



**Second Quarter Report**  
**June 30, 2008**

# Uwharrie Capital Corp

[www.UwharrieCapitalCorp.com](http://www.UwharrieCapitalCorp.com)

September 10, 2008

Dear Shareholder:

**At Uwharrie Capital Corp, we value the relationships that we have built with our shareholders, our customers and our communities, and we recognize the importance of your confidence in our safety and soundness.**

There has been a tremendous amount of alarming news pertaining to the banking industry in recent weeks and months. However, banks that have experienced the most severe problems have done so because their business included exotic loan products or they were doing business outside their primary market area. The future of community banking organizations is far from the grim forecast and sensationalism we have heard about recently. Community banks are generally highly capitalized, well regulated and risk averse. The money that is deposited in local banks and insured by the FDIC is reinvested in our community -- ensuring that the neighborhoods where we live and work will continue to grow and thrive.

We are therefore pleased to report that Uwharrie Capital Corp and its subsidiaries experienced solid growth for the twelve months ended June 30, 2008. Total assets increased \$30.1 million, from \$394.1 million to \$424.2 million. The Company experienced positive growth trends in its residential construction, commercial and consumer areas of the loan portfolio. Even though we benefited from opportunities to acquire new business and to deepen long-term customer relationships, managing the challenges of the current credit environment is our top priority.

**While the FDIC is reporting that the banking industry's profits are down 86% this year, our net income was up 7.7% in the second quarter of 2008 and up 12.5% for the 6 months ended June 30, 2008.**

Our net income increased to \$772 thousand in the second quarter compared to \$717 thousand for the same period of 2007. The Company's primary source of income, net interest income, increased \$275 thousand or 7.5% for the three months ended June 30, 2008, as compared to June 30, 2007. Net interest income for the six months ended June 30, 2008 was \$7.8 million as compared with \$7.2 million during the six months for the prior year, resulting in an increase of \$684 thousand, or 9.6%.

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While the Company generates most of its revenues from net interest income, diversification of our earnings base continues to be of major importance in our long-term success. Non interest income from our mortgage origination platform, our wealth management services and traditional service charges increased by \$183 thousand in the second quarter of 2008 compared to the prior year, an increase of 12.5%. Income from these sources increased \$446 thousand to \$3.4 million for the six months ended June 30, 2008, representing an increase of 15.3%. We are proud of these improvements in fee income.

In recognition of the changing economic conditions within our marketplace, the Company has shifted our strategy from one of growth to one of deliberate, prudent development and improved profitability. Taking a more conservative posture during these uncertain times, we feel is wise and in the best interest of our customers and our shareholders.

The current quarter's increase in the loan loss reserve was due to continued loan growth; however, going forward in these uncertain times, we will remain cautious and we anticipate increasing the reserves accordingly to reflect greater general economic risk. The allowance is increased by provisions charged to operations and by recoveries of amounts previously charged off, and reduced by loans charged off. The provision for loan losses was \$171 thousand for the three months ending June 30, 2008 compared to a negative provision (because of loan recoveries) of \$138 thousand for the same period in 2007. The adequacy of the provision and the resulting allowance for loan losses is determined based on management's continuing evaluation of the loan portfolio, including an assessment of current and expected economic conditions, the changing mix of loans in the portfolio and other factors. Our responsible lending practices support stable, sustainable growth - for our customers, our communities and our banks.

Given the recent news about the banking system in general and our conservative outlook for the economy, we would also like to take this opportunity to re-assure you about the safety and soundness of the banks that make up Uwharrie Capital Corp.

**Your deposits are safe at Anson Bank & Trust, Bank of Stanly and Cabarrus Bank & Trust.**

Your funds are safe because each of the banks within our holding company structure is well managed, maintains a "well capitalized" position as defined by banking regulators, and is continuously subjected to independent audits and examinations to ensure that the bank operates in a safe and sound manner.

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# Uwharrie Capital Corp and Subsidiaries

## Consolidated Balance Sheets

(Amounts in thousands except share and per share data)	June 30, 2008	June 30, 2007
<b>Assets</b>		
Cash and due from banks	\$ 14,966	\$ 13,725
Investment securities available for sale	48,748	41,223
Federal funds sold	-	9,000
Loans held for sale	1,919	5,486
Loans held for investment	336,735	304,631
Less: Allowance for loan losses	3,657	3,337
Net loans held for investment	<u>333,078</u>	<u>301,294</u>
Interest receivable	1,925	1,836
Premises and equipment, net	9,323	8,529
Federal Home Loan Bank stock	2,369	1,972
Bank-owned life insurance	5,411	5,219
Goodwill	987	987
Other assets	5,442	4,841
Total assets	<u>\$ 424,168</u>	<u>\$ 394,112</u>
<b>Liabilities</b>		
Deposits:		
Demand, noninterest-bearing	\$ 46,362	\$ 48,717
Interest checking and money market accounts	110,454	99,042
Savings accounts	26,947	27,068
Time deposits, \$100,000 and over	56,723	42,633
Other time deposits	94,616	88,580
Total deposits	<u>335,102</u>	<u>306,040</u>
Interest payable	538	418
Short-term borrowed funds	20,251	39,273
Long-term debt	34,195	16,449
Other liabilities	2,004	1,503
Total liabilities	<u>392,090</u>	<u>363,683</u>
<b>Shareholders' Equity</b>		
Common stock, \$1.25 par value: 20,000,000 shares authorized;		
Issued and outstanding or in the process of issuance		
7,407,851 and 7,341,062 shares, respectively.		
Book value per share \$4.33 in 2008 and \$4.02 in 2007. (1)	9,259	9,176
Additional paid-in capital	13,398	13,155
Unearned ESOP compensation	(769)	(830)
Undivided profits	10,540	8,877
Accumulated other comprehensive income (loss)	(350)	51
Total shareholders' equity	<u>32,078</u>	<u>30,429</u>
Total liabilities and shareholders' equity	<u>\$ 424,168</u>	<u>\$ 394,112</u>

(1) Net income per share, book value per share and weighted average shares outstanding have been adjusted to reflect the 3% stock dividend in 2007.

# Uwharrie Capital Corp and Subsidiaries

## Consolidated Statements of Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
(Amounts in thousands except share and per share data)				
<b>Interest Income</b>				
Interest and fees on loans	\$ 5,669	\$ 5,865	\$ 11,638	\$ 11,519
Interest on investment securities	695	534	1,398	1,038
Other interest income	18	251	43	635
Total interest income	<u>6,382</u>	<u>6,650</u>	<u>13,079</u>	<u>13,192</u>
<b>Interest Expense</b>				
Interest paid on deposits	1,975	2,375	4,280	4,827
Interest on borrowed funds	454	597	953	1,203
Total interest expense	<u>2,429</u>	<u>2,972</u>	<u>5,233</u>	<u>6,030</u>
<b>Net Interest Income</b>				
Provision for loan losses	171	(138)	257	(138)
Net interest income after provision for loan losses	<u>3,782</u>	<u>3,816</u>	<u>7,589</u>	<u>7,300</u>
<b>Noninterest Income</b>				
Service charges on deposit accounts	537	556	1,067	1,059
Other service fees and commissions	754	721	1,502	1,419
Gain on sale of securities	-	(76)	-	(76)
Income from mortgage loan sales	357	188	798	443
Other income	247	103	393	189
Total noninterest income	<u>1,895</u>	<u>1,492</u>	<u>3,760</u>	<u>3,034</u>
<b>Noninterest Expense</b>				
Salaries and employee benefits	2,664	2,476	5,301	4,921
Occupancy expense	236	209	459	426
Equipment expense	156	147	296	306
Data processing	204	185	392	363
Other operating expenses	1,272	1,256	2,607	2,340
Total noninterest expense	<u>4,532</u>	<u>4,273</u>	<u>9,055</u>	<u>8,356</u>
Income before income taxes	1,145	1,035	2,294	1,978
Provision for income taxes	373	318	747	603
<b>Net Income</b>	<u>\$ 772</u>	<u>\$ 717</u>	<u>\$ 1,547</u>	<u>\$ 1,375</u>
<b>Net Income Per Common Share (1)</b>				
Basic	\$ 0.11	\$ 0.10	\$ 0.21	\$ 0.18
Assuming dilution	\$ 0.11	\$ 0.10	\$ 0.21	\$ 0.18
<b>Weighted Average Shares Outstanding (1)</b>				
Basic	7,231,869	7,411,526	7,251,938	7,440,060
Assuming dilution	7,263,199	7,513,197	7,293,310	7,537,143



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Be assured that deposit accounts are insured, safe and backed by the full faith and credit of the federal government through the Federal Deposit Insurance Corporation (FDIC) to the maximum amount allowed by law. FDIC deposit insurance covers each depositor's account, dollar-for-dollar, up to the insurance limit, including principal and any accrued interest. FDIC insurance automatically insures individual accountholders up to \$100,000 in deposits (up to \$250,000 on Individual Retirement Accounts). It is easy to have far more than \$100,000 insured at a single bank by structuring the ownership of your accounts. If you have any questions about your accounts and FDIC insurance amounts, please call one of our offices so an associate can assist you.

With strong local banks, we strengthen our local communities and economies by channeling dollars back into the neighborhoods where our customers and our families live and work. We are committed to the markets we serve and to providing a responsive, personalized level of service that is uncommon in our industry today. While we continue to face economic challenges, both locally and on a global basis, your Company remains committed to our core values of supporting sustainable growth and long-term value for our shareholders, customers, associates and the communities we serve. We thank you for your continued support and *together, we are making a difference.*

Sincerely,

UWHARRIE CAPITAL CORP

Roger L. Dick  
President and Chief Executive Officer

***Making a Difference!***

**[www.UwharrieCapitalCorp.com](http://www.UwharrieCapitalCorp.com)**

## Uwharrie Capital Corp

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### How You, As A Shareholder, Can Make A Positive Difference...

- ◆ Share with others what Uwharrie Capital Corp is doing for our community and region and invite them to become an investor and customer.
- ◆ Encourage your clients, associates, and friends to do business with us – Strategic Investment Group\*, Anson Bank & Trust, Bank of Stanly and Cabarrus Bank & Trust.
- ◆ If you or your friends have questions about investing, contact our brokerage and investment company, Strategic Investment Group\*.
- ◆ Encourage your civic, church and community groups to do business with us.
- ◆ Keep us informed of new businesses and opportunities in our area.

*\*Securities are offered by, and Financial Consultants are registered with UVEST Financial Services, member FINRA/SIPC. UVEST and Strategic Investment Group are independent entities. Securities, with the exception of Brokerage CDs, (1) are not bank deposits; (2) are not insured or guaranteed by the FDIC or any other government agency; (3) are not obligations of, or guaranteed by, any financial institutions; and (4) involve investment risks, including the potential for fluctuations in investment returns, and the potential loss of principal.*