



First Quarter Report
March 31, 2009

Uwharrie Capital Corp

www.UwharrieCapitalCorp.com

June 12, 2009

Dear Shareholder:

Despite the recent turbulent times for our economy and our nation's financial institutions, Uwharrie Capital Corp remains safe, sound and capital strong. We are well positioned to continue to face the challenges of these uncertain times and above all, we remain committed and confident in our founding vision and mission of enhancing the well-being of our communities, while earning a profit for our shareholders.

I am pleased to report your company experienced solid growth in earnings from operations in the first quarter of 2009. Net income before taxes and non-recurring items rose 42% compared to the same quarter in 2008. After taxes and non-recurring items, net income available to common shareholders was \$743 thousand or \$0.10 per common share compared to \$775 thousand or \$0.10 per common share at March 31, 2008.

Total assets ended the quarter at \$462 million, up from \$411 million at March 31, 2008, representing 12.4% growth in assets. Total deposits experienced an increase of \$35.6 million from \$326.8 million at March 31, 2008 to \$362.4 million for the same quarter 2009.

The Company continues to increase non-interest income. Non-interest income rose to \$2.3 million for the quarter, an increase of 25% over the same quarter last year. Growth in mortgage origination fees accounted for this increase as homeowners continue to take advantage of the current interest rate environment.

While we are certainly pleased with these results, it is also important to note that Uwharrie Capital Corp has maintained strong loan quality, solid liquidity to meet funding needs and remains well-capitalized. As we have mentioned before, in light of the current economic downturn, your management has been focusing considerable energy on managing the balance sheet to ensure continued safety and soundness of the Company. Though we experienced respectable earnings for 2008 and historical earnings for the first quarter 2009, we did accept, along with about 550 banks elsewhere in the country, an investment, not a "bail-out," from the Capital Purchase Program under the Treasury Department's Troubled Asset Relief Program or TARP.

Unfortunately, there is a lot of misinformation and confusion concerning TARP, partly because the government has not been very clear on their intentions with the program and they continue to modify the rules concerning participation and reporting. As a result, the media has included the healthy institutions that "qualified" for these investment dollars in with the weak, painting participating banks as either failing or troubled, which is not the case. **We were strongly encouraged by our regulators to participate because the goal of TARP funds is to assist healthy banks by increasing their capital levels, which in turn empowers the banks to make additional loans that ultimately would support the recovery of the economy.**

Though our capital ratios have historically been above the "well-capitalized" range, we determined that the additional capital, once leveraged appropriately, is inexpensive and provides a cushion or

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Uwharrie Capital Corp and Subsidiaries

Consolidated Balance Sheets

(Amounts in thousands except share data)	March 31, 2009	March 31, 2008
Assets		
Cash and due from banks	\$ 13,675	\$ 14,053
Investment securities available for sale	76,077	49,552
Federal funds sold	0	1,425
Loans held for sale	3,959	818
Loans held for investment	338,147	325,397
Less: Allowance for loan losses	4,573	3,583
Net loans held for investment	<u>333,574</u>	<u>321,814</u>
Interest receivable	2,089	2,088
Premises and equipment, net	12,160	8,899
Federal Home Loan Bank stock	3,236	2,256
Bank-owned life insurance	5,557	5,364
Goodwill	987	987
Other assets	10,511	4,181
Total assets	<u>\$ 461,825</u>	<u>\$ 411,437</u>
Liabilities		
Deposits:		
Demand, noninterest-bearing	\$ 47,183	\$ 45,673
Interest checking and money market accounts	116,325	101,441
Savings accounts	30,247	26,201
Time deposits, \$100,000 and over	66,927	56,305
Other time deposits	101,757	97,142
Total deposits	<u>362,439</u>	<u>326,762</u>
Interest payable	516	486
Short-term borrowed funds	22,748	25,383
Long-term debt	30,500	24,690
Other liabilities	2,796	2,185
Total liabilities	<u>418,999</u>	<u>379,506</u>
Shareholders' Equity		
Preferred Stock, no par value: 10,000,000 shares authorized;		
10,000 shares of series A issued and outstanding	10,000	-
500 shares of series B issued and outstanding	500	-
Discount on preferred stock	(475)	-
Common stock, \$1.25 par value: 20,000,000 shares authorized;		
issued and outstanding or in process of issuance		
7,593,929 and 7,405,449 shares, respectively.		
Book value per share \$4.31 in 2009 and \$4.19 in 2008. (1)	9,492	9,257
Additional paid-in capital	14,026	13,418
Unearned ESOP compensation	(718)	(784)
Undivided profits	10,751	9,768
Accumulated other comprehensive income (loss)	(750)	272
Total shareholders' equity	<u>42,826</u>	<u>31,931</u>
Total liabilities and shareholders' equity	<u>\$ 461,825</u>	<u>\$ 411,437</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 2008.

