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Dear Valued Shareholder,

We are pleased to report your Company's results for the year 2018. Total assets grew 9.5% or \$55 million to \$632.3 million for the year ended December 31, 2018. Uwharrie Bank also experienced strong loan production (\$13.5 million net of pay downs) while asset quality remains the best in the Company's history. As a result, the Company's banking subsidiary improved its Net Interest Margin in 2018 by \$1.9 million (10.7%) over 2017. Rising interest rates and lack of residential real estate inventory for sale negatively affected expectations for Uwharrie Bank Mortgage; however, our residential mortgage division remained profitable for the year. The Company's wealth management subsidiary, Uwharrie Investment Advisors, grew assets under management in 2018, a key performance indicator for 2019, despite the extreme market contraction in the third quarter and the return of market volatility in December 2018. As a result, Uwharrie Capital Corp's Net Income for the year ended December 31, 2018, was \$2.5 million, a 54% (\$866 thousand) improvement from 2017 year-end of \$1.6 million.

To say these are interesting times in financial services is an understatement. *Modern* banking arose with the widespread adoption of the mainframe computer (circa 1970), but for the next 30 years banking changed inconspicuously. The *modern* Internet (1989), accelerated by the smartphone (2007), is transforming our lives, our businesses, and the whole world faster and exponentially greater than the Industrial Revolution did 200 years ago. Further technological evolution is fast approaching in the form of robotics, artificial intelligence and machine learning as well as fierce new competition from non-traditional sources such as Fintechs, Amazon, PayPal and others. People in need of financial services are now finding their solutions being delivered by alternative non-bank providers.

We have not ignored these disruptive transformations taking place in our industry. The delivery channels for financial services in the 21st Century are changing and now threaten the traditional banking model. No bank is safe... Amazon is coming! To stay competitive, banks are having to rethink their service delivery and are having to make major investments to stay relevant. This requires more size and scale in order to leverage the increasing complexity and operating costs. We do not seek growth for growth's sake, but to achieve the size and scale necessary to survive and

continue pursuing our vision of a future where **Main Street businesses grow, families prosper and communities thrive.**

We began taking strategic steps in 2013 consistent with the structural evolution we felt would prepare our organization for the future. Operating efficiencies were achieved with the consolidation of our three bank charters, which saved us over \$1 million in annual operating expenses. Following consolidation, we entered the Charlotte market with the launch of a Mortgage Office in 2017. In 2018, we launched a new Government Lending Division and we opened our new *branch of the future* in Ballantyne. We also expanded Uwharrie Investment Advisors' footprint into Ballantyne and Charlotte as well as our Mortgage Banking presence into Rock Hill, SC. Additionally, we completed a major conversion to a new core bank operating system.

These strategic investments in preparation for our future have been expensive, resulting in an increase in our Non-Interest Expense of \$1.8 million in 2018: a 7.8% increase over 2017. In the short run, until we leverage these expenses with the new revenues and growth that these investments will generate, our operating expenses will appear high for a bank of our size.

Over the past two decades, the market environment we have been discussing has resulted in North Carolina losing two-thirds of its banks. Uwharrie Capital Corp is still here, anchored by a dedicated group of associates and directors and a commitment to our founding vision. In an increasingly volatile and uncertain world, being a self-sufficient community in control of our future is worthy of our investment and time...it is a vision that matters.

Having the right principles creates value, and Capitalism is at its finest when one can provide a service that the community needs and earns a profit for doing so. Thank you for your trust and investment in Uwharrie Capital Corp and for being a member of this community. We are excited about our future and look forward to reporting to you on our progress as we continue the journey.

Sincerely,
Uwharrie Capital Corp



Roger L. Dick
President and Chief Executive Officer



Brendan P. Duffey
Chief Operating Officer