipment, LLC, Albemarle, NC (a John Deere equipment dealership)
Joe S. Brooks (69)	2020	1997	Owner and Manager, Brothers Precision Tool Co., Albemarle, NC, (tool and die machine shop)
James O. Campbell (62)	2021	2011	Vice President of Construction Sales, AvidXchange, Inc., Charlotte, NC (a provider of on-demand accounts payable management and automated payment solutions)
Tara G. Eudy (52)	2021	2005	President and Treasurer, Carolina Title Company, Inc., Wadesboro, NC
Allen K. Furr (40)	2021	2018	Secretary/Treasurer, PEJA, Inc. DBA East Albemarle Xpress Lube, Albemarle, NC (an automotive service business)
Samuel M. Leder (51)	2021	2011	Certified Public Accountant/Partner, Potter & Company, P.A., Concord, NC

Name and Age	Current Term Expires	Year First Elected	Principal Occupation and Business Experience for the Past Five Years
W. Chester Lowder (70)	2020	1995	Director of Livestock Program, Public Policy Division, NC Farm Bureau Federation, Incorporated, Raleigh, NC
Wesley A. Morgan (50)	2020	2018	General Manager, Rolling Hills Gin, LLC, New London, NC (a cotton ginning operation)
Frank A. (Alex) Rankin, III (63)	2020	2003	Chair, Board of Directors, Concord Engineering & Surveying, Inc., Concord, NC
Randy T. Russell (38)	2020	2018	President, Sports Med Properties, LLC, Charlotte, NC (a full-service commercial real estate company)

In the table above, the year first elected indicates the year in which each individual was first elected a director of Uwharrie Bank or its predecessors, or the Company, as applicable, and does not reflect any break(s) in tenure.

Qualifications of Directors

A description of the specific experience, qualifications, attributes, or skills that led to the conclusion that each of the nominees and incumbent directors should serve as a director of the Company is presented below. Each of the Company's directors also serves as a director of the Company's subsidiary, Uwharrie Bank.

Merlin Amirtharaj

Mrs. Amirtharaj started her career at Stanly Community College, Albemarle, NC, in 1988 as an adjunct instructor. She later advanced to Program Head, Department Head, Associate Dean, Dean, and retired as an Associate Vice President of the School of Business and Technology in July of 2018. Prior to joining Stanly Community College, she was a software programmer/analyst at Knowledgeable Solutions, Inc. in Monroe, NC.

She graduated with a Bachelor of Science Degree from the University of Kerala, India. Upon moving to the United States, she obtained an Associate in Arts Degree in Business Computer Programming. During this time, she was active in Phi Beta Lambda, business organization and served as an officer. In 1992, she graduated from Pfeiffer College (University) with a Master's Degree in Business Administration with a concentration in Finance. In 2002, she obtained a Master's Degree in Management Information Systems from Bellevue University. During her tenure at Stanly Community College, she also held several Novell and Microsoft certifications.

Mrs. Amirtharaj also served as Faculty Senate Chair, Chair of several Southern Association of Colleges and Schools Commission on Colleges (SACSCOC) sub-committees. She was a member of the North Carolina Computer Instruction Association and served on the leadership team for several years and was responsible for hosting the North Carolina Computer Instruction Conference at Stanly Community College with 280 attendees. She served as a co-advisor of Phi Beta Lambda for over 20 years, was involved with the Health and Wellness Program at Stanly Community College, and was involved in start-ups of several programs at the college to keep up with the demands of the community. She is currently an advisory board member for the Accounting and Business Department at the college.

In years past, she has served on the former Stanly Memorial Hospital Board, the Stanly County Arts Council and the Albemarle Downtown Development Corporation Board. She is currently a member of the Stanly County Community Foundation Committee and a member of its Grants Sub-Committee. Mrs. Amirtharaj is an active member of Main Street United Methodist Church of Albemarle.

Mrs. Amirtharaj has extensive experience in education, leadership, business and technology.

Dean M. Bowers

Mr. Bowers has over thirty years of experience in the agricultural equipment industry. He is the Regional Sales Manager/Co-owner of Quality Equipment, LLC. Quality Equipment, LLC is a farm equipment retail business selling John Deere farm equipment, irrigation equipment and precision agricultural equipment with twenty-seven locations throughout North Carolina and Virginia.

He graduated from Appalachian State University, Boone, NC, with a dual degree in Marketing and Management. An avid ASU supporter, Mr. Bowers has served on the Appalachian Corporate Council and the ASU Alumni Council.

He was an integral member of the advisory board to create an accredited Agricultural Systems Technology program at Wake Tech. He has served on the Board of Adjustments for the City of Albemarle and was a member of the Church Council for First Lutheran Church of Albemarle.

Mr. Bowers has extensive experience in the agriculture industry and business management.

Joe S. Brooks

Mr. Brooks is the owner and manager of Brothers Precision Tool Co., a tool and die machine shop, in Albemarle, NC. He started the business in 1974 with other family members. The company currently employs five and specializes in high precision machine parts for a variety of industries. For over 13 years, he was also an instructor of Machine Technology at Stanly Community College, Albemarle, NC. Additionally, through Stanly Community College, he has performed machine technology in-facility training at various companies.

Mr. Brooks served on the Stanly Regional Medical Center Foundation Board and served as Chairman from 2008 to 2010. He actively served his church on its council and executive committee and served as church treasurer from 1998 to 2017. In 2014, he was appointed by the North Carolina State Governor to the Stanly Community College Board of Trustees, serving from 2016 to 2018 as Finance and Facilities Committee Chairman.

For over 20 years, Mr. Brooks was involved with Cub Scouts and Boy Scouts of Troop 82, serving as Assistant Scoutmaster for over 15 years. He served as the scout committee chairman from 1990 to 2017. He now serves as charter organization representative.

He has extensive experience in overall small business management, machine technology and processes. He currently serves on the advisory committee for the machine technology programs at Stanly Community College and Rowan-Cabarrus Community College.

Mr. Brooks has served as past Chairman and Vice Chairman of the Board of Directors of the Company and past Chairman of the Audit Committee, Human Resources Committee, and Properties Committee. He is a member of the Audit Committee.

James O. Campbell

Mr. Campbell is a native of Concord, NC, graduating from Concord High School and the University of North Carolina at Chapel Hill where he received a Bachelor of Science in Business Administration. He began his professional career in 1979 with Timberline Software Corporation, a developer of application software for the construction and real estate industries, and was appointed Vice President of Sales in 1996. The company was purchased in 2003 by Sage Software, and Mr. Campbell continued in his senior management role there until 2005, when he became President of CIS Consulting Group, Inc. in Charlotte, NC. In 2010, CIS was acquired by Viewpoint Construction Software, where he was employed as Channel Sales Manager. In 2016, Mr. Campbell joined AvidXchange, Inc., a provider of on-demand accounts payable management and automated payment solutions, as Vice President of Construction Sales in Charlotte, NC.

Mr. Campbell is a Lifetime Honorary Board Member of the Boys and Girls Club of Cabarrus County, having served in several leadership capacities there and at his church, Central United Methodist in Concord, NC.

Mr. Campbell has extensive experience in the technology industry and in business management. Mr. Campbell serves on the Company's Audit Committee.

Tara G. Eudy

Mrs. Eudy is co-owner and President of Carolina Title Company, Inc., Wadesboro, NC, which is an issuing agency providing title insurance policies for both residential and commercial transactions. Carolina Title has been a locally owned and operated independent agency since its inception in 1995 and is an issuing agent for three national underwriters: Chicago Title Insurance Company, First American, and Commonwealth Land Title in North Carolina and Chicago Title in South Carolina.

Mrs. Eudy is a Certified Paralegal, a North Carolina Title Insurance Underwriter, and a member of the North Carolina Bar Association Real Property Section. Mrs. Eudy has served on the North Carolina Land Title Association Board and is past chairwoman, past treasurer, past secretary and past vice chairwoman. Mrs. Eudy has served on the North Carolina Bar Association Real Property Section Council. She is also active in the Friends of Scouting Campaign Committee for Anson County, having served as its Chairwoman for two years. She previously served on the Anson County Chamber of Commerce Board, where she served as past Chairwoman, and the Anson County Hospital Foundation Board. She has also coached girls' softball with Anson Parks & Recreation for numerous years.

She previously served as Vice Chairwoman and Chairwoman of the Board of Directors of Uwharrie Bank's predecessor for two years each. She serves as Vice Chair of the Uwharrie Capital Corp and Uwharrie Bank Boards of Directors. Mrs. Eudy serves on the Company's Audit Committee.

Mrs. Eudy has extensive experience in business management.

Deidre Bradshaw Foster

Mrs. Foster is an experienced board member with a demonstrated history of working as a human resources executive in the banking industry with financial services and global markets expertise.

Mrs. Foster has served on the Board of Directors for KinderMourn, a Charlotte, NC based non-profit which provides hope for bereaved parents, grieving children and teens by offering support and counseling since 2009. Mrs. Foster currently serves as the Vice Chairman of the Board of Directors and will serve as Chairman of the Board in 2020. During her time with KinderMourn, Mrs. Foster has served in positions including Chairman of the Board, Finance Chair, Secretary and Nomination Chair.

Mrs. Foster also plays a very active leadership role in Forest Hill Church in Charlotte, NC. She is an ordained Elder and currently serves as the Vice Chairman of the Council of Elders and chairs the Senior Pastor Development Committee. Mrs. Foster has been named as the Chairman of the Council of Elders for 2021 and 2022. In addition, she has served as Chair of the Finance and Risk Management Committee and held the position of an ordained Deacon.

Previously, Mrs. Foster held board positions with Moments of Hope, Seeds of Hope and Loaves and Fishes, all Charlotte, NC based non-profits.

Prior to her focus on church and community work, Mrs. Foster served as a Human Resources executive with Wells Fargo. She most recently held the positions of Head of Human Resources for the Commercial Bank and Head of Human Resources for the Global Fixed Income and Global Capital Markets businesses.

Mrs. Foster earned a Bachelor of Science degree in Business Administration from the University of North Carolina at Chapel Hill where she was recognized as one of three outstanding seniors in a graduating class of approximately 5,000.

Allen K. Furr

Mr. Furr is Secretary and Treasurer of PEJA, Inc., DBA East Albemarle Xpress Lube, a family-owned automotive service business in Albemarle, NC, since 2013. Mr. Furr is a former Senior Vice President of Uwharrie Bank from 2002 until 2013, having worked in various areas of the bank with the majority of his experience being in commercial lending. Mr. Furr holds a NC Life, Accident and Health insurance license.

Mr. Furr is a graduate of North Carolina State University with a Bachelor of Science degree in Textile Management. He is also a graduate of the North Carolina Bankers Association School of Banking and the Stanly County Chamber of Commerce's Leadership Stanly program.

He is a board member of the New London Volunteer Fire Department Board of Directors and board member of Stanly County Habitat for Humanity. He is a past board member of United Way of Stanly County.

Mr. Furr has extensive experience in banking and small business management. Mr. Furr serves on the Company's Audit Committee.

Thomas M. Hearne, Jr.

Mr. Hearne is a retired geopavement engineer from the North Carolina Department of Transportation with 30 years of service.

Mr. Hearne earned a Bachelor of Science degree in Civil Engineering from The Citadel, Charleston, SC, and a Master of Engineering degree from the University of Florida, Gainesville, FL. He is a registered Professional Engineer in the State of North Carolina and the inventor of a device used in North Carolina to test ride quality and smoothness of asphalt pavements during construction. He has extensive experience in structural testing and evaluation of highway pavements and has served as a member and chairman of numerous professional panels and committees at the local, state, and national levels.

Mr. Hearne has served as a Sunday school teacher at Trinity Place and as a member of the Albemarle Planning Board, First Lutheran Church Council, and the Stanly Community College Board of Trustees. He currently manages three investment funds at two local churches and is a member of the Citadel Alumni Association and the American Society of Civil Engineers.

Mr. Hearne has extensive experience in small business management and civic involvement in Stanly County. Mr. Hearne serves on the Company's Audit Committee.

Matthew R. Hudson

Mr. Hudson is General Manager and Vice President of Hudson Pool Distributors, Inc., New London, NC, a family-owned wholesale swimming pool supply distributor. He has been employed with the family business since 1996 and has served as General Manager since 2010 and Vice President since 2017. Hudson Pool Distributors has been in operation since 1973 and is the largest single warehouse distributor of pools and spas in the Southeast, serving pool construction companies and pool retail stores. Mr. Hudson is a native of and resides in Stanly County.

He serves as the Director of the Uwharrie Youth Football League and the West Stanly Youth Football League and is a member of the Endy Optimist Club and Deacon Board of First Baptist Church in Oakboro.

Mr. Hudson has extensive experience in small business management and civic involvement in Stanly County.

Harvey H. Leavitt, III

Mr. Leavitt is the owner and operator of Leavitt Funeral Home in Wadesboro, NC. A third-generation funeral director, he joined the business in 1982 as a licensed professional and purchased the business from his father in 1988. In 1997, he added a cemetery, Anson Memorial Park, to the business operations. In 2003, Mr. Leavitt partnered with several local businessmen to open a new adult care facility, Meadowview Terrace Assisted Living.

He has a business degree from the University of North Carolina at Chapel Hill and a degree in funeral service from Gupton-Jones College in Atlanta, GA. Professionally, he has served as President of both the NC Board of Funeral Service and the NC Funeral Directors' Association. He currently serves on the American Board of Funeral Service Education as a member of their accreditation team as they accredit funeral service education programs across the United States.

Mr. Leavitt has served on a number of local community boards and organizations including the Anson County Chamber of Commerce, Uptown Wadesboro Inc., the South Piedmont Community College Board of Trustees, the South Piedmont Community College Foundation Board, the Lillie Bennett Charitable Trust, the Anson Community Hospital Foundation, and the Central NC Council for the Boy Scouts of America. He is a longtime member of First United Methodist Church, Wadesboro, NC.

Mr. Leavitt has extensive experience in small business management and regulation.

Samuel M. Leder

Mr. Leder is the managing partner with Potter & Company, PA, Certified Public Accountants, Concord, NC, where he has worked since 1995. The firm has offices in Monroe, Concord, Mooresville and Charlotte. Prior to joining Potter & Company, Mr. Leder was an accountant with Butler & Stowe, Certified Public Accountants and Assistant Controller with Colter Bay International. In his accounting practice, Mr. Leder's industry experience includes audit, financial reporting, tax, compliance and related accounting services to the not-for-profit, construction, service organizations, manufacturing and distribution and governmental markets.

Mr. Leder is a member of the North Carolina Association of Certified Public Accountants, the American Institute of Certified Public Accountants, and the Cabarrus Regional Chamber of Commerce, on which he served on the Board of Directors from 2005 to 2012 and as Board Chair in 2010. He was previously President of the Concord Rotary Club and served as Treasurer for the Carolina International School Board of Directors from 2008 to 2015. Mr. Leder currently serves as Treasurer for the Ella Foard Foundation for Rett Syndrome and as an Advisory Board Member for Carolinas HealthCare System NorthEast in Concord. Mr. Leder is a current member of the Concord City Council. He earned a Bachelor of Science in Business Administration and Masters of Accounting from the University of North Carolina at Chapel Hill.

He has extensive experience in public accounting and business management and civic involvement in Cabarrus County. Mr. Leder serves on the Company's Audit Committee.

W. Chester Lowder

Mr. Lowder is the Livestock Director – Public Policy Division for the North Carolina Farm Bureau Federation, Inc., Raleigh, NC. He represents NC Farm Bureau on livestock issues at the state and national level. In addition, he assists in covering many environmental issues and is the primary liaison on soil and water conservation matters. He joined the North Carolina Farm Bureau Federation staff in 1995. Prior to joining NCFB, Mr. Lowder ran a successful dairy operation in Stanly County for more than 25 years.

Mr. Lowder is a graduate of North Carolina State University where he earned a Bachelor of Science degree in Animal Science-Business.

Mr. Lowder has held numerous volunteer leadership positions within North Carolina Farm Bureau including state board, executive committee and vice president. Mr. Lowder has also served in other leadership roles with the Stanly County Farm Bureau, Stanly County Board of Commissioners, Stanly Community College (Albemarle, NC), and various civic and industry groups.

Mr. Lowder currently serves on various committees for the North Carolina Department of Agriculture and Consumer Services, the North Carolina State University College of Agriculture and Life Sciences, and the NC Department of Environmental Quality, serving on the Water Pollution Control Systems Operators Certification Commission. Mr. Lowder is currently a member of committees working with the United States Department of Agriculture, Natural Resource Conservation Service, NC Dairy and Growth Industry Promotion Committee, the Southeast United Dairy Industry Association, and NC Dairy Stabilization, Inc. Board and Steering Committee. He currently serves as a supervisor on the Stanly Soil and Water Conservation District. He has served on the Executive Committee for the NC Association of Soil and Water Districts and is on the Board of Directors for both the NC Dairy Producers Association as well as the State Animal Response Team where he serves as Chairman and Executive Director. Mr. Lowder is an active member of First United Methodist Church in Norwood, NC, where he serves on several church committees and councils.

He has extensive experience in the agriculture industry locally and at the state and national levels. Additionally, he is actively engaged in local and civic activities to benefit and grow the local community.

Mr. Lowder is a past Chairman of the Board of Directors for Uwharrie Capital Corp and Uwharrie Bank.

Wesley (Wes) A. Morgan

Mr. Morgan is the general manager and part owner of Rolling Hills Gin, LLC, New London, NC. This business is a family-owned cotton ginning facility that serves the needs of cotton farmers in Stanly County as well as over seven surrounding counties. Mr. Morgan has served as general manager since 1996 when the gin was built as a state-of-the-art facility that has been a valuable asset to the farming community.

Mr. Morgan started his career at Piedmont Diesel Service in Albemarle where he worked from 1987 -1996 as office manager and diesel pump technician before leaving to help his family build the cotton gin.

Mr. Morgan graduated top of his class at King's College, Charlotte, NC, in the Accounting Program in 1987. He has served on the Stanly County Chamber of Commerce Board of Directors. He currently serves on the Stanly County Economic Development Commission as well as School Board President of Christ the King Christian Academy. He is also the current Chairman of Southeastern Cotton Ginners and President of the National Cotton Ginners Association.

Mr. Morgan is an active member of New Mt. Tabor United Methodist Church in Richfield, NC, where he attends with his wife, son, and daughter. He serves as Finance Committee Chairperson and is a member of the mission team.

Mr. Morgan has extensive experience in the agriculture industry and business management.

Cynthia L. Mynatt

Cyndie Mynatt has served as the President of Ben Mynatt Buick-GMC in Concord, NC, since its inception in 1991; Ben Mynatt Nissan in Salisbury, NC since its beginning in 2002; and Ben Mynatt Pre-Owned in Kannapolis since its founding in 2003. In 2008, Ms. Mynatt became the owner, president and manager of Ben Mynatt Chevrolet-Cadillac in Concord, NC, which was founded by her father in 1976. The three automobile franchises and one independent dealership currently employ over 160 employees.

Ms. Mynatt earned a Bachelor of Arts degree from Duke University. She is also a graduate of the NADA Dealer Candidate Academy, General Motors Dealership Management Academy, the American Leadership Forum (Charlotte Region, Senior Fellow) and the N.C. Commissioner of Banks Bank Directors' College.

Ms. Mynatt is involved in many civic activities. Currently, she serves on the Rowan-Cabarrus Community College Board of Trustees, serving as the Vice Chair, and on its Foundation Board. She also serves on the Ben Mynatt Children's Foundation Board of Directors and has been a member of the Cabarrus Rotary Club since 1992, formerly serving as President and honored as a Distinguished Rotarian and Paul Harris Fellow. Professionally, she serves on the Board of Directors of the North Carolina Automobile Dealers Association, the NCADA Charitable Foundation, the Greater Charlotte Automobile Dealers Association Board of Directors, and the Charlotte Buick-GMC Local Marketing Association's Board of Directors, serving as President. She has received numerous business awards for her professional achievements.

In years past, she has been active and held leadership positions with the Cabarrus County Economic Development Corporation, the Cabarrus Regional Chamber of Commerce, the Cannon Memorial YMCA of Kannapolis, the University of North Carolina at Charlotte Board of Visitors and Foundation, the United Negro College Fund of Barber-Scotia College of Concord, the United Way of Central Carolinas, Providence Day School Board of Trustees, the Cabarrus County Community Foundation, the Cabarrus College of Health Sciences Board of Trustees and various business activities with General Motors.

Ms. Mynatt served as past Vice Chairwoman and Chairwoman of the Board of Directors of Uwharrie Bank's predecessor.

Ms. Mynatt has extensive experience in the areas of business management, board involvement and governance, and civic involvement.

James E. Nance

Mr. Nance served as Dealer Operator and President for Confederate Motors, Inc., which was a family-operated Chevrolet-franchised dealership, from 1973 until the sale of the business in 2007. In 2008, he started North State Acquisitions, LLC, which is a real estate firm specializing in right-of-way negotiations and claim settlements.

Mr. Nance is a graduate of the University of North Carolina at Chapel Hill with a Bachelor of Science in Business Administration. He also is a licensed Real Estate Broker and Broker in Charge in the State of North Carolina.

He currently serves as a member of the Board of Directors of the North Carolina Railroad Company where he is Chairman of the Strategic Planning and Economic Development Committee, member of the Board of Directors of the State University Railroad, Advisory Committee for the Central N.C. Council of the Boy Scouts of America, member of the Eagle Scout Board of Review for the Stanly District, and a member of Central United Methodist Church, Albemarle, North Carolina.

He previously served as Vice Chairman and member of the North Carolina Board of Transportation, Finance Chairman and member of the Board of Trustees of Stanly Community College, Vice Chairman and member of the North Carolina Housing Finance Agency, member of the Board of Visitors of the University of North Carolina at Chapel Hill, Vice Chairman of the Stanly County Economic Development Commission, member of the Stanly County Airport Authority, Administrative Board of Central United Methodist Church, Board of Trustees of Pfeiffer University, Board of Directors of Stanly County ARC Services, Inc., Co-Chairman of the North Carolina Automobile Dealers Association Legislative Committee, and Board of Directors of the North Carolina Citizens for Business and Industry.

Mr. Nance is an Eagle Scout and also a recipient of the Silver Beaver Award from the Central North Carolina Council of Boy Scouts of America.

He has extensive experience in business management, state and federal governmental relations, transportation, and education.

He is an original incorporator of Bank of Stanly (now known as Uwharrie Bank) and has served on the Board of Directors of Uwharrie Bank's predecessor and Uwharrie Capital Corp where he served as Chairman of both organizations. He also served as Vice Chairman of the Board of The Strategic Alliance Corporation, Inc., a securities broker-dealer and wholly owned subsidiary of Uwharrie Bank.

Chris M. Poplin

Mr. Poplin has been employed since 1990 with Charlotte-based Faison Enterprises, Inc., a middle market, private equity firm focused primarily on commercial real estate across multiple asset classes in the Southeast United States. He has served as its Chief Financial Officer since 2013 and Chief Operating Officer since 2016. He also serves as the Treasurer and is a member of the Investment Committee. He previously worked two years for Pete A. Harward & Associates, Albemarle, NC, as an accountant and two years with Ernst & Whinney, Charlotte, NC, as an audit and tax accountant.

Mr. Poplin earned a Bachelor of Science degree in Accounting from the University of North Carolina at Charlotte.

He is a native of and resides in Stanly County. Mr. Poplin is active with St. Martin's Lutheran Church, Albemarle, NC. He currently serves on the Governing Board of Directors at the Foundation For The Carolinas and is a member of the Finance Committee. He also currently serves as the Chair of the Stanly County Community Foundation.

Mr. Poplin has extensive experience in real estate and business finance.

Frank A. (Alex) Rankin, III

Mr. Rankin has almost 40 years of experience working both in civil engineering and in land surveying within the land development services industry. Mr. Rankin was the first full-time employee of Concord Engineering & Surveying, Inc. (CESI), starting part-time with the newly chartered firm in 1978. As the firm grew, Mr. Rankin was quickly exposed to aspects of many types of surveying, and was able to hone his civil engineering skills based on in-the-field experiences working with contractors to build sites designed by both CESI and others.

In 1983, Mr. Rankin became an equity owner of the firm and was given the role of Vice-President, while at the same time continuing to actively supervise surveying and civil engineering projects. Mr. Rankin became President in 1998 and began to concentrate on management and administrative duties. In 2018, Mr. Rankin stepped down as President of the firm, sold his equity interest in CESI back to the company, and currently serves as Chair of the CESI Board of Directors.

Mr. Rankin is a life-long resident of Cabarrus County and has been active in many community issues during his professional career. Mr. Rankin is a past Chairman of the Cabarrus Regional Chamber of Commerce, a past Chairman of the Coltrane Life Center, a founder and past Chairman of Uwharrie Bank's predecessor, an initial board member of Uwharrie Bank, and a past Chairman of the Concord Rotary Club. He has served on the Cabarrus Board of Health, on the Board of Directors for the North Carolina Society of Surveyors, has twice been President of the Concord Downtown Development Corporation Board, served from 2001 until 2015 on the North Carolina Workforce Development Commission, was elected in 2015 as Chairman of the Governing Board of the Carolina Thread Trail, is a Senior Fellow of the American Leadership Forum, was reappointed in 2017 to the North Carolina Land Records Advisory Committee of the NC Secretary of State, and was appointed in January of 2018 as Chairman of the NC Geographic Information Coordinating Council, along with service to many other organizations.

Mr. Rankin earned a Bachelor of Science in Biological and Agricultural Engineering from North Carolina State University, Raleigh, NC. He holds Professional Engineer and Professional Land Surveyor registrations in numerous states.

Mr. Rankin has extensive experience in small business management and civic involvement in Cabarrus County.

Mr. Rankin currently serves as Chair of the Board of Directors for Uwharrie Capital Corp and Uwharrie Bank. He is a member of the Company's Audit Committee.

Randy T. Russell

Mr. Russell is the founder and President of Sports Med Properties, a full-service commercial real estate company located in Charlotte, NC. He started his career at Colony Development Partners in 2004 as a project manager where he later became a partner in the healthcare/office division. Mr. Russell has successfully managed the development and acquisition of real estate assets totaling over three million square feet. In 2014, Mr. Russell started SMP Management, an asset and property management company serving clients nationally.

Mr. Russell has served on the Advisory Board for the Assistance League of Charlotte since 2010 and is a member of the Bridge Foundation. Both organizations share his passion of serving the children of the local community.

Mr. Russell earned a Bachelor of Science degree in Business Marketing and Finance from the University of North Carolina at Wilmington, and a Masters of Business Administration from Campbell University. He is also a licensed Real Estate Broker and Broker in Charge in North Carolina and South Carolina.

Mr. Russell has extensive experience in commercial real estate, project management and business management.

Vernon A. Russell

Vernon A. Russell has been a practicing attorney for more than 35 years and is the current owner of Vernon A. Russell, Attorney at Law, PLLC in Concord, Cabarrus County, North Carolina. Prior to his current legal practice, Mr. Russell was a principal and partner in the law firm of Plummer Russell & Plummer, PLLC, a general practice firm located in Concord, Cabarrus County, North Carolina for 30 years.

Mr. Russell earned a Bachelor of Arts in Public Administration from North Carolina Central University (cum laude 1978) and a Juris Doctor from the University of North Carolina School of Law, 1981.

Mr. Russell has been a leader in the legal community for many years, serving on the Board of Community Corrections, The Indigent Defense Services Committee, The North Carolina Academy of Trial Lawyers (county captain), the Disciplinary Hearing Committee of the North Carolina State Bar and a lecturer and presenter on a variety of legal subjects.

In addition to serving the legal community, Mr. Russell has been involved in many civic activities. He currently serves on the Board of the Cabarrus County Community Foundation (Vice Chair). He previously served on the Cabarrus County Board of Health, Cabarrus County Schools Blue Ribbon Committee, The Barber Scotia College Board of Trustees (two terms as chairperson, chair of the Finance Committee and general counsel), The Northeast Hospital Foundation Board and a past chair of the Cabarrus Bank and Trust Board of Directors (a predecessor of Uwharrie Bank).

Mr. Russell has extensive experience in civil and criminal litigation.

Matthew A. Shaver, MD

Dr. Shaver is a General Surgeon with Atrium Health, formerly Carolinas Healthcare System, and Medical Director of Albemarle Surgical Associates. He joined the staff in July of 2014 with what was at that time Stanly Regional Hospital, Albemarle, NC. Dr. Shaver is a native of and resides in Stanly County.

He earned a Bachelor of Science degree in Biochemistry from East Carolina University summa cum laude in 2005 after finishing as Valedictorian at Albemarle High School. He then continued his training at Wake Forest University School of Medicine where he earned his Doctor of Medicine in 2009. He completed his training at Greenville Health System in Greenville, South Carolina, as part of the University of South Carolina system in 2014. During his residency, he received the Jackson Award for top overall intern, irrespective of specialty, and served as the Administrative Chief Resident in his final year. He has performed various medical research activities and is published. He has much volunteer experience with the American Red Cross, Habitat for Humanity and various health-related organizations and groups.

He currently serves on the Medical Executive Committee as staff treasurer, medical director for Albemarle Surgical Associates, and as chair of the Medical Credentialing Committee for the hospital. He also serves on the system-wide Credentials Committee and Surgical Oncology Quality Committee. He is a general member of the American Medical Association.

He has participated as a voluntary team physician for North Stanly High School Athletics. He recently won Stanly County Dancing with the Stars in partnership with the Butterfly House, a children's advocacy center serving abused children in Stanly and surrounding counties. He has led healthcare discussions at Stanly Community College and has given multiple medical-related presentations to businesses in the community.

Dr. Shaver has extensive experience in medicine, management, and community engagement in Stanly County.

Director Independence

Each member of the Company's Board of Directors and each nominee for election to the Board is "independent" as defined by NASDAQ listing standards and by the rules and regulations promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"), with the exception of Ms. Eudy and Messrs. Rankin and Swaringen, each of whom is independent under NASDAQ listing standards but is not independent under SEC Rule 10A-3(b). Although the Company's securities are not listed on NASDAQ, the Board uses NASDAQ's definition of independence in determining whether or not a director or nominee for director is independent. In making this determination the Board considered any material insider transactions between directors or nominees for director and the Company or its subsidiaries. All such transactions were conducted at arm's length upon terms no less favorable than those that would be available from an independent third party for comparable transactions.

Director Relationships

No director is, nor has been in the last five years, a director of any other company with a class of securities registered pursuant to Section 12 of the Exchange Act or subject to the requirements of Section 15(d) of the Exchange Act or any company registered as an investment company under the Investment Company Act of 1940.

Meetings and Committees of the Board of Directors

The Board of Directors of the Company held thirteen regular meetings during 2018. Each director attended 75% or more of the aggregate number of meetings of the Board of Directors and of any committees on which he or she served, except Ms. Mynatt, who attended fewer than 75% of such meetings due to prior business commitments.

It is the policy of the Company that directors attend each annual meeting and any special meetings of the Company's shareholders. Thirteen of the Company's sixteen directors then in office attended the 2018 annual meeting of shareholders.

The Company's Board of Directors has several standing committees, including a Human Resources and Compensation Committee, a Nominating Committee and an Audit Committee. During 2018, the full Board of Directors served as the Human Resources and Compensation Committee.

Human Resources and Compensation Committee. The full Board of Directors currently serves as the Human Resources and Compensation Committee. All members of the Human Resources and Compensation Committee are independent directors as defined by NASDAQ listing standards. The Human Resources and Compensation Committee reviews the compensation process for the Company and its subsidiaries to ensure it is consistent with corporate and board policy. The Human Resources and Compensation Committee serves as the catalyst for the development of compensation-related recommendations for all officers of the Company and its subsidiaries and meets with representatives of the Company and each subsidiary to develop recommendations and input into the overall budget process for the Company. During 2018, the entire Board of Directors served as the Human Resources and Compensation Committee and therefore the committee did not meet independently.

When the entire Board is not serving as the Human Resources and Compensation Committee, the committee meets on an as-needed basis to review the salaries and compensation programs required to attract and retain the Company's executive officers and those of its subsidiaries. The Committee participates in the budget process by recommending salary levels for executive and senior officers to be approved by the respective Boards of Directors of the Company and its subsidiaries. The Committee makes recommendations to each of the Boards of Directors regarding the compensation of executive and senior officers with the respective Boards of Directors ultimately determining such compensation. The salary of each of the Company's executive and senior officers is determined based upon the officer's experience, managerial effectiveness, contribution to the Company's overall profitability, maintenance of regulatory compliance standards and professional leadership. The Committee also compares the compensation of the Company's executive and senior officers with compensation paid to executives of similarly situated bank holding companies, other businesses in the Company's market area and appropriate state and national salary data. The Human Resources and Compensation Committee has adopted a formal charter, which is included as Exhibit A to this proxy statement.

Nominating Committee. The current members of the Nominating Committee are Tara G. Eudy – Chair, Dean M. Bowers, Samuel M. Leder, Frank A. Rankin, III, and Randy T. Russell. All members of the Nominating Committee are independent directors as defined by NASDAQ listing standards. The full Board, upon recommendation of the Nominating Committee, recommended the ten nominees for election to the Board of Directors at the Annual Meeting. During 2018, the Nominating Committee met one time.

The Company does not have a formal diversity policy in effect relative to the director nomination process; however, the Nominating Committee considers diversity of race, gender, national origin, professional experience, skill, education, differences of viewpoint, leadership and involvement in the community, and other individual qualities and attributes that contribute to board heterogeneity. Since the Company's inception, its rotating Board of Directors has been comprised of persons with varied expertise who represent the different constituents and needs for financial services of the communities we serve. The Nominating Committee actively seeks individuals who the Committee determines meet such criteria and standards for recommendation to the Board as nominees.

Nominations for election to the Board of Directors by shareholders for the 2020 annual meeting should be submitted in writing to the Chief Executive Officer, President or Secretary of the Company by December 1, 2019, and should be accompanied by a statement of each candidate's qualifications and willingness to serve as a director. In order to stand for election to the Board of Directors, nominees must be in compliance with the Company's Policy Statement and Guidelines for Uwharrie Capital Corp Stock Ownership by Directors. A copy of the Policy Statement may be obtained free of charge upon written request made to the Secretary of the Company. The Nominating Committee has adopted a formal charter, which is included as Exhibit B to this proxy statement.

Audit Committee. The audit committee is a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The current members of the Audit Committee are S. Todd Swaringen – Chairman, Joe S. Brooks, James O. Campbell, Tara G. Eudy, Allen K. Furr, Thomas M. Hearne, Jr., Samuel M. Leder and Frank A. Rankin, III. The members of the Audit Committee are "financially literate" under applicable standards and, with the exception of Ms. Eudy and Messrs. Swaringen and Rankin, each member of the Audit Committee is "independent" under applicable standards. The Board of Directors has determined that S. Todd Swaringen meets the requirements of the SEC for qualification as an "audit committee financial expert." An audit committee financial expert is defined as a person who has the following attributes: (i) an understanding of generally accepted accounting principles ("GAAP") and financial statements; (ii) the ability to assess the general application of GAAP in connection with the accounting for estimates, accruals and reserves; (iii) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the reporting company's financial statements, or experience actively supervising people engaged in such activities; (iv) an understanding of internal control over financial reporting; and (v) an understanding of audit committee functions.

The Audit Committee met five times during 2018. The Report of the Audit Committee is included on page 31 of this proxy statement. The Audit Committee has adopted a formal charter, which is included as Exhibit C to this proxy statement.

Board Leadership Structure and Role in Risk Oversight

The Company's Board of Directors comprises three classes of directors serving staggered three-year terms and includes several standing committees, the responsibilities and membership of which are described above. The Chairman of the Board is a rotating office and overall terms of directors are subject to term limits. The Company's Chief Executive Officer is not a member of the Board of Directors. The Company has determined that this leadership framework is appropriate given the Company's organizational structure, core values and the business activities of its subsidiaries.

Under North Carolina law, the Board of Directors is responsible for managing the business and affairs of the Company, including the oversight of risks that could affect the Company. Although the full board has responsibility for the general oversight of risks, it primarily conducts its risk oversight function through committees, including the Audit Committee and the Human Resources and Compensation Committee, as described above, as well as through other committees, including the Credit Committee, the Senior Risk Management Committee, and the Enterprise Risk Management ("ERM") Committee.

Enterprise Risk Management Committee. During 2010, the Company established the Enterprise Risk Management ("ERM") Committee of the Board of Directors and the Senior Risk Management Committee (composed of internal management personnel). The ERM Committee is a formal risk management structure designed to anticipate and deal with uncertainties that have the capacity to positively, or negatively, influence the creation of value for the Company on an enterprise level. In establishing this committee, the Board of Directors wished to augment, rather than replace, the Company's existing risk management practices. In 2014, the full Board assumed the responsibilities of the ERM Committee. In addition to the Board, the Company's Chief Executive Officer, Chief Risk Officer, Chief Operating Officer and Chief Financial Officer are members of the ERM Committee. The Company has also established the Senior Risk Management Committee. This committee is a management-level committee intended to augment the Company's existing risk management practices and support the Board of Directors' ERM Committee in its role. The Senior Risk Management Committee's role is to develop tools and methodologies across all business units and subsidiaries to identify, assess, and evaluate risk stemming from strategy, operations, credit, market and interest rates, and reputation.

Information Technology Steering Committee. Given the important role of information technology in the Company's operations and customer service, the Company has established an Information Technology Steering Committee to protect the Company's information assets wherever they reside. As such, the committee reviews, monitors, aligns and prioritizes all significant strategic information technology initiatives and security risks. The committee includes members from the Company's technology department, key executives from each of the Company's business units and support groups, and the Company's Chief Risk Officer. Minutes of this committee are reported to the Uwharrie Capital Corp Audit Committee and subsequently reported by the Audit Committee to the Uwharrie Capital Corp Board of Directors. Information security is the process by which an organization protects and secures its systems, media, and facilities that process and maintain information vital to its operations. Protection of information assets is necessary to establish and maintain trust between a financial institution and its customers, maintain compliance with the law, and protect the reputation of the institution. Timely and reliable information is necessary to process transactions and support financial institution and customer decisions. The security of the Company's systems and information is essential to its safety and soundness and to the privacy of customer financial information. These security programs must have strong board and senior management level support, integration of security activities and controls throughout the organization's business processes, and clear accountability for carrying out security responsibilities.

A financial institution establishes and maintains truly effective information security when it continuously integrates processes, people, and technology to mitigate risk in accordance with risk assessment and acceptable risk tolerance levels. The Company protects its information by instituting a security process that identifies risks, forms a strategy to manage the risks, implements the strategy, tests the implementation, and monitors the environment to control the risks. Risk management practices should promote effective, safe, and sound IT operations that ensure the continuity of operations and the reliability and availability of data.

Credit Committee. The Credit Committee of Uwharrie Bank is charged with making decisions on loan requests that exceed loan officer lending authority levels. The process includes participation in active discussion regarding the loans under consideration, including loan structure and risk tolerance. Loans that exceed the Credit Committee's authority, along with insider loans, are recommended for approval to the Board of Directors of Uwharrie Bank for further action. The Credit Committee is also responsible for reviewing certain reports presented by Credit Administration to include asset quality reports to manage loan delinquency, non-performing assets, charge-offs and classified loans. In addition, the Credit Committee reviews exceptions for policy, documentation and loan-to-value, along with loan concentration reports and allowance of loan losses and lease methodology and quarterly calculations. The Credit Committee reports its activities in detail to the Bank's Board of Directors monthly.

The Credit Committee reviews and approves loan requests for relationships that exceed $500,000 in exposure for structure and repayment terms, underwriting, collateral, and risk grading. The Credit Committee also reviews annual loan reviews prepared by the credit administration department for loan relationships with total exposure of $1 million and greater. The Credit Committee reviews loans and relationships that are potential problems, loans that are in or proceeding into foreclosure/collection status and other special circumstances as presented by loan officers of Uwharrie Bank.

Director Compensation

During 2018, the Company paid each director a fee of $300 for each Board of Directors meeting attended and $100 for attendance at each meeting of a committee. The Company paid members of the Audit Committee $500 per meeting for Audit Committee meetings attended due to the additional time required. In the event an Audit Committee meeting runs over three hours, the Company pays each committee member an additional $100 per hour. Directors also received an allowance for travel associated with their attendance at meetings of the Board of Directors and its committees. An annual retainer fee of $7,500 was paid to the Board of Directors' Chairman and Vice Chairman and the Audit Committee Chairman, paid in monthly amounts of $625. The amounts described above and included in the table below also include fees or reimbursements for service on the Board of Directors of Uwharrie Bank or its committees. The following table presents a summary of all compensation earned by the Company's directors for their service as such during the year ended December 31, 2018.

DIRECTOR COMPENSATION TABLE

Name	Fees Earned or Paid in Cash	Stock Awards	Option Awards	All Other Compensation[1]	Total
W. Stephen Aldridge, III[2]	$ 1,900	–	–	$ 50	$ 1,950
Dean M. Bowers	2,400	–	–	70	2,470
Nadine B. Bowers[2]	1,200	–	–	40	1,240
Joe S. Brooks	5,600	–	–	150	5,750
Bill C. Burnside[2][3]	4,700	–	–	60	4,760
James O. Campbell	5,500	–	–	420	5,920
Raymond R. Cranford, Jr.	3,300	–	–	100	3,400
Tara G. Eudy[3]	10,600	–	–	675	11,275
Allen K. Furr	4,200	–	–	110	4,310
Thomas M. Hearne, Jr.	5,100	–	–	140	5,240
Harvey H. Leavitt, III	3,300	–	–	450	3,750
Samuel M. Leder	5,600	–	–	450	6,050
W. Chester Lowder	3,600	–	–	110	3,710
Wesley A. Morgan	2,400	–	–	70	2,470
Cynthia L. Mynatt	2,700	–	–	240	2,940
James E. Nance	3,600	–	–	110	3,710
Frank A. (Alex) Rankin, III[3]	13,600	–	–	480	14,080
Randy T. Russell	2,100	–	–	270	2,370
S. Todd Swaringen[3]	13,300	–	–	150	13,450

(1) Consists of a travel allowance for attendance at Board of Directors and committee meetings.

(2) Term on the Board of Directors ended on May 8, 2018.

(3) Receives an annual retainer fee of $7,500, paid in monthly amount of $625.

Executive Officers

The following table contains information about the executive officers of the Company.

Name and Age	Position with the Company and Business Experience for the Past Five Years	Employed Since
Roger L. Dick (67)	President and Chief Executive Officer, Uwharrie Capital Corp; Cashier, Uwharrie Bank	1983
Brendan P. Duffey (70)	Chief Operating Officer, Chief Risk Officer and Executive Vice President, Uwharrie Capital Corp; President and Chief Executive Officer, Uwharrie Bank	2004
R. David Beaver, III (36)	Chief Financial Officer, Uwharrie Capital Corp and Uwharrie Bank	2005

Executive Compensation

The following Summary Compensation Table shows all cash and non-cash compensation paid to, received by or deferred by Roger L. Dick, Brendan P. Duffey, and R. David Beaver, III (the "Named Executive Officers") for services rendered in all capacities during the fiscal years ended December 31, 2018 and 2017. Compensation paid to the Named Executive Officers consisted of cash salary, bonus, equity compensation in the form of stock awards, 401(k) matching contributions, insurance premiums paid on behalf of each of the Named Executive Officers, commission-based compensation and certain perquisites. The following table summarizes the dollar amounts of each element of compensation and, for stock awards, the aggregate grant date fair value computed in accordance with Accounting Standards Codification 718 issued by the Financial Accounting Standards Board.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary[1]	Bonus	Stock Awards	Non-Equity Incentive Plan Compensation	Nonqualified Deferred Compensation Earnings	All Other Compensation[2]	Total
Roger L. Dick, President and Chief Executive Officer of the Company; Cashier of the Bank	2018	$ 258,455	$ 40,000	–	$ 5,169	$ 125,000	$ 27,739	$ 456,363
	2017	248,455	40,000	–	4,969	125,000	27,858	446,282
Brendan P. Duffey, Chief Operating Officer, Chief Risk Officer and Executive Vice President of the Company; President and Chief Executive Officer of the Bank	2018	251,685	40,000	–	5,034	98,500	24,230	419,449
	2017	226,685	40,000	–	4,534	98,500	23,713	393,432
R. David Beaver, III Chief Financial Officer of the Company and the Bank	2018	200,000	28,500	14,996	4,333	20,000	22,932	290,762
	2017	190,000	20,100	9,998	4,000	20,000	21,792	265,890

(1) Includes amounts deferred at the officers' election pursuant to the Company's 401(k) Plan.

(2) Includes 401(k) matching contributions, use of a company-owned vehicle, the dollar value of certain insurance premiums paid on behalf of the named executive officers for health, dental, vision, group term life and disability insurance and split dollar Bank Owned Life Insurance (BOLI).

Outstanding Equity Awards at Fiscal Year-End

No incentive stock options or purchase options were granted to the Named Executive Officers during 2018 or 2017. As of December 31, 2018, there were no vested or unvested incentive stock options to purchase shares of the Company's common stock held by any of the Named Executive Officers.

Mr. Beaver received a grant of 2,675 shares of common stock in 2018 and 1,941 shares of common stock in 2017 under the Company's 2015 Stock Grant Plan. All of these shares were vested as of December 31, 2018 and 2017, respectively.

2015 Stock Grant Plan

In 2015, the Board of Directors approved the Uwharrie Capital Corp 2015 Stock Grant Plan. The plan allows the Company or its subsidiaries to make grants of the Company's common stock to employees, directors or independent contractors of the Company or its subsidiaries as an alternate form of compensation or as a performance bonus. The purpose of the plan is to advance the interests of the Company and its shareholders by enabling participants to acquire a proprietary interest in the Company by ownership of its common stock and to keep personnel of experience and ability in the employ of the Company or its subsidiaries and to compensate them for their contributions to the Company or its subsidiaries and thereby induce them to continue to make such contributions in the future.

The Company's Chief Executive Officer has discretion as to whom to award stock grants as well as the amount and frequency of the grants. The Chief Executive Officer's decisions are subject to the approval of the Board of Directors. The Board of Directors has full and final authority to construe and interpret the plan and to make all other determinations and take all other actions deemed necessary or advisable for the proper administration of the plan.

The shares of common stock used for grants under the plan are outstanding shares purchased by a revocable trust formed by the Company. The trust retains legal ownership of all shares purchased for the benefit of participants until such time as the transfer of shares to the participant is completed; however, the participant is 100% vested in the shares purchased on his or her behalf as soon as the trust's purchase of shares has been completed. Participants receive stock grants in the form of shares of common stock in a single or proportional award, as soon as administratively feasible following each purchase of shares for such participant, but no later than the last business day of December in the year of grant. Shares that are transferred to a participant result in taxable income for the participant. The amount of taxable income is based on the price of the shares when they are purchased for the participant. These amounts are subject to required income tax and employment tax withholdings.

In the event that the Board of Directors determines, in its sole discretion, that any stock dividend, stock split, reverse stock split, reclassification, reorganization, merger, consolidation, split-up, spin-off, combination, exchange of shares, warrants or rights offering, or other similar transaction affects the common stock such that an adjustment is required in order to preserve the benefits or potential benefits intended to be granted or made available under the plan to the participants, the Board of Directors has the right to proportionately and appropriately adjust stock grants.

The Board of Directors may alter, suspend, or terminate the plan at any time. No stock grants may be granted during any suspension or after the termination of the plan. No amendment, suspension, or termination of the plan will, without a participant's consent, alter or impair any of the rights or obligations under any outstanding stock grant unless such alteration is required in order to comply with applicable law.

All costs and expenses incurred in the operation and administration of this plan are borne by the Company.

Supplemental Executive Retirement Plan

The Company has implemented a non-qualified deferred compensation plan for certain executive officers. Certain of the plan benefits will accrue and vest during the period of employment, and can be paid in one lump sum payment or will be paid in fixed monthly benefit payments for up to ten years commencing with the officer's retirement or separation from service under certain circumstances.

Effective December 31, 2008, this plan was amended and restated to comply with Section 409A of the Internal Revenue Code. The participants' account liability balances were transferred into a trust fund, where investments can be participant-directed. The plan is structured as a defined contribution plan and the Company's expected annual funding contribution for the participant has been calculated through the participant's expected retirement date. Under the terms of the agreement, the Company has reserved the absolute right, at its sole discretion, to either fund or refrain from funding the plan.

PENSION BENEFITS

Name	Plan Name		Accumulated Benefit	Payments During Last Fiscal Year
Roger L. Dick	Supplemental Executive Retirement Plan	$	1,926,370	-0-
Brendan P. Duffey	Supplemental Executive Retirement Plan	$	1,495,832	-0-
R. David Beaver, III	Supplemental Executive Retirement Plan	$	86,039	-0-

Split-Dollar Life Insurance Agreements

The Company has purchased life insurance policies on certain of its executive officers. The Company has entered into Endorsement Method Split-Dollar Plan Agreements (the "Split-Dollar Agreements") with Roger L. Dick and Brendan P. Duffey. Under the terms of the Split-Dollar Agreements, the proceeds from the policy are divided between the Company and the executive's designated beneficiary with the executive's designated beneficiary receiving up to 70% of the policy's cash value. As of December 31, 2018, the survivor's benefit for the named beneficiaries of Mr. Dick and Mr. Duffey under these life insurance policies was $2,087,453 and $1,000,000 respectively.

Change in Control Severance Agreement

The Company entered into a Change in Control Severance Agreement with R. David Beaver, effective as of January 1, 2015. Under the agreement, Mr. Beaver is entitled to certain severance benefits if his employment is terminated under certain circumstances that would constitute a "covered termination" under the agreement. A covered termination means (i) Mr. Beaver's dismissal or discharge was for reasons other than "cause" (as defined in the agreement), death or disability or (ii) the executive's termination of his own employment for "good reason" (as defined in the agreement), either of which occurs within 12 months following the effective date of a "change in control" (as defined in the agreement). If a covered termination occurs, Mr. Beaver would be entitled to:

- a lump sum cash severance payment equal to his annual base salary, which salary as of December 31, 2018 was set at $200,000;
- fully accelerate the vesting on all his then-outstanding compensatory equity awards, as of the employment termination date; and
- up to twelve months of company-paid premium reimbursements for his and his eligible dependents if Mr. Beaver is eligible for and elects continuation coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA").

Such severance benefits may be subject to a cut-back if such payments constitute excess parachute payments within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended, if such cut-back would result in a higher after-tax amount being paid to Mr. Beaver.

Under the Change in Control Severance Agreement, Mr. Beaver has also agreed to certain non-competition covenants that are operable during the term of the agreement and for a period of at least 12 months following the date Mr. Beaver's employment is terminated. Further, Mr. Beaver's right to receive the severance benefits set forth in the agreement is subject to Mr. Beaver executing, and not revoking, a separation agreement and release of claims in a form acceptable to the Company.

Transactions with Management

General. Uwharrie Bank and The Strategic Alliance Corporation have had, and expect to have in the future, transactions in the ordinary course of business with certain of the directors and executive officers and their associates of the Company and its direct and indirect subsidiaries. All loans included in such transactions were made on substantially the same terms, including interest rates, repayment terms and collateral, as those prevailing at the time for comparable transactions with other persons not affiliated with Uwharrie Bank and do not involve more than the normal risk of collectability or present other unfavorable features.

Loans *by Uwharrie Bank.* Loans made by Uwharrie Bank to directors and executive officers are subject to the requirements of Regulation O of the Board of Governors of the Federal Reserve System. Regulation O requires, among other things, prior approval of the Board of Directors with any "interested director" not participating and dollar limitations on amounts of certain loans. In addition, Regulation O prohibits any favorable treatment being extended to any director or executive officer in any of the bank's lending matters. To the best knowledge of the management of the Company and its bank subsidiaries, Regulation O has been complied with in its entirety.

Employment of Immediate Family Members. Two immediate family members of director Tara G. Eudy are employed by subsidiaries of the Company. Mrs. Eudy's son, Kyle V. Eudy, is employed as a financial advisor with Uwharrie Investment Advisors, Inc. In 2018, Mr. Eudy received total cash compensation of $148,810. Mrs. Eudy's son-in-law, Michael F. Prickett, is employed as a mortgage loan originator with Uwharrie Mortgage, Inc. In 2018, Mr. Prickett received total cash compensation of $223,844. Both Mr. Eudy and Mr. Prickett also received benefits under certain employee benefit plans that are generally available to all similarly situated employees. Mrs. Eudy does not have an interest in Mr. Eudy's or Mr. Prickett's compensation.

PROPOSAL 2: RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors has appointed the firm of Dixon Hughes Goodman LLP, Certified Public Accountants, as the Company's independent accountants for the year ending December 31, 2019, and a proposal to ratify that appointment will be submitted for shareholder approval at the Annual Meeting. A representative of Dixon Hughes Goodman LLP is expected to be present at the Annual Meeting and available to respond to appropriate questions, and the representative will have the opportunity to make a statement if he or she desires to do so.

Please see below for additional information regarding Audit Fees paid to Dixon Hughes Goodman LLP as well as the Report of the Audit Committee.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" RATIFICATION OF THE APPOINTMENT OF DIXON HUGHES GOODMAN LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2019.

AUDIT FEES

The Company has incurred or expects to incur fees in connection with its annual audit and quarterly reviews of the Company's consolidated financial statements.

The Company also engaged Dixon Hughes Goodman LLP to provide other attestation and audit-related services. These fees were primarily related to audits of the Company's benefit plans. All services rendered by Dixon Hughes Goodman LLP during 2018 and 2017 were subject to pre-approval by the Audit Committee.

The following table sets forth the fees paid to Dixon Hughes Goodman LLP in various categories in 2018 and 2017.

Category	Amount Paid 2018	Amount Paid 2017
Audit Fees:	$ 170,500	$ 168,050
Audits of annual consolidated financial statements, reviews of interim financial statements, reviews of filings with the Securities and Exchange Commission and statutory audits		
Audit-Related Fees:	14,984	13,984
Attestation services related to audits of benefit plans and routine accounting consultations		
Tax Fees:	20,710	24,405
Corporate tax compliance and tax-related advisory services		
All Other Fees:	–	–
Total Fees Paid	$ 206,194	$ 206,439

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Company is responsible for receiving and reviewing the annual audit report of the Company's independent auditors and reports of examinations by bank regulatory agencies, and helps formulate, implement, and review the Company's and its subsidiaries' internal audit programs. The Audit Committee assesses the performance and independence of the Company's independent auditors and recommends their appointment and retention. The Audit Committee has in place pre-approval policies and procedures that involve an assessment of the performance and independence of the Company's independent auditors, an evaluation of any conflicts of interest that may impair the independence of the independent auditors and pre-approval of an engagement letter that outlines all services to be rendered by the independent auditors.

During the course of its oversight of the Company's audit process in 2018, the Audit Committee reviewed and discussed the audited consolidated financial statements with management. The Audit Committee, prior to approving the consolidated financial statements for inclusion in the Company's Form 10-K, also discussed with the independent auditors, Dixon Hughes Goodman LLP, all matters required to be discussed as required by Public Company Accounting Oversight Board Auditing Standard No. 1301, *Communications with Audit Committees*, and other applicable standards. Furthermore, the Audit Committee received from Dixon Hughes Goodman LLP written disclosures and correspondence regarding their independence and discussed such information with Dixon Hughes Goodman LLP.

Based on the review and discussions above, the Audit Committee (i) recommended to the Board of Directors that the audited consolidated financial statements be included in the Company's annual report on Form 10-K for the year ended December 31, 2018, for filing with the SEC and (ii) recommended that shareholders ratify the appointment of Dixon Hughes Goodman LLP as auditors for 2019.

The Audit Committee has considered whether Dixon Hughes Goodman LLP's provision of other non-audit services to the Company is compatible with maintaining the independence of Dixon Hughes Goodman LLP. The Audit Committee has determined that such services are compatible with maintaining the independence of Dixon Hughes Goodman LLP.

This report is submitted by the Audit Committee:

S. Todd Swaringen - Chairman
Joe S. Brooks
James O. Campbell
Tara G. Eudy
Allen K. Furr
Thomas M. Hearne, Jr.
Samuel M. Leder
Frank A. Rankin, III

OTHER MATTERS

The Board of Directors knows of no other business that will be brought before the Annual Meeting. Should other matters properly be presented for action at the Annual Meeting, the Proxies, or their substitutes, will be authorized to vote shares represented by appointments of proxy according to their best judgment.

PROPOSALS OF SHAREHOLDERS

Any proposal of a shareholder which is intended to be presented at the Company's 2020 Annual Meeting must be received by the Company at its main office in Albemarle, North Carolina, no later than December 18, 2019, to be considered timely received for inclusion in the proxy statement and appointment of proxy to be distributed in connection with that meeting. If a proposal for the Company's 2020 Annual Meeting is not expected to be included in the proxy statement for that meeting, the proposal must be received by the Company by March 2, 2020 for it to be timely received for consideration. The Company will use its discretionary authority for any proposals received thereafter.

SHAREHOLDER COMMUNICATIONS

The Company does not currently have a formal policy regarding shareholder communications with the Board of Directors; however, any shareholder may submit written communications to the Chairman of the Board of Directors, Uwharrie Capital Corp, P.O. Box 338, Albemarle, North Carolina 28002-0338, whereupon such communications will be forwarded to the Board of Directors if addressed to the Board of Directors as a group or to the individual director or directors addressed.

HOUSEHOLDING MATTERS

The Securities and Exchange Commission ("SEC") has adopted rules that permit companies to deliver a single copy of proxy materials to multiple shareholders sharing an address unless a company has received contrary instructions from one or more of the shareholders at that address. This means that only one copy of the proxy materials may have been sent to multiple shareholders in your household. If you would prefer to receive separate copies of the proxy materials either now or in the future, please contact our Corporate Secretary at the Company's offices at 132 North First Street, Albemarle, NC 28001, mailing address P.O. Box 338, Albemarle, NC 28002-0338 or at (704) 982-4415. Upon written or oral request to the Corporate Secretary, the Company will provide a separate copy of the proxy materials. In addition, shareholders at a shared address who receive multiple copies of proxy materials may request to receive a single copy of proxy materials in the future in the same manner as described above.

INTERNET AND ELECTRONIC AVAILABILITY OF PROXY MATERIALS

As required by applicable Securities and Exchange Commission ("SEC") rules and regulations, the Company has furnished a notice of internet availability of proxy materials to all shareholders as part of this proxy statement, and all shareholders will have the ability to access this proxy statement and the Company's annual report on Form 10-K for the fiscal year ended December 31, 2018 as filed with the SEC, by logging on at www.proxyvote.com. The proxy statement and annual report will also be available on the "Investors" page of the Company's website, www.uwharrie.com/about/investor. Please note that online voting is only available via www.proxyvote.com.

ADDITIONAL INFORMATION

A COPY OF THE COMPANY'S 2018 ANNUAL REPORT ON FORM 10-K WILL BE PROVIDED WITHOUT CHARGE TO ANY SHAREHOLDER ENTITLED TO VOTE AT THE ANNUAL MEETING UPON THAT SHAREHOLDER'S WRITTEN REQUEST. REQUESTS FOR COPIES SHOULD BE DIRECTED TO TAMARA M. SINGLETARY, EXECUTIVE VICE PRESIDENT – INVESTOR RELATIONS AND CORPORATE SECRETARY, P.O. BOX 338, ALBEMARLE, NORTH CAROLINA 28002-0338.

Exhibit A

Uwharrie Capital Corp
Human Resources and Compensation Committee Charter

Purpose

The Human Resources and Compensation Committee (the "Committee") is appointed by the Board of Directors (the "Board") of Uwharrie Capital Corp (the "Company") to discharge the Board's responsibilities relating to human resources and compensation of the Company's directors and executive officers. The Committee has overall responsibility for establishing corporate goals and objectives relevant to determining director and executive officer compensation and for evaluating and approving or recommending for approval to the Board the director and officer compensation plans, policies and programs of the Company. In discharging its responsibilities, the Committee shall, on an annual basis: (i) review and report on the performance of the President and Chief Executive Officer (the "CEO"); (ii) review and recommend all elements and amounts of CEO compensation; (iii) review and recommend Board and committee compensation; (iv) approve compensation of other executive officers; and (v) review and recommend any management incentive compensation plans.

Committee Membership

The Committee shall consist of the entire Board of Directors, unless it is deemed necessary that a smaller group is needed. Each member of the Committee shall: (i) be "independent" as defined by applicable rules and regulations promulgated under the Securities Exchange Act of 1934; (ii) a "Non-Employee Director" as that term is defined under Rule 16b-3 promulgated by the Securities and Exchange Commission (the "SEC") and any other applicable SEC regulation; (iii) an "Outside Director" as that term is defined for the purposes of Internal Revenue Code Section 162(m); and (iv) shall meet all other applicable legal requirements. The Committee will also consider the absence or presence of material relationships with the Company which might impact independence. Members shall be appointed by the Chairman of the Board, subject to Board approval and shall serve for such term or terms as the Board may determine or until earlier resignation or death. Committee members may be removed by the affirmative vote of a majority of the members of the Board at any time with or without cause. A majority of the members of the Committee shall constitute a quorum.

Operations

The Committee shall meet at least once a year. Additional meetings may occur as the Committee deems advisable. The Committee will cause to be kept adequate minutes of all its proceedings, and will report its actions to the next meeting of the Board. Board members will be furnished with copies of the minutes of each meeting and any action taken by unanimous consent. The Committee is governed by the same rules regarding meetings (including meetings by conference telephone or similar communications equipment), action without meetings, notice, waiver of notice, and quorum and voting requirements as are applicable to the Board.

Authority

The Committee shall have the resources and authority necessary to discharge its duties and responsibilities, including the authority to retain, as it deems appropriate and reasonably necessary, outside counsel or other experts or consultants at the Company's sole expense. Any communications between the Committee and legal counsel in the course of obtaining legal advice will be considered privileged communications of the Company and the Committee will take all necessary steps to preserve the privileged nature of those communications.

The Committee, and each member of the Committee in his or her capacity as such, shall be entitled to rely, in good faith, on information, opinions, reports or statements, or other information prepared or presented to them by (i) officers and other employees of the Company or its subsidiaries, whom such member believes to be reliable and competent in the matters presented, and (ii) counsel, public accountants or other persons as to matters which the member believes to be within the professional competence of such person.

Compensation Consultant Conflicts

The Committee shall evaluate whether any compensation consultant retained or to be retained by it has any conflict of interest in accordance with Item 407(e)(3)(iv) of Securities and Exchange Commission Regulation S-K.

Delegation of Authority

The Committee shall have the authority to delegate any of its responsibilities, along with the authority to take action in relation to such responsibilities, to one or more subcommittees as the Committee may deem appropriate in its sole discretion.

Committee Responsibilities

The Committee shall set corporate goals and objectives relevant to director and executive officer compensation. In setting these goals and objectives, the Committee should consider, at a minimum, the Company's performance and relative shareholder return. The Committee shall annually review and evaluate the corporate goals and objectives and amend such goals in its discretion.

The Committee shall have the responsibility to review the performance of the CEO on an annual basis in light of the corporate goals and objectives. The Committee shall report its findings concerning the performance of the CEO to the Board, and shall make recommendations to the Board based on its findings.

The Committee shall have the responsibility to review all forms of compensation received by the CEO and the amounts thereof. The Committee shall also have the responsibility of recommending to the Board for approval any changes in form or amount of compensation received by the CEO.

The Committee shall have the responsibility of reviewing, and recommending for approval changes, if any, to the compensation paid to Board members for their service on the Board and any committees thereof.

The Committee shall have the responsibility of approving the form and amount of compensation received by executive officers other than the CEO. The Committee may solicit and accept, reject or modify the recommendation of the CEO with respect to the compensation of other executive officers.

The Committee shall have the responsibility of reviewing any management incentive compensation plan, in effect or contemplated. The Committee shall also have the responsibility of recommending for approval the adoption of or any changes to any management incentive compensation plan. The Committee shall also be responsible for administering any incentive stock option plan or other equity-based plans adopted by the Company and approved by its shareholders. In reviewing incentive arrangements, the Committee shall consider any risk posed by such arrangements, and whether the incentive plans encourage participants to focus on proper goals and objectives.

In determining appropriate levels of compensation, whether for officers, directors, or other employees, the Committee should evaluate whether applicable compensation, benefit, and/or incentive plans (i) promote acceptable levels of risk, (ii) encourage appropriate levels of long-term value creation, and (iii) avoid the promotion of unnecessary and excessive risk taking.

The Committee shall make other reports to the Board when the Committee deems it appropriate or upon request of the Board. The Committee shall periodically review and update this Charter, as necessary, to ensure appropriate corporate governance.

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Exhibit B

Uwharrie Capital Corp
Nominating Committee Charter

Purpose

The Nominating Committee (the "Committee") is appointed by the Board of Directors (the "Board") of Uwharrie Capital Corp (the "Company"): (i) to assist the Board, on an annual basis, by identifying individuals qualified to become Board members and to recommend to the Board the director nominees for the next meeting of shareholders at which directors are to be elected; (ii) to assist the Board in the event of any vacancy on the Board by identifying individuals qualified to become Board members and to recommend to the Board qualified individuals to fill any such vacancy; and (iii) to recommend to the Board, on an annual basis, director nominees for each Board committee.

Committee Membership

The Committee shall consist of no fewer than three members, each of whom shall be a director of the Company. Each member of the Committee shall: (i) be "independent" as defined by applicable NASDAQ listing standards and (ii) meet all other applicable legal requirements. The Committee will also consider the absence or presence of material relationships with the Company which might impact independence. Members shall be appointed by the Chairman of the Board, subject to Board approval and shall serve for such term or terms as the Board may determine or until earlier resignation or death. Committee members may be removed by the affirmative vote of a majority of the members of the Board at any time with or without cause. A majority of the members of the Committee shall constitute a quorum.

Operations

The Board shall designate a member of the Committee as the chairperson. The Committee shall meet at least once a year. Additional meetings may occur as the Committee deems advisable. The Committee will cause to be kept adequate minutes of all its proceedings, and will report its actions to the next meeting of the Board. Committee members will be furnished with copies of the minutes of each meeting and any action taken by unanimous consent. The Committee is governed by the same rules regarding meetings (including meetings by conference telephone or similar communications equipment), action without meetings, notice, waiver of notice, and quorum and voting requirements as are applicable to the Board.

Authority

The Committee will have the resources and authority necessary to discharge its duties and responsibilities, including the authority to retain outside counsel or other experts or consultants, as it deems appropriate. Any communications between the Committee and legal counsel in the course of obtaining legal advice will be considered privileged communications of the Company, and the Committee will take all necessary steps to preserve the privileged nature of those communications.

The Committee shall have the authority to retain and terminate any search firm to be used to identify director candidates and shall have sole authority to approve the search firm's fees and other retention terms, at the Company's expense.

The Committee, and each member of the Committee in his or her capacity as such, shall be entitled to rely, in good faith, on information, opinions, reports or statements, or other information prepared or presented to them by (i) officers and other associates of the Company or its subsidiaries, whom such member believes to be reliable and competent in the matters presented, and by (ii) counsel, public accountants or other persons as to matters which the member believes to be within the professional competence of such person.

Delegation of Authority

The Committee shall have the authority to delegate any of its responsibilities, along with the authority to take action in relation to such responsibilities, to one or more subcommittees as the Committee may deem appropriate in its sole discretion.

Committee Responsibilities

The Committee shall have the responsibility to develop and recommend criteria for the selection of new directors to the Board, which criteria shall include, but not be limited to, the criteria set forth in Article IV of the Company's bylaws. The Committee shall have the power to apply the standards imposed by all applicable laws and the underlying purpose and intent thereof in connection with such identification process.

When vacancies occur on the Board or otherwise at the direction of the Board, the Committee shall actively seek individuals whom the Committee determines meet such criteria and standards for recommendation to the Board as nominee(s).

The Committee shall recommend to the Board, on an annual basis, nominees for election as directors for the next annual meeting of shareholders.

The Committee shall make other reports to the Board when the Committee deems it appropriate or upon request of the Board.

Exhibit C

Uwharrie Capital Corp
Audit Committee Charter

Organization and Membership

There shall be a committee of the Board of Directors (the "Board") of Uwharrie Capital Corp (the "Company") to be known as the Audit Committee. The Audit Committee shall be composed of at least three directors who are independent of the management of the Company and are free of any relationship that, in the opinion of the Board of Directors, would interfere with their exercise of independent judgment as a committee member. Each member of the Audit Committee shall be independent in accordance with the requirements of Rule 10A-3 of the Securities Exchange Act of 1934. In addition, the Company shall strive to have all its Audit Committee members meet the requirements for independence set forth in the NASDAQ listing rules. Members of the Audit Committee shall be financially literate as determined by the Board or become financially literate within a reasonable period of time after appointment to the Audit Committee and at least one member shall have accounting, related financial management expertise, or other comparable experience or background that result in the individual's financial sophistication.

Members shall be appointed by the Chairman of the Board, subject to Board approval and shall serve for such term or terms as the Board may determine or until earlier resignation or death. Committee members may be removed by the affirmative vote of a majority of the members of the Board at any time with or without cause. A majority of the members of the Committee shall constitute a quorum.

Statement of Policy

The Audit Committee shall provide assistance to the Board in fulfilling its responsibility to the shareholders, potential shareholders, and investment community relating to corporate accounting, reporting practices of the Company, and the quality and integrity of the financial reports and other operating controls of the Company. In so doing, it is the responsibility of the Audit Committee to maintain free and open means of communication between the directors, the independent auditors, the internal auditors, the financial management and other employees of the Company.

Responsibilities

In carrying out its responsibilities, the Audit Committee believes its policies and procedures should remain flexible, in order to best react to changing conditions and to ensure to the directors and shareholders that the corporate accounting and reporting practices and other operating controls of the Company are of high quality and are in accordance with all requirements.

In carrying out these responsibilities, the Audit Committee will:

- Select, evaluate, and where appropriate, replace the independent auditors to audit the financial statements of the Company and its subsidiaries. In doing so, obtain the written disclosures and the letter from the independent auditor required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent auditor's communications with the Audit Committee concerning independence, and discuss with the auditors the auditors' independence. The independent auditors are to be accountable to the Board of Directors and the Audit Committee, as representatives of the shareholders.

- Select, retain, compensate, oversee and terminate, if necessary, any other registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attestation services for the Company.

- Approve all audit engagement fees and terms; and pre-approve all audit and permitted non-audit and tax services that may be provided by the Company's independent auditors or other registered public accounting firms, and establish policies and procedures for the Committee's pre-approval of permitted services by the Company's independent auditors or other registered public accounting firms on an ongoing basis.

- Review the scope of the audit and the audit procedures utilized.

- Review with the independent auditors, the internal auditor and the Company's financial and accounting personnel the adequacy and effectiveness of the accounting and financial controls of the Company. Emphasis should be given to the adequacy of such internal controls to expose any payments, transactions, or procedures that might be deemed illegal or otherwise improper.

- Provide sufficient opportunity for the independent auditors to meet with the members of the Audit Committee without members of management present. Among the items to be discussed in these meetings are the independent auditors' evaluation of the Company's financial, accounting, and auditing personnel, and the cooperation that the independent auditors received during the course of the audit.

- Be available to the independent auditors during the year for consultation purposes.

- Discuss with the independent auditors the matters required to be discussed by Public Company Accounting Oversight Board Auditing Standards No. 1301, *Communications with Audit Committees*, including, without limitation, the auditors' evaluation of the quality of the Company's financial reporting, information relating to significant unusual transactions and the business rationale for such transactions and the auditors' evaluation of the Company's ability to continue as a going concern.

- Review and discuss with the Company's independent auditors (1) all critical accounting policies and practices to be used in the audit; (2) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, the ramifications of the use of such alternative treatments and the treatment preferred by the auditors; and (3) other material written communications between the auditors and management.

- Review with management and the independent auditors the Company's financial disclosure documents, including all annual and quarterly financial statements and reports filed with the Securities and Exchange Commission or sent to shareholders. Following the satisfactory completion of each year-end review, recommend to the Board the inclusion of the audited financial statements in the Company's Annual Report on Form 10-K to be filed with the Securities and Exchange Commission. The year-end review shall include any significant problems and material disputes between management and the independent auditors and a discussion with the independent auditors out of management's presence of the quality of the Company's accounting principles as applied in its financial reporting, the clarity of the Company's financial disclosures and degree of aggressiveness or

conservatism of the Company's accounting principles and underlying estimates, and a frank and open discussion of other significant decisions made by management in, preparing the financial disclosures. With respect to the independent auditors' reviews of Quarterly Reports on Form 10-Q, communication from the independent auditors may be received on behalf of the Audit Committee by the Committee Chair, who will report thereon to the full Audit Committee at its next meeting.

- Review the internal audit function of the Company including the independence and authority of its reporting obligations, the proposed audit plans for the coming year, and the coordination of such plans with the independent auditors.

- Receive reports or summaries of findings from completed internal audits, together with management responses, and monitor progress of the proposed internal audit plan, with explanations for any deviations from the original plan.

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of reviews conducted.

- Establish and oversee procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by Company employees of concerns regarding questionable accounting or auditing matters.

- Prepare the reports required by the laws, rules, and regulations of the applicable regulatory authorities to be included in the Company's proxy statement for its annual meeting of shareholders.

- Submit the minutes of all meetings of the Audit Committee to, or discuss the matters discussed at each committee meeting with, the Board of Directors.

- Investigate any matter brought to its attention within the scope of its duties, with the power to retain outside counsel and such other advisors for this purpose if, in its judgment, that is appropriate. The Committee shall set the compensation, and oversee the work, of any outside counsel and other advisors.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditor. Nor is it the duty of the Audit Committee to conduct investigations, to resolve disagreements, if any, between management and the independent auditor or to assure compliance with laws and regulations.

Delegation of Authority

The Committee shall have the authority to delegate any of its responsibilities, along with the authority to take action in relation to such responsibilities, to one or more subcommittees as the Committee may deem appropriate in its sole discretion.

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Uwharrie Capital Corp

2018

ANNUAL REPORT TO SHAREHOLDERS

UWHARRIE CAPITAL CORP AND SUBSIDIARIES

Description of Business

Uwharrie Capital Corp (the "Company") is a North Carolina bank holding company. The Company was incorporated on February 24, 1993 to become the bank holding company for Uwharrie Bank (the "Bank"), formerly, known as Bank of Stanly, a North Carolina commercial bank chartered on September 28, 1983, and its three wholly-owned subsidiaries, The Strategic Alliance Corporation, BOS Agency, Inc., and Gateway Mortgage, Inc., a mortgage origination company. The Company also owns two non-bank subsidiaries, Uwharrie Investment Advisors, Inc., formerly known as Strategic Investment Advisors, Inc., and Uwharrie Mortgage, Inc.

The Bank engages in retail and commercial banking with ten physical banking offices in North Carolina. The Bank provides a wide range of banking services including deposit accounts, commercial, consumer, home equity and residential mortgage loans, safe deposit boxes, and electronic banking services.

On January 19, 2000, the Company completed its acquisition of Anson Bancorp, Inc. and its subsidiary, Anson Savings Bank. The savings bank retained its North Carolina savings bank charter and became a wholly-owned subsidiary of Uwharrie Capital Corp as Anson Bank & Trust Co. ("Anson") and provided financial services to customers through one banking office in Anson County until September 1, 2013 when it was consolidated with and into the Bank. The former Anson office is now operated by the Bank.

On April 10, 2003, the Company capitalized a new wholly-owned subsidiary bank, Cabarrus Bank & Trust Company ("Cabarrus"), located in Concord, North Carolina. As of that date, Cabarrus purchased two branch offices located in Cabarrus County from the Bank to begin its operation. Cabarrus operated as a commercial bank and provided a full range of banking services. Cabarrus was consolidated into the Bank effective September 1, 2013. The former Cabarrus offices are now operated as branches of the Bank.

The Company and its subsidiaries are located in Stanly County, Anson County, Cabarrus County and Mecklenburg County. However, the Company intends to prudently expand its service area within the Charlotte Metropolitan and Uwharrie Lakes Regions of North Carolina.

Depository services offered by the Bank include personal and commercial checking, savings, money market, certificates of deposit accounts and individual retirement accounts, all tailored to meet customers' needs. The Bank provides fixed and variable rate loans, which include mortgage, home equity, lines of credit, consumer and commercial loans. The Bank also offers internet banking, mobile banking, and 24-hour telephone banking, providing customers the convenience of access to account information, rate information and accessibility of funds transfers between accounts. Other services include MasterCard ® credit cards and a Visa ® check card which functions as a point-of-sale (POS) and automated teller machine (ATM) card. Customers can use the check card for purchases at virtually any merchant accepting Visa ® and ATMs displaying the STAR ® or CIRRUS ® networks regionally and worldwide, respectively.

Uwharrie Investment Advisors, Inc., an SEC registered investment advisory firm, provides portfolio management services to its customers. The Strategic Alliance Corporation (Strategic Alliance ®) is a broker-dealer registered with the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation (SIPC). BOS Agency provides insurance products and is licensed in the state of North Carolina. Through Strategic Investment Group, a DBA for financial consultants registered with Private Client Services LLC, securities and insurance products are offered, including fixed annuities, long-term care products, Medicare supplement products, and life insurance products. Group insurance products are offered through an arrangement with Burchfield Insurance Group, Inc.

Uwharrie Investment Group: Securities and insurance products are offered through Private Client Services, LLC, 2225 Lexington Rd, Louisville, KY 40206, ph: 502-451-0600, Member FINRA and SIPC. Private Client Services, LLC and Uwharrie Capital Corp along with its affiliates and/or subsidiaries are separate, distinct, and unaffiliated entities. It is important to note that securities and insurance products are: NOT BANK DEPOSITS – NOT INSURED BY THE FDIC OR ANY FEDERAL GOVERNMENT AGENCY – NOT OBLICATIONS OF OR GUARANTEED BY ANY FINANCIAL INSTITUTION – SUBJECT TO RISK AND MAY LOSE VALUE.

Uwharrie Bank, Member FDIC, Equal Housing Lender.

UWHARRIE CAPITAL CORP AND SUBSIDIARIES
Financial Highlights

(Dollars in thousands, except per share amounts)	2018	2017	Percent Increase (Decrease)
For the year:			
Net income	$ 2,477	$ 1,611	53.76%
Net income (loss) available to common shareholders	$ 1,907	$ 1,019	87.14%
Basic net income (loss) per common share (1)	$ 0.27	$ 0.14	92.86%
Diluted net income (loss) per common share (1)	$ 0.27	$ 0.14	92.86%
Weighted average common shares outstanding (diluted) (1)	7,087,581	7,282,160	(2.67)%
At year-end:			
Total assets	$ 632,304	$ 577,253	9.54%
Total earning assets	583,631	526,937	10.76%
Loans held for investment	369,970	356,871	3.67%
Total interest-bearing liabilities	448,351	410,152	9.31%
Shareholders' equity	45,175	44,540	1.43%
Book value per common share (1)	$ 4.84	$ 4.67	3.64%
Averages for the year:			
Total assets	$ 612,403	$ 572,630	6.95%
Total earning assets	566,208	527,249	7.39%
Loans held for investment	369,419	348,980	5.86%
Total interest-bearing liabilities	428,024	402,774	6.27%
Shareholders' equity	44,468	44,542	(0.17)%
Financial ratios (in percentage):			
Return on average assets	0.40%	0.28%	
Return on average shareholders' equity	5.57%	3.62%	
Average equity to average assets	7.26%	7.78%	
Net interest margin (fully tax equivalent basis)	3.53%	3.47%	
Allowance as % of loans at year-end	0.64%	0.69%	
Allowance as % of nonperforming loans	227.38%	239.80%	
Nonperforming loans to total loans	0.28%	0.29%	
Nonperforming assets to total assets	0.33%	0.58%	
Net loan charge-offs (recoveries) to average loans	0.05%	—	

(1) Net income per share, book value per share and shares outstanding at year-end for 2017 have been adjusted to reflect the 2% stock dividend in 2018.

Market for the Company's Common Stock and Related Security Holder Matters

It is the philosophy of Uwharrie Capital Corp to promote a strong base of local shareholders. While bid and ask prices for the Company's common stock are quoted on the OTC Pink marketplace through www.otcmarkets.com, operated by OTC Markets Group, Inc. under the symbol UWHR, trading is sporadic with trades also taking place in privately negotiated transactions. Management makes every reasonable effort to match willing buyers with willing sellers as they become known for the purpose of private negotiations for the purchase and sale of the Company's common stock.

Shareholders needing information about purchasing or selling shares of Uwharrie Capital Corp should contact Tamara M. Singletary or Lisa E. Hartsell, Investor Relations at Uwharrie Capital Corp, 132 N. First Street, Post Office Box 338, Albemarle, NC 28002.

The Board of Directors adopts a dividend policy on an annual basis. For 2018, Uwharrie Capital Corp declared a 2% stock dividend on its outstanding common stock. The Board of Directors will determine an appropriate dividend, if any, on an annual basis, consistent with the capital needs of the Company.

DHG
DIXON HUGHES GOODMAN LLP

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the board of directors of Uwharrie Capital Corp:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Uwharrie Capital Corp and Subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Dixon Hughes Goodman LLP

We have served as the Company's auditor since 1996.

Charlotte, North Carolina
March 6, 2019

UWHARRIE CAPITAL CORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2018 and 2017

	2018	2017
	(dollars in thousands)	
ASSETS		
Cash and due from banks	$ 4,473	$ 7,538
Interest-earning deposits with banks	113,461	62,865
Securities available for sale, at fair value	91,299	95,743
Securities held to maturity (fair value $10,750 and $11,461, respectively)	10,837	11,458
Loans held for sale	4,800	4,414
Loans:		
Loans held for investment	369,970	356,871
Less allowance for loan losses	(2,374)	(2,458)
Net loans held for investment	367,596	354,413
Premises and equipment, net	14,800	14,728
Interest receivable	1,763	1,709
Restricted stock	1,094	1,067
Bank owned life insurance	8,671	8,546
Other real estate owned	1,047	2,349
Prepaid assets	558	786
Other assets	11,905	11,637
Total assets	$ 632,304	$ 577,253
LIABILITIES		
Deposits:		
Demand noninterest-bearing	$ 129,714	$ 113,762
Interest checking and money market accounts	324,391	289,953
Savings deposits	54,784	45,698
Time deposits, $250,000 and over	7,920	7,933
Other time deposits	50,092	55,282
Total deposits	566,901	512,628
Short-term borrowed funds	1,190	1,752
Long-term debt	9,974	9,534
Interest payable	16	148
Other liabilities	9,048	8,651
Total liabilities	587,129	532,713
Off balance sheet items, commitments and contingencies (Note 13)		
SHAREHOLDERS' EQUITY		
Common stock, $1.25 par value: 20,000,000 shares authorized; shares issued and outstanding 7,126,541 and 7,112,853, respectively	8,908	8,891
Additional paid-in capital	12,885	12,824
Undivided profits	14,421	13,282
Accumulated other comprehensive loss	(1,694)	(1,107)
Total Uwharrie Capital shareholders' equity	34,520	33,890
Noncontrolling interest	10,655	10,650
Total shareholders' equity	45,175	44,540
Total liabilities and shareholders' equity	$ 632,304	$ 577,253

The accompanying notes are an integral part of the consolidated financial statements.

UWHARRIE CAPITAL CORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2018, 2017 and 2016

	2018	2017	2016
	(dollars in thousands, except share and per share data)		
Interest Income			
Loans, including fees	$ 18,205	$ 16,569	$ 15,900
Investment securities:			
US Treasury	45	28	46
US Government agencies and corporations	1,405	1,507	1,296
State and political subdivisions non-taxable	434	439	467
State and political subdivisions taxable	47	47	33
Interest-earning deposits with banks and federal funds sold	1,737	750	304
Total interest income	21,873	19,340	18,046
Interest Expense			
Interest checking and money market accounts	948	413	310
Savings deposits	91	49	47
Time deposits $250,000 and over	69	67	58
Other time deposits	204	185	308
Short-term borrowed funds	16	16	37
Long-term debt	554	547	550
Total interest expense	1,882	1,277	1,310
Net interest income	19,991	18,063	16,736
Provision for (recovery of) loan losses	90	(236)	(88)
Net interest income after provision for (recovery of) loan losses	19,901	18,299	16,824
Noninterest Income			
Service charges on deposit accounts	1,220	1,169	1,189
Other service fees and commissions	2,621	2,674	2,691
Interchange and card transaction fees, net	648	656	629
Gain (loss) on sale of securities (includes reclassification of $0, $(14), and $544 from accumulated comprehensive income in 2018, 2017 and 2016, respectively)	—	(14)	544
Income from mortgage loan sales	2,980	3,345	3,795
Other income	810	595	509
Total noninterest income	8,279	8,425	9,357
Noninterest Expense			
Salaries and employee benefits	16,180	14,710	14,522
Net occupancy expense	1,616	1,261	1,189
Equipment expense	734	597	646
Data processing costs	923	1,000	705
Office supplies and printing	180	130	161
Foreclosed real estate expense	45	293	501
Professional fees and services	1,058	723	703
Marketing and donations	786	977	941
Electronic banking expense	401	362	346
Software amortization and maintenance	924	787	697
FDIC insurance	234	229	269
Other noninterest expense	2,043	2,235	2,395
Total noninterest expense	25,124	23,304	23,075
Income before income taxes	3,056	3,420	3,106
Income taxes (includes reclassification of ($0, $4, and ($210)) from accumulated other comprehensive income, respectively)	579	1,809	895
Net income	$ 2,477	$ 1,611	$ 2,211
Consolidated net income	$ 2,477	$ 1,611	$ 2,211
Less: Net income attributable to noncontrolling interest	(570)	(592)	(593)
Net income attributable to Uwharrie Capital Corp and common shareholders	1,907	1,019	1,618
Net income per common share			
Basic	$ 0.27	$ 0.14	$ 0.22
Diluted	$ 0.27	$ 0.14	$ 0.22
Weighted average common shares outstanding			
Basic	7,087,581	7,281,408	7,383,686
Diluted	7,087,581	7,282,160	7,383,794

The accompanying notes are an integral part of the consolidated financial statements.

UWHARRIE CAPITAL CORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2018, 2017 and 2016

	2018	2017	2016
		(dollars in thousands)	
Net Income	$ 2,477	$ 1,611	$ 2,211
Other comprehensive income (loss):			
Unrealized gains (losses) on available for sale securities	(758)	696	(1,131)
Related tax effect	171	(340)	359
Reclassification of losses (gains) recognized in net income	—	14	(544)
Related tax effect	—	(4)	210
Total other comprehensive income (loss)	(587)	366	(1,106)
Comprehensive income	1,890	1,977	1,105
Less: Comprehensive income attributable to noncontrolling interest	(570)	(592)	(593)
Comprehensive income attributable to Uwharrie Capital	$ 1,320	$ 1,385	$ 512

The accompanying notes are an integral part of the consolidated financial statements.

UWHARRIE CAPITAL CORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years Ended December 31, 2018, 2017 and 2016

	Number of Common Shares Issued	Common Stock	Additional Paid-in Capital	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total
	(dollars in thousands, except share data)						
Balance, December 31, 2015	6,983,017	$ 8,729	$ 12,308	$ 11,893	$ (212)	$ 10,596	$ 43,314
Net Income	—	—	—	1,618	—	593	2,211
Repurchase of common stock	(69,938)	(87)	(235)	—	—	—	(322)
2% stock dividend	137,236	171	467	(638)	—	—	—
Cash paid – fractional shares	—	—	—	(6)	—	—	(6)
Other comprehensive income	—	—	—	—	(1,106)	—	(1,106)
Record preferred stock dividend series B (noncontrolling interest)	—	—	—	—	—	(417)	(417)
Record preferred stock dividend series C (noncontrolling interest)	—	—	—	—	—	(149)	(149)
Balance, December 31, 2016	7,050,315	$ 8,813	$ 12,540	$ 12,867	$ (1,318)	$ 10,623	$ 43,525
Net Income	—	—	—	1,019	—	592	1,611
Tax Cuts and Jobs Act of 2017, reclassification from AOCI to retained earnings, tax effect	—	—	—	155	(155)	—	—
Repurchase of common stock	(75,709)	(95)	(296)	—	—	—	(391)
2% stock dividend	138,247	173	580	(753)	—	—	—
Cash paid – fractional shares	—	—	—	(6)	—	—	(6)
Other comprehensive income	—	—	—	—	366	—	366
Record preferred stock dividend series B (noncontrolling interest)	—	—	—	—	—	(416)	(416)
Record preferred stock dividend series C (noncontrolling interest)	—	—	—	—	—	(149)	(149)
Balance, December 31, 2017	7,112,853	$ 8,891	$ 12,824	$ 13,282	$ (1,107)	$ 10,650	$ 44,540
Net Income	—	—	—	1,907	—	570	2,477
Repurchase of common stock	(138,629)	(173)	(574)	—	—	—	(747)
2% stock dividend	138,939	174	586	(760)	—	—	—
Cash paid – fractional shares	—	—	—	(8)	—	—	(8)
Stock options exercised	13,378	16	49	—	—	—	65
Other comprehensive income	—	—	—	—	(587)	—	(587)
Record preferred stock dividend series B (noncontrolling interest)	—	—	—	—	—	(417)	(417)
Record preferred stock dividend series C (noncontrolling interest)	—	—	—	—	—	(148)	(148)
Balance, December 31, 2018	7,126,541	$ 8,908	$ 12,885	$ 14,421	$ (1,694)	$ 10,655	$ 45,175

The accompanying notes are an integral part of the consolidated financial statements.

UWHARRIE CAPITAL CORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018, 2017 and 2016

	2018	2017	2016
		(dollars in thousands)	
Cash flows from operating activities			
Net income	$ 2,477	$ 1,611	$ 2,211
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Depreciation	1,067	857	1,003
Net amortization of security premiums/discounts AFS	767	850	990
Net amortization of security premiums/discounts HTM	146	147	138
Net amortization of loan servicing rights	663	733	751
Impairment of foreclosed real estate	(12)	85	272
(Recovery) provision for loan losses	90	(236)	(88)
Deferred income taxes	(39)	691	92
Net realized (gains) loss on sales / calls available for sale securities	—	14	(544)
Proceeds from sales of loans held for sale	96,718	97,360	114,622
Origination of loans held for sale	(97,764)	(96,684)	(115,505)
(Gain) loss on sale of premises, equipment and other assets	4	—	3
Increase in cash surrender value of life insurance	(125)	(124)	(135)
Gain on sales of foreclosed real estate	(11)	(35)	(41)
Prepaid assets	228	40	(62)
Net change in interest receivable	(54)	(80)	(65)
Net change in other assets	(422)	(602)	(699)
Net change in interest payable	(132)	(3)	(17)
Net change in other liabilities	397	1,129	1,113
Net cash provided by operating activities	3,998	5,753	4,039
Cash flows from investing activities			
Proceeds from sales, maturities, calls and paydowns of securities available for sale	7,853	16,185	30,734
Proceeds from sales, maturities, calls and paydowns of securities held to maturity	475	385	141
Purchase of securities available for sale	(4,934)	(6,338)	(49,496)
Purchase of securities held to maturity	—	—	(1,027)
Net increase in loans	(13,433)	(15,416)	(22,101)
Purchases of life insurance investment	—	(1,525)	—
Proceeds from sale of premises, equipment and other assets	4	—	547
Purchase of premises and equipment	(829)	(1,730)	(657)
Proceeds from sales of foreclosed real estate	1,533	2,138	899
Net change in restricted stock	(27)	(15)	(12)
Net cash used by investing activities	(9,358)	(6,316)	(40,972)
Cash flows from financing activities			
Net increase in deposit accounts	54,273	26,909	17,986
Net decrease in short-term borrowed funds	(562)	(410)	(3,084)
Increase (decrease) in long-term debt	440	(512)	(13)
Repurchase of common stock, net	(747)	(391)	(322)
Stock option exercise	65	—	—
Dividends on preferred stock	(570)	(592)	(593)
Cash paid for fractional shares	(8)	(6)	(6)
Net cash provided by financing activities	52,891	24,998	13,968
Increase (decrease) in cash and cash equivalents	47,531	24,435	(22,965)
Cash and cash equivalents, beginning of year	70,403	45,968	68,933
Cash and cash equivalents, end of year	$ 117,934	$ 70,403	$ 45,968
Supplemental disclosures of cash flow information			
Interest paid	$ 2,014	$ 1,280	$ 1,327
Income taxes paid	503	852	641
Supplemental schedule of non-cash activities			
Net change in fair value of securities available for sale, net of tax	(587)	366	(1,106)
Loans transferred to foreclosed real estate	160	361	315
Company financed OREO	—	(356)	(256)
Mortgage servicing rights capitalized	313	586	982

The accompanying notes are an integral part of the consolidated financial statements.

Note 1 - Significant Accounting Policies

Nature of Business

Uwharrie Capital Corp (the "Company") was incorporated under North Carolina law for the purpose of becoming the holding company for Bank of Stanly ("Stanly"). On July 1, 1993, Stanly became a wholly-owned subsidiary of the Company through a one-for-one exchange of the common stock of Stanly for common stock of the Company. On September 1, 2013, Bank of Stanly changed its name to Uwharrie Bank ("Uwharrie").

Uwharrie was incorporated on September 28, 1983, under the laws of the State of North Carolina and began operations on January 26, 1984 in Albemarle, North Carolina. Deposits with Uwharrie are insured by the Federal Deposit Insurance Corporation ("FDIC"). Uwharrie is under regulation of the Federal Reserve, the FDIC and the North Carolina Commissioner of Banks. In North Carolina, Uwharrie has ten branch locations that provide a wide range of deposit accounts, commercial, consumer, home equity and residential mortgage loans, safe deposit boxes and automated banking.

In 1987, Uwharrie established a wholly-owned subsidiary, BOS Agency, Inc. ("BOS Agency"), which engages in insurance product sales. In 1989, Uwharrie established a second wholly-owned subsidiary, BOS Financial Corporation, for the purpose of conducting business as a "broker dealer" in securities. During 1993, BOS Financial Corporation changed its name to The Strategic Alliance Corporation ("Strategic Alliance") and was registered as a "broker dealer" and is regulated by the Financial Industry Regulatory Authority ("FINRA").

The Company formed a new subsidiary, Strategic Investment Advisors, Inc. ("SIA"), during 1998 to provide investment advisory and asset management services. This subsidiary is registered as an investment advisor with the Securities and Exchange Commission. During 2015, SIA changed its name to Uwharrie Investment Advisors, Inc. ("UIA").

On January 19, 2000, the Company completed its acquisition of Anson BanCorp, Inc. and its subsidiary, Anson Savings Bank. The savings bank retained its North Carolina savings bank charter and became a wholly-owned subsidiary of Uwharrie Capital Corp as Anson Bank & Trust Company ("Anson"), operating out of its main office branch in Wadesboro. Anson was consolidated into Uwharrie Bank effective September 1, 2013.

On August 4, 2000, Uwharrie acquired another subsidiary, Gateway Mortgage, Inc. ("Gateway"), a mortgage origination company. This company is currently inactive and does not affect the Company's consolidated financial statements.

On April 10, 2003, the Company capitalized a new wholly-owned subsidiary bank, Cabarrus Bank & Trust Company ("Cabarrus"), located in Concord, North Carolina. As of that date, Cabarrus purchased two branch offices located in Cabarrus County from Uwharrie to begin its operation. Cabarrus operated as a commercial bank and provided a full range of banking services. Cabarrus was consolidated into Uwharrie Bank effective September 1, 2013.

On April 7, 2004 Uwharrie Mortgage, Inc. was established as a subsidiary of the Company to serve in the capacity of trustee and substitute trustee under deeds of trust.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, Uwharrie, UIA and Uwharrie's subsidiaries, BOS Agency and Strategic Alliance. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America ("GAAP"), requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses.

Note 1 - Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents are defined as those amounts included in the balance sheet captions "Cash and due from banks" and "Interest-earning deposits with banks."

Investment Securities Available for Sale

Investment securities available for sale consist of United States Treasuries, United States Government agencies, Government Sponsored Enterprise (GSE) mortgage backed securities and collateralized mortgage obligations (CMOs), corporate bonds and state and political subdivision bonds. Unrealized holding gains and losses on available for sale securities are reported as a net amount in other comprehensive income, net of income taxes. Gains and losses on the sale of available for sale securities are determined using the specific identification method and recorded on a trade basis. Declines in the fair value of individual available for sale securities below their cost that are other than temporary would result in write-downs of the individual securities, to their fair value. Such write-downs would be included in earnings as realized losses to the extent the losses are associated with the credit quality of the issuer. Amortization of premiums and accretion of discounts are recognized in interest income using the interest method over the period to maturity.

Investment Securities Held to Maturity

Investment securities held to maturity consist of United States Government agencies, corporate bonds and state and political subdivision bonds. The Company has both the intent and ability to hold the securities to maturity. These securities are reported at amortized cost.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Loans

The Company divides the loans it originates into two segments, commercial and noncommercial loans. Commercial loans are broken down into the following classes: commercial loans, real estate commercial loans and other real estate construction loans. Noncommercial loans are divided into the following classes: real estate 1-4 family construction, real estate 1-4 family residential loans, home equity loans, consumer loans and other loans. The ability of the Company's borrowers to honor their contracts is largely dependent upon the real estate and general economic conditions in the Company's market area. Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the effective interest method. The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Credit card loans and other personal loans are typically charged off no later than 180 days past due. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. The exception to this policy is credit card loans that remain in accrual status 90 days or more until they are paid current or charged off.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these impaired loans is accounted for on the cash-basis until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Generally, a minimum of six months of sustained performance is required.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses. The provision for loan losses is expensed to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

Note 1 - Significant Accounting Policies (Continued)

The Company has different specific risks identified within the loan segments. Specific risks within the commercial loan segment arise with borrowers that are experiencing diminished operating cash flows, depreciated collateral values or prolonged sales and rental absorption periods. Concentrations within the portfolio if unmanaged, pose additional risk. Occasionally, the Company will purchase participation loans from other institutions and if not independently underwritten by the Bank, could carry additional risk. Generally, owner-occupied commercial real estate loans carry less risk than non-owner occupied. Specific risks within the non-commercial portfolio tend to be tied to economic factors including high unemployment and decreased real estate values. Risk to the Company is greater as home values deteriorate more rapidly than amortization in a loan, leaving little to no equity in properties, especially in junior lien positions. Concentration in the portfolio, such as home equity lines of credit, could pose additional risk if not appropriately managed.

The allowance for loan losses is evaluated both individually and collectively by loan class on a regular basis by management. Loans are collectively evaluated based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. Individually evaluated loans are based upon discounted cash flows or the underlying value of the collateral. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. In addition, regulatory examiners may require the Company to recognize adjustments to the allowance for loan losses based on their judgment about information available to them at the time of their assessment.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Homogeneous loans are collectively evaluated by loan class for impairment. However, once a loan is deemed impaired, it will be evaluated individually for specific impairment.

Troubled debt restructure loans (TDR) are modifications of a loan when a borrower is experiencing financial difficulty and the modification involves providing a concession to the existing loan contract. TDRs are considered to be impaired loans and are individually evaluated for impairment.

The portion of the Company's allowance for loan loss model related to general reserves captures the mean loss of individual loans within the loan portfolio and adds additional loss based on economic uncertainty and volatility. Specifically, the Company calculates probable losses on loans by computing a probability of loss and multiplying that by a loss given default derived from historical experience, thus deriving the estimated loss scenario by FDIC call report codes. Together, these components, as well as a reserve for qualitative factors based on management's discretion of economic conditions and portfolio concentrations form the basis of the allowance model. The loans that are impaired and included in the specific reserve are excluded from these calculations.

Loan Servicing Rights

The Company capitalizes mortgage and Small Business Administration (SBA) loan servicing rights when loans are sold and the loan servicing is retained. The cost of servicing rights is amortized in proportion to and over the estimated period of net servicing revenues is expected to be received based on projections of the amount and timing of estimated future cash flows. The amortization of servicing rights is recognized in the statement of income as an offset to other noninterest income. Servicing assets are periodically evaluated for impairment based upon their fair value. Fair value is based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance and charged to other expense.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Note 1 - Significant Accounting Policies (Continued)

Foreclosed Real Estate

Real estate properties acquired through foreclosure or other proceedings are initially recorded at fair value less costs to sell upon foreclosure, establishing a new cost basis. Annually, valuations are performed and the foreclosed property is adjusted to the lower of cost or fair value of the properties, less costs to sell. Any write-down at the time of transfer to foreclosed properties is charged to the allowance for loan losses. Subsequent write-downs are charged to noninterest expense, and costs related to the improvement of the property are capitalized if the fair value less cost to sell will allow it. If not, these costs are expensed also.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Land is carried at cost. Additions and major replacements or betterments which extend the useful lives of premises and equipment are capitalized. Maintenance, repairs and minor improvements are expensed as incurred. Depreciation is computed principally by the straight-line method over estimated useful lives, except in the case of leasehold improvements, which are amortized over the term of the leases, if shorter. Useful lives range from five to seven years for furniture, fixtures and equipment, to ten to thirty-nine years for leasehold improvements and buildings, respectively. Upon retirement or other disposition of the assets, the cost and the related accumulated depreciation are removed from the accounts and any gains or losses are reflected in income.

Restricted Stock

As a requirement for membership, the bank invests in the stock of the Federal Home Loan Bank of Atlanta ("FHLB") and Federal Reserve Bank ("FRB"). These investments are carried at cost. Due to the redemption provisions of these investments, the Company estimated that fair value approximates cost and that this investment was not impaired.

Stock-Based Compensation

The Company recognizes the cost of employee services received in exchange for an award of equity instruments in the financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period). Accounting Standards Codification (ASC) 718 also requires measurement of the cost of employee services received in exchange for an award based on the grant-date fair value of the award.

Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return and separate North Carolina income tax returns. The provision for income taxes in the accompanying consolidated financial statements is provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. We record uncertain tax positions in accordance with ASC 740 on the basis of a two-step process whereby (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold. The tax returns for the Company are subject to audit for the 2015 fiscal year and thereafter. It is the Company's policy to recognize interest and penalties associated with uncertain tax positions as components of other expenses in the income statement; however, if interest becomes a material amount, it would be reclassified as interest expense. There were no interest or penalties accrued during the years ended December 31, 2018, 2017 and 2016.

Note 1 - Significant Accounting Policies (Continued)

Revenue Recognition

Under ASU 2014-09, for revenue not associated with financial instruments, guarantees and lease contracts, we apply the following steps when recognizing revenue from contracts with customers: (i) identify the contract, (ii) identify the performance obligations, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations and (v) recognize revenue when performance obligation is satisfied. Our contracts with customers are generally short term in nature, typically due within one year or less or cancellable by us or our customer upon a short notice period. Performance obligations for our customer contracts are generally satisfied at a single point in time, typically when the transaction is complete, or over time. For performance obligations satisfied over time, we primarily use the output method, directly measuring the value of the products/services transferred to the customer, to determine when performance obligations have been satisfied. We typically receive payment from customers and recognize revenue concurrent with the satisfaction of our performance obligations. In most cases, this occurs within a single financial reporting period. For payments received in advance of the satisfaction of performance obligations, revenue recognition is deferred until such time the performance obligations have been satisfied. In cases where we have not received payment despite satisfaction of our performance obligations, we accrue an estimate of the amount due in the period our performance obligations have been satisfied. For contracts with variable components, only amounts for which collection is probable are accrued. We generally act in a principal capacity, on our own behalf, in most of our contracts with customers. In such transactions, we recognize revenue and the related costs to provide our services on a gross basis in our financial statements. In some cases, we act in an agent capacity, deriving revenue through assisting other entities in transactions with our customers. In such transactions, we recognized revenue and the related costs to provide our services on a net basis in our financial statements. These transactions primarily relate to insurance and brokerage commissions and fees derived from our customers' use of various interchange and ATM/debit card/credit card networks.

Fair Value of Financial Instruments

ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 does not require any new fair value measurements, but clarifies and standardizes some divergent practices that have emerged since prior guidance was issued. ASC 820 creates a three-level hierarchy under which individual fair value estimates are to be ranked based on the relative reliability of the inputs used in the valuation.

ASC 820 defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, the Company considers the principal or most advantageous market in which those assets or liabilities are sold and considers assumptions that market participants would use when pricing those assets or liabilities. Fair values determined using Level 1 inputs rely on active and observable markets to price identical assets or liabilities. In situations where identical assets and liabilities are not traded in active markets, fair values may be determined based on Level 2 inputs, which exist when observable data exists for similar assets and liabilities. Fair values for assets and liabilities for which identical or similar assets and liabilities are not actively traded in observable markets are based on Level 3 inputs, which are considered to be unobservable.

Among the Company’s assets and liabilities, investment securities available for sale are reported at their fair values on a recurring basis. Certain other assets are adjusted to their fair value on a nonrecurring basis, including other real estate owned, impaired loans, loans held for sale, which are carried at the lower of cost or market; and loan servicing rights, where fair value is determined using similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Deposits, short-term borrowings and long-term obligations are not reported at fair value.

Note 1 - Significant Accounting Policies (Continued)

Prices for US Treasury securities are readily available in the active markets in which those securities are traded, and the resulting fair values are shown in the 'Level 1 input' column. Prices for government agency securities, mortgage-backed securities and for state, county and municipal securities are obtained for similar securities, and the resulting fair values are shown in the 'Level 2 input' column. Prices for all other non-marketable investments are determined based on various assumptions that are not observable. The fair values for these investment securities are shown in the 'Level 3 input' column. Non-marketable investment securities, which are carried at their purchase price, include those that may only be redeemed by the issuer.

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment by using one of several methods including collateral value, fair value of similar debt or discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the present value of the expected repayments or fair value of collateral exceed the recorded investments in such loans. The Company typically bases the fair value of the collateral on appraised values which the Company considers Level 3 valuations.

Foreclosed assets are adjusted to fair value upon transfer of the loans to other real estate owned. Real estate acquired in settlement of loans is recorded initially at the estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charged to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. The Company typically bases the fair value of the collateral on appraised values which the Company considers Level 3 valuations.

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate, based on secondary market prices. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. These loans are recorded in Level 2.

Note 1 - Significant Accounting Policies (Continued)

Comprehensive Income

The Company reports as comprehensive income all changes in shareholders' equity during the year from sources other than shareholders. Other comprehensive income refers to all components (revenues, expenses, gains, and losses) of comprehensive income that are excluded from net income. The Company's only component of other comprehensive income is unrealized gains and losses, net of income tax, on investment securities available for sale. The following table presents the changes in accumulated other comprehensive income for the years ended December 31, 2018, 2017 and 2016:

	Year ended December 31,		
	2018	2017	2016
	(dollars in thousands)		
Beginning Balance	$ (1,107)	$ (1,318)	$ (212)
Accumulated Other comprehensive income (loss) before reclassifications, net of $171, ($185) and $359 tax effect, respectively	(587)	356	(772)
Amounts reclassified from accumulated other comprehensive income, net of $0, ($4), and $210 tax effect, respectively	—	10	(334)
Net current-period other comprehensive loss	(587)	366	(1,106)
Tax Cuts and Jobs Act of 2017, reclassification from AOCI to retained earnings, tax effect	—	(155)	—
Ending Balance	$ (1,694)	$ (1,107)	$ (1,318)

Earnings per Common Share

The Company had no outstanding stock options outstanding at December 31, 2018, compared to 13,116 shares of common stock outstanding at December 31, 2017. These options were dilutive because the strike price was lower than the current market price.

Basic earnings per share ("EPS") excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. On November 12, 2018, the Company's Board of Directors declared a 2% stock dividend payable on December 14, 2018 to shareholders of record on November 28, 2018. All information presented in the accompanying consolidated financial statements regarding earnings per share and weighted average number of shares outstanding has been computed giving effect to this stock dividend.

The computation of weighted average shares used in the calculation of basic and dilutive earnings per share is summarized below:

	2018	2017	2016
Weighted average number of common shares used in computing basic net income per common share	7,087,581	7,281,408	7,383,686
Effect of dilutive stock options	—	753	108
Weighted average number of common shares and dilutive potential common shares used in computing diluted net income per common share	7,087,581	7,282,160	7,383,794

Note 1 - Significant Accounting Policies (Continued)

Noncontrolling Interest

In January 2013 the Company's subsidiary banks issued a total of $7.9 million of Fixed Rate Noncumulative Perpetual Preferred Stock, Series B. The preferred stock qualified as Tier 1 capital at each bank and pays dividends at an annual rate of 5.30%. The preferred stock has no voting rights. This capital is presented as noncontrolling interest in the consolidated balance sheets. Dividends declared on this preferred stock are presented as earnings allocated to the noncontrolling interest in the consolidated statements of income. Effective September 1, 2013, the Fixed Rate Noncumulative Perpetual Preferred Stock, Series B was rolled into one issue under Uwharrie Bank in connection with the consolidation and name change.

During 2013, the Company's subsidiary bank, Uwharrie Bank, raised $2.8 million of Fixed Rate Noncumulative Perpetual Preferred Stock, Series C. The preferred stock qualifies as Tier 1 capital at the bank and pays dividends at an annual rate of 5.30%. The preferred stock has no voting rights.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, "Leases, Topic 842". This ASU increases the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The key difference between existing standards and this ASU is the requirement for lessees to recognize on their balance sheet all lease contracts with lease terms greater than 12 months, including operating leases. Both a right-of-use asset, representing the right to use the leased asset, and a lease liability, representing the contractual obligation, are required to be recognized on the balance sheet of the lessee at lease commencement. Further, this ASU requires lessees to classify leases as either operating or finance leases, which are substantially similar to the current operating and capital leases classifications. The distinction between these two classifications under the new standard does not relate to balance sheet treatment, but relates to treatment in the statements of income and cash flows. Lessor guidance remains largely unchanged with the exception of how a lessor determines the appropriate lease classification for each lease to better align the lessor guidance with revised lessee classification guidance. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. We expect the impact of the new standard to increase both assets and liabilities by $2 million to $2.5 million, which we will adopt during the first quarter of 2019. We currently have two properties that we operate with a lease term greater than one year, which would be recorded in the Consolidated Balance Sheets upon adoption. Capital ratios for the Company are expected to decrease 5 to 10 basis points due to the adoption of this standard.

ASU 2014-09. "Revenue from Contracts with Customers (Topic 606)" was adopted as of January 1, 2018. ASU 2014-09 requires us to report network costs associated with debit card and credit card transactions netted against the related fees from such transactions. Previously, such network costs were reported as a component of other non-interest expense. For the twelve months ended December 31, 2018, gross interchange and card transaction fees totaled $1.7 million while related network costs totaled $1.1 million. On a net basis, we reported $648,000 as interchange and card transaction fees in the accompanying Consolidated Statement of Income for the twelve months ended December 31, 2018. For the twelve months ended December 31, 2017 and December 31, 2016, interchange and card transaction fees were $1.6 million and $1.5 million, respectively, on a gross basis while related network costs were $913,000 and $860,000, respectively. As a result of the adoption of this standard, balances in prior years were re-classed to reflect the net presentation. In 2017 and 2016, interchange and card transaction fees, net were $656,000 and $629,000, respectively.

Note 1 - Significant Accounting Policies (Continued)

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". ASU 2016-13 requires an entity to utilize a new impairment model known as the current expected credit loss ("CECL") model to estimate its lifetime "expected credit loss" and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model is expected to result in earlier recognition of credit losses. ASU 2016-13 also requires new disclosures for financial assets measured at amortized cost, loans and available-for-sale debt securities. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. Entities will apply the standard's provisions as a cumulative effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. We have entered into a contract to outsource our current model with a CECL-ready vendor. We are currently evaluating the various methods of determining credit losses within the software. We expect to run the CECL model parallel to our current model in 2019. The impact of the adoption is dependent on loan portfolio composition and credit quality at adoption date, as well as economic conditions and forecasts at that time.

From time to time the FASB issues exposure drafts of proposed statements of financial accounting standards. Such exposure drafts are subject to comment from the public, to revisions by the FASB and to final issuance by the FASB as statements of financial accounting standards. Management considers the effect of the proposed statements on the consolidated financial statements of the Company and monitors the status of changes to and proposed effective dates of exposure drafts.

Reclassification

Certain amounts in the 2017 and 2016 financial statements have been reclassified to conform to the 2018 presentation. These reclassifications do not have a material impact on net income or shareholders' equity.

Note 2 - Investment Securities

Carrying amounts and fair values of securities available for sale and held to maturity are summarized below:

December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(dollars in thousands)		
Securities available for sale				
U.S. Treasury	$ 4,944	$ 11	$ —	$ 4,955
U.S. Government agencies	52,935	47	1,066	51,916
GSE - Mortgage-backed securities and CMO's	17,217	—	515	16,702
State and political subdivisions	13,373	5	423	12,955
Corporate bonds	5,030	6	265	4,771
Total securities available for sale	$ 93,499	$ 69	$ 2,269	$ 91,299

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(dollars in thousands)		
Securities held to maturity				
U.S. Government agencies	$ 855	$ —	$ 12	$ 843
State and political subdivisions	6,877	6	61	6,822
Corporate bonds	3,105	—	20	3,085
Total securities held to maturity	$ 10,837	$ 6	$ 93	$ 10,750

Note 2 - Investment Securities (Continued)

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(dollars in thousands)		
Securities available for sale				
U.S. Government agencies	$ 56,522	$ 33	$ 940	$ 55,615
GSE - Mortgage-backed securities and CMO's	21,253	12	374	20,891
State and political subdivisions	14,368	27	196	14,199
Corporate bonds	5,042	7	11	5,038
Total securities available for sale	$ 97,185	$ 79	$ 1,521	$ 95,743

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(dollars in thousands)		
Securities held to maturity				
U.S. Government agencies	$ 1,348	$ —	$ 9	$ 1,339
State and political subdivisions	6,925	23	36	6,912
Corporate bonds	3,185	25	—	3,210
Total securities held to maturity	$ 11,458	$ 48	$ 45	$ 11,461

At December 31, 2018 and December 31, 2017, the Company owned Federal Reserve Bank stock reported at cost of $509,000 and $508,000, respectively. Also, at December 31, 2018 and December 31, 2017, the Company owned Federal Home Loan Bank Stock (FHLB) of $585,000 and $559,000, respectively. The investments in Federal Reserve stock and FHLB stock are required investments related to the Company's membership in, and borrowings with, these banks and classified as restricted stock on the consolidated balance sheet. These investments are carried at cost since there is no ready market and redemption has historically been made at par value. The Company estimated that the fair value approximated cost and that these investments were not impaired at December 31, 2018.

Results from sales of securities available for sale for the years ended December 31, 2018, 2017 and 2016 are as follows:

	2018	2017	2016
		(dollars in thousands)	
Gross proceeds from sales	$ —	$ 8,918	$ 20,225
Realized gains from sales	$ —	$ —	$ 544
Realized losses from sales	—	(14)	—
Net realized gains (losses)	$ —	$ (14)	$ 544

At December 31, 2018 and 2017 securities available for sale with a carrying amount of $71.5 million and $75.5 million, respectively, were pledged as collateral on public deposits and for other purposes as required or permitted by law.

Note 2 - Investment Securities (Continued)

The following tables show the gross unrealized losses and fair value of investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2018 and December 31, 2017. We believe these unrealized losses on investment securities are a result of a volatile market and fluctuations in market prices due to a rise in interest rates, which will adjust if rates decline. Management does not believe these fluctuations are a reflection of the credit quality of the investments. At December 31, 2018, the unrealized losses on available for sale securities less than twelve months related to four government agency bonds, one government sponsored enterprise (GSE) mortgage backed security and one corporate bond. The Company had sixteen government agency bonds, sixteen GSE mortgage backed securities, one corporate bond and eight state and political subdivision bonds that had been in a loss position twelve months or more. At December 31, 2018, the unrealized losses on held to maturity securities less than twelve months related to two corporate bonds and two state and political subdivision bonds. The Company had the unrealized losses for twelve months or more in the held to maturity portfolio of one government agency and six state and political subdivision bonds. At December 31, 2017, the unrealized loss on available for sale securities less than twelve months related to six government agency bonds, four GSE mortgage backed securities, one corporate bond and one state and political subdivision bonds. The Company had fifteen government agency bonds, twelve GSE mortgage backed securities and seven state and political subdivision bonds that had been in a loss position for more than twelve months. The unrealized losses on held to maturity securities related to one government agency security and five state and political subdivision bonds.

December 31, 2018	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(dollars in thousands)					
Securities available for sale temporary impairment						
U.S. Gov't agencies	1,924	29	47,814	1,037	49,738	1,066
GSE-Mortgage-backed securities and CMO's	526	6	15,602	509	16,128	515
State and political	—	—	11,109	423	11,109	423
Corporate bonds	1,989	224	1,971	41	3,960	265
Total securities available for sale	$ 4,439	$ 259	$ 76,496	$ 2,010	$ 80,935	$ 2,269

December 31, 2018	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(dollars in thousands)					
Held to maturity temporary impairment						
U.S. Gov't agencies	$ —	$ —	$ 843	$ 12	$ 843	$ 12
State and political	755	6	5,157	55	5,912	61
Corporate bonds	3,085	20	—	—	3,085	20
Total securities held to maturity	$ 3,840	$ 26	$ 6,000	$ 67	$ 9,840	$ 93

December 31, 2017	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(dollars in thousands)					
Securities available for sale temporary impairment						
U.S. Gov't agencies	9,028	112	43,352	828	52,380	940
GSE-Mortgage-backed securities and CMO's	5,074	37	14,057	337	19,131	374
State and political	1,182	1	10,317	195	11,499	196
Corporate bonds	2,008	11	—	—	2,008	11
Total securities available for sale	$ 17,292	$ 161	$ 67,726	$ 1,360	$ 85,018	$ 1,521

Note 2 - Investment Securities (Continued)

December 31, 2017	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(dollars in thousands)					
Held to maturity temporary impairment						
U.S. Gov't agencies	$ 1,338	$ 9	$ —	$ —	$ 1,338	$ 9
State and political	4,269	36	—	—	4,269	36
Total securities held to maturity	$ 5,607	$ 45	$ —	$ —	$ 5,607	$ 45

Declines in the fair value of the investment portfolio are believed by management to be temporary in nature. When evaluating an investment for other-than-temporary impairment management considers among other things, the length of time and the extent to which the fair value has been in a loss position, the financial condition of the issuer and the intent and the ability of the Company to hold the investment until the loss position is recovered.

Any unrealized losses were largely due to increases in market interest rates over the yields available at the time of purchase. The fair value is expected to recover as the bonds approach their maturity date or market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality but that the losses are temporary in nature. At December 31, 2018, the Company does not intend to sell and is not likely to be required to sell the available for sale securities that were in a loss position prior to full recovery.

The following tables show contractual maturities of the investment portfolio as of December 31, 2018:

	Amortized Cost	Estimated Fair Value
	(dollars in thousands)	
Securities available for sale		
Due within one year	$ 18,514	$ 18,412
Due after one but within five years	36,147	35,189
Due after five but within ten years	8,314	8,045
Due after ten years	13,307	12,951
Mortgage backed securities	17,217	16,702
	$ 93,499	$ 91,299

	Amortized Cost	Estimated Fair Value
	(dollars in thousands)	
Securities held to maturity		
Due after one but within five years	8,651	8,578
Due after five but within ten years	2,186	2,172
	$ 10,837	$ 10,750

The mortgage-backed securities are shown separately as they are not due at a single maturity date.

Note 3 – Loans Held for Investment

The composition of net loans held for investment by class as of December 31, 2018 and 2017 is as follows:

	2018	2017
	(dollars in thousands)	
Commercial		
Commercial	$ 57,176	$ 54,912
Real estate - commercial	130,634	114,712
Other real estate construction loans	31,141	40,186
Noncommercial		
Real estate 1-4 family construction	7,805	5,024
Real estate - residential	76,564	78,023
Home equity	52,541	50,506
Consumer loans	12,159	10,774
Other loans	2,110	2,838
	370,130	356,975
Less:		
Allowance for loan losses	(2,374)	(2,458)
Deferred loan fees, net	(160)	(104)
Loans held for investment, net	$ 367,596	$ 354,413

Although the subsidiary bank loan portfolio is diversified, there is a concentration of mortgage real estate loans, primarily 1 to 4 family residential and construction mortgage loans and home equity loans, which represent 36.99% of total loans. Additionally, there is a concentration in commercial loans secured primarily by real estate, shopping center locations, commercial land development, commercial buildings, equipment, and general commercial loans that represent 59.16% of total loans. There is not a concentration of a particular type of credit in this group of commercial loans.

Total recorded investment in impaired loans, which consisted of nonaccrual loans and other loans identified by management as impaired, totaled $4.5 million and $5.6 million at December 31, 2018 and 2017, respectively. There were no loans 90 days past due and still accruing at December 31, 2018 or at December 31, 2017.

Restructured loans at December 31, 2018 and December 31, 2017 totaled $3.5 million and $4.6 million, respectively, and are included in the impaired loan total. The carrying value of foreclosed properties held as other real estate was $1.0 million and $2.3 million at December 31, 2018 and 2017, respectively. The Company had $371,000 in foreclosed residential real estate and $161,000 of residential real estate in process of foreclosure at December 31, 2018.

The Company had loans of $187.6 million and $175.7 million pledged to borrowings at Federal Home Loan Bank and the Federal Reserve Bank at December 31, 2018 and 2017, respectively.

The Company's loan policies are written to address loan-to-value ratios and collateralization methods with respect to each lending category. Consideration is given to the economic and credit risk of lending areas and customers associated with each category.

Note 4 - Allowance for Loan Losses

Changes in the allowance for loan losses for the years ended December 31, 2018, 2017 and 2016 are presented below:

Commercial	2018	2017	2016
	(dollars in thousands)		
Balance, beginning of year	$ 1,401	$ 1,404	$ 1,310
Provision (recovery) charged to operations	132	(72)	175
Charge-offs	(245)	(31)	(146)
Recoveries	46	100	65
Net (charge-offs) recoveries	(199)	69	(81)
Other	—	—	—
Balance, end of year	$ 1,334	$ 1,401	$ 1,404

Note 4 - Allowance for Loan Losses (Continued)

Non-Commercial	2018	2017	2016
	(dollars in thousands)		
Balance, beginning of year	$ 1,057	$ 1,303	$ 1,574
Provision (recovery) charged to operations	(42)	(164)	(263)
Charge-offs	(81)	(177)	(244)
Recoveries	106	95	236
Net (charge-offs) recoveries	25	(82)	(8)
Other	—	—	—
Balance, end of year	$ 1,040	$ 1,057	$ 1,303

Total	2018	2017	2016
	(dollars in thousands)		
Balance, beginning of year	$ 2,458	$ 2,707	$ 2,884
Provision (recovery) charged to operations	90	(236)	(88)
Charge-offs	(326)	(208)	(390)
Recoveries	152	195	301
Net (charge-offs)	(174)	(13)	(89)
Other	—	—	—
Balance, end of year	$ 2,374	$ 2,458	$ 2,707

The following table shows period-end loans and reserve balances by loan segment both individually and collectively evaluated for impairment at December 31, 2018 and 2017:

December 31, 2018	Individually Evaluated		Collectively Evaluated		Total	
	Reserve	Loans	Reserve	Loans	Reserve	Loans
	(dollars in thousands)					
Commercial	$ 42	$ 1,359	$ 1,292	$ 217,592	$ 1,334	$ 218,951
Non-Commercial	112	3,119	928	147,900	1,040	151,019
Total	$ 154	$ 4,478	$ 2,220	$ 365,492	$ 2,374	$ 369,970

December 31, 2017	Individually Evaluated		Collectively Evaluated		Total	
	Reserve	Loans	Reserve	Loans	Reserve	Loans
	(dollars in thousands)					
Commercial	$ 22	$ 1,788	$ 1,379	$ 208,022	$ 1,401	$ 209,810
Non-Commercial	172	3,781	885	143,280	1,057	147,061
Total	$ 194	$ 5,569	$ 2,264	$ 351,302	$ 2,458	$ 356,871

Note 4 - Allowance for Loan Losses (Continued)

Past due loan information is used by management when assessing the adequacy of the allowance for loan loss. The following tables summarize the past due information of the loan portfolio by class:

December 31, 2018	Loans 30-89 Days Past Due	Loans 90 Days or More Past due and Non - Accrual	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
	(dollars in thousands)					
Commercial	$ 54	$ —	$ 54	$ 57,122	$ 57,176	$ —
Real estate - commercial	—	273	273	130,361	130,634	—
Other real estate construction	—	47	47	31,094	31,141	—
Real estate construction	—	—	—	7,805	7,805	—
Real estate - residential	890	606	1,496	74,908	76,404	—
Home equity	100	118	218	52,323	52,541	—
Consumer loan	86	—	86	12,073	12,159	—
Other loans	—	—	—	2,110	2,110	—
Total	$ 1,130	$ 1,044	$ 2,174	$ 367,796	$ 369,970	$ —

December 31, 2017	Loans 30-89 Days Past Due	Loans 90 Days or More Past due and Non - Accrual	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
	(dollars in thousands)					
Commercial	$ —	$ 34	$ 34	$ 54,878	$ 54,912	$ —
Real estate - commercial	—	377	377	114,335	114,712	—
Other real estate construction	—	51	51	40,135	40,186	—
Real estate construction	—	—	—	5,024	5,024	—
Real estate - residential	579	540	1,119	76,800	77,919	—
Home equity	108	23	131	50,375	50,506	—
Consumer loan	83	—	83	10,691	10,774	—
Other loans	—	—	—	2,838	2,838	—
Total	$ 770	$ 1,025	$ 1,795	$ 355,076	$ 356,871	$ —

Once a loan becomes 90 days past due, the loan is automatically transferred to a nonaccrual status. The exception to this policy is credit card loans that remain in accrual status 90 days or more until they are paid current or charged off.

Note 4 - Allowance for Loan Losses (Continued)

The composition of nonaccrual loans by class as of December 31, 2018 and 2017 is as follows:

	2018	2017
	(dollars in thousands)	
Commercial	$ —	$ 34
Real estate - commercial	273	377
Other real estate construction	47	51
Real estate 1 – 4 family construction	—	—
Real estate – residential	606	540
Home equity	118	23
Consumer loans	—	—
Other loans	—	—
	$ 1,044	$ 1,025

Loans that are in nonaccrual status or 90 days past due and still accruing are considered to be nonperforming. Nonperforming loans were $1.0 million at both December 31, 2018 and December 31, 2017.

Management uses a risk-grading program to facilitate the evaluation of probable inherent loan losses and to measure the adequacy of the allowance for loan losses. In this program, risk grades are initially assigned by the loan officers and reviewed and monitored by the lenders and credit administration on an ongoing basis. The program has eight risk grades summarized in five categories as follows:

Pass: Loans that are pass grade credits include loans that are fundamentally sound and risk factors are reasonable and acceptable. They generally conform to policy with only minor exceptions and any major exceptions are clearly mitigated by other economic factors.

Watch: Loans that are watch credits include loans on management's watch list where a risk concern may be anticipated in the near future.

Substandard: Loans that are considered substandard are loans that are inadequately protected by current sound net worth, paying capacity of the obligor or the value of the collateral pledged. All nonaccrual loans are graded as substandard.

Doubtful: Loans that are considered to be doubtful have all weaknesses inherent in loans classified substandard, plus the added characteristic that the weaknesses make the collection or liquidation in full on the basis of current existing facts, conditions and values highly questionable and improbable.

Loss: Loans that are considered to be a loss are considered to be uncollectible and of such little value that their continuance as bankable assets is not warranted.

The tables below summarize risk grades of the loan portfolio by class as of December 31, 2018 and 2017:

December 31, 2018	Pass	Watch	Sub-standard	Doubtful	Total
			(dollars in thousands)		
Commercial	$ 55,883	$ 1,284	$ 9	$ —	$ 57,176
Real estate - commercial	127,592	1,518	1,524	—	130,634
Other real estate construction	28,711	2,070	360	—	31,141
Real estate 1 - 4 family construction	7,805	—	—	—	7,805
Real estate - residential	69,900	5,470	1,034	—	76,404
Home equity	52,028	395	118	—	52,541
Consumer loans	12,085	73	1	—	12,159
Other loans	2,110	—	—	—	2,110
Total	$ 356,114	$ 10,810	$ 3,046	$ —	$ 369,970

Note 4 - Allowance for Loan Losses (Continued)

December 31, 2017	Pass	Watch	Sub-standard	Doubtful	Total
	(dollars in thousands)				
Commercial	$ 53,649	$ 1,215	$ 48	$ —	$ 54,912
Real estate - commercial	109,224	3,321	2,167	—	114,712
Other real estate construction	38,082	1,713	391	—	40,186
Real estate 1 - 4 family construction	5,024	—	—	—	5,024
Real estate - residential	69,645	7,119	1,155	—	77,919
Home equity	49,743	740	23	—	50,506
Consumer loans	10,709	64	1	—	10,774
Other loans	2,838	—	—	—	2,838
Total	$ 338,914	$ 14,172	$ 3,785	$ —	$ 356,871

The following tables show the breakdown between performing and nonperforming loans by class as of December 31, 2018 and 2017:

December 31, 2018	Performing	Non-Performing	Total
	(dollars in thousands)		
Commercial	$ 57,176	$ —	$ 57,176
Real estate - commercial	130,361	273	130,634
Other real estate construction	31,094	47	31,141
Real estate 1 – 4 family construction	7,805	—	7,805
Real estate – residential	75,798	606	76,404
Home equity	52,423	118	52,541
Consumer loans	12,159	—	12,159
Other loans	2,110	—	2,110
Total	$ 368,926	$ 1,044	$ 369,970

December 31, 2017	Performing	Non-Performing	Total
	(dollars in thousands)		
Commercial	$ 54,878	$ 34	$ 54,912
Real estate - commercial	114,335	377	114,712
Other real estate construction	40,135	51	40,186
Real estate 1 – 4 family construction	5,024	—	5,024
Real estate – residential	77,379	540	77,919
Home equity	50,483	23	50,506
Consumer loans	10,774	—	10,774
Other loans	2,838	—	2,838
Total	$ 355,846	$ 1,025	$ 356,871

Note 4 - Allowance for Loan Losses (Continued)

Loans are considered impaired when, based on current information and events it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement. If a loan is deemed impaired, a valuation analysis is performed and a specific reserve is allocated if necessary. The tables below summarize the loans deemed impaired and the amount of specific reserves allocated by class as of December 31, 2018 and 2017:

	As of December 31, 2018				Year Ended December 31, 2018	
	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Related Allowance	Average Recorded Investment	Interest Income
	(dollars in thousands)					
Commercial	$ 7	$ —	$ 7	$ —	$ 32	$ —
Real estate - commercial	1,258	93	1,165	38	1,503	51
Other real estate construction	632	47	47	4	132	3
Real estate 1 -4 family construction	—	—	—	—	—	—
Real estate - residential	3,005	901	2,104	110	3,505	145
Home equity	83	51	32	1	54	3
Consumer loans	31	—	31	1	40	3
Other loans	—	—	—	—	—	—
Total	$ 5,016	$ 1,092	$ 3,386	$ 154	$ 5,266	$ 205

	As of December 31, 2017				Year Ended December 31, 2017	
	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Related Allowance	Average Recorded Investment	Interest Income
	(dollars in thousands)					
Commercial	$ 44	$ 10	$ 34	$ 10	$ 25	$ 2
Real estate - commercial	1,593	1,305	288	9	1,650	72
Other real estate construction	689	101	50	3	208	5
Real estate 1 -4 family construction	—	—	—	—	3	—
Real estate - residential	3,701	1,319	2,382	171	3,762	179
Home equity	35	22	13	1	66	1
Consumer loans	45	45	—	—	53	4
Other loans	—	—	—	—	—	—
Total	$ 6,107	$ 2,802	$ 2,767	$ 194	$ 5,767	$ 263

	As of December 31, 2016				Year Ended December 31, 2016	
	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Related Allowance	Average Recorded Investment	Interest Income
	(dollars in thousands)					
Commercial	$ 29	$ 13	$ 16	$ 2	$ 31	$ 8
Real estate - commercial	1,671	1,552	119	9	887	64
Other real estate construction	831	190	103	5	296	6
Real estate 1 -4 family construction	6	—	6	—	9	1
Real estate - residential	3,994	2,072	1,922	123	4,434	201
Home equity	35	35	—	—	49	1
Consumer loans	61	61	—	—	71	6
Other loans	—	—	—	—	—	—
Total	$ 6,627	$ 3,923	$ 2,166	$ 139	$ 5,777	$ 287

Note 5 – Troubled Debt Restructures

A modification of a loan constitutes a troubled debt restructuring ("TDR") when a borrower is experiencing financial difficulty and the modification involves providing a concession to the existing loan contract. The Company offers various types of concessions when modifying loans to troubled borrowers, however, forgiveness of principal is rarely granted. Concessions offered are term extensions, capitalizing accrued interest, reducing interest rates to below current market rates or a combination of any of these. Combinations from time to time may include allowing a customer to be placed on interest-only payments. The presentations below in the "other" category are TDR's with a combination of concessions. At the time of a TDR, additional collateral or a guarantor may be requested.

Loans modified as TDRs are typically already on nonaccrual status and in some cases, partial chargeoffs may have already been taken against the outstanding loan balance. The Company classifies TDR loans as impaired loans and evaluates the need for an allowance for loan loss on a loan-by-loan basis. An allowance is based on either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the estimated fair value of the underlying collateral less any selling costs, if the loan is deemed to be collateral dependent.

For the twelve months ended December 31, 2018, 2017 and 2016, the following table presents a breakdown of the types of concessions made by loan class:

	Year Ended December 31, 2018		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(dollars in thousands)	
Extend payment terms:			
Commercial	—	$ —	$ —
Real estate - commercial	—	—	—
Other real estate construction	—	—	—
Real estate 1 – 4 family construction	—	—	—
Real estate – residential	—	—	—
Home equity	—	—	—
Consumer loans	—	—	—
Other loans	—	—	—
	—	$ —	$ —
Other:			
Commercial	—	$ —	$ —
Real estate - commercial	—	—	—
Other real estate construction	—	—	—
Real estate 1 – 4 family construction	—	—	—
Real estate – residential	6	434	387
Home equity	—	—	—
Consumer loans	—	—	—
Other loans	—	—	—
	6	$ 434	$ 387
Total	6	$ 434	$ 387

Note 5 – Troubled Debt Restructures (Continued)

	Year Ended December 31, 2017		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(dollars in thousands)	
Extend payment terms:			
Commercial	—	$ —	$ —
Real estate - commercial	—	—	—
Other real estate construction	—	—	—
Real estate 1 – 4 family construction	—	—	—
Real estate – residential	—	—	—
Home equity	—	—	—
Consumer loans	—	—	—
Other loans	—	—	—
	—	$ —	$ —
Other:			
Commercial	1	$ 12	$ 10
Real estate - commercial	2	178	173
Other real estate construction	—	—	—
Real estate 1 – 4 family construction	—	—	—
Real estate – residential	6	708	675
Home equity	—	—	—
Consumer loans	1	9	5
Other loans	—	—	—
	10	$ 907	$ 863
Total	10	$ 907	$ 863

	Year Ended December 31, 2016		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(dollars in thousands)	
Extend payment terms:			
Commercial	—	$ —	$ —
Real estate - commercial	—	—	—
Other real estate construction	—	—	—
Real estate 1 – 4 family construction	—	—	—
Real estate – residential	—	—	—
Home equity	—	—	—
Consumer loans	—	—	—
Other loans	—	—	—
	—	$ —	$ —
Other:			
Commercial	—	$ —	$ —
Real estate - commercial	—	—	—
Other real estate construction	—	—	—
Real estate 1 – 4 family construction	—	—	—
Real estate – residential	4	482	328
Home equity	—	—	—
Consumer loans	—	—	—
Other loans	—	—	—
	4	$ 482	$ 328
Total	4	$ 482	$ 328

Note 5 – Troubled Debt Restructures (Continued)

During the twelve months ended December 31, 2018 there was one TDR for which there was a payment default. There was one payment default in 2017 and one payment default on TDRs in 2016. The outstanding balance of TDRs at December 31, 2018 is $3.5 million with $3.4 million still accruing compared to an outstanding balance at December 31, 2017 of $4.6 million with $4.5 million still accruing.

A default on a troubled debt restructure is defined as being past due 90 days or being out of compliance with the modification agreement. As previously mentioned, the Company considers TDRs to be impaired loans and has $144,000 in the allowance for loan loss as of December 31, 2018, as a direct result of these TDRs. At December 31, 2017 and 2016 there was $171,000 and $98,000 in the allowance for loan loss related to TDRs, respectively.

The following table presents the successes and failures of the types of modifications within the previous twelve months as of December 31, 2018, 2017 and 2016:

	Paid In Full		Paying as restructured		Converted to nonaccrual		Foreclosure/ Default	
	Number of Loans	Recorded Investments	Number of Loans	Recorded Investments	Number of Loans	Recorded Investments	Number of Loans	Recorded Investments
				(dollars in thousands)				
December 31, 2018								
Extended payment terms	—	$ —	—	$ —	—	$ —	—	$ —
Other	8	1,056	6	434	—	—	1	242
Total	8	$ 1,056	6	$ 434	—	$ —	1	$ 242

	Paid In Full		Paying as restructured		Converted to nonaccrual		Foreclosure/ Default	
	Number of Loans	Recorded Investments	Number of Loans	Recorded Investments	Number of Loans	Recorded Investments	Number of Loans	Recorded Investments
				(dollars in thousands)				
December 31, 2017								
Extended payment terms	—	$ —	—	$ —	—	$ —	—	$ —
Other	6	217	10	863	—	—	1	15
Total	6	$ 217	10	$ 863	—	$ —	1	$ 15

	Paid In Full		Paying as restructured		Converted to nonaccrual		Foreclosure/ Default	
	Number of Loans	Recorded Investments	Number of Loans	Recorded Investments	Number of Loans	Recorded Investments	Number of Loans	Recorded Investments
				(dollars in thousands)				
December 31, 2016								
Extended payment terms	—	$ —	—	$ —	—	$ —	—	$ —
Other	6	844	4	482	—	—	4	419
Total	6	$ 844	4	$ 482	—	$ —	4	$ 419

Note 6 – Loan Servicing Assets

The principal balance of loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage and other loans serviced for others were approximately $418.6 million and $435.5 million at December 31, 2018 and 2017, respectively. The carrying value of capitalized servicing rights, net of valuation allowances, is included in other assets. A summary of loan servicing rights follows:

	2018	2017	2016
		(dollars in thousands)	
Beginning of year servicing rights:	$ 2,125	$ 2,271	$ 2,040
Amounts capitalized	388	587	982
Amortization	(663)	(733)	(751)
Impairment	—	—	—
End of year	$ 1,850	$ 2,125	$ 2,271

Note 6 – Mortgage Servicing Assets (Continued)

Amortization expense is estimated as follows:

Year ending December 31, (dollars in thousands)	
2019	$ 437
2020	378
2021	319
2022	261
2023	202
Thereafter	253
Total	$ 1,850

The amortization does not anticipate or pro-forma loan prepayments.

The fair value of mortgage servicing rights was $3.5 and $3.3 million at December 31, 2018 and 2017, respectively. The key assumptions used to value mortgage servicing rights were as follows:

	2018	2017
Weighted average remaining life	259 months	264 months
Weighted average discount rate	12%	13%
Weighted average coupon	4.02%	3.94%
Weighted average prepayment speed	132%	150%

Note 7 - Premises and Equipment

The major classes of premises and equipment and the total accumulated depreciation at December 31, 2018 and 2017 are listed below:

	2018	2017
	(dollars in thousands)	
Land	$ 3,215	$ 3,150
Building and improvements	15,150	12,504
Furniture and equipment	8,808	10,255
Total fixed assets	27,173	25,909
Less accumulated depreciation	12,373	11,181
Net fixed assets	$ 14,800	$ 14,728

Depreciation expense was $1.1 million for the year ended December 31, 2018 compared to $857,000 and $1.0 million for the comparable periods of 2017 and 2016, respectively.

Note 8 – Leases

In August 2016, Uwharrie Bank entered into a lease for its loan production office in Charlotte. The terms are a five-year lease period expiring in September of 2021 with two five-year renewal options at the expiration of the initial term. Monthly lease payments of $12,656 were due for the first year. The payments escalate 2.625% each year on the anniversary.

Uwharrie Bank entered into a lease in 2018 for a branch in Charlotte, North Carolina. The lease has a ten-year term expiring in 2028 with two five-year renewal options. Monthly lease payments of $14,683 are due for the first year. The payments then escalate 2% each year on the anniversary.

Total rental expense related to the operating leases was $339,782, $155,575, and $89,369 for the years ended December 31, 2018, 2017 and 2016, respectively, and is included in net occupancy expense. A table detailing the lease expense associated with the aforementioned properties is below.

Year ending December 31, (dollars in thousands)	
2019	$ 345
2020	345
2021	306
2022	189
2023	189
Thereafter	812
Total	$ 2,186

Note 9 - Deposits

The composition of deposits at December 31, 2018 and 2017 is as follows:

	2018		2017	
	Amount	Percentage of Total	Amount	Percentage of Total
	(dollars in thousands)			
Demand noninterest-bearing	$ 129,714	23%	$ 113,762	22%
Interest checking and money market	324,391	57%	289,953	57%
Savings	54,784	10%	45,698	8%
Time deposits $250,000 and over	7,920	1%	7,933	2%
Other time deposits	50,092	9%	55,282	11%
Total	$ 566,901	100%	$ 512,628	100%

The maturities of fixed-rate time deposits at December 31, 2018 are reflected in the table below:

Year ending December 31,	Time Deposits $250,000 and Over	Other Time Deposits
	(dollars in thousands)	
2019	2,813	29,755
2020	3,911	9,849
2021	640	7,325
2022	556	2,349
2023	—	814
Thereafter	—	—
Total	$ 7,920	$ 50,092

Note 10 - Short-Term Borrowed Funds

The following tables set forth certain information regarding the amounts, year-end weighted average rates, average balances, weighted average rate, and maximum month-end balances for short-term borrowed funds, at and during 2018 and 2017:

	2018		2017	
	Amount	Rate	Amount	Rate
	(dollars in thousands)			
At year-end				
Master notes and other short-term borrowing	$ 1,190	1.49%	$ 1,752	0.50%
Notes payable	—	—	—	—
Short-term line of credit	—	—	—	—
	$ 1,190	1.49%	$ 1,752	0.50%

	2018		2017	
	Amount	Rate	Amount	Rate
	(dollars in thousands)			
Average for the year				
Federal funds purchased	$ 2	2.92%	$ 2	1.95%
Master notes and other short-term borrowing	1,638	1.00%	1,861	0.28%
Notes payable	—	—	6	5.81%
Short-term line of credit	—	—	275	3.58%
	$ 1,640	1.00%	$ 2,144	0.72%

Note 10 - Short-Term Borrowed Funds (Continued)

	2018	2017
	(dollars in thousands)	
Maximum month-end balance		
Master notes and other short-term borrowing	2,006	2,448
Notes payable	—	12
Short-term line of credit	—	1,000

Master notes and other secured borrowings represent an overnight investment in commercial paper issued by the Company to customers of its subsidiary bank, where an agreement is in place.

The subsidiary bank has combined available lines of credit for federal funds and Federal Reserve discount window availability in the amount of $56.9 million at December 31, 2018.

Note 11 - Long-Term Debt

The Company has a line of credit with the Federal Home Loan Bank secured by qualifying first lien and second mortgage loans and commercial real estate loans with eligible collateral value of $94.0 million with remaining availability of $26.0 million at December 31, 2018. There were no long-term advances under this line at December 31, 2018 and at December 31, 2017. The subsidiary bank also has standby letters of credit issued by the Federal Home Loan Bank to be used as collateral for public funds deposits. The aggregate amount of the letters of credit was $68.0 million at December 31, 2018.

During the first quarter of 2014, the Company conducted a private placement offering of fixed rate junior subordinated debt securities at $1,000 per security with a required minimum investment of $50,000. The offering raised $9.5 million, of which the entire $9.5 million was outstanding at December 31, 2018. These securities have a final maturity date of March 31, 2024 and may be redeemed by the Company after March 31, 2019. The junior subordinated debt pays interest quarterly at an annual fixed rate of 5.75%. All proceeds of this private placement qualify and are included in the calculation of Tier 2 capital. Once the final maturity drops under five years, the Company must impose a twenty percent annual reduction per year of the amount of the proceeds from the sale of these securities that are eligible to be counted as Tier 2 capital. The Company will have a twenty percent reduction beginning at March 31, 2019.

As of December 31, 2018, the scheduled maturities of these long-term borrowings are as follows:

Year ending December 31,	
(dollars in thousands)	
2019	$ —
2020	—
2021	440
2022	—
2023	—
Thereafter	9,534
Total	$ 9,974

Note 12 - Income Tax Matters

The significant components of income tax expense for the years ended December 31, 2018, 2017 and 2016 are summarized as follows:

	2018	2017	2016
	(dollars in thousands)		
Current tax expense:			
Federal	$ 524	$ 1,022	$ 674
State	94	96	129
Total	618	1,118	803
Deferred tax expense:			
Federal	(47)	680	47
State	8	11	45
Total	(39)	691	92
Net provision for income taxes	$ 579	$ 1,809	$ 895

The difference between the provision for income taxes and the amounts computed by applying the statutory federal income tax rate of 21% to income before income taxes is summarized below:

	2018	2017	2016
	(dollars in thousands)		
Tax computed at the statutory federal rate	$ 642	$ 1,163	$ 1,056
Increases (decrease) resulting from:			
Tax exempt interest, net	(143)	(238)	(298)
State income taxes, net of federal benefit	80	71	115
Revalue of deferred tax assets	0	806	—
Other	0	7	22
Provision for income taxes	$ 579	$ 1,809	$ 895

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of deferred taxes at December 31, 2018, 2017 and 2016 are as follows:

	2018	2017	2016
	(dollars in thousands)		
Deferred tax assets relating to:			
Allowance for loan losses	$ 545	$ 569	$ 974
Deferred compensation	1,012	936	1,243
Other	104	173	396
Net unrealized loss on securities available for sale	505	335	678
Total deferred tax assets	2,166	2,013	3,291
Deferred tax liabilities relating to:			
Premises and equipment	(159)	(213)	(295)
Deferred loans fees and costs	(163)	(148)	(233)
Loan servicing	(99)	(116)	(193)
Total deferred tax liabilities	(421)	(477)	(721)
Net recorded deferred tax asset	$ 1,745	$ 1,536	$ 2,570

The net deferred tax asset is included in other assets on the accompanying consolidated balance sheets.

The Tax Cut and Jobs Act, or the Tax Act, was enacted on December 22, 2017. The SEC issued Staff Accounting Bulletin No. 118 to address uncertainty in applying ASC Topic 740 in the reporting period in which the Tax Act was enacted. The Tax Act included a reduction to the corporate income tax rate from 35 percent to 21 percent effective January 1, 2018. Tax expense was increased in the fourth quarter of 2017 by a provisional $806,000 to reflect the Tax Act changes. This increase includes $155,000 tax expense related to the revaluation of the deferred tax asset for items charged to AOCI. The revaluation of deferred tax assets related to items charged to AOCI was a component of 2017 income tax expense and recognized in continuing operations as required by ASC Topic 740.

Note 13 - Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk

The subsidiary bank is party to financial instruments with off-balance sheet risks in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, lines of credit and standby letters of credit. These instruments involve elements of credit risk in excess of amounts recognized in the accompanying financial statements.

The subsidiary bank's risk of loss with the unfunded loans and lines of credit or standby letters of credit is represented by the contractual amount of these instruments. The Bank uses the same credit policies in making commitments under such instruments as it does for on-balance sheet instruments. The amount of collateral obtained, if any, is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, inventory, real estate and time deposits with financial institutions. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Credit card commitments are unsecured.

As of December 31, 2018 and 2017, outstanding financial instruments whose contract amounts represent credit risk were as follows:

	2018	2017
	(dollars in thousands)	
Commitments to extend credit	$ 110,329	$ 112,637
Credit card commitments	10,611	10,405
Standby letters of credit	933	1,360
	$ 121,873	$ 124,402

Contingencies

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the consolidated financial statements.

Financial Instruments with Concentration of Credit Risk

The subsidiary bank makes commercial, agricultural, real estate mortgage, home equity and consumer loans primarily in Stanly, Anson, Cabarrus and Mecklenburg counties. A substantial portion of the Company's customers' ability to honor their contracts is dependent on the economy in these counties.

Although the Company's composition of loans is diversified, there is some concentration of mortgage real estate loans, primarily 1-to-4 family residential mortgage loans and in commercial loans secured primarily by real estate, shopping center locations, commercial land development, commercial buildings and equipment in the total portfolio. The Bank's policy is to abide by real estate loan-to-value margin limits corresponding to guidelines issued by the federal supervisory agencies on March 19, 1993. Lending policy for all loans requires that they be supported by sufficient cash flows at the time of origination.

Note 14 - Related Party Transactions

The Company has granted loans to certain directors and executive officers and their related interests. Such loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other borrowers and, in management's opinion, do not involve more than the normal risk of collectability. All loans to directors and executive officers or their interests are submitted to the Board of Directors for approval. A summary of loans to directors, executive officers and their related interests follows:

	2018	2017
	(dollars in thousands)	
Balance, at beginning of the year	$ 8,692	$ 14,815
Disbursements during the year	1,902	620
Collections during the year	(1,310)	(6,743)
Balance, at end of the year	$ 9,284	$ 8,692

At December 31, 2018, the Company had approved, but unused lines of credit, totaling $3.9 million to executive officers and directors, and their related interests, compared to $3.74 million at December 31, 2017. In addition, at December 31, 2018, the Company had $10.6 million of deposits for executive officers and directors, and their related interest compared to $7.9 million at December 31, 2017.

During 2017, the Company's broker-dealer subsidiary (The Strategic Alliance Corp) brokered a private placement offering in the amount of $4.1 million, producing revenue in 2017 of $202,250. Certain officers and directors of the Company's bank subsidiary, Uwharrie Bank, were involved with the transaction as investors in the private placement.

During 2015, the Company's subsidiary, Uwharrie Bank, entered into a lease for a facility with an executive officer of Uwharrie Bank. This lease was a month-to-month lease with monthly rental payments of $2,888. In August 2016, this lease was expanded to a five-year lease period expiring in September of 2021 with two five-year renewal options at the expiration of the initial term. Total annual expense for the lease was $155,575, $155,575, and $89,369 for the years ended December 31, 2018, 2017, and 2016, respectively and is included in net occupancy expense.

Note 15 – Shareholders' Equity and Regulatory Matters

The Company and its banking subsidiary are subject to certain requirements imposed by state and federal banking statutes and regulations. These requirements, among other things, establish minimum levels of capital, restrict the amount of dividends that may be distributed, and require that reserves on deposit liabilities be maintained in the form of vault cash or deposits with the Federal Reserve Bank.

For the reserve maintenance period in effect at December 31, 2018, the subsidiary bank was required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank in the aggregate amount of $3.1 million as reserves on deposit liabilities.

The Company and its subsidiary bank are subject to federal regulatory risk-based capital guidelines for banks and bank holding companies. Each must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices which measure Total Capital, Tier 1 Capital and Common Equity Tier 1 Capital to risk-weighted assets and Tier 1 Capital to average assets.

In 2013, bank regulatory agencies approved regulatory capital guidelines ("Basel III") aimed at strengthening existing capital requirements for banking organizations. The rules include a common equity Tier 1 capital to risk-weighted assets minimum ratio of 4.50%, a minimum ratio of Tier 1 capital to risk-weighted assets of 6.00%, require a minimum ratio of total capital to risk-weighted assets of 8.00%, and require a minimum Tier 1 leverage ratio of 4.00%. A capital conservation buffer, comprised of common equity Tier 1 capital, was also established above the regulatory minimum capital requirements. This capital conservation buffer will be phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increase each subsequent year by an additional 0.625% until reaching its final level of 2.50% on January 1, 2019. Strict eligibility criteria for regulatory capital instruments were also implemented under the rules. The rules also revise the definition and calculation of Tier 1 capital, total capital, and risk-weighted assets.

The phase-in period for the rules became effective for the Company and its subsidiary bank on January 1, 2015, with full compliance of all the rules' requirements phased in over a multi-year schedule, to be fully phased-in by January 1, 2019. As of December 31, 2018, the Company and its subsidiary bank continue to exceed minimum capital standards and remain well-capitalized under the new rules.

Quantitative measures established by regulation to ensure capital adequacy and the Company's consolidated capital ratios are set forth in the table below. The Company expects to meet or exceed these minimums without altering current operations or strategy.

	Actual		Minimum For Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
December 31, 2018						
Total Capital to Risk Weighted Assets:						
Consolidated	$ 58,777	14.0%	$ 33,660	8.0%	$ 42,076	10.0%
Uwharrie Bank	57,765	13.8%	33,460	8.0%	41,826	10.0%
Tier 1 Capital to Risk Weighted Assets:						
Consolidated	46,869	11.1%	25,245	6.0%	33,660	8.0%
Uwharrie Bank	55,391	13.2%	25,095	6.0%	33,460	8.0%
Common Equity Tier 1 Capital to Risk Weighted Assets:						
Consolidated	36,214	8.6%	18,934	4.5%	27,349	6.5%
Uwharrie Bank	44,736	10.7%	18,821	4.5%	27,187	6.5%
Tier 1 Capital to Average Assets:						
Consolidated	46,869	7.4%	25,347	4.0%	31,683	5.0%
Uwharrie Bank	55,391	8.8%	25,254	4.0%	31,567	5.0%

Note 15 – Shareholders' Equity and Regulatory Matters (Continued)

	Actual		Minimum For Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
December 31, 2017						
Total Capital to Risk Weighted Assets:						
Consolidated	$ 57,638	14.1%	$ 32,814	8.0%	$ 41,017	10.0%
Uwharrie Bank	56,211	13.8%	32,596	8.0%	40,746	10.0%
Tier 1 Capital to Risk Weighted Assets:						
Consolidated	45,646	11.1%	24,610	6.0%	32,814	8.0%
Uwharrie Bank	53,753	13.2%	24,447	6.0%	32,596	8.0%
Common Equity Tier 1 Capital to Risk Weighted Assets:						
Consolidated	34,997	8.5%	18,458	4.5%	26,661	6.5%
Uwharrie Bank	43,104	10.6%	18,336	4.5%	26,485	6.5%
Tier 1 Capital to Average Assets:						
Consolidated	45,646	7.8%	23,271	4.0%	29,089	5.0%
Uwharrie Bank	53,753	9.3%	23,201	4.0%	29,001	5.0%

As of December 31, 2018, the most recent notification from the Federal Deposit Insurance Corporation categorized the Company's subsidiary bank as being well capitalized under the regulatory framework for prompt corrective action. There have been no conditions or events since such notification that management believes would have changed the categorization.

In January 2013, the Company's subsidiary bank issued $7.9 million of Fixed Rate Noncumulative Perpetual Preferred Stock, Series B. The preferred stock qualifies as Tier 1 capital at the subsidiary bank and pays dividends at a rate of 5.30%. The offering raised $7.9 million less issuance costs of $113,000.

During 2013, the Company's subsidiary bank raised $2.8 million of Fixed Rate Noncumulative Perpetual Preferred Stock, Series C. The preferred stock qualifies as Tier 1 capital at the bank and pays dividends at an annual rate of 5.30%. The preferred stock has no voting rights. The offering raised $2.8 million in new capital less total issuance costs of $23,000.

The total net amount of capital raised from Fixed Rate Noncumulative Perpetual Preferred Stock, Series B and Series C issued at the subsidiary bank level is presented as noncontrolling interest in the consolidated balance sheets.

All of the Company's aforementioned investment in its subsidiary bank qualifies for Tier 1 capital treatment for the bank and is included as such in its year end capital ratios.

Stock Repurchase Program

On February 21, 1995, the Company's Board of Directors authorized and approved a Stock Repurchase Program, to be reaffirmed annually, pursuant to which the Company may repurchase shares of the Company's common stock for the primary purpose of providing liquidity to its shareholders. During 2018 the Company repurchased 138,629 shares of outstanding common stock and repurchased 75,709 and 69,938 shares of outstanding common stock during 2017 and 2016, respectively.

Note 16 - Stock Based Compensation

During 2006, the Company adopted the 2006 Incentive Stock Option Plan ("SOP II") and the Employee Stock Purchase Plan ("SPP II"), under which options to purchase shares of the Company's common stock may be granted to officers and eligible employees. Options granted under the SOP II are exercisable in established increments according to vesting schedules, generally three to five years, and will expire if not exercised within ten years of the date of grant. Options granted under the SPP II are fully vested at the date of grant and expire if not exercised within two years of the grant date. At December 31, 2018, the SOP II plan had expired with no options outstanding and the SPP II had no options outstanding.

Employee Stock Plans

The following is a summary of stock option activity for the year ended December 31, 2018:

	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Options outstanding at the beginning of the year	13,378	$ 4.93	$ 3,972
Options granted	—	—	
Options exercised	(13,378)	4.93	
Forfeitures	—	—	
Options outstanding at the end of the year	—	$ —	$ —
Options exercisable at the end of the year	—	$ —	$ —

There were no options outstanding and exercisable at December 31, 2018. At December 31, 2018, there were no authorized shares of common stock reserved for future grants of options under the SOP II and the SPP II as the plans have expired.

The fair market value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. There were no shares granted during the years ended December 31, 2018 and 2017 under the SOP II.

As of December 31, 2018, there was no unrecognized compensation cost related to non-vested share-based compensation arrangements granted under all of the Company's stock benefit plans.

The Company funds the option shares from authorized but unissued shares. The Company does not typically purchase shares to fulfill the obligations of the stock benefit plans. Company policy does allow option holders to exercise options with seasoned shares.

There were 13,378 shares exercised in 2018 at a weighted average exercise price of $4.93. There were no options exercised in 2017 or 2016.

Note 17 - Employee and Director Benefit Plans

Employees' 401(k) Retirement Plan

The Company has established an associate tax deferred savings plan under Section 401(k) of the Internal Revenue Code of 1986. All associates are eligible to make elective deferrals on the first day of the calendar month coincident or next following the date the associate attains the age of 18 and completes thirty days of eligibility service. Employees are 100% vested in the plan once they enroll.

The Company's annual contribution to the plan was $428,162 in 2018, $361,936 in 2017 and $355,648 in 2016, determined as follows:

- The Company will contribute a safe harbor matching contribution in an amount equal to: (i) 100% of the matched employee contributions that are not in excess of 3% of compensation, plus (ii) 50% of the amount of the matched employee contributions that exceed 3% of compensation, but do not exceed 5% of compensation.
- A discretionary contribution, subject to approval by the Board of Directors, limited to an amount not to exceed the maximum amount deductible for income tax purposes.

Note 17 - Employee and Director Benefit Plans (Continued)

Supplemental Executive Retirement Plan

The Company has implemented a non-qualifying deferred compensation plan for certain executive officers. Certain of the plan benefits will accrue and vest during the period of employment and will be paid in fixed monthly benefit payments for up to ten years upon separation from service. The plan also provides for payment of death benefits and for payment of disability benefits in the event the officer becomes permanently disabled prior to separation from service.

Effective December 31, 2008, this plan was amended and restated to comply with Section 409A of the Internal Revenue Code. The participants' account liability balances as of December 31, 2008 could be transferred into a trust fund, where investments will be participant-directed.

The plan is structured as a defined contribution plan and the Company's expected annual funding contribution for the participants has been calculated through the participant's expected retirement date. Under terms of the agreement, the Company has reserved the absolute right, at its sole discretion, to either fund or refrain from funding the plan. The plan also provides for payment of death benefits and for payment of disability benefits in the event the officer becomes permanently disabled prior to separation from service. The plans assets are maintained in a rabbi trust and are recorded at fair value with the corresponding liability adjusted to the same fair value.

During each year of 2018, 2017 and 2016, $336,800 was expensed for benefits provided under the plans. The liability accrued for deferred compensation under the plan amounted to $4.4 million and $4.0 million at December 31, 2018 and 2017, respectively.

Note 17 - Employee and Director Benefit Plans (Continued)

Split-Dollar Life Insurance

The Company has entered into Life Insurance Endorsement Method Split-Dollar Agreements with certain officers. Under these agreements, upon death of the officer, the Company first recovers the cash surrender value of the contract and then shares the remaining death benefits from insurance contracts, which are written with different carriers, with the designated beneficiaries of the officers. The death benefit to the officers' beneficiaries is a multiple of base salary at the time of the agreements. The Company, as owner of the policies, retains an interest in the life insurance proceeds and a 100% interest in the cash surrender value of the policies. During 2018, 2017, and 2016, the expense associated with these policies was $1,846, $10,533, and $27,111 respectively.

The liability associated with the split-dollar life insurance policies is $773,000 and $771,000 at December 31, 2018 and 2017, respectively.

Stock Grant Plan

During 2015, the Company adopted the 2015 Stock Grant Plan ("SGP"), under which the Company, at its discretion, may choose to make grants or awards of Uwharrie Capital Corp common stock (the "Common Stock") to employees, directors or independent contractors of the Company or its subsidiaries as an alternate form of compensation or as a performance bonus. Shares of Common Stock to be used for Stock Grants under this Plan will be outstanding shares purchased by a revocable trust formed by the Company (the "Trust"). Participants will be 100% vested in the shares purchased on their behalf as soon as the Trust's purchase is completed. The Company recognizes expense for the value of the shares at the time they are purchased by the Trust. The SGP allows for 541,216 shares to be granted and at December 31, 2018, the availability under the SGP was 490,345 shares. During 2018 there were 8,926 shares granted at an expense of $50,000 compared to 8,734 shares granted at an expense of $50,000 in 2017 and 13,809 shares granted at an expense of $55,000 in 2016.

Note 18 - Fair Values of Financial Instruments and Interest Rate Risk

ASC 825, "Disclosures about Fair Value of Financial Instruments," requires disclosure of the fair value of financial assets and financial liabilities, including those that are not measured and reported at fair value on a recurring basis or non-recurring basis.

The fair value estimates presented at December 31, 2018 and December 31, 2017, are based on relevant market information and information about the financial instruments. Fair value estimates are intended to represent the price an asset could be sold at or the price a liability could be settled for. However, given there is no active market or observable market transactions for many of the Company's financial instruments, the Company has made estimates of many of these fair values which are subjective in nature, involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimated values. The estimated fair values disclosed in the following table do not represent market values of all assets and liabilities of the Company and should not be interpreted to represent the underlying value of the Company. The following table reflects a comparison of carrying amounts and the estimated fair value of the financial instruments as of December 31, 2018 and December 31, 2017:

December 31, 2018	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
		(dollars in thousands)			
FINANCIAL ASSETS					
Cash and cash equivalents	$ 117,934	$ 117,901	$ 115,693	$ 2,208	$ —
Securities available for sale	91,299	91,299	4,955	86,344	—
Securities held to maturity	10,837	10,750	—	10,750	—
Loans held for investment, net	367,596	364,636	—	—	364,636
Loans held for sale	4,800	4,800	—	4,800	—
Restricted stock	1,094	1,094	1,094	—	—
Loan servicing rights	1,850	3,455	—	3,455	—
Accrued interest receivable	1,763	1,763	—	—	1,763
FINANCIAL LIABILITIES					
Deposits	$ 566,901	$ 521,508	$ —	$ 521,508	$ —
Short-term borrowings	1,190	1,190	—	1,190	—
Long-term debt	9,974	10,086	—	—	10,086
Accrued interest payable	16	16	—	—	16

Note 18 - Fair Values of Financial Instruments and Interest Rate Risk (Continued)

December 31, 2017	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
		(dollars in thousands)			
FINANCIAL ASSETS					
Cash and cash equivalents	$ 70,403	$ 70,379	$ 67,913	$ 2,466	$ —
Securities available for sale	95,743	95,743	—	95,743	—
Securities held to maturity	11,458	11,461	—	11,461	—
Loans held for investment, net	356,871	359,325	—	—	359,325
Loans held for sale	4,414	4,414	—	4,414	—
Restricted stock	1,067	1,067	1,067	—	—
Mortgage servicing rights	2,125	3,310	—	3,310	—
Accrued interest receivable	1,709	1,709	—	—	1,629
FINANCIAL LIABILITIES					
Deposits	$ 512,628	$ 481,300	$ —	$ 481,300	$ —
Short-term borrowings	1,752	1,752	—	1,752	—
Long-term debt	9,534	9,658	—	—	9,658
Accrued interest payable	148	148	—	—	148

The following methods and assumptions were used by the Company in estimating the fair value of financial instruments:

- Cash and cash equivalents – The carrying amount of cash and cash equivalents approximate their fair values due to the short period of time until their expected realization and are recorded in Level 1. Certificates of deposits held at other banks are recorded in Level 2.
- Securities available for sale – Securities available for sale are carried at fair value based on quoted and observable market prices and are recorded in Levels 1 and 2. Also see discussion in Note 1.
- Loans – The fair value of loans is estimated based on discounted expected cash flows using the current interest rates at which similar loans would be made, a future expected credit loss based on historical charge-offs, and a liquidity discount based on the overall risk grade of the loan portfolio. Loans held for sale are recorded in Level 2.
- Restricted stock – It is not practicable to determine fair value of restricted stock which is comprised of Federal Home Loan Bank and Federal Reserve Bank stock due to restrictions placed on its transferability and it is presented at its carrying value and is recorded in Level 1 due to the redemption provisions of the Federal Home Loan Bank and the Federal Reserve Bank.
- Loan servicing rights – The fair value disclosed for mortgage servicing rights is based on an independent market valuation and is recorded at Level 2.
- Accrued interest receivable and payable – Both accrued interest receivable and payable are recorded in Level 3, as there are not active markets for these.
- Deposits – The fair value of deposits is estimated based on discounted cash flow analyses using offered market rates and is recorded in Level 2. The fair value of deposits does not consider any customer related intangibles.
- Borrowings – The fair value disclosed for short-term borrowings, which are composed of overnight borrowings and debt due within one year approximate the carrying value for such debt and is recorded in Level 2. The estimated fair value for long-term borrowings are estimated based on discounted cash flow analyses using offered market rates. Junior subordinated debt is fair valued based on discounted cash flow analyses and is recorded in Level 3.

At December 31, 2018, the subsidiary bank had outstanding standby letters of credit and commitments to extend credit. These off-balance sheet financial instruments are generally exercisable at the market rate prevailing at the date the underlying transaction will be completed. The fair value is not material. See Note 13.

Note 18 - Fair Values of Financial Instruments and Interest Rate Risk (Continued)

The following table provides fair value information for assets and liabilities measured at fair value on a recurring basis as of December 31, 2018 and 2017:

	December 31, 2018 (dollars in thousands)			
	Total	Level 1	Level 2	Level 3
Securities available for sale:				
US Treasury	$ 4,955	$ 4,955	$ —	$ —
US Government	51,916	—	51,916	—
Mortgage-backed securities and CMO's	16,702	—	16,702	—
State and political subdivisions	12,955	—	12,955	—
Corporate bonds	4,771	—	4,771	—
Total assets at fair value	$ 91,299	$ 4,955	$ 86,344	$ —
Total liabilities at fair value	$ —	$ —	$ —	$ —

	December 31, 2017 (dollars in thousands)			
	Total	Level 1	Level 2	Level 3
Securities available for sale:				
US Government	$ 55,615	$ —	$ 55,615	$ —
Mortgage-backed securities and CMO's	20,891	—	20,891	—
State and political subdivisions	14,199	—	14,199	—
Corporate bonds	5,038	—	5,038	—
Total assets at fair value	$ 95,743	$ —	$ 95,743	$ —
Total liabilities at fair value	$ —	$ —	$ —	$ —

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below as of December 31, 2018 and December 31, 2017:

	December 31, 2018 (dollars in thousands)			
	Total	Level 1	Level 2	Level 3
Impaired loans	$ 3,279	$ —	$ —	$ 3,279
Other real estate owned	951	—	—	951
Total assets at fair value	$ 4,230	$ —	$ —	$ 4,230
Total liabilities at fair value	$ —	$ —	$ —	$ —

	December 31, 2017 (dollars in thousands)			
	Total	Level 1	Level 2	Level 3
Impaired loans	$ 2,624	$ —	$ —	$ 2,624
Other real estate owned	1,785	—	—	1,785
Total assets at fair value	$ 4,409	$ —	$ —	$ 4,409
Total liabilities at fair value	$ —	$ —	$ —	$ —

Quantitative Information about Level 3 Fair Value Measurements

Note 18 - Fair Values of Financial Instruments and Interest Rate Risk (Continued)

December 31, 2018	Valuation Technique	Unobservable Input	General Range
Nonrecurring measurements:			
Impaired loans	Discounted appraisals	Collateral discounts and Estimated costs to sell	0 – 25%
	Discounted cash flows	Discount rates	4%-8.75%
OREO	Discounted appraisals	Collateral discounts and Estimated costs to sell	0 – 10%

December 31, 2017	Valuation Technique	Unobservable Input	General Range
Nonrecurring measurements:			
Impaired loans	Discounted appraisals	Collateral discounts and Estimated costs to sell	0 – 25%
	Discounted cash flows	Discount rates	4%-8.75%
OREO	Discounted appraisals	Collateral discounts and Estimated costs to sell	0 – 10%

At December 31, 2018 and 2017, impaired loans were being evaluated with discounted expected cash flows for performing TDRs and discounted appraisals were being used on collateral dependent loans.

Note 19 - Parent Company Financial Data

The following is a summary of the condensed financial statements of Uwharrie Capital Corp:

Condensed Balance Sheets

	December 31,	
	2018	2017
	(dollars in thousands)	
Assets		
Cash and demand deposits	$ 287	$ 379
Interest-earning deposits	1,256	1,752
Investments in:		
Bank subsidiaries	43,042	41,997
Nonbank subsidiaries	450	376
Other assets	1,638	1,440
Total assets	$ 46,673	$ 45,944
Liabilities and shareholders' equity		
Master notes	$ 1,190	$ 1,752
Short term debt	—	—
Long term debt	9,974	9,534
Other liabilities	989	768
Total liabilities	12,153	12,054
Shareholders' equity	34,520	33,890
Total liabilities and shareholders' equity	$ 46,673	$ 45,944

Note 19 - Parent Company Financial Data (Continued)

Condensed Statements of Income

	2018	2017	2016
		(dollars in thousands)	
Equity in undistributed earnings (loss) of subsidiaries	$ 2,026	$ 745	$ 375
Dividends received from subsidiaries	1,150	1,500	2,500
Interest income	17	6	6
Other income	80	93	77
Interest expense	(571)	(564)	(585)
Other operating expense	(410)	(436)	(445)
Income tax benefit	185	267	283
Net income	$ 2,477	$ 1,611	$ 2,211
Consolidated net income	$ 2,477	$ 1,611	$ 2,211
Less: Net income attributable to noncontrolling interest	(570)	(592)	(593)
Net income attributable to Uwharrie Capital Corp	1,907	1,019	1,618
Net income available to common shareholders	$ 1,907	$ 1,019	$ 1,618
Net income per common share			
Basic	$ 0.27	$ 0.14	$ 0.22
Diluted	$ 0.27	$ 0.14	$ 0.22
Weighted average shares outstanding			
Basic	7,087,581	7,281,408	7,383,686
Diluted	7,087,581	7,282,160	7,383,794

Condensed Statements of Cash Flows

	2018	2017	2016
		(dollars in thousands)	
Cash flows from operating activities			
Net income	$ 2,477	$ 1,611	$ 2,211
Adjustments to reconcile net income to net cash used by operating activities:			
Equity in undistributed (earnings) loss of subsidiaries	(2,026)	(745)	(375)
(Increase) decrease in other assets	(198)	(124)	26
Increase (decrease) in other liabilities	220	267	338
Net cash provided (used) by operating activities	473	1,009	2,200
Cash flows from financing activities			
Net decrease in master notes	(562)	(410)	(1,234)
Net decrease in short-term debt	—	(500)	(1,850)
Net increase in long-term debt	440	—	—
Net increase in investment in subsidiares	(250)	—	—
Net proceeds from issuance of common stock - stock options	65	—	—
Repurchase of common stock, net	(747)	(391)	(322)
Cash paid for fractional shares	(7)	(7)	(6)
Net cash used by financing activities	(1,061)	(1,308)	(3,412)
Net decrease in cash and cash equivalents	(588)	(299)	(1,212)
Cash and cash equivalents at beginning of year	2,131	2,430	3,642
Cash and cash equivalents at end of year	$ 1,543	$ 2,131	$ 2,430

Selected Financial Data

(dollars in thousands except ratios, per share and shares outstanding information)

	2018	2017	2016	2015	2014
Summary of Operations					
Interest income	$ 21,873	$ 19,340	$ 18,046	$ 17,847	$ 18,457
Interest expense	1,882	1,277	1,310	1,733	1,960
Net interest income	19,991	18,063	16,736	16,114	16,497
Provision for (recovery of) loan losses	90	(236)	(88)	(620)	(389)
Noninterest income	8,279	8,425	9,357	7,712	6,209
Noninterest expense	25,124	23,304	23,075	21,633	20,768
Income taxes	579	1,809	895	806	648
Net income	$ 2,477	$ 1,611	$ 2,211	$ 2,007	$ 1,679
Less: Net income attributable to noncontrolling interest	(570)	(592)	(593)	(592)	(591)
Less: Dividends on preferred stock	$ —	$ —	$ —	$ —	$ —
Net Income (loss) available to common shareholders	$ 1,907	$ 1,019	$ 1,618	$ 1,415	$ 1,088
Per Common Share					
Net income – basic (1)	$ 0.27	$ 0.14	$ 0.22	$ 0.19	$ 0.14
Net income (loss) – diluted (1)	0.27	0.14	0.22	0.19	0.14
Book value (1)	4.84	4.67	4.49	4.42	4.21
Weighted Average Shares					
Outstanding:					
Basic (1)	7,087,581	7,281,408	7,383,686	7,484,338	7,902,824
Diluted (1)	7,087,581	7,282,160	7,383,794	7,484,338	7,902,824
Ratios					
Return on average assets	0.40%	0.28%	0.41%	0.38%	0.33%
Return on average equity	5.57%	3.62%	4.99%	4.65%	4.03%
Average equity to average assets	7.26%	7.78%	8.29%	8.27%	8.11%
Selected Year-end Balances					
Assets	$ 632,304	$ 577,253	$ 548,230	$ 532,202	$ 518,464
Loans held for investment	369,970	356,871	341,829	320,132	310,853
Securities	102,136	107,201	117,889	100,500	118,320
Deposits	566,901	512,628	485,719	467,733	456,435
Borrowed funds	11,164	11,286	12,208	15,305	14,243
Shareholders' equity	45,175	44,540	43,525	43,314	42,262
Selected Average Balances					
Assets	$ 612,403	$ 572,630	$ 534,296	$ 521,699	$ 513,676
Loans held for investment	369,419	348,980	334,317	316,485	309,338
Securities	103,223	113,025	107,396	112,348	109,056
Deposits	548,296	509,352	470,921	458,655	451,160
Borrowed funds	11,284	11,679	12,898	14,432	14,782
Shareholders' equity	44,468	44,542	44,283	43,123	41,681

(1) Net income per share, book value per share, weighted average shares outstanding and shares outstanding at year-end for years 2017 through 2014 have been adjusted to reflect the 2% stock dividends in 2018, 2017, 2016, and 2015.

A discussion and analysis of the Company's operating results and financial condition are presented in the following narrative and financial tables. The comments are intended to supplement and should be reviewed in conjunction with the consolidated financial statements and notes thereto appearing on pages 5-45 of this Annual Report. References to changes in assets and liabilities represent end-of-period balances unless otherwise noted. Statements contained in this Annual Report, which are not historical facts, are forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. Amounts herein could vary because of market and other factors. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those currently anticipated due to a number of factors, which include, but are not limited to, factors discussed in documents filed by the Company with the Securities and Exchange Commission periodically. Such forward-looking statements may be identified by the use of such words as "believe," "expect," "anticipate," "should," "might," "planned," "estimated," "potential", and similar words. Examples of forward-looking statements include, but are not limited to, estimates with respect to the financial condition, expected or anticipated revenue, results of operations and business of the Company that are subject to various factors, which could cause actual results to differ materially from these estimates. These factors include, but are not limited to, general economic conditions, changes in interest rates, deposit flows, loan demand, real estate values, and competition; changes in accounting principles, policies, or guidelines; changes in legislation or regulation; and other economic, competitive, governmental, regulatory, and technological factors affecting the Company's operations, pricing, products and services.

Financial Condition at December 31, 2018 and December 31, 2017

The Company's total assets increased $55.0 million from $577.3 million at December 31, 2017 to $632.3 million at December 31, 2018. This primary driver of this increase was a $13.1 million increase in loans held for investment and an increase in interest-earning deposits with banks of $50.6 million. These increases were offset by a decrease in securities available for sale of $4.4 million.

Cash and due from banks decreased $3.1 million, while interest-earning deposits with banks increased $50.6 million. Therefore, cash and cash equivalents increased $47.5 million during the year ended December 31, 2018 as a result of an increase in customer deposits held by the bank.

Investment securities consist of securities available for sale and securities held to maturity. Total investment securities decreased $5.1 million or 4.7%, from $107.2 million at December 31, 2017 to $102.1 million at December 31, 2018. During the year, the Company purchased a $5.0 million short-term U.S. Treasury security, which was also available for pledging requirements related to holding public deposits.

Loans held for investment increased $13.1 million from $356.9 million at December 31, 2017 to $370.0 million at December 31, 2018. The growth in the portfolio was spread across several loan portfolio classes with commercial real estate experiencing the largest growth of $15.9 million or 13.9%. In addition, the commercial class, one-to-four family construction loan class, home equity class, and consumer class all experienced appreciable growth. Nevertheless, this growth was offset by declines in the commercial real estate construction class, real estate one-to-four family loan class and "other" loan class, with commercial real estate construction seeing the greatest decline of $9.0 million or 22.5%. Loans held for sale increased by 8.7% or $386.0 million compared to the prior year. The allowance for loan loss was $2.4 million at December 31, 2018, which represents 0.65% of the loan portfolio, a decrease from 0.69% at December 31, 2017. The credit quality of consumer and commercial relationships continues to improve, which lowers the probability of default used to calculate the allowance for loan loss estimate, thus decreasing the allowance for loan loss as a percentage of the loan portfolio. Net charge offs increased from $13,000 at December 31, 2017 to $174,000 at December 31, 2018.

Other changes in our consolidated assets are related other real estate owned and other assets. Throughout 2018, other real estate owned declined $1.3 million, from $2.3 million at December 31, 2017 to $1.0 million at December 31, 2018. Throughout 2018, the Company sold ten pieces of foreclosed property totaling $1.5 million realizing a gain of $11,000. The Company also had changes in reserves totaling ($60,000) on the remaining existing property. However, the Company foreclosed on two loan relationships totaling $160,000, which were added to other real estate owned in 2018. Other assets increased by $268,000 from $11.6 million at December 31, 2017 to $11.9 million at December 31, 2018, driven by an increase in the value of the supplemental executive retirement plan referenced in Note 17 of the Notes to Consolidated Financial Statements included with this Annual Report.

Customer deposits continued to be our principal funding source in 2018. At December 31, 2018, deposits from our customers totaled $566.9 million, an increase of $54.3 million from $512.6 million at December 31, 2017. During 2018, demand noninterest bearing checking increased $16.0 million, while interest checking and money market accounts and savings deposits increased $34.4 million and $9.1 million, respectively. These increases were offset by a decrease in other time deposits of $5.2 million. Even though national

interest rates have steadily increased, relatively speaking, we are still experiencing a low interest rate environment, which is resulting in customers residing in short term deposit products.

During 2018 the Company's net borrowings decreased by $122,000. Borrowings consist of both short-term and long-term borrowed funds. The Company utilizes both short-term and long-term advances from the Federal Home Loan Bank. At December 31, 2018 and 2017, there were no advances outstanding. The components of total borrowings include $9.5 million in junior subordinated long-term debt, $440,000 in other long-term notes payable and $1.2 million in master notes at December 31, 2018.

Other liabilities increased from $8.7 million at December 31, 2017 to $9.0 million at December 31, 2018, an increase of $397,000 driven by an increase of the value of the supplemental executive retirement plan referenced in Note 17 of the Notes to Consolidated Financial Statements included with this Annual Report.

At December 31, 2018, total shareholders' equity was $45.2 million, an increase of $635,000 from December 31, 2017. Net income for the period was $2.5 million. Unrealized losses on investment securities net of tax increased $587,000. The Company repurchased 138,629 outstanding shares of common stock at an aggregate repurchase price of $748,000. The Company also paid $570,000 in dividends attributed to noncontrolling interest. At December 31, 2018, the Company and its subsidiary bank exceeded all applicable regulatory capital requirements.

Results of Operations for the Years Ended December 31, 2018 and 2017

Earnings

Uwharrie Capital Corp reported net income of $2.5 million for the twelve months ended December 31, 2018, as compared to $1.6 million for the twelve months ended December 31, 2017, an increase of $866,000. Net income available to common shareholders was $1.9 million or $0.27 per common share for the year ended December 31, 2018, compared to net income available to common shareholders of $1.0 million or $0.14 per common share for the year ended December 31, 2017. Net income available to common shareholders is net income less any dividends paid on the aforementioned noncontrolling interest.

Net Interest Income

As with most financial institutions, the primary component of earnings for our subsidiary bank is net interest income. Net interest income is the difference between interest income, principally from the loan and investment securities portfolios, and interest expense, principally on customer deposits and wholesale borrowings. Changes in net interest income result from changes in volume, spread and margin. For this purpose, volume refers to the average dollar level of interest-earning assets and interest-bearing liabilities, spread refers to the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities, and margin refers to net interest income divided by average interest-earning assets. Margin is influenced by the level and relative mix of interest-earning assets and interest-bearing liabilities, as well as levels of noninterest bearing liabilities and capital.

Net interest income increased $1.9 million to a total of $20.0 million for the twelve months ended December 31, 2018 from the $18.1 million earned in the same period of 2017. During 2018, growth in the volume of interest-earning assets outpaced the growth in interest-bearing liabilities by $1.3 million. The average yield on our interest-earning assets increased 14 basis points to 3.85%, while the average rate paid for interest-bearing liabilities increase 12 basis points. These increases resulted in a net increase of two basis points in our interest rate spread, from 3.39% in 2017 to 3.41% in 2018. Our net interest margin for 2018 was 3.53%, compared to 3.47% in 2017. As a part of the loan agreements, a portion of the Company's loan portfolio has interest rate floors and caps. The interest rate floor feature allows the Company to maintain a more a favorable interest margin despite a decline in rates; however, the interest rate cap could hurt the margin in a rising rate environment. Financial Table 1 on page 55 presents a detailed analysis of the components of the Company's net interest income, while Financial Table 2 on page 56 summarizes the effects on net interest income from changes in interest rates and in the dollar volume of the components of interest-earning assets and interest-bearing liabilities.

Provision for Loan Losses

The provision for (recovery of) loan losses was $90,000 and ($236,000) for the twelve months ended December 31, 2018 and 2017, respectively. There were net loan charge-offs of $174,000 for the twelve months ended December 31, 2018 as compared to net loan charge-offs of $13,000 during the same period of 2017. The increase in provision was directly related to loan growth, as well as one large loan charge-off. Please refer to the "Asset Quality" discussion beginning on page 50 for further information.

Noninterest Income

The Company generates most of its revenue from net interest income; however, diversification of our earnings base is a key strategic initiative to our long-term success. Noninterest income decreased 1.7%, from $8.4 million in 2017, to $8.3 million in 2018, a decrease of $146,000. A driving factor contributing to this decrease was the decrease in income from mortgage loan sales of $365,000 to $3.0 million for 2018 compared to $3.3 million during 2017. Total production for the mortgage division remained the same from December 31, 2017 to December 31, 2018; however, pressure in the market from rising interest rates led to tighter margins for the Company, reducing noninterest income. Additionally, the Company added noninterest income from its government lending division of $239,000 for the twelve months ending December 31, 2018.

Noninterest Expense

Noninterest expense for the year ended December 31, 2018 was $25.1 million compared to $23.3 million for 2017, an increase of $1.8 million. Salaries and employee benefits, the largest component of noninterest expense, increased $1.5 million, from $14.7 million for the period ending December 31, 2017 to $16.2 million for 2018. Several factors contributed to this increase, including but not limited to the expansion into new markets, increased regulation, and increased market/sales demand. Occupancy and equipment expense increased $492,000 from increased expense related to physical branch expansion into Charlotte during 2018. The branch expansion gave the Company a physical presence in a neighboring market. The branch not only offers access to traditional banking services, but also houses an investment advisor and a SBA lending specialist. Foreclosed real estate expense, another major component of the change in noninterest expense, decreased $248,000, from $293,000 in 2017 to $45,000 during 2018. The primary factor relating to this decrease was a reduction in properties held in other real estate owned. Professional fees increased $335,000 for the period ending December 31, 2018 to $1.1 million compared to $723,000 for the same period in 2017 primarily related to the core system conversion that took place in August of 2018. In 2017, the Company incurred one-time data processing costs in connection with this conversion, which were required up-front. The associated training and implementation expenses were charged in 2018 when incurred. Other noninterest expense experienced a decrease totaling $192,000 for the comparable twelve-month period. The table on page 59 reflects the additional breakdown of other noninterest expense.

Income Tax Expense

The Company had income tax expense of $579,000 for 2018 at an effective tax rate of 18.95% compared to income tax expense of $1.8 million in 2017 with an effective tax rate of 52.89%. Income taxes computed at the statutory rate are reduced primarily by the eligible amount of interest earned on state and municipal securities, tax-free municipal loans and income earned on bank owned life insurance.

The effective tax rate for 2017 was impacted by the adjustment of our deferred tax assets and liabilities related to the reduction in the U.S. federal statutory income tax rate to 21% under the Tax Cuts and Jobs Act enacted on December 22, 2017, as more fully discussed below. Under ASC 740, Income Taxes, the effect of income tax law changes on deferred taxes should be recognized as a component of income tax expense related to continuing operations in the period in which the law is enacted. This requirement applies not only to items initially recognized in continuing operations, but also to items initially recognized in other comprehensive income.

The Tax Cuts and Jobs Act was enacted on December 22, 2017. Among other things, the new law (i) established a new, flat corporate federal statutory income tax rate of 21%, (ii) eliminated the corporate alternative minimum tax and allows the use of any such carryforwards to offset regular tax liability for any taxable year, (iii) limited the deduction for net interest expense incurred by U.S. corporations, (iv) allowed businesses to immediately expense, for tax purposes, the cost of new investments in certain qualified depreciable assets, (v) eliminated or reduced certain deductions related to meals and entertainment expenses, (vi) modified the limitation on excessive employee remuneration to eliminate the exception for performance-based compensation and clarified the definition of a covered employee and (vii) limited the deductibility of deposit insurance premiums. The Tax Cuts and Jobs Act also significantly changed U.S. tax law related to foreign operations, however, such changes do not currently impact us.

Included in the provision for income taxes during 2017 was and estimated $806,000 write-down as a result of an adjustment in the Company's net deferred tax assets. The adjustment was based on the Tax Cuts and Jobs Act.

Results of Operations for the Years Ended December 31, 2017 and 2016

Earnings

Uwharrie Capital Corp reported net income of $1.6 million for the twelve months ended December 31, 2017, as compared to $2.2 million for the twelve months ended December 31, 2016, a decrease of $596,000. Net income available to common shareholders was

$1.0 million or $0.14 per common share for the year ended December 31, 2017, compared to net income available to common shareholders of $1.6 million or $0.22 per common share for the year ended December 31, 2016. Net income available to common shareholders is net income less any dividends paid on the aforementioned noncontrolling interest.

Net Interest Income

Net interest income increased $1.3 million to $18.1 million for 2017 compared to the $16.7 million earned in 2016. During 2017, growth in the volume of interest-earning assets outpaced the growth in interest-bearing liabilities by $1.0 million. The average yield on our interest-earning assets decreased 6 basis points to 3.71%, while the average rate paid for interest-bearing liabilities decreased two basis points. These decreases resulted in a net decrease of four basis points in our interest rate spread, from 3.43% in 2016 to 3.39% in 2017. Our net interest margin for 2017 was 3.47%, compared to 3.51% in 2016. As a part of the loan agreements, a portion of the Company's loan portfolio has interest rate floors and caps. The interest rate floor feature allows the Company to maintain a more a favorable interest margin despite a decline in rates; however, the interest rate cap could hurt the margin in a rising rate environment. Financial Table 1 on page 55 presents a detailed analysis of the components of the Company's net interest income, while Financial Table 2 on page 56 summarizes the effects on net interest income from changes in interest rates and in the dollar volume of the components of interest-earning assets and interest-bearing liabilities.

Provision for Loan Losses

The provision for loan losses was a recovery of ($236,000) and ($88,000) for the twelve months ended December 31, 2017 and 2016, respectively. There were net loan charge-offs of $13,000 for the twelve months ended December 31, 2017 as compared to net loan charge-offs of $89,000 during the same period of 2016. The continued decline in charge-offs and improvement in other credit quality metrics resulted in these recoveries of loan losses. Please refer to the "Asset Quality" discussion beginning on page 50 for further information.

Noninterest Income

The Company generates most of its revenue from net interest income; however, diversification of our earnings base is a key strategic initiative to our long-term success. Noninterest income decreased 10.0 %, from $9.4 million in 2016, to $8.4 million in 2017, a decrease of $932,000. A driving factor contributing to this decrease was the decrease in income from mortgage loan sales of $450,000 to $3.3 million for 2017 compared to $3.8 million during 2016. During 2017, an increase in mortgage interest rates led to a decrease in refinances for the Company by 51% from December 31, 2016 to December 31, 2017. Additionally, although expansion in new markets has provided new home sale financing opportunities, total new home sale financings for the Company are only up 2% from December 31, 2016 to December 31, 2017, in line with industry expectations. Additionally, the Company had realized losses on the sale of investments in the amount of $14,000 for the twelve months ending December 31, 2017, as compared to realized gains of $544,000 for the same period in 2016.

Noninterest Expense

Noninterest expense for the year ended December 31, 2017 was $23.3 million compared to $23.1 million for 2016, an increase of $229,000. Salaries and employee benefits, the largest component of noninterest expense, increased $188,000, from $14.5 million for the period ending December 31, 2016 to $14.7 million for 2017. Several factors contributed to this increase, including but not limited to the expansion into new markets, increased regulation, and increased market/sales demand. Data processing costs increased $295,000 primarily from conversion costs recognized by the Company. In 2018, the Bank subsidiary is converted its core data processing system to improve operational efficiencies and gain control of future potential opportunities, while working to build a more flexible platform. The costs recognized in 2017 were de-conversion expenses related to the conversion off the current core provider. Foreclosed real estate expense, another major component of noninterest expense, decreased $208,000, from $501,000 in 2016 to $293,000 during 2017. The primary factor relating to this decrease was a reduction in properties held in other real estate owned. Other noninterest expense experienced a decrease totaling $160,000 for the comparable twelve-month period. The table on page 59 reflects the additional breakdown of other noninterest expense.

Income Tax Expense

The Company had income tax expense of $1.8 million for 2017 at an effective tax rate of 52.83% compared to income tax expense of $895,000 in 2016 with an effective tax rate of 28.82%. Income taxes computed at the statutory rate are reduced primarily by the

eligible amount of interest earned on state and municipal securities, tax free municipal loans and income earned on bank owned life insurance.

The effective tax rate for 2017 was impacted by the adjustment of our deferred tax assets and liabilities related to the reduction in the U.S. federal statutory income tax rate to 21% under the Tax Cuts and Jobs Act enacted on December 22, 2017, as more fully discussed below. Under ASC 740, Income Taxes, the effect of income tax law changes on deferred taxes should be recognized as a component of income tax expense related to continuing operations in the period in which the law is enacted. This requirement applies not only to items initially recognized in continuing operations, but also to items initially recognized in other comprehensive income.

Included in the provision for income taxes during 2017 was an estimated $806,000 write-down as a result of an adjustment in the Company's net deferred tax assets. The adjustment was based on the Tax Cuts and Jobs Act.

Asset Quality

The Company's allowance for loan loss is established through charges to earnings in the form of a provision for loan losses. The allowance is increased by provisions charged to operations, decreased by recoveries of amounts previously charged off and is reduced by recovery of provisions and loans charged off. Management continuously evaluates the adequacy of the allowance for loan loss. In evaluating the adequacy of the allowance, management considers the following: the growth, composition and industry diversification of the portfolio; historical loan loss experience; current delinquency levels; adverse situations that may affect a borrower's ability to repay; estimated value of any underlying collateral; prevailing economic conditions and other relevant factors. The Company's credit administration function, through a review process, periodically validates the accuracy of the initial risk grade assessment. In addition, as a given loan's credit quality improves or deteriorates, the credit administration department has the responsibility to change the borrower's risk grade accordingly. For loans determined to be impaired, the allowance is based on either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the estimated fair value of the underlying collateral less the selling costs. This evaluation is inherently subjective, as it requires material estimates, including the amounts and timing of future cash flows expected to be received on impaired loans, which may be susceptible to significant change. In addition, regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require additions for estimated losses based upon judgments different from those of management.

Management uses a risk-grading program designed to evaluate the credit risk in the loan portfolio. In this program, risk grades are initially assigned by loan officers, then reviewed and monitored by credit administration. This process includes the maintenance of an internally classified loan list that is designed to help management assess the overall quality of the loan portfolio and the adequacy of the allowance for loan losses. In establishing the appropriate classification for specific assets, management considers, among other factors, the estimated value of the underlying collateral, the borrower's ability to repay, the borrower's payment history and the current delinquent status. Because of this process, certain loans are deemed as impaired and evaluated as an impaired loan.

The allowance for loan loss represents management's best estimate of an appropriate amount to provide for probable losses inherent in the loan portfolio in the normal course of business. While management believes that it uses the best information available to establish the allowance for loan loss, future adjustments to the allowance may be necessary and results of operations could be adversely affected if circumstances differ from the assumptions used in making the determinations. Furthermore, while management believes it has established the allowance for loan loss in conformity with GAAP, there can be no assurance that banking regulators, in reviewing the Company's portfolio, will not require an adjustment to the allowance for loan loss. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan loss is adequate or that increases will not be necessary, should the quality of any loans deteriorate because of the factors discussed herein. Any material increase in the allowance for loan loss may adversely affect the Company's financial condition and results of operations.

At December 31, 2018, the levels of our impaired loans, which includes all loans in nonaccrual status, TDRs and other loans deemed by management to be impaired, were $4.5 million compared to $5.6 million at December 31, 2017, a net decrease of $1.1 million. Total nonaccrual loans, which are a component of impaired loans, remained flat at $1.0 million for both December 31, 2017 and December 31, 2018. During 2018, nine relationships totaling $605,000 were added to impaired loans. These additions were offset by charging off two impaired relationships totaling $195,000, foreclosing two relationships for $160,000, pay offs of thirteen impaired relationships totaling $1.2 million, along with contractual pay downs on existing impaired loans.

The allowance expressed as a percentage of gross loans held for investment decreased four basis points from 0.69% at December 31, 2017 to 0.65% at December 31, 2018. The collectively evaluated reserve allowance as a percentage of collectively evaluated loans was 0.64% at December 31, 2017 and 0.61% at December 31, 2018 and the individually evaluated allowance as a percentage of

individually evaluated loans decreased slightly from 3.49% to 3.43% for the same periods. The portion of the Company's allowance for loan loss model related to general reserves captures the mean loss of individual loans within the loan portfolio and adds additional loss based on economic uncertainty and volatility. Specifically, the Company calculates probable losses on loans by computing a probability of loss and multiplying that by a loss given default derived from historical experience, thus deriving the estimated loss scenario by FDIC call report codes. Together, these components, as well as a reserve for qualitative factors based on management's discretion of economic conditions and portfolio concentrations form the basis of the allowance model. The loans that are impaired and included in the specific reserve are excluded from these calculations.

The Company assesses the probability of losses inherent in the loan portfolio using probability of default data, acquired from a third-party vendor representing a one-year loss horizon for each obligor. The Company updates the data inputs into the model; specifically, the loss given default and the probability of defaults obtained from the vendor annually during the second quarter. The Company updates the credit scores that are one of the components used within the allowance model semi-annually, during the first and third quarters. The continued improvement in credit quality coupled with the continued trend of overall improvement in credit scores resulted in our average customer credit score increasing four points from 761 to 765 during 2018. The improvement in credit scores has been the major driver in the overall decrease in the allowance for loan losses.

The ratio of nonperforming loans, which consist of nonaccrual loans and loans past due 90 days and still accruing, to total loans decreased from 0.29% at December 31, 2017, to 0.28% at December 31, 2018. The decrease is related to the growth in the loan portfolio for comparable periods.

Management believes the current level of the allowance for loan loss is appropriate in light of the risk inherent in the loan portfolio.

During 2018, other real estate owned decreased $1.3 million. The Company sold ten pieces of foreclosed property totaling $1.5 million realizing a net gain of $11,000. The Company also had recoveries of reserves totaling $60,000 on the remaining existing property. However, the Company foreclosed on two loan relationships totaling $160,000, which were added to other real estate owned in 2018.

Troubled debt restructured loans at December 31, 2018 totaled $3.4 million compared to $4.6 million at December 31, 2017 and are included in impaired loans. At December 31, 2018, all troubled debt restructured loans were on an accruing basis with the exception of one relationship totaling $29,000 that was in nonaccrual.

The following nonperforming loan table shows the comparison for the past five years:

Nonperforming Assets
(dollars in thousands)

	At December 31,				
	2018	2017	2016	2015	2014
Nonperforming Assets:					
Accruing loans past due 90 days or more	$ —	$ —	$ —	$ —	$ —
Nonaccrual loans	1,044	1,025	1,450	783	2,246
Other real estate owned	1,047	2,349	4,176	4,994	5,865
Total nonperforming assets	$ 2,091	$ 3,374	$ 5,626	$ 5,777	$ 8,111
Allowance for loan losses	$ 2,374	$ 2,458	$ 2,707	$ 2,884	$ 3,738
Nonperforming loans to total loans	0.28%	0.29%	0.42%	0.24%	0.72%
Allowance for loan losses to total loans	0.65%	0.69%	0.79%	0.90%	1.20%
Nonperforming assets to total assets	0.33%	0.58%	1.03%	1.09%	1.56%
Allowance for loan losses to nonperforming loans	227.38%	239.80%	186.69%	368.23%	166.48%

Capital Resources

The Company continues to maintain capital ratios that support its asset growth. In 2013, bank regulatory agencies approved regulatory capital guidelines ("Basel III") aimed at strengthening existing capital requirements for banking organizations. The rules include a common equity Tier 1 capital to risk-weighted assets minimum ratio of 4.50%, a minimum ratio of Tier 1 capital to risk-weighted assets of 6.00%, require a minimum ratio of total capital to risk-weighted assets of 8.00%, and require a minimum Tier 1 leverage ratio of 4.00%. A capital conservation buffer, comprised of common equity Tier 1 capital, was also established above the regulatory

minimum capital requirements. This capital conservation buffer began phasing in on January 1, 2016 at 0.625% of risk-weighted assets and increased each subsequent year by an additional 0.625% until reaching its final level of 2.50% on January 1, 2019. Strict eligibility criteria for regulatory capital instruments were also implemented under the rules. The rules also revise the definition and calculation of Tier 1 capital, total capital, and risk-weighted assets.

The phase-in period for the rules became effective for the Company and its subsidiary bank on January 1, 2015, with full compliance of all the rules' requirements phased in over a multi-year schedule, to be fully phased-in by January 1, 2019. Pursuant to the Federal Reserve's Small Bank Holding Company Policy Statement, the Company is exempt from Basel III. As of December 31, 2018, the Company and its subsidiary bank continue to exceed minimum capital standards and remain well-capitalized under the new rules.

In January 2013, the Company's subsidiary bank issued $7.9 million of Fixed Rate Noncumulative Perpetual Preferred Stock, Series B. The preferred stock qualifies as Tier 1 capital at each bank and pays dividends at a rate of 5.30%. The offering raised $7.9 million less issuance costs of $113,000.

During 3Q 2013, the Company's subsidiary bank raised an additional $2.8 million of Fixed Rate Noncumulative Perpetual Preferred Stock, Series C. The preferred stock qualifies as Tier 1 capital at the bank and pays dividends at an annual rate of 5.30%. The preferred stock has no voting rights. The offering raised $2.8 million less issuance costs of $23,000.

The Company expects to continue to exceed required minimum capital ratios without altering current operations or strategy. Note 15 to the Consolidated Financial Statements presents additional information regarding the Company's and its subsidiary banks' capital ratios.

Dividends

The Board of Directors of Uwharrie Capital Corp declared a 2% stock dividend in each of 2018, 2017, and 2016. All references in this Annual Report to net income per share and weighted average common and common equivalent shares outstanding reflect the effects of these stock dividends.

Liquidity

Liquidity, the ability to raise cash when needed without adversely affecting profits, is managed primarily by the selection of asset mix and the maturity mix of liabilities. Maturities and the marketability of securities and other funding sources provide a source of liquidity to meet deposit fluctuations. Maturities in the securities portfolio, presented in Financial Table 3 on page 81, are supported by cash flows from mortgage-backed securities that have longer-term contractual maturities. Other funding sources at year-end 2018 included $28.0 million in federal funds lines of credit from correspondent banks and approximately $26.0 million of remaining credit availability from the Federal Home Loan Bank. The Company may also borrow from the Federal Reserve Bank discount window with credit availability of $28.9 million. Growth in deposits is typically the primary source of funding for loans, supported by long-term credit available from the Federal Home Loan Bank.

At December 31, 2018, short-term borrowings amounted to $1.2 million. Long-term debt at that date consisted of junior subordinated debt of $9.5 million and notes payable of $440,000.

Management believes that the Company's current sources of funds provide adequate liquidity for its current cash flow needs.

Contractual Obligations

The following table reflects the contractual obligations of the Company outstanding as of December 31, 2018.

	Payments Due by Period (in thousands)				
	Total	On Demand or less than 1 year	1-3 Years	3-5 Years	After 5 Years
Contractual Obligations					
Short-term debt	$ 1,190	$ 1,190	$ —	$ —	$ —
Long-term debt	9,974	—	440	9,534	—
Operating leases	2,186	345	651	379	811
Total contractual cash obligations, excluding deposits	13,350	1,535	1,091	9,913	811
Deposits	566,901	541,458	21,725	3,718	—
Total contractual cash obligations, including deposits	$ 580,251	$ 542,993	$ 22,816	$ 13,631	$ 811

Critical Accounting Policy

A critical accounting policy is one that is both very important to the portrayal of the Company's financial condition and results, and requires management's most difficult, subjective and/or complex judgments. What makes these judgments difficult, subjective and/or complex is the need to make estimates about the effects of matters that are inherently uncertain. Refer to Note 1 in the consolidated financial statements for more information about these and other accounting policies utilized by the Company.

Allowance for Loan Losses

The allowance for loan loss is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan loss is evaluated both individually and collectively by loan class on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experiences. The nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay; estimated value of any underlying collateral and prevailing economic conditions are the key factors. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. In addition, regulatory examiners may require the Company to recognize adjustments to the allowance for loan losses based on their judgment about information available to them at the time of their assessment.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Income Taxes

The calculation of the Company's income tax expense is complex and requires the use of many estimates and judgments in its determination. Management's determination of the realization of the net deferred tax asset is based upon management's evaluation of positive and negative evidence related to cumulative pretax earnings over a three-year period and projected earnings trends. This evidence is reviewed to determine if it is more likely than not that the net deferred tax asset will be realized.

Valuation of Foreclosed Assets

Assets acquired through, or in lieu of, foreclosure are held for sale and are initially recorded at fair value less estimated cost to sell at the date of foreclosure, establishing a new cost basis. Principal and interest losses existing at the time of acquisition of such assets are charged against the allowance for loan losses and interest income, respectively. Subsequent to foreclosure, management periodically performs valuations and the assets are carried at the lower of carrying amount or fair value less estimated cost to sell.

Off-Balance Sheet Arrangements

The Company has various financial instruments (outstanding commitments) with off-balance sheet risk that are issued in the normal course of business to meet the financing needs of its customers. See Note 13 to the consolidated financial statements for more information regarding these commitments and contingent liabilities.

Interest Rate Sensitivity

Net Interest Income (Margin) is the single largest component of revenue for the Company. Net Interest Margin is the difference between the yield on earning assets and interest paid on costing liabilities. The margin can vary over time as interest rates change. The variance fluctuates based on both the timing (repricing) and magnitude of maturing assets and liabilities.

To identify interest rate sensitivity, a common measure is a gap analysis, which reflects the difference or "gap" between rate sensitive assets and liabilities over various periods. While management reviews this information, it has implemented the use of an income simulation model, which calculates expected future Net Interest Income (Margin) based on projected interest-earning assets, interest-bearing liabilities and forecasted interest rates along with multiple other forecasted assumptions. Management believes this provides a more relevant view of interest rate risk sensitivity than the traditional gap analysis because the gap analysis ignores optionality embedded in the balance sheet, such as prepayments or changes based on interest rates. The income simulation model allows a comparison of flat, rising and falling rate scenarios to determine the interest rate sensitivity of earnings in varying interest rate environments.

The Company models immediate rising and declining rate shocks of up to 4% (in 1% intervals) on its subsidiary bank, using a static balance sheet for a two-year horizon, as preferred by regulators. The most recent consolidated 2% rate shock projections for a one-year horizon, indicates a negative impact of (18.52%) on Net Interest Income (Margin) in rates down scenario and a positive impact of 9.55% on Net Interest Income (Margin) in a rates up scenario. Based on the most recent twelve-month forecast, the subsidiary bank is asset sensitive and may experience some negative impact to earnings should interest rates decline. While many interest-bearing assets would reprice in a declining interest rate environment; many liabilities are already approaching 0% interest rates. The subsidiary bank has the potential to benefit from a rising interest rate environment, but current market deposit pricing and embedded options in the balance sheet may limit the upside potential.

The principal goals for asset liability management for the Company are to maintain adequate levels and sources of liquidity and to manage interest rate risk. Interest rate risk management attempts to balance the effects of interest rate changes on both interest-sensitive assets and interest-sensitive liabilities to protect Net Interest Income (Margin) from wide fluctuations as a result from changes in market interest rates. To that end, management has recommended and the board has approved policy limits that minimize the downside risk from interest rate shifts. The aforementioned ratios are within those stated limits of -18% for the respective modeled scenarios at the subsidiary bank and combined. Managing interest rate risk is an important factor to the long-term viability of the Company since Net Interest Income (Margin) is such a large component of earnings. The Company's Asset Liability Management Committee (ALCO) monitors market changes in interest rates and assists with the pricing of loans and deposit products while considering the funding source needs, asset growth projections, and necessary operating liquidity.

Financial Table 1

Average Balances and Net Interest Income Analysis

	2018			2017			2016		
(dollars in thousands)	Average Balance	Interest Income/ Expense	Average Yield/ Rate (1)	Average Balance	Interest Income/ Expense	Average Yield/ Rate (1)	Average Balance	Interest Income Expense	Average Yield Rate (1)
Interest-earning assets									
Taxable securities	$ 88,328	1,497	1.69%	$ 95,831	1,582	1.65%	$ 88,067	1,342	1.52%
Non-taxable securities (1)	17,580	434	3.05%	17,194	439	3.61%	19,329	500	4.17%
Short-term investments	93,566	1,737	1.86%	65,244	750	1.15%	48,754	304	0.62%
Taxable loans (2)	362,002	17,954	4.96%	340,547	16,301	4.79%	321,164	15,516	4.83%
Non-taxable loans (1)	10,128	251	3.06%	10,684	268	3.54%	15,141	384	4.09%
Total interest-earning assets	571,604	21,873	3.85%	529,500	19,340	3.71%	492,455	18,046	3.77%
Non-earning assets									
Cash and due from banks	5,905			6,648			6,251		
Premises and equipment, net	15,037			14,211			14,443		
Interest receivable and other	19,857			22,271			21,147		
Total non-earning assets	40,799			43,130			41,841		
Total assets	$612,403			$572,630			$534,296		
Interest-bearing liabilities									
Savings deposits	$ 52,484	$ 91	0.17%	$ 44,923	$ 49	0.11%	$ 41,657	$ 47	0.11%
Interest checking & MMDA	304,997	948	0.31%	279,216	413	0.15%	254,144	310	0.12%
Time deposits	59,260	273	0.46%	66,955	252	0.38%	72,127	366	0.51%
Total deposits	416,741	1,312	0.31%	391,094	714	0.18%	367,928	723	0.20%
Short-term borrowed funds	1,641	16	0.98%	2,145	16	0.75%	3,357	37	1.10%
Long-term debt	9,643	554	5.75%	9,534	547	5.74%	9,541	550	5.76%
Total interest-bearing liabilities	428,025	1,882	0.44%	402,773	1,277	0.32%	380,826	1,310	0.34%
Noninterest liabilities									
Transaction deposits	131,556			118,258			102,993		
Interest payable and other	8,354			7,057			6,194		
Total liabilities	567,935			528,088			490,013		
Shareholders' equity	44,468			44,542			44,283		
Total liabilities and shareholders' equity	$612,403			$572,630			$534,296		
Interest rate spread			3.41%			3.39%			3.43%
Net interest income and net interest margin		$19,991	3.53%		$18,063	3.47%		$16,736	3.51%

1) Yields related to securities and loans exempt from federal and/or state income taxes are stated on a fully tax-equivalent basis, assuming a 21.00% tax rate for 2018 and a 34.00% tax rate for 2017 and 2016.

2) Nonaccrual loans are included in loans, net of unearned income.

Financial Table 2

Volume and Rate Variance Analysis

	2018 Versus 2017			2017 Versus 2016		
(dollars in thousands)	Volume	Rate	Net Change	Volume	Rate	Net Change
Interest-earning assets						
Taxable securities	$ (126)	$ 41	$ (85)	$ 123	$ 117	$ 240
Non-taxable securities	10	(15)	(5)	(55)	(6)	(61)
Short-term investments	426	561	987	146	300	446
Taxable loans	1,046	607	1,653	932	(147)	785
Non-taxable loans	(14)	(3)	(17)	(112)	(4)	(116)
Total interest-earning assets	1,342	1,191	2,533	1,034	260	1,294
Interest-bearing liabilities						
Savings deposits	11	31	42	4	(2)	2
Transaction and MMDA deposits	59	476	535	34	69	103
Other time deposits	(32)	53	21	(23)	(91)	(114)
Short-term borrowed funds	(4)	4	0	(11)	(10)	(21)
Long-term debt	6	1	7	—	(3)	(3)
Total interest-bearing liabilities	40	565	605	4	(37)	(33)
Net interest income	$ 1,302	$ 626	$ 1,928	$ 1,030	$ 297	$ 1,327

The above table analyzes the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. The table distinguishes between (i) changes attributable to volume (changes in volume multiplied by the prior period's rate), (ii) changes attributable to rate (changes in rate multiplied by the prior period's volume), and (iii) net change (the sum of the previous columns). The change attributable to both rate and volume (changes in rate multiplied by changes in volume) has been allocated equally to the change attributable to volume and the change attributable to rate.

Financial Table 3

Investment Securities Portfolio Analysis

	December 31, 2018			December 31, 2017			December 31, 2016		
(dollars in thousands)	Amortized Cost	Estimated Fair Value	Book Yield(1)	Amortized Cost	Estimated Fair Value	Book Yield(1)	Amortized Cost	Estimated Fair Value	Book Yield(1)
Securities available for sale									
U.S. Treasury									
Due after one but within five years	$ 4,944	$ 4,955	2.66%	$ —	$ —	—	$ 4,017	$ 4,014	1.13%
	4,944	4,955	2.66%	—	—	—	4,017	4,014	1.13%
U.S. Government agencies									
Due within twelve months	17,504	17,398	1.24%	—	—	—	—	—	—
Due after one but within five years	25,093	24,398	1.63%	42,737	41,968	1.47%	37,627	37,224	1.31%
Due after five but within ten years	6,626	6,399	1.78%	8,678	8,558	1.91%	14,453	14,082	1.93%
Due after ten years	3,712	3,721	2.65%	5,107	5,089	1.79%	6,425	6,365	1.48%
	52,935	51,916	1.59%	56,522	55,615	1.57%	58,505	57,671	1.48%
Mortgage-backed securities									
Due after one but within five years	1,557	1,544	2.57%	1,148	1,154	2.46%	3,382	3,265	1.93%
Due after five but within ten years	7,815	7,587	2.06%	6,659	6,582	2.03%	6,961	6,846	2.18%
Due after ten years	7,845	7,571	2.09%	13,446	13,155	1.94%	15,853	15,537	1.93%
	17,217	16,702	2.12%	21,253	20,891	2.00%	26,196	25,648	2.00%
State and political									
Due within twelve months	1,010	1,014	3.25%	810	820	5.95%	—	—	—
Due after one but within five years	1,079	1,064	3.23%	1,863	1,866	3.37%	2,597	2,638	4.04%
Due after five but within ten years	1,688	1,646	3.13%	1,971	1,943	3.48%	2,877	2,819	4.29%
Due after ten years	9,596	9,231	3.10%	9,724	9,570	2.45%	8,649	8,079	2.39%
	13,373	12,955	3.12%	14,368	14,199	2.91%	14,123	13,536	3.08%
Corporate Bonds									
Due after one but within five years	5,030	4,771	2.94%	2,827	2,821	2.15%	2,836	2,798	2.15%
Due after five but within ten years	—	—	—	2,215	2,217	1.50%	2,218	2,232	1.50%
	5,030	4,771	2.94%	5,042	5,038	1.86%	5,054	5,030	1.86%
Total Securities available for sale									
Due within twelve months	18,514	18,412	1.35%	810	820	5.95%	—	—	—
Due after one but within five years	37,703	36,732	2.02%	48,575	47,809	1.61%	50,459	49,939	1.56%
Due after five but within ten years	16,129	15,632	2.06%	19,523	19,300	2.06%	26,509	25,979	2.22%
Due after ten years	21,153	20,523	2.65%	28,277	27,814	2.09%	30,927	29,981	1.98%
	$ 93,499	$ 91,299	2.04%	$ 97,185	$ 95,743	1.88%	$107,895	$105,899	1.85%

1) Yields on securities and investments exempt from federal and/or state income taxes are stated on a fully tax- equivalent basis, assuming a 21.00% tax rate for 2018 and a 34.00% tax rate for 2017 and 2016.

Financial Table 3

Investment Securities Portfolio Analysis (Continued)

(dollars in thousands)	December 31, 2018 Amortized Cost	Estimated Fair Value	Book Yield(1)	December 31, 2017 Amortized Cost	Estimated Fair Value	Book Yield(1)	December 31, 2016 Amortized Cost	Estimated Fair Value	Book Yield(1)
Securities held to maturity									
U.S. Government agencies									
Due after five but within ten years	$ 855	$ 843	2.42%	$ 1,348	$ 1,339	2.49%	$ 1,754	$ 1,737	2.49%
	855	843	2.42%	1,348	1,339	2.49%	1,754	1,737	2.49%
State and political									
Due after one but within five years	5,545	5,493	2.21%	3,694	3,681	2.28%	2,952	2,935	2.21%
Due after five but within ten years	1,332	1,329	2.42%	3,231	3,231	3.03%	4,022	3,986	2.95%
	6,877	6,822	2.25%	6,925	6,912	2.63%	6,974	6,921	2.63%
Corporate Bonds									
Due within twelve months	1,543	1,534	2.73%	—	—	—	—	—	—
Due after one but within five years	1,562	1,551	2.79%	3,185	3,210	2.76%	3,262	3,276	2.76%
	3,105	3,085	2.76%	3,185	3,210	2.76%	3,262	3,276	2.76%
Total Securities held to maturity									
Due within twelve months	1,543	1,534	2.73%						
Due after one but within five years	7,107	7,044	2.34%	3,694	3,681	2.51%	2,952	2,935	2.50%
Due after five but within ten years	2,187	2,172	2.42%	7,764	7,780	2.87%	9,038	8,999	2.81%
	$ 10,837	$ 10,750	2.41%	$ 11,458	$ 11,461	2.65%	$ 11,990	$ 11,934	2.65%

1) Yields on securities and investments exempt from federal and/or state income taxes are stated on a fully tax- equivalent basis, assuming a 21.00% tax rate for 2018 and a 34.00% tax rate for 2017 and 2016.

Financial Table 4

Noninterest Income

(dollars in thousands)	Year Ended December 31, 2018	2017	2016
Service charges on deposit accounts	$ 1,220	$ 1,169	$ 1,189
Other banking fees	722	585	522
Interchange and card transaction fees, net	648	656	629
Asset management fees	1,529	1,481	1,574
Brokerage commissions	370	608	595
Other noninterest income	357	593	514
Income from mortgage loan sales	2,980	3,345	3,795
Security gains (losses)	—	(14)	544
Other gains (losses) from sale of assets	453	2	(5)
Total noninterest income	$ 8,279	$ 8,425	$ 9,357

Financial Table 5

Other Noninterest Expense

(dollars in thousands)	Year Ended December 31, 2018	2017	2016
Postage	$ 204	$ 199	$ 195
Telephone and data lines	182	166	168
Loan cost	306	356	516
Shareholder relations expense	162	167	129
Dues and subscriptions	257	221	197
Other	932	1,126	1,190
Total other noninterest expense	$ 2,043	$ 2,235	$ 2,395

Financial Table 6

Loan Portfolio Composition

	At December 31,					
	2018		2017		2016	
(dollars in thousands)	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
Loan type:						
Commercial	$ 57,176	15.45%	$ 54,912	15.38%	$ 55,752	16.31%
Real estate - construction	38,946	10.52%	45,210	12.66%	32,344	9.46%
Real estate - residential	129,105	34.88%	128,529	36.01%	132,514	38.77%
Real estate - commercial	130,634	35.29%	114,712	32.13%	109,752	32.11%
Consumer	12,159	3.29%	10,774	3.02%	9,711	2.84%
Other	2,110	0.57%	2,838	0.80%	1,687	0.49%
Total loans	370,130	100.00%	356,975	100.00%	341,760	100.00%
Less:						
Allowance for loan losses	(2,374)		(2,458)		(2,707)	
Unearned net loan fees	(160)		(104)		69	
Net loans	$ 367,596		$ 354,413		$ 339,122	

	At December 31,			
	2015		2014	
	Amount	% of Total Loans	Amount	% of Total Loans
Loan type:				
Commercial	$ 52,311	16.34%	$ 47,418	15.25%
Real estate - construction	23,321	7.29%	26,250	8.44%
Real estate - residential	132,799	41.49%	135,734	43.67%
Real estate - commercial	101,198	31.62%	92,517	29.76%
Consumer	8,982	2.81%	8,460	2.72%
Other	1,481	0.45%	481	0.16%
Total loans	320,092	100.00%	310,860	100.00%
Less:				
Allowance for loan losses	(2,884)		(3,738)	
Unearned net loan fees	40		(7)	
Net loans	$ 317,248		$ 307,115	

Financial Table 7

Selected Loan Maturities

	December 31, 2018			
(dollars in thousands)	One Year or Less	One to Five Years	Over Five Years	Total
Commercial and agricultural	$ 9,659	$ 16,007	$ 31,510	$ 57,176
Real estate – construction	11,762	5,807	21,377	38,946
Total selected loans	$ 21,421	$ 21,814	$ 52,887	$ 96,122
Fixed rate loans	$ 10,212	$ 31,220	$ 35,864	$ 77,296
Sensitivity to rate changes:				
Variable interest rates	$ 29,108	$ 14,347	$ 249,219	$ 292,674

Financial Table 8

Activity in the Allowance for Loan Loss

	At or for the Year Ended December 31,				
(dollars in thousands)	2018	2017	2016	2015	2014
Allowance for loan losses at beginning of year	$ 2,458	$ 2,707	$ 2,884	$ 3,738	$ 5,095
Provision for (recovery of) loan losses	90	(236)	(88)	(620)	(389)
Other	—	—	—	—	—
Loan charge-offs:					
Commercial	89	16	76	34	8
Real estate	158	107	172	427	1,140
Consumer	79	85	142	128	83
Total charge-offs	326	208	390	589	1,231
Recoveries of loans previously charged off:					
Commercial	28	75	19	16	81
Real estate	100	82	209	278	138
Consumer	24	38	73	61	44
Total recoveries	152	195	301	355	263
Net charge-offs	174	13	89	234	968
Allowance for loan losses at end of year	$ 2,374	$ 2,458	$ 2,707	$ 2,884	$ 3,738
Net (charge-offs) recoveries as a percent of average loans	0.05%	0.00%	0.03%	0.07%	0.31%

Financial Table 9

Allocation of the Allowance for Loan Losses

	At December 31,					
	2018		2017		2016	
(dollars in thousands)	Amount	% of Total Loans (1)	Amount	% of Total Loans (1)	Amount	% of Total Loans (1)
Commercial	$ 519	15.45%	$ 770	15.38%	$ 636	16.31%
Real estate - construction	282	10.52%	168	12.66%	240	9.46%
Real estate - residential	825	34.88%	971	36.01%	1,103	38.77%
Real estate - commercial	576	35.29%	497	32.13%	553	32.11%
Other	172	3.29%	52	3.02%	175	2.84%
Unallocated	—	0.57%	—	0.80%	—	0.49%
Total loans	$ 2,374	100.00%	$ 2,458	100.00%	$ 2,707	100.00%

	At December 31,			
	2015		2014	
	Amount	% of Total Loans (1)	Amount	% of Total Loans (1)
Commercial	$ 478	16.34%	$ 790	15.25%
Real estate – construction	227	7.29%	223	8.44%
Real estate – residential	1,338	41.49%	1,775	43.67%
Real estate – commercial	653	31.62%	738	29.76%
Other	188	2.81%	212	2.72%
Unallocated	—	0.45%	—	0.16%
Total loans	$ 2,884	100.00%	$ 3,738	100.00%

(1) Represents total of all outstanding loans in each category as a percent of total loans outstanding.

Financial Table 10

Short Term Borrowings

	2018		2017		2016	
(dollars in thousands)	Amount	Rate	Amount	Rate	Amount	Rate
At year-end						
Master notes and other secured borrowings	1,190	1.49%	1,752	0.50%	2,162	0.25%
Notes payable	—	0.00%	—	0.00%	12	6.00%
Short-term line of credit	—	0.00%	—	0.00%	500	3.75%
	$ 1,190	1.49%	$ 1,752	0.50%	$ 2,674	0.93%
Average for the year						
Federal funds purchase	$ 2	2.92%	$ 2	1.95%	$ 2	1.35%
Master notes and other secured borrowings	1,638	1.00%	1,861	0.28%	2,540	0.25%
Notes payable	—	0.00%	6	5.81%	13	5.83%
Short-term line of credit	—	0.00%	275	3.58%	802	3.68%
Short-term advances from FHLB	—	0.00%	—	0.00%	—	0.00%
	$ 1,640	1.00%	$ 2,144	0.72%	$ 3,357	1.09%
Maximum month-end balance						
Master notes and other secured borrowings	2,006		2,294		4,325	
Notes payable	—		12		12	
Short-term line of credit	—		1,000		2,350	
Short-term advances from FHLB	—		—		—	

Financial Table 11

Maturities of Time Deposits

(dollars in thousands)	3 Months or Less	Over 3 Months to 6 Months	Over 6 Months to 12 Months	Over 12 Months	Total
Time Deposits of $250,000 or more	$ 661	$ 256	$ 1,896	$ 5,107	$ 7,920
Other Time Deposits	8,844	8,345	12,566	20,337	50,092
	$ 9,505	$ 8,601	$ 14,462	$ 25,444	$ 58,012

UWHARRIE CAPITAL CORP

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Uwharrie Capital Corp;
President and Chief Executive Officer and
Chief Risk Officer
Uwharrie Bank

R. David Beaver, III
Chief Financial Officer
Uwharrie Capital Corp
and Uwharrie Bank

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