

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2020  
OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

COMMISSION FILE NUMBER 000-22062

**UWHARRIE CAPITAL CORP**

(Exact name of registrant as specified in its charter)

**NORTH CAROLINA**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**56-1814206**  
(I.R.S. Employer  
Identification No.)

**132 NORTH FIRST STREET**  
**ALBEMARLE, NORTH CAROLINA**  
(Address of Principal Executive Offices)

**28001**  
(Zip Code)

**Registrant's Telephone number, including area code: (704) 983-6181**

**Securities registered pursuant to Section 12(b) of the Act:**

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
NONE		

**Securities registered pursuant to Section 12(g) of the Act:**

**COMMON STOCK, PAR VALUE \$1.25 PER SHARE**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).  Yes  No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and ask price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. \$31,666,426.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date: 7,052,143 shares of common stock outstanding as of March 3, 2021.

**Documents Incorporated by Reference.**

Portions of the Registrant's 2020 Annual Report to Shareholders are incorporated by reference into Part II of this report. Portions of the Registrant's definitive Proxy Statement for the 2021 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

## FORM 10-K CROSS REFERENCE INDEX

As indicated below, portions of (i) the Registrant's Annual Report to Shareholders for the fiscal year ended December 31, 2020 and (ii) the Registrant's definitive Proxy Statement for the 2021 Annual Meeting of Shareholders, as filed with the Securities and Exchange Commission via EDGAR, are incorporated by reference into Parts II and III of this report.

Key	
AR	Annual Report to Shareholders for the fiscal year ended December 31, 2020
Proxy	Definitive Proxy Statement for the 2021 Annual Meeting of Shareholders
10-K	This annual report on Form 10-K for the fiscal year ended December 31, 2020

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## PART I

### Item 1. Business.

Uwharrie Capital Corp (the “Company”) is a North Carolina business corporation and registered bank holding company. The Company was incorporated on February 24, 1993 to become the bank holding company for Uwharrie Bank (the “Bank”), a North Carolina commercial bank, originally chartered on September 28, 1983 as Bank of Stanly, and its three wholly owned subsidiaries, The Strategic Alliance Corporation (“Strategic Alliance”), BOS Agency, Inc. (“BOS Agency”) and Gateway Mortgage, Inc., a mortgage brokerage company acquired in August 2000. The Company also owns two non-bank subsidiaries, Uwharrie Investment Advisors, Inc., formerly known as Strategic Investment Advisors, Inc., formed in 1999 and Uwharrie Mortgage, Inc. formed in 2004.

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 the Company until September 1, 2013 when it was merged with and into the Bank.

During 2002, the Company expanded its service area into the Cabarrus County market. On April 10, 2003 the Company capitalized a new wholly-owned subsidiary bank, Cabarrus Bank & Trust Company. As of that date, Cabarrus Bank & Trust Company purchased two Cabarrus County branch offices of the Bank, formerly known as Bank of Stanly, in order to commence operations. Cabarrus Bank & Trust Company was merged with and into the Bank, effective September 1, 2013.

The Company and its subsidiaries conduct their operations in Stanly County, Anson County, Cabarrus County and Mecklenburg County, North Carolina. The Company is community-oriented, emphasizing the well-being of the people in its region above financial gain in directing its corporate decisions. In order to best serve its communities, the Company believes it must remain a strong, viable, independent financial institution. This means that the Company must evolve with today’s quickly changing financial services industry. Beginning with its inception in 1993, the Company implemented its current strategy to remain a strong, independent community financial institution that is competitive with larger institutions and allows its service area to enjoy the benefits of a local financial institution and the strength its capital investment provides the community. This strategy consists of developing and expanding the Company’s technological capabilities while recruiting and maintaining a workforce sensitive to the financial services needs of its customers. This strategy has provided the Company with the capacity to grow and leverage the cost of delivering competitive services.

At December 31, 2020, the Company and related subsidiaries had 182 full-time and 11 part-time employees.

### Business of the Bank

The Bank is a North Carolina chartered commercial bank, which was incorporated in 1983 and which commenced banking operations as Bank of Stanly on January 26, 1984. Its main banking office is located at 167 North Second Street, Albemarle, North Carolina, and it operates nine other banking offices and two loan production offices in Stanly County, Cabarrus County, Anson County and Mecklenburg County, North Carolina. The Bank is the only commercial bank headquartered in Stanly County.

Its operations are primarily retail-oriented and directed to individuals and small to medium-sized businesses located in its market area, and its deposits and loans are derived primarily from customers in its geographical market. The Bank provides traditional commercial and consumer banking services, including personal and commercial checking and savings accounts, money market accounts, certificates of deposit, individual retirement accounts, and related business and individual banking services. The Bank’s lending activities include commercial loans and various consumer-type loans to individuals, including installment loans, mortgage loans, equity lines of credit and overdraft checking credit. The Bank also offers Internet Banking, mobile banking, 24-Hour Telephone Banking, and issues Visa ® Check Cards, an electronic banking card, which functions as a point-of-sale card and allows its customers to access their deposit accounts at the Bank’s ten branches and at most automated teller machines of other banks linked to the STAR ® or CIRRUS ® networks. The Bank offers credit cards under license from MasterCard ®. The Bank does not presently provide the services of a trust department.

### Non-Bank Subsidiaries

The Bank has three wholly-owned subsidiaries, BOS Agency, Strategic Alliance and Gateway Mortgage, Inc. BOS Agency was formed during 1987 and engages in the sale of various insurance products, including annuities, life insurance, long-term care, disability insurance and Medicare supplements. Strategic Alliance was formed during 1989 as BOS Financial Corporation and, during 1993, adopted its current name. It is registered with the SEC and licensed by the Financial Industry Regulatory Authority (“FINRA”) as a securities broker-dealer. Gateway Mortgage, Inc. is a mortgage brokerage company, acquired by the Bank in 2000.

The Company has two non-bank subsidiaries. Uwharrie Investment Advisors, Inc., which is registered as an investment advisor with the SEC, began operations on April 1, 1999 and provides portfolio management services to customers in the Charlotte

Metropolitan and Uwharrie Lakes Regions. The Company established Uwharrie Mortgage, Inc., a subsidiary to serve in the capacity of trustee and substitute trustee under deeds of trust, in 2004.

## **Competition**

Commercial banking in North Carolina is extremely competitive, due in large part to early adoption of statewide and interstate branching laws. The Company encounters significant competition from a number of sources, including other bank holding companies, commercial banks, credit unions, and other financial institutions and financial intermediaries including financial technology companies.

Among commercial banks, the Bank competes in its market areas with some of the largest banking organizations operating in the state, several of which have hundreds of branches in North Carolina and billions of dollars in assets. Consequently, some competitors have substantially higher lending limits due to their greater total capitalization, and may perform functions for their customers that the Company currently does not offer. The Company could encounter increased competition in the future, from existing or new competitors that may limit its ability to maintain or increase its market share or otherwise materially and adversely affect its business, results of operations and financial condition.

The Bank depends on its reputation as a community bank in its local market, direct customer contact, its ability to make credit and other business decisions locally, and personalized service to counter these competitive disadvantages.

## **Exposure to Local Economic Conditions**

The Company's success is dependent to a significant extent upon economic conditions in Stanly, Anson, Cabarrus and Mecklenburg Counties, and more generally, in the Charlotte Metropolitan and Uwharrie Lakes Regions. In addition, the banking industry in general is affected by economic conditions such as inflation, recession, unemployment and other factors beyond the Company's control. Economic recession over a prolonged period or other economic dislocation in the Charlotte Metropolitan and Uwharrie Lakes Regions could cause increases in non-performing assets and impair the values of real estate collateral, thereby causing operating losses, diminishing liquidity and eroding capital. Although management believes its loan policy and review process results in sound and consistent credit decisions on its loans, there can be no assurance that future adverse changes in the economy in the Company's market area would not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

## **Impact of Technological Advances; Upgrade to Company's Infrastructure**

The banking industry is undergoing, and management believes it will continue to undergo, technological changes with frequent introductions of new technology-driven products and services. In addition to improving customer services, the effective use of technology increases efficiency and enables financial institutions to reduce costs. The Company's future success will depend, in part, on its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands for convenience as well as enhance efficiencies in the Company's operations. Management believes that keeping pace with technological advances is critical for the Company in light of its strategy to continue its sustained pace of growth. As a result, the Company intends to continue to upgrade its internal systems, both through the efficient use of technology and by strengthening its policies and procedures. The Company also currently anticipates that it will evaluate opportunities to expand its array of technology-based products to its customers from time to time in the future.

## **Federal Bank Holding Company Regulation and Structure**

As a registered bank holding company, the Company is subject to regulation under the Bank Holding Company Act of 1956 (the "BHCA") and to the supervision, examination and reporting requirements of the Federal Reserve System. The Bank has a North Carolina commercial bank charter and is subject to regulation, supervision and examination by the Federal Reserve and the North Carolina Commissioner of Banks ("NCCOB").

The BHCA requires every bank holding company to obtain the prior approval of the Federal Reserve before:

- it may acquire direct or indirect ownership or control of any voting shares of any bank if, after the acquisition, the bank holding company will directly or indirectly own or control more than 5% of the voting shares of the bank;
- it or any of its subsidiaries, other than a bank, may acquire all or substantially all of the assets of any bank; or
- it may merge or consolidate with any other bank holding company.

The BHCA further provides that the Federal Reserve may not approve any transaction that would result in a monopoly or that would substantially lessen competition in the banking business, unless the public interest in meeting the needs of the communities to be served outweighs the anti-competitive effects. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks involved and the convenience and needs of the communities to be served. Consideration of financial resources generally focuses on capital adequacy, and consideration of convenience and needs issues focuses, in part, on the performance under the Community Reinvestment Act of 1977, both of which are discussed elsewhere in more detail.

Subject to various exceptions, the BHCA and the Change in Bank Control Act, together with related regulations, require Federal Reserve approval prior to any person or company acquiring “control” of a bank holding company. Control is conclusively presumed to exist if a person or company acquires 25% or more of any class of voting securities of a bank holding company. Control is also presumed to exist, although rebuttable, if a person or company acquires 10% or more, but less than 25%, of any class of voting securities and either:

- the bank holding company has securities registered under Section 12 of the Securities Exchange Act of 1934, as amended, or the Exchange Act; or
- no other person owns a greater percentage of that class of voting securities immediately after the transaction.

The Company’s common stock is registered under Section 12 of the Exchange Act. Federal Reserve regulations provide a procedure for challenging rebuttable presumptions of control.

On April 1, 2020, the Federal Reserve’s final rule revising the “controlling influence” prong of its “control” rules promulgated under the BHCA became effective. The final rule largely reaffirms the Federal Reserve’s existing framework for analyzing “controlling influence” but with some new rules for presumptions of control for investments in and by banking organizations that represent more than 4.9% and less than 24.9% of control over any class of voting securities. By codifying the Federal Reserve’s presumptions used in making control determinations, the final rule provides greater transparency on the types of relationships that the Federal Reserve generally views as supporting a facts-and-circumstances determination that one entity controls another. The final rule applies to questions of control under the BHCA, but does not extend to the Change in Bank Control Act.

The BHCA generally prohibits a bank holding company from engaging in activities other than banking, managing or controlling banks or other permissible subsidiaries, and acquiring or retaining direct or indirect control of any company engaged in any activities other than activities closely related to banking or managing or controlling banks. In determining whether a particular activity is permissible, the Federal Reserve considers whether performing the activity can be expected to produce benefits to the public that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices. The Federal Reserve has the power to order a bank holding company or its subsidiaries to terminate any activity or control of any subsidiary when the continuation of the activity or control constitutes a serious risk to the financial safety, soundness or stability of any bank subsidiary of that bank holding company.

Under the BHCA, a bank holding company may file an election with the Federal Reserve to be treated as a financial holding company and engage in an expanded list of financial activities. The election must be accompanied by a certification that all of the company’s insured depository institution subsidiaries are “well capitalized” and “well managed.” Additionally, the Community Reinvestment Act of 1977 rating of each subsidiary bank must be satisfactory or better. If, after becoming a financial holding company and undertaking activities not permissible for a bank holding company, the company fails to continue to meet any of the prerequisites for financial holding company status, the company must enter into an agreement with the Federal Reserve to comply with all applicable capital and management requirements. If the company does not return to compliance within 180 days, the Federal Reserve may order the company to divest its subsidiary banks or the company may discontinue or divest investments in companies engaged in activities permissible only for a bank holding company that has elected to be treated as a financial holding company. The Company has not filed an election to become a financial holding company.

Under Federal Reserve policy and as has been codified by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, the Company is expected to act as a source of financial strength for the Bank and to commit resources to support the Bank. This support may be required at times when the Company might not be inclined to provide it. In addition, any capital loans made by the Company to the Bank will be repaid only after the Bank’s deposits and various other obligations are repaid in full.

The Bank is also subject to numerous state and federal statutes and regulations that affect its business, activities and operations and is supervised and examined by state and federal bank regulatory agencies. The Federal Reserve and the NCCOB regularly examine the operations of the Bank and are given the authority to approve or disapprove mergers, consolidations, the establishment of branches and similar corporate actions. These agencies also have the power to prevent the continuance or development of unsafe or unsound banking practices or other violations of law.

## **Bank Merger Act**

Section 18(c) of the Federal Deposit Insurance Act, popularly known as the “Bank Merger Act,” requires the prior written approval of the federal banking regulators before any bank may (i) merge or consolidate with, (ii) purchase or otherwise acquire the assets of, or (iii) assume the deposit liabilities of, another bank if the resulting institution is to be a state nonmember bank.

The Bank Merger Act prohibits approval of any proposed merger transaction that would result in a monopoly, or would further a combination or conspiracy to monopolize or to attempt to monopolize the business of banking in any part of the United States. Similarly, the Bank Merger Act prohibits the approval of a proposed merger transaction whose effect in any section of the country may be substantially to lessen competition, or to tend to create a monopoly, or which in any other manner would be in restraint of trade. An exception may be made in the case of a merger transaction whose effect would be to substantially lessen competition, tend to create a monopoly, or otherwise restrain trade, if federal regulators find that the anticompetitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served.

In every proposed merger transaction, federal banking regulators must also consider the financial and managerial resources and future prospects of the existing and proposed institutions, the convenience and needs of the community to be served, and the effectiveness of each insured depository institution involved in the proposed merger transaction in combating money-laundering activities, including in overseas branches.

## **State Law**

The Bank is subject to extensive supervision and regulation by the NCCOB. The NCCOB oversees state laws that set specific requirements for bank capital and that regulate deposits in, and loans and investments by, banks, including the amounts, types, and in some cases, rates. The NCCOB supervises and performs periodic examinations of North Carolina-chartered banks to assure compliance with state banking statutes and regulations, and banks are required to make regular reports to the NCCOB describing in detail their resources, assets, liabilities, and financial condition. Among other things, the NCCOB regulates mergers and consolidations of North Carolina state-chartered banks, capital requirements for banks, the payment of dividends, loans to officers and directors, record keeping, types and amounts of loans and investments, and the establishment, relocation, and closing of branches.

The NCCOB has extensive enforcement authority over North Carolina banks. Such authority includes the ability to issue cease-and-desist orders and to seek civil money penalties. The NCCOB may also take possession of a North Carolina bank in various circumstances, including for a violation of its charter or of applicable laws, operating in an unsafe and unsound manner, or as a result of an impairment of its capital, and may appoint a receiver.

The Company is also required to maintain registration as a bank holding company with the NCCOB. Subject to certain exceptions, the Company may not acquire control over another bank or bank holding company or consummate a merger or other combination transaction with another company without the prior approval of the NCCOB. The NCCOB also has authority to assert civil money penalties against a holding company if the NCCOB determines such holding company to be in violation of any banking laws and the holding company fails to comply with an NCCOB order to cease and desist from such violations of law.

The primary state banking laws to which the Bank is subject are set forth in Chapters 53C and 53 of the North Carolina General Statutes. Certain provisions of the North Carolina Business Corporation Act are also applicable to the Bank, as a North Carolina banking corporation.

## **Payment of Dividends and Other Restrictions**

The Company is a legal entity separate and distinct from the bank it owns. While there are various legal and regulatory limitations under federal and state law on the extent to which banks can pay dividends or otherwise supply funds to holding companies, the principal source of cash revenues for the Company is dividends from the Bank. The relevant federal and state regulatory agencies have authority to prohibit a state bank or bank holding company, which would include Uwharrie Capital Corp and the Bank, from engaging in what, in the opinion of such regulatory body, constitutes an unsafe or unsound practice in conducting its business. The payment of dividends could, depending upon the financial condition of a bank, be deemed to constitute an unsafe or unsound practice in conducting its business.

North Carolina commercial banks, such as the Bank, are subject to legal limitations on the amounts of dividends they are permitted to pay. Specifically, an insured depository institution, such as the Bank, is prohibited from making capital distributions, including the payment of dividends, if, after making such distribution, the institution would become “undercapitalized” (as such term is defined in the applicable law and regulations).

The Federal Reserve has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve's view that a bank holding company should pay cash dividends only to the extent that the holding company's net income for the past year is sufficient to cover both the cash dividends and a rate of earning retention that is consistent with the holding company's capital needs, asset quality and overall financial condition. The Federal Reserve also indicated that it would be inappropriate for a holding company experiencing serious financial problems to borrow funds to pay dividends. Furthermore, under the prompt corrective action regulations adopted by the Federal Reserve, the Federal Reserve may prohibit a bank holding company from paying any dividends if any of the holding company's bank subsidiaries are classified as undercapitalized.

A bank holding company is required to give the Federal Reserve prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of its consolidated net worth. The Federal Reserve may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice or would violate any law, regulation, Federal Reserve order or any condition imposed by, or written agreement with, the Federal Reserve.

### **Capital Adequacy**

The Bank must comply with the Federal Reserve's established capital adequacy standards. The Federal Reserve has promulgated two basic measures of capital adequacy: a risk-based measure and a leverage measure. Banks and bank holding companies must satisfy all applicable capital standards to be considered in compliance. Pursuant to the Federal Reserve's Small Bank Holding Company Policy Statement, the Company is exempt from the Federal Reserve's risk-based capital and leverage rules.

The risk-based capital standards are designed to make regulatory capital requirements sensitive to differences in risk profile among banks and bank holding companies, account for off-balance-sheet exposure and minimize disincentives for holding liquid assets.

Assets and off-balance-sheet items are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance-sheet items. The minimum guideline for the ratio of total capital to risk-weighted assets is 8%. At least half of total capital must be Tier 1 Capital, which is common stock, undivided profits, minority interests in the equity accounts of consolidated subsidiaries and noncumulative perpetual preferred stock, less goodwill and certain other intangible assets. The remainder may consist of Tier 2 Capital, which is subordinated debt, other preferred stock and a limited amount of loan loss reserves.

At December 31, 2020 the Bank's total risk-based capital ratio and its Tier 1 risk-based capital ratio were 13.08% and 12.21%, respectively. The Bank has not been advised by any federal banking agency of any additional specific minimum capital ratio requirement applicable to it.

In addition, the Federal Reserve has established minimum leverage ratio guidelines for bank holding companies. These guidelines provide for a minimum ratio of Tier 1 Capital to average assets, less goodwill and certain other intangible assets, of 3% for bank holding companies that meet specified criteria. All other bank holding companies generally are required to maintain a minimum leverage ratio of 4%. The Company's ratio at December 31, 2020 was 6.88%, compared to 7.37% at December 31, 2019. The guidelines also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the Federal Reserve has indicated that it will consider a "tangible Tier 1 Capital leverage ratio" and other indications of capital strength in evaluating proposals for expansion or new activities. The Federal Reserve has not advised us of any additional specific minimum leverage ratio or tangible Tier 1 Capital leverage ratio applicable to the Company.

Failure to meet capital guidelines could subject a bank to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on taking brokered deposits and certain other restrictions on its business. As described below, federal banking regulators can impose substantial additional restrictions upon FDIC-insured depository institutions that fail to meet applicable capital requirements.

The Federal Deposit Insurance Act, or FDI Act, requires the federal regulatory agencies to take "prompt corrective action" if a depository institution does not meet minimum capital requirements. The FDI Act establishes five capital tiers: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." A depository institution's capital tier will depend upon how its capital levels compare to various relevant capital measures and certain other factors, as established by regulation.

The federal bank regulatory agencies have adopted regulations establishing relevant capital measures and relevant capital levels applicable to FDIC-insured banks. The relevant capital measures are the Total Risk-Based Capital ratio, Tier 1 Risk-Based Capital ratio and the leverage ratio. Under the regulations, an FDIC-insured bank will be:

- “well capitalized” if it has a Total Risk-Based Capital ratio of 10% or greater, a Tier 1 Risk-Based Capital ratio of 8% or greater and a leverage ratio of 5% or greater and is not subject to any order or written directive by the appropriate regulatory authority to meet and maintain a specific capital level for any capital measure;
- “adequately capitalized” if it has a Total Risk-Based Capital ratio of 8% or greater, a Tier 1 Risk-Based Capital ratio of 6% or greater and a leverage ratio of 4% or greater (3% in certain circumstances) and is not “well capitalized;”
- “undercapitalized” if it has a Total Risk-Based Capital ratio of less than 8%, a Tier 1 Risk-Based Capital ratio of less than 6% or a leverage ratio of less than 4% (3% in certain circumstances);
- “significantly undercapitalized” if it has a Total Risk-Based Capital ratio of less than 6%, a Tier 1 Risk-Based Capital ratio of less than 4% or a leverage ratio of less than 3%; and
- “critically undercapitalized” if its tangible equity is equal to or less than 2% of average quarterly tangible assets.

An institution may be downgraded to, or deemed to be in, a capital category that is lower than is indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. As of December 31, 2020, the Bank had capital levels that qualify as “well capitalized” under such regulations.

The FDI Act generally prohibits an FDIC-insured bank from making a capital distribution (including payment of a dividend) or paying any management fee to its holding company if the bank would thereafter be “undercapitalized.” “Undercapitalized” banks are subject to growth limitations and are required to submit a capital restoration plan. The federal regulators may not accept a capital plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the bank’s capital. In addition, for a capital restoration plan to be acceptable, the bank’s parent holding company must guarantee that the institution will comply with such capital restoration plan. The aggregate liability of the parent holding company is limited to the lesser of: (i) an amount equal to 5% of the bank’s total assets at the time it became “undercapitalized”; and (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a bank fails to submit an acceptable plan, it is treated as if it is “significantly undercapitalized.”

“Significantly undercapitalized” insured banks may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become “adequately capitalized,” requirements to reduce total assets, cease receipt of deposits from correspondent banks, or dismiss directors or officers, and restrictions on interest rates paid on deposits, compensation of executive officers, and capital distributions by the parent holding company. “Critically undercapitalized” institutions are subject to the appointment of a receiver or conservator, may not make any payment of principal or interest on certain subordinated debt, extend credit for a highly leveraged transaction, or enter into any material transaction outside the ordinary course of business. A bank that is not “well capitalized” is also subject to certain limitations relating to brokered deposits.

The regulatory capital framework under which the Company and the Bank operate has changed in significant respects as a result of the Dodd-Frank Act and other regulations, including the separate regulatory capital requirements put forth by the Basel Committee on Banking Supervision, commonly known “Basel III.”

In July, 2013, the Federal Reserve, FDIC and Office of the Comptroller of the Currency approved final rules that established an integrated regulatory capital framework that addressed shortcomings in certain capital requirements. The capital rules implemented in the United States the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain changes required by the Dodd-Frank Act. These rules have applied to us and the Bank since 2015.

The major provisions of the rule applicable to us are:

- The rule implemented higher minimum capital requirements, including a new common equity Tier 1 capital requirement, and established criteria that instruments must meet in order to be considered Common Equity Tier 1 capital, additional Tier 1 capital, or Tier 2 capital. The minimum capital to risk-weighted assets (“RWA”) requirements under the rule are a common equity Tier 1 capital ratio of 4.5% and a Tier 1 capital ratio of 6.0%, which is an increase from 4.0%, and a total capital ratio that remains at 8.0%. The minimum leverage ratio (Tier 1 capital to total assets) is 4.0%. The rule maintains the general structure of the current prompt corrective action, or PCA, framework while incorporating these increased minimum requirements.
- The rule implemented changes to the definition of capital, including stricter eligibility criteria for regulatory capital instruments that disallows the inclusion of instruments such as trust preferred securities in Tier 1 capital going forward

(subject to certain exceptions), and new constraints on the inclusion of minority interests, mortgage-servicing assets (“MSAs”), deferred tax assets (“DTAs”), and certain investments in the capital of unconsolidated financial institutions.

- Under the rule, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of common equity Tier 1 capital above its minimum risk-based capital requirements. This buffer is intended to help ensure that banking organizations conserve capital when it is most needed, allowing them to better weather periods of economic stress. The buffer is measured relative to RWA. A banking organization with a buffer greater than 2.5% would not be subject to limits on capital distributions or discretionary bonus payments; however, a banking organization with a buffer of less than 2.5% would be subject to increasingly stringent limitations as the buffer approaches zero. The rule also prohibits a banking organization from making distributions or discretionary bonus payments during any quarter if its eligible retained income is negative in that quarter and its capital conservation buffer ratio was less than 2.5% at the beginning of the quarter. The minimum capital requirements plus the capital conservation buffer exceed the PCA well-capitalized thresholds.
- The rule also increased the risk weights for past-due loans, certain commercial real estate loans, and some equity exposures, and made selected other changes in risk weights and credit conversion factors.

Compliance by the Company and the Bank with these capital requirements affects their respective operations by increasing the amount of capital required to conduct operations.

In 2019, the federal banking agencies released a final rule amending the U.S. Basel III capital rules to simplify the capital treatment of capital deductions and recognition of minority interests for banking organizations such as the Registrant that are not subject to the advanced approaches capital rule. The final rule:

- simplifies the framework of regulatory capital deductions and heightened risk weights for mortgage servicing assets, deferred tax assets arising from temporary differences that an institution could not realize through net operating loss carrybacks, and investments in the capital of unconsolidated financial institutions, resulting in potentially fewer deductions for these items;
- simplifies the recognition and calculation of minority interests that are includable in regulatory capital, resulting in potentially greater recognition of minority interests; and
- makes certain technical amendments to the capital rules.

*Community Bank Leverage Ratio.* As discussed below, in 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (“EGRRCPA”) became law, which directed the federal banking agencies (which includes the FDIC, Federal Reserve Board, and Office of the Comptroller of the Currency, or OCC) to develop a community bank leverage ratio (“CBLR”) of not less than 8 percent and not more than 10 percent for qualifying community banking organizations. EGRRCPA defines a qualifying community banking organization as a depository institution or depository institution holding company with total consolidated assets of less than \$10 billion, which would include the Company and its banking subsidiary. A qualifying community banking organization that exceeds the CBLR level established by the agencies is considered to have met: (i) the generally applicable leverage and risk-based capital requirements under the agencies’ capital rule; (ii) the capital ratio requirements in order to be considered well capitalized under the agencies’ PCA framework (in the case of insured depository institutions); and (iii) any other applicable capital or leverage requirements. Section 201 of EGRRCPA defines the CBLR as the ratio of a banking organization’s CBLR tangible equity to its average total consolidated assets, both as reported on the banking organization’s applicable regulatory filing.

In 2019, the federal bank regulatory agencies passed a final rule on the CBLR, setting the minimum required CBLR at 9%. The rule went into effect in 2020. Under the final rule, a qualifying community banking organization may elect to use the CBLR framework if its CBLR is greater than 9 percent. A qualifying community banking organization that has chosen the proposed framework is not required to calculate the existing risk-based and leverage capital requirements. A bank is also considered to have met the capital ratio requirements to be well capitalized for the agencies’ prompt corrective action rules provided it has a CBLR greater than 9 percent. We have not elected to implement the CBLR framework at this time.

## **Acquisitions**

The Company must comply with numerous laws related to any potential acquisition activity. Under the BHCA, a bank holding company may not directly or indirectly acquire ownership or control of more than 5% of the voting shares or substantially all of the assets of any bank or merge or consolidate with another bank holding company without the prior approval of the Federal Reserve. The acquisition of non-banking companies is also regulated by the Federal Reserve. Current federal law authorizes interstate acquisitions of banks and bank holding companies without geographic limitation. Furthermore, a bank headquartered in one state is authorized to merge with a bank headquartered in another state, as long as neither of the states has opted out of such interstate merger authority prior

to such date, and subject to any state requirement that the target bank shall have been in existence and operating for a minimum period of time, not to exceed five years, and to certain deposit market-share limitations. After a bank has established branches in a state through an interstate merger transaction, the bank may establish and acquire additional branches at any location in the state where a bank headquartered in that state could have established or acquired branches under applicable federal or state law. Additionally, under the Dodd-Frank Act, banks are permitted to open a de novo branch in any state if that state would permit a bank organized in that state to open a branch.

### **Restrictions on Affiliate Transactions**

Sections 23A and 23B of the Federal Reserve Act establish parameters for a bank to conduct “covered transactions” with its affiliates, with the objective of limiting risk to the insured bank. Generally, Sections 23A and 23B (i) limit the extent to which the bank or its subsidiaries may engage in “covered transactions” with any one affiliate to an amount equal to 10% of such bank’s capital stock and surplus, and limit the aggregate of all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus and (ii) require that all such transactions be on terms substantially the same, or at least as favorable, to the bank or subsidiary as those that would be provided to a non-affiliate. The term “covered transaction” includes the making of loans to the affiliate, purchase of assets from the affiliate, issuance of a guaranty on behalf of the affiliate and several other types of transactions.

The Dodd-Frank Act imposed additional restrictions on transactions between affiliates by amending these two sections of the Federal Reserve Act. Under the Dodd-Frank Act, restrictions on transactions with affiliates are enhanced by (i) including among “covered transactions” transactions between bank and affiliate-advised investment funds; (ii) including among “covered transactions” transactions between a bank and an affiliate with respect to securities repurchase agreements and derivatives transactions; (iii) adopting stricter collateral rules; and (iv) imposing tighter restrictions on transactions between banks and their financial subsidiaries.

### **FDIC Insurance Assessments**

Assessments are paid by each Deposit Insurance Fund (DIF) member institution. The assessment rates for an insured depository institution vary according to the level of risk incurred in its activities, which for established small institutions like the Bank (i.e., those institutions with less than \$10 billion in assets and insured for five years or more), is generally determined by reference to the institution’s supervisory ratings. The assessment rate schedule can change from time to time, at the discretion of the FDIC, subject to certain limits. The Bank’s insurance assessments during 2020 and 2019 were \$307,000 and \$230,000, respectively.

The FDIC may terminate insurance of deposits upon a finding that an institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

The Dodd-Frank Act expanded the base for FDIC insurance assessments, requiring that assessments be based on the average consolidated total assets less tangible equity capital of a financial institution. In 2011, the FDIC approved a final rule to implement the foregoing provision of the Dodd-Frank Act. Among other things, the final rule revised the assessment rate schedule to provide assessments ranging from 5 to 35 basis points, with the initial assessment rates subject to adjustments which could increase or decrease the total base assessment rates. The FDIC has three possible adjustments to an institution’s initial base assessment rate: (1) a decrease of up to five basis points (or 50% of the initial base assessment rate) for long-term unsecured debt, including senior unsecured debt and subordinated debt; (2) an increase for holding long-term unsecured or subordinated debt issued by other insured depository institutions known as the Depository Institution Debt Adjustment; and (3) for institutions not well rated and well capitalized, an increase not to exceed 10 basis points for brokered deposits in excess of 10 percent of domestic deposits.

The FDIC has authority to increase deposit insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Company and the Bank. Management cannot predict what insurance assessment rates will be in the future.

### **Community Reinvestment Act**

The Community Reinvestment Act requires federal bank regulatory agencies to encourage financial institutions to meet the credit needs of low and moderate-income borrowers in their local communities. An institution’s size and business strategy determines the type of examination that it will receive. Large, retail-oriented institutions are examined using a performance-based lending, investment and service test. Small institutions are examined using a streamlined approach. All institutions may opt to be evaluated under a strategic plan formulated with community input and pre-approved by the bank regulatory agency.

The Community Reinvestment Act regulations provide for certain disclosure obligations. Each institution must post a notice advising the public of its right to comment to the institution and its regulator on the institution’s Community Reinvestment Act performance and to review the institution’s Community Reinvestment Act public file. Each lending institution must maintain for

public inspection a file that includes a listing of branch locations and services, a summary of lending activity, a map of its communities and any written comments from the public on its performance in meeting community credit needs. The Community Reinvestment Act requires public disclosure of a financial institution's written Community Reinvestment Act evaluations. This promotes enforcement of Community Reinvestment Act requirements by providing the public with the status of a particular institution's community reinvestment record.

Community Reinvestment Act agreements with private parties must be disclosed and annual Community Reinvestment Act reports must be made available to a bank's primary federal regulator. A bank holding company will not be permitted to become a financial holding company and no new activities authorized under the Gramm-Leach-Bliley Act may be commenced by a holding company or by a bank financial subsidiary if any of its bank subsidiaries received less than a satisfactory Community Reinvestment Act rating in its latest Community Reinvestment Act examination. The Bank received a "Satisfactory" rating in its last CRA examination, which was conducted as of April 17, 2017.

The Federal Reserve is considering changes to the regulations under the Community Reinvestment Act. The Company will monitor any proposed changes as they make their way through the agency rulemaking process.

### **Consumer Protection Laws**

The Bank is subject to a number of federal and state laws designed to protect borrowers and promote lending to various sectors of the economy and population. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Act and state law counterparts.

Federal law currently contains extensive customer privacy protection provisions. Under these provisions, a financial institution must provide to its customers, at the inception of the customer relationship and then again if any changes are made, the institution's policies and procedures regarding the handling of customers' nonpublic personal financial information. These provisions also provide that, except for certain limited exceptions, an institution may not provide such personal information to unaffiliated third parties unless the institution discloses to the customer that such information may be so provided and the customer is given the opportunity to opt out of such disclosure. Federal law makes it a criminal offense, except in limited circumstances, to obtain or attempt to obtain customer information of a financial nature by fraudulent or deceptive means. In addition, certain state laws could potentially impact the Bank's operations, including those related to applicable notification requirements when unauthorized access to customers' nonpublic personal information has occurred.

### **Additional Legislative and Regulatory Matters**

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act") required each financial institution: (i) to establish an anti-money laundering program; (ii) to establish due diligence policies, procedures and controls with respect to its private banking accounts involving foreign individuals and certain foreign banks; and (iii) to avoid establishing, maintaining, administering or managing correspondent accounts in the United States for, or on behalf of, foreign banks that do not have a physical presence in any country. The USA PATRIOT Act also required the Secretary of the Treasury to prescribe by regulation minimum standards that financial institutions must follow to verify the identity of customers, both foreign and domestic, when a customer opens an account. In addition, the USA PATRIOT Act encouraged cooperation among financial institutions, regulatory authorities and law enforcement authorities with respect to individuals, entities and organizations engaged in, or reasonably suspected of engaging in, terrorist acts or money laundering activities.

The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") mandated for public companies, such as Uwharrie Capital Corp, a variety of reforms intended to address corporate and accounting fraud and provided for the establishment of the Public Company Accounting Oversight Board ("PCAOB"), which enforces auditing, quality control and independence standards for firms that audit SEC-reporting companies. Sarbanes-Oxley imposed higher standards for auditor independence and restricted the provision of consulting services by auditing firms to companies they audit and required that certain audit partners be rotated periodically. It also requires chief executive officers and chief financial officers, or their equivalents, to certify the accuracy of periodic reports filed with the SEC, subject to civil and criminal penalties if they knowingly or willfully violate this certification requirement, and increases the oversight and authority of audit committees of publicly traded companies.

### **Fiscal and Monetary Policy**

Banking is a business which depends on interest rate differentials for success. In general, the difference between the interest paid by a bank on its deposits and its other borrowings, and the interest received by a bank on its loans and securities holdings, constitutes the significant portion of a bank's earnings. Thus, our earnings and growth will be subject to the influence of economic conditions generally, both domestic and foreign, and also to the monetary and fiscal policies of the United States and its agencies,

particularly the Federal Reserve. The Federal Reserve regulates the supply of money through various means, including open market dealings in United States government securities, the discount rate at which banks may borrow from the Federal Reserve and the reserve requirements on deposits. The nature and timing of any changes in such policies and their effect on our business and results of operations cannot be predicted.

Current and future legislation and the policies established by federal and state regulatory authorities will affect our future operations. Banking legislation and regulations may limit our growth and the return to their investors by restricting certain of our activities.

In addition, capital requirements could be changed and have the effect of restricting the activities of the Company or requiring additional capital to be maintained. The Company cannot predict with certainty what changes, if any, will be made to existing federal and state legislation and regulations or the effect that such changes may have on our business and results of operations.

### **Federal Home Loan Bank System**

The FHLB System consists of 12 district Federal Home Loan Banks (“FHLBs”) subject to supervision and regulation by the Federal Housing Finance Agency (“FHFA”). The FHLBs provide a central credit facility primarily for member institutions. As a member of the FHLB of Atlanta, the Bank is required to acquire and hold shares of capital stock in the FHLB of Atlanta. The Bank was in compliance with this requirement with investment in FHLB of Atlanta stock of \$657,000 at December 31, 2020. The FHLB of Atlanta serves as a reserve or central bank for its member institutions within its assigned district. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It offers advances to members in accordance with policies and procedures established by the FHFA and the Board of Directors of the FHLB of Atlanta. Long-term advances may only be made for the purpose of providing funds for residential housing finance, small businesses, small farms and small agribusinesses.

### **Real Estate Lending Evaluations**

The federal regulators have adopted uniform standards for evaluations of loans secured by real estate or made to finance improvements to real estate. Banks are required to establish and maintain written internal real estate lending policies consistent with safe and sound banking practices and appropriate to the size of the institution and the nature and scope of its operations. The regulations establish loan to value ratio limitations on real estate loans. The Bank’s loan policies establish limits on loan to value ratios that are equal to or less than those established in such regulations.

### **Commercial Real Estate Concentrations**

Lending operations of commercial banks may be subject to enhanced scrutiny by federal banking regulators based on a bank’s concentration of commercial real estate loans. The federal banking regulators have issued guidance to remind financial institutions of the risk posed by commercial real estate, or CRE, lending concentrations. CRE loans generally include land development, construction loans, and loans secured by multifamily property, and nonfarm, nonresidential real property where the primary source of repayment is derived from rental income associated with the property. The guidance prescribes the following guidelines for its examiners to help identify institutions that are potentially exposed to significant CRE risk and may warrant greater supervisory scrutiny:

- total reported loans for construction, land development and other land (“C&D”) represent 100% or more of the institution’s total capital; or
- total CRE loans represent 300% or more of the institution’s total capital, and the outstanding balance of the institution’s CRE loan portfolio has increased by 50% or more.

As of December 31, 2020, our C&D concentration as a percentage of risk-based capital totaled 61.7% and our CRE concentration, net of owner-occupied loans, as a percentage of risk-based capital totaled 165.3%.

### **Limitations on Incentive Compensation**

In 2009, the Federal Reserve issued proposed guidance designed to help ensure that incentive compensation policies at banking organizations do not encourage excessive risk-taking or undermine the safety and soundness of the organization. In connection with the proposed guidance, the Federal Reserve announced that it would review incentive compensation arrangements of bank holding companies such as Uwharrie Capital Corp as part of the regular, risk-focused supervisory process.

In 2010, the Federal Reserve issued the incentive compensation guidance in final form and was joined by the FDIC, and the Office of the Comptroller of the Currency. The final guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization’s incentive compensation arrangements should (i) provide employees incentives that appropriately balance risk and reward and, thus, do

not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. Any deficiencies in compensation practices that are identified may be incorporated into the organization's supervisory ratings, which can affect its ability to make acquisitions or perform other actions. The guidance provides that enforcement actions may be taken against a banking organization if its incentive compensation arrangements or related risk-management control or governance processes pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

## **Economic Environment**

The policies of regulatory authorities, including the monetary policy of the Federal Reserve, have a significant effect on the operating results of bank holding companies and their subsidiaries. Among the means available to the Federal Reserve to affect the money supply are open market operations in U.S. government securities, changes in the discount rate on member bank borrowings and changes in reserve requirements against member bank deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid on deposits.

The Federal Reserve's monetary policies have materially affected the operating results of commercial banks in the past and are expected to continue to do so in the future. The nature of future monetary policies and the effect of these policies on our business and earnings cannot be predicted.

## **Evolving Legislation and Regulatory Action**

*General.* New laws or regulations or changes to existing laws and regulations, including changes in interpretation or enforcement, could materially adversely affect our financial condition or results of operations. As a result, the overall financial impact on the Company and the Bank cannot be anticipated at this time.

*Dodd-Frank Act.* In 2009, many emergency government programs enacted in 2008 in response to the financial crisis and the recession slowed or wound down, and global regulatory and legislative focus generally moved to a second phase of broader regulatory reform and a restructuring of the entire financial regulatory system. The Dodd-Frank Act was signed into law in 2010 and implements many new changes in the way financial and banking operations are regulated in the United States, including through the creation of a new resolution authority, mandating higher capital and liquidity requirements, requiring banks to pay increased fees to regulatory agencies and numerous other provisions intended to strengthen the financial services sector. The Dodd-Frank Act provided for the creation of the Financial Stability Oversight Council ("FSOC"), which is charged with overseeing and coordinating the efforts of the primary U.S. financial regulatory agencies (including the Federal Reserve, the FDIC and the SEC) in establishing regulations to address systemic financial stability concerns. The Dodd-Frank Act also provided for the creation of the Consumer Financial Protection Bureau (the "CFPB"), a consumer financial services regulator. The CFPB is authorized to prevent unfair, deceptive and abusive practices and ensure that consumers have access to markets for consumer financial products and services and those markets are fair, transparent and competitive.

*Tax Cuts and Jobs Act of 2017.* In 2017, the Tax Cuts and Jobs Act of 2017 (the "Tax Act") was signed into law. The Tax Act includes a number of provisions that impact the Company, including the following:

- **Tax Rate.** The Tax Act replaced the graduated corporate tax rates applicable under prior law, which imposed a maximum tax rate of 35%, with a reduced 21% flat tax rate.
- **Employee Compensation.** A "publicly held corporation" is not permitted to deduct compensation in excess of \$1 million per year paid to certain employees. The Tax Act eliminates certain exceptions to the \$1 million limit applicable under prior to law related to performance-based compensation, such as equity grants and cash bonuses that are paid only on the attainment of performance goals.
- **Business Asset Expensing.** The Tax Act allowed taxpayers immediately to expense the entire cost (instead of only 50%, as under prior law) of certain depreciable tangible property and real property improvements acquired and placed in service after September 27, 2017 and before January 1, 2023 (with an additional year for certain property). This 100% "bonus" depreciation is phased out proportionately for property placed in service on or after January 1, 2023 and before January 1, 2027 (with an additional year for certain property).
- **Interest Expense.** The Tax Act limited a taxpayer's annual deduction of business interest expense to the sum of (i) business interest income and (ii) 30% of "adjusted taxable income," defined as a business's taxable income without taking into

account business interest income or expense, net operating losses, and, for 2018 through 2021, depreciation, amortization and depletion.

*Economic Growth, Regulatory Relief, and Consumer Protection Act.* In 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (“EGRRCPA”) was signed into law, which amended provisions of the Dodd-Frank Act and was intended to ease, and better tailor, regulation, particularly with respect to smaller-sized institutions such as the Company. EGRRCPA’s highlights include, among other things: (i) exempting banks with less than \$10 billion in assets from the ability-to-repay requirements for certain qualified residential mortgage loans held in portfolio; (ii) not requiring appraisals for certain transactions valued at less than \$400,000 in rural areas; (iii) clarifying that, subject to various conditions, reciprocal deposits of another depository institution obtained using a deposit broker through a deposit placement network for purposes of obtaining maximum deposit insurance would not be considered brokered deposits subject to the FDIC’s brokered-deposit regulations; (iv) raising eligibility for the 18-month exam cycle from \$1 billion to banks with \$3 billion in assets; and (v) simplifying capital calculations by requiring regulators to establish for institutions under \$10 billion in assets a community bank leverage ratio (tangible equity to average consolidated assets) at a percentage not less than 8% and not greater than 10% that such institutions may elect to replace the general applicable risk-based capital requirements for determining well capitalized status. In 2019, the federal banking agencies passed a final rule on the community bank leverage ratio, setting the minimum required community bank leverage ratio at 9%. The rule went into effect in 2020. In addition, the Federal Reserve Board was required to raise the asset threshold under its Small Bank Holding Company Policy Statement from \$1 billion to \$3 billion for bank or savings and loan holding companies that are exempt from consolidated capital requirements, provided that such companies meet certain other conditions such as not engaging in significant nonbanking activities and not having a material amount of debt or equity securities outstanding (other than trust preferred securities) that are registered with the Securities and Exchange Commission. Consistent with EGRRCPA, the Federal Reserve passed an interim final rule that became effective in 2018 to increase the asset threshold to \$3 billion for qualifying for such policy statement.

### **The Coronavirus Aid, Relief, and Economic Security Act**

In response to the coronavirus disease 2019, or COVID-19, pandemic, the Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, was signed into law on March 27, 2020, to provide national emergency economic relief measures. Many of the CARES Act’s programs are dependent upon the direct involvement of U.S. financial institutions, such as the Company and the Bank, and have been implemented through rules and guidance adopted by federal departments and agencies, including the U.S. Department of Treasury, the Federal Reserve and other federal banking agencies, including those with direct supervisory jurisdiction over the Company and the Bank. Furthermore, as the ongoing COVID-19 pandemic evolves, federal regulatory authorities continue to issue additional guidance with respect to the implementation, lifecycle, and eligibility requirements for the various CARES Act programs as well as industry-specific recovery procedures for COVID-19. In addition, it is possible that Congress will enact supplementary COVID-19 response legislation, including amendments to the CARES Act or new bills comparable in scope to the CARES Act. The Company continues to assess the impact of the CARES Act and other statutes, regulations and supervisory guidance related to the COVID-19 pandemic.

*Paycheck Protection Program.* The CARES Act amended the SBA’s loan program, in which the Bank participates, to create a guaranteed, unsecured loan program, the Paycheck Protection Program, or PPP, to fund operational costs of eligible businesses, organizations and self-employed persons during the COVID-19 pandemic. In June 2020, the Paycheck Protection Program Flexibility Act was enacted, which among other things, gave borrowers additional time and flexibility to use PPP loan proceeds. Shortly thereafter, and due to the evolving impact of the COVID-19 pandemic, additional legislation was enacted authorizing the SBA to resume accepting PPP applications on July 6, 2020 and extending the PPP application deadline to August 8, 2020. As a participating lender in the PPP, the Bank continues to monitor legislative, regulatory, and supervisory developments related thereto.

*Troubled Debt Restructuring and Loan Modifications for Affected Borrowers.* The CARES Act permits banks to suspend requirements under U.S. generally accepted accounting principles, or GAAP, for loan modifications to borrowers affected by COVID-19 that would otherwise be characterized as troubled debt restructurings and suspend any determination related thereto if (i) the loan modification is made between March 1, 2020 and December 31, 2020 and (ii) the applicable loan was not more than 30 days past due as of December 31, 2019. The federal banking agencies also issued guidance to encourage banks to make loan modifications for borrowers affected by COVID-19 and to assure banks that they will not be criticized by examiners for doing so. The Company is applying this guidance to qualifying loan modifications.

*Temporary Community Bank Leverage Ratio Relief.* Pursuant to the CARES Act, the federal banking agencies adopted an interim rule, effective until December 31, 2020, to (i) reduce the minimum Community Bank Leverage Ratio from 9% to 8% percent and (ii) give community banks two-quarter grace period to satisfy such ratio if such ratio falls out of compliance by no more than 1%.

*Temporary Regulatory Capital Relief related to Impact of CECL.* Concurrent with enactment of the CARES Act, federal banking agencies issued an interim final rule that delays the estimated impact on regulatory capital resulting from the adoption of the current expected credit loss model, or CECL, for determining credit loss estimates. The interim final rule provides banking

organizations that implemented CECL before the end of 2020 the option to delay for two years the estimated impact of CECL on regulatory capital relative to regulatory capital determined under the prior incurred loss methodology, followed by a three-year transition period to phase out the aggregate amount of capital benefit provided during the initial two-year delay. The federal banking agencies have since issued a final rule that makes certain technical changes to the interim final rule. The changes in the final rule apply only to those banking organizations that elect the CECL transition relief provided under the rule. The Company did not implement CECL before the end of 2020.

### **Future Legislation**

The Company cannot predict what legislation might be enacted or what regulations might be adopted, or if enacted or adopted, the effect thereof on the Company's operations.

### **Item 1A. Risk Factors.**

Item not required for smaller reporting companies.

### **Item 1B. Unresolved Staff Comments.**

Item not required for non-accelerated filers.

### **Item 2. Properties.**

The Company's executive office is located at 132 North First Street, Albemarle, North Carolina, where the Company owns a three-building complex located at 130-134 North First Street in Albemarle. This complex houses the Company's offices and meeting rooms and is also the location of the Bank's subsidiary, Strategic Alliance.

The Bank's Main Office is located at 167 North Second Street, Albemarle, North Carolina. A portion of the Main Office facility leased since it opened in 1984 was purchased in 2009. Its administrative and executive offices occupy an adjoining building, purchased in 1991. The Bank owns a commercial building which houses some of its operations offices and parking lot adjacent to its Main Office. The Bank also acquired a commercial building in downtown Albemarle in December 2001 that is held for future expansion. During 2009 the Bank acquired property in downtown Albemarle for future expansion.

The Bank owns its other banking locations at 710 North First Street, which houses the Village Branch, and its East Albemarle Branch at 800 Highway 24-27 Bypass, both located in Albemarle. It also owns a branch office located at 107 South Main Street in Norwood, North Carolina and a branch located at 416 West Main Street in Locust, North Carolina. The Bank leases its branch office at 224 North Main Street in Oakboro, North Carolina.

In Cabarrus County, the Bank owns full service branch offices located at 25 Palaside Drive, N.E., Concord, North Carolina and at 1490 South Main Street, Mt. Pleasant, North Carolina and also owns property adjacent to the Mt. Pleasant banking office located at 1480 South Main Street. The Bank owns an office at 700 North Church Street in Concord, North Carolina where it previously provided banking services, which currently serves as a loan production office.

In Anson County, the Bank owns its banking facility located at 211 South Greene Street, Wadesboro, North Carolina and also owns an ATM site at 426 East Caswell Street, Wadesboro, North Carolina. The Bank purchased a lot in Anson County 2006 for a future branch location.

In Mecklenburg County, the Bank leases its loan production office located at 141 Providence Road, Charlotte, North Carolina and leases its banking facility located at 5231 Piper Station Drive, Suite 100, Charlotte, NC 28277.

The Bank leases an additional wealth advisory office in Asheboro, North Carolina located at 220 Sunset Avenue.

All of the Bank's existing offices are fully equipped and have adequate parking and drive-up banking facilities, with the exception of the Bank's loan production offices, the Main Office in Albemarle, and the banking facility in Charlotte, which do not have drive-up facilities.

### Item 3. Legal Proceedings.

In the ordinary course of operations, the Company and the Bank are at times involved in legal proceedings. In the opinion of management, as of December 31, 2020 there are no material pending legal proceedings to which the Company, or any of its subsidiaries, is a party, or of which any of their property is the subject.

### Item 4. Mine Safety Disclosures.

Not applicable.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

#### Market Information

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](http://www.otcmarkets.com), operated by OTC Market Groups, Inc. and under the symbol UWHR, trading is limited and sporadic with most trades taking place in privately negotiated transactions. Any over-the-counter market quotations of the Company's common stock reflect inter-dealer prices, without retail mark-up, mark-down, or commission, and may not necessarily represent actual 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. The Company has an independent valuation of its common stock performed on an annual basis and makes this valuation available to interested shareholders in order to promote fairness and market efficiency in privately negotiated transactions.

#### Holders

On December 31, 2020, there were approximately 3,135 shareholders of record of the Company's common stock. This number does not include shareholders for whom shares are held in "nominee" or "street" name.

#### Dividends

There were no cash dividends declared on the Company's common stock in 2020 or 2019. The timing and amount of cash dividends paid depends on the Company's earnings, capital requirements, financial condition and other relevant factors. See "Payment of Dividends and Other Restrictions" under Item 1 of this Report for more information on restrictions on the Company's ability to declare and pay dividends. The Company can offer no assurance that the board of directors will declare or pay cash dividends in any future period.

#### Recent Sales of Unregistered Securities

None.

#### Securities Authorized for Issuance under Equity Compensation Plans

See Item 12 of this Report for disclosure regarding securities authorized for issuance and equity compensation plans required by Item 201(d) of Regulation S-K.

#### Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table sets forth information with respect to shares of common stock repurchased by the Company during each of the three months in the quarterly period ended December 31, 2020.

	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Program (1)	(d) Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans
October 1, 2020 Through October 31, 2020	—	\$ —	—	\$ —
November 1, 2020 Through November 30, 2020	17,632	\$ 5.65	—	\$ —
December 1, 2020 Through December 31, 2020	29,236	\$ 5.33	—	\$ —
Total	46,868	\$ 5.45	—	\$ —

- (1) Trades of the Company's common stock occur in the Over-the-Counter market from time to time. The Company also has in place a Stock Repurchase Plan that provides liquidity to its shareholders in the event a willing buyer is not available to purchase shares that are offered for sale. The Company is under no obligation to purchase shares offered; however, it will accommodate such offers as its Stock Repurchase Plan allows.

**Item 6. Selected Financial Data.**

Item not required for smaller reporting companies.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.**

Incorporated by reference to the Company's Annual Report to Shareholders for the fiscal year ended December 31, 2020.

**Item 7A. Quantitative and Qualitative Disclosures about Market Risk.**

Item not required for smaller reporting companies.

**Item 8. Financial Statements and Supplementary Data.**

Incorporated by reference to the Company's Annual Report to Shareholders for the fiscal year ended December 31, 2020.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

At the end of the period covered by this Report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-15.

Based upon that evaluation, the Chief Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures were effective (1) to provide reasonable assurance that information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Exchange Act was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) to provide reasonable assurance that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including its Chief Executive Officer and Principal Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

**Management's Annual Report on Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer and Principal Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. Management has made a comprehensive review, evaluation and assessment of the Company's internal control over financial reporting as of December 31, 2020. In making its assessment of internal control over financial reporting, management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission's ("COSO") *Internal Control Integrated Framework 2013*. In accordance with Section 404 of the Sarbanes-Oxley Act of 2002, management makes the following assertions:

Management has implemented a process to monitor and assess both the design and operating effectiveness of internal control over financial reporting.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Based on management’s assessment pursuant to the *COSO Internal Control Integrated Framework 2013*, the Company believes that, as of December 31, 2020, the Company’s internal control over financial reporting is effective.

This Annual Report does not include an attestation report of the Company’s registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Company’s registered public accounting firm pursuant to applicable Securities and Exchange Commission rules.

### Changes in Internal Control over Financial Reporting

Management of the Company has evaluated, with the participation of the Company’s Chief Executive Officer and Principal Financial Officer, changes in the Company’s internal controls over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the fourth quarter of 2020. In connection with such evaluation, the Company has determined that there have been no changes in internal control over financial reporting during the fourth quarter of 2020 that have materially affected or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

### Item 9B. Other Information.

None.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance.

Incorporated by reference to the Company’s definitive proxy statement for the 2021 Annual Meeting of Shareholders.

The Company has adopted a Code of Business Conduct and Ethics that applies to, among others, its Principal Executive Officer and Principal Financial Officer. The Company’s Code of Business Conduct Ethics is available on the Company’s website at <https://www.uwharrie.com/about/investor>.

### Item 11. Executive Compensation.

Incorporated by reference to the Company’s definitive proxy statement for the 2021 Annual Meeting of Shareholders.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Incorporated by reference to the Company’s definitive proxy statement for the 2021 Annual Meeting of Shareholders.

The following table sets forth information with respect to certain equity compensation plans at December 31, 2020.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a)) (c)
Equity compensation plans approved by security holders	—	—	—
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	—	—	—

### Item 13. Certain Relationships and Related Transactions, and Director Independence.

Incorporated by reference to the Company’s definitive proxy statement for the 2021 Annual Meeting of Shareholders.

**Item 14. Principal Accounting Fees and Services.**

Incorporated by reference to the Company's definitive proxy statement for the 2021 Annual Meeting of Shareholders.

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules.**

The following documents are filed as part of this report:

1. Financial statements from the Registrant's Annual Report to Shareholders for the fiscal year ended December 31, 2020, which are incorporated herein by reference:

Consolidated Balance Sheets as of December 31, 2020 and 2019.

Consolidated Statements of Income for the years ended December 31, 2020, 2019 and 2018.

Consolidated Statements of Comprehensive Income for the years ended December 31, 2020, 2019 and 2018.

Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2020, 2019 and 2018.

Consolidated Statements of Cash Flows for the years ended December 31, 2020, 2019 and 2018.

Notes to Consolidated Financial Statements.

Report of Independent Registered Public Accounting Firm.

2. Financial statement schedules required to be filed by Item 8 of this Form:

None

3. Exhibits

## UWHARRIE CAPITAL CORP

### Exhibit Index

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
3.1	<u>Registrant's Articles of Incorporation (Incorporated by reference to Exhibit 3(a) of Registrant's Annual Report on Form 10-K filed with SEC on March 1, 2017)</u>
3.2	<u>Registrant's By-laws (Incorporated by reference to Exhibit 3(b) of Registrant's Annual Report on Form 10-K filed with SEC on March 1, 2017)</u>
3.3	<u>Articles of Amendment effective April 24, 1997 (Incorporated by reference to Exhibit 3.3 of Registrant's Annual Report on Form 10-K filed with SEC on March 4, 2020)</u>
3.4	<u>Articles of Amendment effective November 1, 1999 (Incorporated by reference to Exhibit 3(c) of Registrant's Annual Report on Form 10-K filed with SEC on March 1, 2017)</u>
3.5	<u>Articles of Amendment effective May 31, 2000 (Incorporated by reference to Exhibit 3(d) of Registrant's Annual Report on Form 10-K filed with SEC on March 1, 2017)</u>
3.6	<u>Articles of Amendment effective December 19, 2008 (Incorporated by reference to Exhibit 3.1 of Registrant's Current Report on Form 8-K filed with SEC on December 29, 2008)</u>
4.1	<u>Form of common stock certificate (Incorporated by reference to Exhibit 4(a) of Registrant's Annual Report on Form 10-K filed with SEC on March 1, 2017)</u>
4.2	<u>Description of Registrant's Securities Registered under Section 12 of the Exchange Act (Incorporated by reference to Exhibit 4.2 of Registrant's Annual Report on Form 10-K filed with SEC on March 4, 2020)</u>
10.1	<u>2006 Incentive Stock Option Plan, a compensatory plan (Incorporated by reference to Exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q filed with SEC on August 13, 2007)</u>
10.2	<u>2006 Employee Stock Purchase Plan, a compensatory plan (Incorporated by reference to Exhibit 10.2 of Registrant's Quarterly Report on Form 10-Q filed with SEC on August 13, 2007)</u>
10.3	<u>Nonqualified Deferred Compensation Plan and Executive Supplemental Retirement Plan Agreement between Uwharrie Capital Corp and Roger L. Dick, a compensatory plan (Incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K filed with SEC on December 31, 2008)</u>
10.4	<u>Nonqualified Deferred Compensation Plan and Executive Supplemental Retirement Plan Agreement between Uwharrie Capital Corp and R. David Beaver, III, a compensatory plan (Incorporated by reference to Exhibit 10(e) of Registrant's Annual Report on Form 10-K filed with SEC on March 1, 2017)</u>
10.5	<u>2015 Stock Grant Plan (Incorporated by reference to Exhibit 4.1 of Registrant's Form S-8 filed with SEC on October 27, 2015)</u>
13	<u>2020 Annual Report to Shareholders (filed herewith)</u>
21	<u>Subsidiaries of the Registrant (filed herewith)</u>
23	<u>Consent of Dixon Hughes Goodman LLP (filed herewith)</u>
31.1	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)</u>
31.2	<u>Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)</u>

- 32            Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
- 101           Interactive data files providing financial information from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2020, in XBRL (eXtensible Business Reporting Language) (filed herewith)

**Item 16. Form 10-K Summary.**

Registrants may voluntarily include a summary of information required by Form 10-K under this Item 16. We have elected not to include such summary information.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### UWHARRIE CAPITAL CORP

By: /s/ Roger L. Dick  
Roger L. Dick, Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Roger L. Dick March 5, 2021  
Roger L. Dick, Chief Executive Officer

/s/ R. David Beaver, III March 5, 2021  
R. David Beaver, III, Principal Financial Officer

/s/ Merlin Amirtharaj March 5, 2021  
Merlin Amirtharaj, Director

/s/ Dean M. Bowers March 5, 2021  
Dean M. Bowers, Director

/s/ Joe S. Brooks March 5, 2021  
Joe S. Brooks, Director

/s/ James O. Campbell March 5, 2021  
James O. Campbell, Director

/s/ Tara G. Eudy March 5, 2021  
Tara G. Eudy, Director

/s/ Deidre B. Foster March 5, 2021  
Deidre B. Foster, Director

/s/ Allen K. Furr March 5, 2021  
Allen K. Furr, Director

/s/ Thomas M. Hearne, Jr. March 5, 2021  
Thomas M. Hearne, Jr., Director

/s/ Matthew R. Hudson March 5, 2021  
Matthew R. Hudson, Director

/s/ Harvey H. Leavitt, III March 5, 2021  
Harvey H. Leavitt, III, Director

/s/ W. Chester Lowder March 5, 2021  
W. Chester Lowder, Director

/s/ Wesley A. Morgan March 5, 2021  
Wesley A. Morgan, Director

/s/ Cynthia L. Mynatt March 5, 2021  
Cynthia L. Mynatt, Director

/s/ James E. Nance  
James E. Nance, Director

March 5, 2021

/s/ Chris M. Poplin  
Chris M. Poplin, Director

March 5, 2021

/s/ Frank A. Rankin, III  
Frank A. Rankin, III, Director

March 5, 2021

/s/ Randy T. Russell  
Randy T. Russell, Director

March 5, 2021

/s/ Vernon A. Russell  
Vernon A. Russell, Director

March 5, 2021

/s/ Matthew A. Shaver  
Matthew A. Shaver, Director

March 5, 2021

/s/ S. Todd Swaringen  
S. Todd Swaringen, Director

March 5, 2021

**Uwharrie Capital Corp**

**2020**

**ANNUAL REPORT TO SHAREHOLDERS**

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# 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 OBLIGATIONS 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**

<i>(Dollars in thousands, except per share amounts)</i>	2020	2019	Percent Increase (Decrease)
<i>For the year:</i>			
Net income	\$ 8,107	\$ 3,087	162.62%
Net income available to common shareholders	\$ 7,540	\$ 2,523	198.85%
Basic net income per common share (1)	\$ 1.06	\$ 0.34	211.76%
Diluted net income per common share (1)	\$ 1.06	\$ 0.34	211.76%
Weighted average common shares outstanding (diluted) (1)	7,130,772	7,343,247	(2.89)%
<i>At year-end:</i>			
Total assets	\$ 827,770	\$ 656,793	26.03%
Total earning assets	772,936	607,161	27.30%
Loans held for investment	467,741	357,950	30.67%
Total interest-bearing liabilities	549,110	446,213	23.06%
Shareholders' equity	59,237	48,858	21.24%
Book value per common share (1)	\$ 6.89	\$ 5.28	30.49%
<i>Averages for the year:</i>			
Total assets	\$ 738,060	\$ 645,681	14.31%
Total earning assets	695,708	604,011	15.18%
Loans held for investment	431,235	369,540	16.70%
Total interest-bearing liabilities	487,307	440,758	10.56%
Shareholders' equity	52,732	47,993	9.87%
<i>Financial ratios (in percentage):</i>			
Return on average assets	1.10%	0.48%	
Return on average shareholders' equity	15.37%	6.43%	
Average equity to average assets	7.14%	7.43%	
Net interest margin (fully tax equivalent basis)	3.18%	3.37%	
Allowance as % of loans at year-end	0.94%	0.55%	
Allowance as % of nonperforming loans	117.16%	67.82%	
Nonperforming loans to total loans	0.80%	0.82%	
Nonperforming assets to total assets	0.45%	0.52%	
Net loan charge-offs (recoveries) to average loans	(0.01)%	(0.08)%	

(1) Net income per share, book value per share and shares outstanding at year-end for 2019 have been adjusted to reflect the 2% stock dividend in 2020.

**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](http://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. On December 31, 2020, there were approximately 3,135 shareholders of record of the Company's common stock. This number does not include shareholders for whom shares are held in "nominee" or "street" name.

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 2020, 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. There were no cash dividends declared on the Company's common stock in 2020 or 2019. The timing and amount of any cash dividends paid depends on the Company's earnings, capital requirements, financial condition and other relevant factors. The Company can offer no assurance that the Board of Directors will declare or pay cash dividends in any future period.

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# Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors  
Uwharrie Capital Corporation and Subsidiaries

## 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, 2020 and 2019, 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, 2020, 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, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, 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.

## Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

### ***Allowance for Loan Losses***

The Company's allowance for loan losses (ALL) was \$4.4 million as of December 31, 2020. As described in Note 1 and Note 4 to the consolidated financial statements, the ALL 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. The ALL for individually evaluated loans is based upon discounted cash flows or the net realizable value of the collateral. Management's process is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

We identified the Company's estimate of the ALL as a critical audit matter. The principal considerations for our determination included the high degree of judgment and subjectivity in management's identification and measurement of the qualitative factors. This required a high degree of judgment in selecting the auditor procedures to evaluate management's estimate of the ALL, particularly as it relates to the identification and measurement of the qualitative factors.

The primary procedures we performed to address this critical audit matter included:

- We obtained an understanding of the Company's process and internal controls for establishing the ALL, including the selection, application, and related adjustments of the qualitative factor components of the ALL.
- We evaluated the reasonableness of management's application of qualitative factor adjustments to the ALL, including evaluating the appropriateness and level of qualitative factor adjustments based on Company-specific data and third-party data.
- We tested the mathematical accuracy of the ALL, including the application of the qualitative factors on the loan portfolio.
- We assessed relevant trends in credit quality and evaluated the relationship of the trends to the identification of relevant qualitative factors and directional consistency of the qualitative factors.
- We evaluated the appropriateness of new qualitative factors applied to the model during the year and examined approval of the changes by the audit committee. We evaluated subsequent events and transactions and considered whether they corroborated or contradicted the Company's conclusion.

/s/ Dixon Hughes Goodman LLP

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

**Asheville, NC**  
**March 5, 2021**

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
December 31, 2020 and 2019

	2020	2019
	(dollars in thousands)	
<b>ASSETS</b>		
Cash and due from banks	\$ 6,301	\$ 7,520
Interest-earning deposits with banks	82,567	147,678
Cash and cash equivalents	88,868	155,198
Securities available for sale, at fair value	191,513	88,524
Securities held to maturity (fair value \$29,600 and \$13,499, respectively)	28,207	13,428
Equity securities, at fair value	1,352	—
Loans held for sale	6,959	2,946
Loans:		
Loans held for investment	467,741	357,950
Less allowance for loan losses	(4,402)	(1,981)
Net loans held for investment	463,339	355,969
Premises and equipment, net	16,982	17,062
Interest receivable	2,524	1,666
Restricted stock	1,166	1,144
Bank owned life insurance	8,936	8,796
Other real estate owned	—	494
Prepaid assets	1,146	714
Loan servicing assets	3,957	1,723
Mortgage interest rate lock commitments, at fair value	2,073	—
Other assets	10,748	9,129
Total assets	<u>\$ 827,770</u>	<u>\$ 656,793</u>
<b>LIABILITIES</b>		
Deposits:		
Demand noninterest-bearing	\$ 205,788	\$ 150,283
Interest checking and money market accounts	381,502	263,136
Savings deposits	74,792	57,136
Time deposits, \$250,000 and over	28,825	55,682
Other time deposits	52,289	59,641
Total deposits	743,196	585,878
Short-term borrowed funds	710	626
Long-term debt	10,992	9,992
Interest payable	21	55
Mortgage forward sales commitments	388	—
Other liabilities	13,226	11,384
Total liabilities	768,533	607,935
Off balance sheet items, commitments and contingencies (Note 13)		
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, \$1.25 par value: 20,000,000 shares authorized; shares issued and outstanding 7,052,143 and 7,095,920, at December 31, 2020 and 2019, respectively	8,815	8,870
Additional paid-in capital	12,607	12,784
Undivided profits	23,000	16,226
Accumulated other comprehensive income	4,160	323
Total Uwharrie Capital shareholders' equity	48,582	38,203
Noncontrolling interest	10,655	10,655
Total shareholders' equity	59,237	48,858
Total liabilities and shareholders' equity	<u>\$ 827,770</u>	<u>\$ 656,793</u>

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, 2020, 2019 and 2018**

	2020	2019	2018
	(dollars in thousands, except share and per share data)		
<b>Interest Income</b>			
Loans, including fees	\$ 20,082	\$ 18,977	\$ 18,205
Investment securities:			
US Treasury	74	131	45
US Government agencies and corporations	1,598	1,490	1,405
State and political subdivisions non-taxable	732	408	434
State and political subdivisions taxable	898	59	47
Equity securities	51	—	—
Interest-earning deposits with banks and federal funds sold	640	2,702	1,737
Total interest income	<u>24,075</u>	<u>23,767</u>	<u>21,873</u>
<b>Interest Expense</b>			
Interest checking and money market accounts	716	1,435	948
Savings deposits	62	102	91
Time deposits \$250,000 and over	370	830	69
Other time deposits	527	620	204
Short-term borrowed funds	2	15	16
Long-term debt	559	563	554
Total interest expense	<u>2,236</u>	<u>3,565</u>	<u>1,882</u>
Net interest income	<u>21,839</u>	<u>20,202</u>	<u>19,991</u>
<b>Provision for (recovery of) loan losses</b>			
Net interest income after provision for (recovery of) loan losses	<u>19,452</u>	<u>20,790</u>	<u>19,901</u>
<b>Noninterest Income</b>			
Service charges on deposit accounts	1,027	1,348	1,220
Other service fees and commissions	2,619	2,687	2,621
Interchange and card transaction fees, net	917	826	648
Gain (loss) on sale of securities	71	(35)	—
Unrealized gain on equity security	451	—	—
Income from mortgage banking	14,714	3,835	2,980
Other income	1,078	344	810
Total noninterest income	<u>20,877</u>	<u>9,005</u>	<u>8,279</u>
<b>Noninterest Expense</b>			
Salaries and employee benefits	19,874	17,122	16,180
Net occupancy expense	1,781	1,693	1,616
Equipment expense	803	720	734
Data processing costs	669	706	923
Loan costs	583	359	306
Foreclosed real estate expense	12	300	45
Professional fees and services	927	929	1,058
Marketing and donations	972	758	786
Electronic banking expense	414	424	401
Software amortization and maintenance	1,263	925	924
FDIC insurance	301	132	234
Other noninterest expense	2,286	1,869	1,917
Total noninterest expense	<u>29,885</u>	<u>25,937</u>	<u>25,124</u>
Income before income taxes	10,444	3,858	3,056
Income taxes	2,337	771	579
<b>Net income</b>	<u>\$ 8,107</u>	<u>\$ 3,087</u>	<u>\$ 2,477</u>
<b>Consolidated net income</b>			
Less: Net income attributable to noncontrolling interest	(567)	(564)	(570)
Net income attributable to Uwharrie Capital Corp and common shareholders	7,540	2,523	1,907
<b>Net income per common share</b>			
Basic	<u>\$ 1.06</u>	<u>\$ 0.34</u>	<u>\$ 0.26</u>
Diluted	<u>\$ 1.06</u>	<u>\$ 0.34</u>	<u>\$ 0.26</u>
<b>Weighted average common shares outstanding</b>			
Basic	7,130,772	7,343,247	7,373,919
Diluted	7,130,772	7,343,247	7,373,919

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, 2020, 2019 and 2018*

	<u>2020</u>	<u>2019</u>	<u>2018</u>
	(dollars in thousands)		
Net Income	\$ 8,107	\$ 3,087	\$ 2,477
Other comprehensive income (loss):			
Unrealized gains (losses) on available for sale securities	5,055	2,584	(758)
Related tax effect	(1,163)	(595)	171
Reclassification of (gains) losses recognized in net income	(71)	35	—
Related tax effect	16	(7)	—
Total other comprehensive income (loss)	<u>3,837</u>	<u>2,017</u>	<u>(587)</u>
Comprehensive income	11,944	5,104	1,890
Less: Comprehensive income attributable to noncontrolling interest	(567)	(564)	(570)
Comprehensive income attributable to Uwharrie Capital Corp	<u>\$ 11,377</u>	<u>\$ 4,540</u>	<u>\$ 1,320</u>

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, 2020, 2019 and 2018**

	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, 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 loss	—	—	—	—	(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	<u>7,126,541</u>	<u>\$ 8,908</u>	<u>\$ 12,885</u>	<u>\$ 14,421</u>	<u>\$ (1,694)</u>	<u>\$ 10,655</u>	<u>\$ 45,175</u>
Net Income	—	—	—	2,523	—	564	3,087
Repurchase of common stock	(168,683)	(211)	(639)	—	—	—	(850)
2% stock dividend	138,062	173	538	(711)	—	—	—
Cash paid – fractional shares	—	—	—	(7)	—	—	(7)
Other comprehensive income	—	—	—	—	2,017	—	2,017
Record preferred stock dividend series B (noncontrolling interest)	—	—	—	—	—	(416)	(416)
Record preferred stock dividend series C (noncontrolling interest)	—	—	—	—	—	(148)	(148)
Balance, December 31, 2019	<u>7,095,920</u>	<u>\$ 8,870</u>	<u>\$ 12,784</u>	<u>\$ 16,226</u>	<u>\$ 323</u>	<u>\$ 10,655</u>	<u>\$ 48,858</u>
Net Income	—	—	—	7,540	—	567	8,107
Repurchase of common stock	(181,558)	(227)	(764)	—	—	—	(991)
2% stock dividend	137,781	172	587	(759)	—	—	—
Cash paid – fractional shares	—	—	—	(7)	—	—	(7)
Other comprehensive income	—	—	—	—	3,837	—	3,837
Record preferred stock dividend series B (noncontrolling interest)	—	—	—	—	—	(418)	(418)
Record preferred stock dividend series C (noncontrolling interest)	—	—	—	—	—	(149)	(149)
Balance, December 31, 2020	<u>7,052,143</u>	<u>\$ 8,815</u>	<u>\$ 12,607</u>	<u>\$ 23,000</u>	<u>\$ 4,160</u>	<u>\$ 10,655</u>	<u>\$ 59,237</u>

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, 2020, 2019 and 2018**

	2020	2019	2018
	(dollars in thousands)		
<b>Cash flows from operating activities</b>			
Net income	\$ 8,107	\$ 3,087	\$ 2,477
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,129	1,074	1,067
Right of use asset amortization	329	313	278
Provision for (recovery of) loan losses	2,387	(588)	90
(Gain) loss on sale of securities available for sale	(71)	35	—
(Gain) loss on sale of premises and equipment	69	(6)	4
(Gain) loss on sale of OREO	(24)	40	(11)
Gain on sale of mortgage loans	9,401	2,877	1,349
OREO write-downs	21	237	(12)
Unrealized gain on equity securities	(451)	—	—
Net amortization of premium on investment securities available for sale	537	555	767
Net amortization of premium on investment securities held to maturity	145	139	146
Amortization of mortgage servicing rights	1,132	831	663
Originations and purchases of mortgage loans for sale	(342,680)	(124,973)	(97,764)
Proceeds from sales of mortgage loans for sale	328,160	123,134	95,369
Mortgage interest rate lock commitments	(2,073)	—	—
Loan servicing assets	(3,366)	(704)	(388)
Accrued interest receivable	(857)	97	(54)
Prepaid assets	(432)	(156)	228
Cash surrender value of life insurance	(140)	(125)	(125)
Miscellaneous other assets	(390)	1,125	(34)
Deferred income taxes	(151)	15	(39)
Accrued interest payable	(34)	39	(132)
Mortgage forward sales commitments	388	—	—
Miscellaneous other liabilities	1,021	(6)	397
Net cash provided by operating activities	2,157	7,040	4,276
<b>Cash flows from investing activities</b>			
Proceeds from sales of investment securities available for sale	17,358	3,351	—
Proceeds from maturities, calls and paydowns of securities available for sale	11,206	23,919	7,853
Proceeds from maturities, calls and paydowns of securities held to maturity	5,656	270	475
Purchase of investment securities available for sale	(127,035)	(22,466)	(4,934)
Purchase of investment securities held to maturity	(20,580)	(3,000)	—
Purchase of equity securities	(901)	—	—
Purchase of investments in other assets	(1,120)	—	—
Net change in restricted stock	(22)	(50)	(27)
Net (increase) decrease in loans	(109,757)	12,034	(13,433)
Purchase of premises and equipment	(720)	(1,576)	(1,107)
Proceeds from sale of OREO	497	543	1,533
Proceeds from sale of premises, equipment and other assets	94	189	4
Net cash provided (used) by investing activities	(225,324)	13,214	(9,636)
<b>Cash flows from financing activities</b>			
Net increase in deposit accounts	157,318	18,977	54,273
Net increase (decrease) in federal funds purchased and other short-term borrowings	84	(564)	(562)
Proceeds from long-term borrowings	1,000	9,992	440
Repayment of long-term debt	—	(9,974)	—
Repurchase of common stock, net	(991)	(850)	(747)
Stock option exercise	—	—	65
Dividends paid on preferred stock (noncontrolling interest)	(567)	(564)	(570)
Cash paid for fractional shares	(7)	(7)	(8)
Net cash provided by financing activities	156,837	17,010	52,891
<b>Increase (decrease) in cash and cash equivalents</b>	(66,330)	37,264	47,531
<b>Cash and cash equivalents, beginning of year</b>	155,198	117,934	70,403
<b>Cash and cash equivalents, end of year</b>	\$ 88,868	\$ 155,198	\$ 117,934
<b>Supplemental disclosures of cash flow information</b>			
Interest paid	\$ 2,250	\$ 3,526	\$ 2,014
Income taxes paid	2,271	933	503
<b>Supplemental schedule of non-cash activities</b>			
Net change in fair value of securities available for sale, net of tax	3,837	2,017	(587)
Initial right of use asset for leased properties	—	2,256	—
Initial lease liability for leased properties	—	2,308	—
Extension of right of use asset for leased properties	821	—	—
Extension of lease liability for leased properties	874	—	—
Loans transferred to foreclosed real estate	—	267	160
Company financed OREO	90	(70)	—

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

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

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**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” or the “Bank”).

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.

**Note 1 - Significant Accounting Policies (Continued)**

**Risks and Uncertainties**

Congress, the President, the Federal Reserve, and other federal agencies have taken several actions designed to mitigate the economic fallout of the COVID-19 pandemic. Most notably, the Coronavirus Aid, Relief and Economic Security Act, or CARES Act was, signed into law on March 27, 2020 as a \$2 trillion legislative package. The goal of the CARES Act is to prevent or mitigate a severe economic downturn through various measures, including direct financial aid to American families and economic stimulus to significantly impacted industry sectors. As the ongoing COVID-19 pandemic evolves, federal regulatory authorities continue to issue additional guidance with respect to the implementation, lifecycle, and eligibility requirements for the various CARES Act programs as well as industry-specific recovery procedures for COVID-19. The Consolidated Appropriations Act, 2021, or CAA, was signed into law on December 27, 2020 and extends certain provisions under the CARES Act. It is possible that Congress will enact supplementary COVID-19 response legislation.

The Company continues to assess the impact of the CARES Act, CAA and other statutes, regulations and supervisory guidance related to the COVID-19 pandemic. In addition to the general impact of COVID-19, certain provisions of the CARES Act as well as other recent legislative and regulatory relief efforts are expected to have a material impact on the Company's operations. While it is not possible to know the full extent of the damage to the U.S. and local economies that have been created by the impact of COVID-19, the following are certain areas that could be adversely impacted:

*Financial position and results of operations*

The Company's interest income could be reduced due to COVID-19. The Company is actively working with customers affected by the pandemic to defer payments, interest and fees. The interest and fees will continue to accrue, based on GAAP guidelines; however, should credit losses on the deferred payments occur, the accrued interest and fees would be reversed. As such, interest income in future periods could be negatively impacted. At this time, the Company is unable to project the materiality of such an impact, but recognizes the breadth of the economic impact may affect its borrowers' ability to repay in future periods.

*Lending operations and accommodations to borrowers*

As outlined in the CARES Act, and encouraged through guidance by federal banking agencies, the Company is providing a payment deferral option for commercial and consumer loans adversely affected by the pandemic. In accordance with the CARES Act, these modifications are not required to be reported as troubled debt restructurings if (i) the loan modification is made between March 1, 2020 and December 31, 2020 and (ii) the applicable loan was not more than 30 days past due as of December 31, 2019. The CAA extended the applicable period of the CARES Act, as related to troubled debt restructurings, to the earlier of January 1, 2022 or 60 days after the date the national emergency concerning COVID-19 terminates. The Company is initially providing up to a three-month deferral period or conversion to interest only repayment for up to three months to allow for re-evaluation in a timely manner based on the economic impact at that time. Additional extensions may be considered. Loans are reviewed on a case-by-case basis and the Company will work with borrowers that express an interest in the assistance program.

The Paycheck Protection Program ("PPP"), which is administered by the U.S. Small Business Administration ("SBA"), was created as part of the CARES Act. The Company participated in assisting its customers with applications for funds through the program. PPP loans have a two-year term or, if approved after June 5, 2020, a five-year term and earn interest at 1%. The Company believes that the majority of these loans will ultimately be forgiven by the SBA in accordance with the terms of the program. As of December 31, 2020, the Company had funded 1,202 PPP loans representing \$81 million. Of the loans funded, 23 loans totaling \$4.5 million had been forgiven by the SBA as of December 31, 2020. The CAA established another round of PPP loan funding for certain eligible borrowers, and the Company will assist these borrowers in obtaining a first or second draw loan. It is the Company's understanding that loans funded through the PPP are fully guaranteed by the U.S. government. Should those circumstances change, the Company could be required to establish additional allowance for loan loss through additional provision expense charged to earnings.

*Allowance for loan losses*

As a result of job losses, business closures, and the impending termination of certain fiscal stimulus programs enacted under the CARES Act, the Company could incur additional provision expense to increase the allowance for loan losses. It is possible that the Company's asset quality measures could worsen at future measurement periods if the effects of COVID-19 are prolonged.

**Note 1 - Significant Accounting Policies (Continued)**

**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.

**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), Federal Family Education Loan Program (FFELP) student loan asset-backed securities, 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 Held for Investment**

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, other real estate construction loans and other loans. Noncommercial loans are divided into the following classes: real estate 1-4 family construction loans, real estate 1-4 family residential loans, home equity loans and consumer 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 non-accrual 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 non-accrual or charged off is reversed against interest income. The interest on these impaired loans is accounted for on a 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.

**Note 1 - Significant Accounting Policies (Continued)**

**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.

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. If these loans are not independently underwritten by the Bank, they 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 net realizable 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 (TDRs) 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 Assets**

The Company capitalizes mortgage and U.S. Small Business Administration (SBA) loan servicing rights when loans are sold and the loan servicing is retained. Servicing revenue is recognized in the statement of income as a component of other noninterest income. The amortization of servicing rights is realized over the estimated period that net servicing revenues are expected to be received. These projections are based on 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.

**Note 1 - Significant Accounting Policies (Continued)**

**Mortgage Banking Derivatives**

The Company enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding, otherwise known as Interest Rate Lock Commitments (IRLCs). IRLCs on mortgage loans that will be held for resale are considered to be derivatives and must be accounted for at fair value on the balance sheet. Accordingly, such commitments are recorded at fair value in the mortgage interest rate lock commitments asset or liability with changes in fair value recorded in income from mortgage banking within the consolidated statement of income. Fair value is based on projected pull-through rates, anticipated margins based on changes in market interest rates, and remaining origination costs to be incurred.

In an effort to mitigate interest rate risk, the Company also enters into mortgage forward sales commitments on a mandatory basis for future delivery of residential mortgage loans soon after an interest rate lock is committed to the borrower. Mandatory commitments require that the loan must be delivered to the investor or a pair-off fee be paid. These forward commitments are recorded at fair value in the mortgage forward sales commitments liability, and changes in fair value are recorded to income from mortgage banking within the consolidated statement of income. The fair value of the forward commitments is based on the gain or loss that would occur if the Company were to pair-off the transaction at the measurement date.

**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.

**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. Right-of-use (ROU) assets that are recognized at the initial adoption of a lease arrangement are included in premises and equipment. More information regarding ROU assets can be found in Note 8 (Leases).

**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 these investments were 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. As of December 31, 2020 and December 31, 2019, there are no outstanding awards.

**Note 1 - Significant Accounting Policies (Continued)**

**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 2017 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, 2020, 2019 and 2018.

**Leases**

Operating leases in which we are the lessee are recorded as operating lease ROU assets and operating lease liabilities, included in premises and equipment and other liabilities, respectively, on our consolidated balance sheet. Operating lease ROU assets represent our right to use an underlying asset during the lease term and operating lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and operating lease liabilities are recognized at lease commencement based on the present value of the remaining lease payments using a discount rate that represents our incremental collateralized borrowing rate at the lease commencement date. ROU assets are further adjusted for the lease incentives. Operating lease expense, which is comprised of amortization of the ROU asset and the implicit interest accreted on the operating lease liability, is recognized on a straight-line basis over the lease term, and is recorded in the net occupancy expense in the consolidated statement of income.

**Revenue Recognition**

For revenue not associated with financial instruments, loan servicing 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 the 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 recognize 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. Network costs associated with debit card and credit card transactions are netted against the related fees from such transactions. For the twelve months ended December 31, 2020, gross interchange and card transaction fees totaled \$2.1 million while related network costs totaled \$1.2 million. On a net basis, we reported \$917,000 as interchange and card transaction fees in the accompanying Consolidated Statement of Income for the twelve months ended December 31, 2020. For the twelve months ended December 31, 2019 and December 31, 2018, interchange and card transaction fees were \$2.0 million and \$1.7 million, respectively, on a gross basis while related network costs were \$1.2 million and \$1.1 million, respectively.

**Note 1 - Significant Accounting Policies (Continued)**

**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 and mortgage banking derivatives 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.

Prices for US Treasury and marketable equity 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, asset-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.

Mortgage banking derivatives, which are comprised of interest rate lock commitments and mortgage forward sales commitments, are recorded at fair value on a recurring basis. Fair value of the IRLCs is based on projected pull-through rates, anticipated margins based on changes in market interest rates, and remaining origination costs to be incurred. The Company considers these to be Level 3 valuations. The fair value of mortgage forward sales commitments is based on the gain or loss that would occur if the Company were to pair-off the transaction at the measurement date and is considered to be a Level 2 input.

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 (Loss)**

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, 2020, 2019 and 2018:

	Year ended December 31,		
	2020	2019	2018
	(dollars in thousands)		
Beginning Balance	\$ 323	\$ (1,694)	\$ (1,107)
Accumulated Other comprehensive income (loss) before reclassifications, net of (\$1,163), (\$595) and \$171 tax effect, respectively	3,892	1,989	(587)
Amounts reclassified from accumulated other comprehensive income, net of \$16, (\$7), and \$0 tax effect, respectively (included in noninterest income)	(55)	28	—
Net current-period other comprehensive income (loss)	3,837	2,017	(587)
Ending Balance	<u>\$ 4,160</u>	<u>\$ 323</u>	<u>\$ (1,694)</u>

**Earnings per Common Share**

The Company had no stock options outstanding at December 31, 2020, 2019 and 2018.

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 October 20, 2020, the Company's Board of Directors declared a 2% stock dividend payable on November 23, 2020 to shareholders of record on November 9, 2020. 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:

	2020	2019	2018
Weighted average number of common shares used in computing basic net income per common share	7,130,772	7,343,247	7,373,919
Effect of dilutive stock options	—	—	—
Weighted average number of common shares and dilutive potential common shares used in computing diluted net income per common share	<u>7,130,772</u>	<u>7,343,247</u>	<u>7,373,919</u>

**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.

**Note 1 - Significant Accounting Policies (Continued)**

**Recent Accounting Pronouncements**

ASU 2016-02, "Leases, Topic 842" was adopted in January 2019. 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 previous 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 ROU 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 impact of the new standard increased assets by \$1.9 million and liabilities by \$2.0 million, from the year ended December 31, 2018 to the year ended December 31, 2019. We currently have three properties that we operate with a lease term greater than one year.

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. During 2019, the effective date was extended to fiscal years beginning on or after December 15, 2022 for public entities that qualify as smaller reporting companies, per the Securities and Exchange Commission definition, which currently includes the Company. 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. 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.

ASC 848, "Reference Rate Reform," was set forth to eliminate certain reference rates and introduce new reference rates that are based on a larger, more liquid population of observable transactions that are less vulnerable to manipulation. The reference rate reform will discontinue the use of certain widely used reference rates such as the London Interbank Offered Rate, or LIBOR. In response to likely challenges arising from contract modifications due to reference rate reform, the FASB issued ASU 2020-04 in March 2020 to provide optional expedients and exceptions for applying GAAP to contract modifications. As such, modifications to debt contracts may be accounted for as a continuation of the existing contract by prospectively adjusting the effective interest rate. This amendment can be applied beginning March 12, 2020 and will sunset December 31, 2022. The Company currently holds loan contracts that reference LIBOR, and is evaluating the most effective manner in which to modify those contracts, but does not anticipate material financial impact.

The FASB issued ASU 2018-13 in August 2018 to improve the effectiveness of disclosures related to fair value measurements required under ASU 820. ASU 2018-13 amends the disclosure requirements for recurring and nonrecurring fair value measurements. Most notably, recurring fair value measurements categorized within Level 3 of the hierarchy must include a description of the uncertainty of the fair value measurement from the use of significant unobservable inputs, if those inputs could have been different at the reporting date. Additionally, for recurring Level 3 fair value measurements held at the end of the reporting period, changes in unrealized gains and losses for the period included in other comprehensive income must be disclosed. The range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements must also be disclosed. These amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. During 2020, the Company recorded mortgage banking derivatives, specifically IRLCs, which are measured at fair value on a recurring basis and reflected in Level 3 of the fair value hierarchy.

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 2019 and 2018 financial statements have been reclassified to conform to the 2020 presentation. These reclassifications do not have a material impact on net income or shareholders' equity.

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note 2 - Investment Securities**

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

<b>December 31, 2020</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
	(dollars in thousands)			
<b>Securities available for sale</b>				
U.S. Government agencies	36,804	611	26	37,389
GSE - Mortgage-backed securities and CMOs	39,720	1,844	68	41,496
Asset-backed securities	38,536	748	3	39,281
State and political subdivisions	67,148	2,107	91	69,164
Corporate bonds	3,902	281	—	4,183
<b>Total securities available for sale</b>	<b>\$ 186,110</b>	<b>\$ 5,591</b>	<b>\$ 188</b>	<b>\$ 191,513</b>

<b>December 31, 2020</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
	(dollars in thousands)			
<b>Securities held to maturity</b>				
U.S. Government agencies	\$ 459	\$ 11	\$ —	\$ 470
State and political subdivisions	17,748	1,382	—	19,130
Corporate bonds	10,000	—	—	10,000
<b>Total securities held to maturity</b>	<b>\$ 28,207</b>	<b>\$ 1,393</b>	<b>\$ —</b>	<b>\$ 29,600</b>

<b>December 31, 2019</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
	(dollars in thousands)			
<b>Securities available for sale</b>				
U.S. Treasury	\$ 4,976	\$ 36	\$ —	\$ 5,012
U.S. Government agencies	25,869	18	201	25,686
GSE - Mortgage-backed securities and CMOs	38,305	413	142	38,576
State and political subdivisions	13,937	329	45	14,221
Corporate bonds	5,018	11	—	5,029
<b>Total securities available for sale</b>	<b>\$ 88,105</b>	<b>\$ 807</b>	<b>\$ 388</b>	<b>\$ 88,524</b>

<b>December 31, 2019</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
	(dollars in thousands)			
<b>Securities held to maturity</b>				
U.S. Government agencies	\$ 578	\$ 5	\$ —	\$ 583
State and political subdivisions	6,826	62	—	6,888
Corporate bonds	6,024	5	1	6,028
<b>Total securities held to maturity</b>	<b>\$ 13,428</b>	<b>\$ 72</b>	<b>\$ 1</b>	<b>\$ 13,499</b>

At both December 31, 2020 and December 31, 2019, the Company owned Federal Reserve Bank stock reported at cost of \$509,000. Also, at December 31, 2020 and December 31, 2019, the Company owned Federal Home Loan Bank (“FHLB”) stock of \$657,000 and \$635,000, 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 the fair value approximated cost and that these investments were not impaired at December 31, 2020.

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note 2 - Investment Securities (Continued)**

Results from sales of securities available for sale for the years ended December 31, 2020, 2019 and 2018 are as follows:

	2020	2019	2018
	(dollars in thousands)		
Gross proceeds from sales	\$ 17,358	\$ 3,351	\$ —
Realized gains from sales	\$ 85	\$ —	\$ —
Realized losses from sales	(14)	(35)	—
Net realized gains (losses)	\$ 71	\$ (35)	\$ —

At December 31, 2020 and 2019 securities available for sale with a carrying amount of \$82.8 million and \$65.3 million, respectively, were pledged as collateral on public deposits and for other purposes as required or permitted by law.

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, 2020 and December 31, 2019. 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, 2020, the unrealized losses on available for sale securities less than twelve months related to four government agency bonds, three government sponsored enterprise (GSE) mortgage-backed securities, two asset-backed securities and ten state and political subdivision bonds. At December 31, 2019, the unrealized loss on available for sale securities less than twelve months related to three government agency bonds, six GSE mortgage-backed securities and one state and political subdivision bond. The Company had four government agency bonds and nine GSE mortgage-backed securities that had been in a loss position for more than twelve months at December 31, 2019. At December 31, 2019, the unrealized losses on held to maturity securities less than twelve months related to one corporate bond.

**December 31, 2020**

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(dollars in thousands)					
<b>Securities available for sale temporary impairment</b>						
U.S. Government agencies	5,061	26	—	—	5,061	26
GSE-Mortgage-backed securities and CMOs	10,263	68	—	—	10,263	68
Asset-backed securities	2,686	3	—	—	2,686	3
State and political	11,286	91	—	—	11,286	91
Total securities available for sale	\$ 29,296	\$ 188	\$ —	\$ —	\$ 29,296	\$ 188

**December 31, 2020**

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(dollars in thousands)					
<b>Held to maturity temporary impairment</b>						
U.S. Government agencies	—	—	—	—	—	—
State and political subdivisions	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Total securities held to maturity	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note 2 - Investment Securities (Continued)**

<u>December 31, 2019</u>	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
	(dollars in thousands)					
Securities available for sale temporary impairment						
U.S. Government agencies	11,956	55	9,704	146	21,660	201
GSE-Mortgage-backed securities and CMOs	17,613	61	7,431	81	25,044	142
State and political	1,694	45	—	—	1,694	45
Total securities available for sale	<u>\$ 31,263</u>	<u>\$ 161</u>	<u>\$ 17,135</u>	<u>\$ 227</u>	<u>\$ 48,398</u>	<u>\$ 388</u>

<u>December 31, 2019</u>	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
	(dollars in thousands)					
Held to maturity temporary impairment						
Corporate bonds	1,502	1	—	—	1,502	1
Total securities held to maturity	<u>\$ 1,502</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,502</u>	<u>\$ 1</u>

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, 2020, 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, 2020:

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
	(dollars in thousands)	
Securities available for sale		
Due within twelve months	\$ 15,775	\$ 15,928
Due after one but within five years	8,888	9,296
Due after five but within ten years	29,712	31,596
Due after ten years	131,735	134,693
	<u>\$ 186,110</u>	<u>\$ 191,513</u>

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
	(dollars in thousands)	
Securities held to maturity		
Due within twelve months	\$ 1,373	\$ 1,385
Due after one but within five years	3,341	3,438
Due after five but within ten years	10,000	10,000
Due after ten years	13,493	14,777
	<u>\$ 28,207</u>	<u>\$ 29,600</u>

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note 3 – Loans Held for Investment**

The composition of net loans held for investment by class as of December 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
	(dollars in thousands)	
<b>Commercial</b>		
Commercial	\$ 64,334	\$ 59,075
SBA Paycheck Protection Program (PPP)	76,398	—
Real estate - commercial	147,229	130,998
Other real estate construction loans	32,920	23,043
<b>Noncommercial</b>		
Real estate 1-4 family construction	7,709	7,600
Real estate - residential	75,000	71,370
Home equity	51,615	51,216
Consumer loans	11,073	12,957
Other loans	3,098	1,939
	<u>469,376</u>	<u>358,198</u>
<b>Less:</b>		
Allowance for loan losses	(4,402)	(1,981)
Deferred loan fees, net	(1,635)	(248)
Loans held for investment, net	<u>\$ 463,339</u>	<u>\$ 355,969</u>

Although the Bank's 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 28.62% of total loans. Additionally, there is a concentration in commercial loans (not including PPP loans) secured primarily by real estate, shopping center locations, commercial land development, commercial buildings, equipment, and general commercial loans that represent 52.09% 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 non-accrual loans and other loans identified by management as impaired, totaled \$8.2 million and \$6.8 million at December 31, 2020 and 2019, respectively. There were no loans 90 days past due and still accruing at December 31, 2020 or at December 31, 2019.

Restructured loans at December 31, 2020 and December 31, 2019 totaled \$4.4 million and \$3.9 million, respectively, and are included in the impaired loan total. The carrying value of foreclosed properties held as other real estate was \$0 and \$494,000 at December 31, 2020 and 2019, respectively. The Company had \$0 in foreclosed residential real estate and \$51,000 of residential real estate in process of foreclosure at December 31, 2020. At December 31, 2019, the Company had \$130,000 in foreclosed residential real estate and \$387,000 of residential real estate in process of foreclosure.

The Company had loans of \$193.1 million and \$166.9 million pledged to borrowings at Federal Home Loan Bank and the Federal Reserve Bank at December 31, 2020 and 2019, 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**

During the year ended December 31, 2020, management made adjustments to the allowance for loan losses methodology. The qualitative factors were expanded to include additional reserves for niche lending portfolios of hotel, retained interest in the unguaranteed portion of U.S. Small Business Administration (SBA) Loans (not including PPP loans), and SBA PPP loans. The risk in these portfolios is measurable in addition to the standard probable loss calculation performed on all non-impaired loans.

With the impact of COVID-19 on all industries, the hotel and SBA (non-PPP) loan categories on the Company's balance sheet have been identified as having elevated credit risk. The SBA (non-PPP) loan category reflects the unguaranteed portion of SBA guaranteed loans originated by the Company. SBA PPP loans, while 100% guaranteed by SBA, could result in some loss if fraud occurs or there are reporting issues or duplicate funding of loans. These additional qualitative factors allocated \$132,000 to the reserve during the year that was not present at December 31, 2019.

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note 4 - Allowance for Loan Losses (Continued)**

In addition, management eliminated its qualitative factor based on a 21-day weighted average of the VIX index, a real-time index that measures the expectation of the market's 30-day forward-looking volatility, and replaced it with a multi-factor linear regression encompassing the following economic data: Case Shiller for North Carolina (NC) home price index, NC unemployment rate, 2-year 10-year US Treasury spread, customer sentiment, and a VIX quarterly average factor. This qualitative factor update increased provisions by approximately \$379,000 at the time of adoption.

Changes in the allowance for loan losses for the years ended December 31, 2020, 2019 and 2018 are presented below (the "other" category represents a one-time impact of re-classification for unfunded commitments' allowance from the allowance for loan losses to an unfunded commitment liability):

<u>Commercial</u>	2020	2019	2018
	(dollars in thousands)		
Balance, beginning of year	\$ 1,087	\$ 1,334	\$ 1,401
Provision (recovery) charged to operations	1,653	(571)	132
Charge-offs	(81)	(11)	(245)
Recoveries	94	367	46
Net (charge-offs) recoveries	13	356	(199)
Other	—	(32)	—
Balance, end of year	<u>\$ 2,753</u>	<u>\$ 1,087</u>	<u>\$ 1,334</u>

<u>Non-Commercial</u>	2020	2019	2018
	(dollars in thousands)		
Balance, beginning of year	\$ 894	\$ 1,040	\$ 1,057
Provision (recovery) charged to operations	734	(17)	(42)
Charge-offs	(53)	(149)	(81)
Recoveries	74	74	106
Net (charge-offs) recoveries	21	(75)	25
Other	—	(54)	—
Balance, end of year	<u>\$ 1,649</u>	<u>\$ 894</u>	<u>\$ 1,040</u>

<u>Total</u>	2020	2019	2018
	(dollars in thousands)		
Balance, beginning of year	\$ 1,981	\$ 2,374	\$ 2,458
Provision (recovery) charged to operations	2,387	(588)	90
Charge-offs	(134)	(160)	(326)
Recoveries	168	441	152
Net (charge-offs) recoveries	34	281	(174)
Other	—	(86)	—
Balance, end of year	<u>\$ 4,402</u>	<u>\$ 1,981</u>	<u>\$ 2,374</u>



**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note 4 - Allowance for Loan Losses (Continued)**

Once a loan becomes 90 days past due, the loan is automatically transferred to a non-accrual 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.

The composition of non-accrual loans by class as of December 31, 2020 and 2019 is as follows:

	2020	2019
	(dollars in thousands)	
Commercial	\$ —	\$ —
SBA Paycheck Protection Program (PPP)	—	—
Real estate - commercial	2,076	2,088
Other real estate construction	1,039	—
Real estate 1 – 4 family construction	—	—
Real estate – residential	595	752
Home equity	48	82
Consumer loans	—	—
Other loans	—	—
	<u>\$ 3,758</u>	<u>\$ 2,922</u>

Loans that are in non-accrual status or 90 days past due and still accruing are considered to be nonperforming. Nonperforming loans were \$3.8 million at December 31, 2020 and \$2.9 million at December 31, 2019.

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 non-accrual 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.

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note 4 - Allowance for Loan Losses (Continued)**

The tables below summarize risk grades of the loan portfolio by class as of December 31, 2020 and 2019:

<u>December 31, 2020</u>	<u>Pass</u>	<u>Watch</u>	<u>Sub- standard</u>	<u>Doubtful</u>	<u>Total</u>
	(dollars in thousands)				
Commercial	\$ 61,828	\$ 2,321	\$ 185	\$ —	\$ 64,334
SBA Paycheck Protection Program (PPP)	74,750	—	—	—	74,750
Real estate - commercial	143,222	1,113	2,894	—	147,229
Other real estate construction	31,263	344	1,313	—	32,920
Real estate 1 - 4 family construction	7,709	—	—	—	7,709
Real estate - residential	72,085	2,145	783	—	75,013
Home equity	50,661	661	293	—	51,615
Consumer loans	11,001	19	53	—	11,073
Other loans	3,098	—	—	—	3,098
<b>Total</b>	<b>\$ 455,617</b>	<b>\$ 6,603</b>	<b>\$ 5,521</b>	<b>\$ —</b>	<b>\$ 467,741</b>

<u>December 31, 2019</u>	<u>Pass</u>	<u>Watch</u>	<u>Sub- standard</u>	<u>Doubtful</u>	<u>Total</u>
	(dollars in thousands)				
Commercial	\$ 56,151	\$ 2,921	\$ 3	\$ —	\$ 59,075
Real estate - commercial	126,498	1,194	3,306	—	130,998
Other real estate construction	21,253	1,477	313	—	23,043
Real estate 1 - 4 family construction	7,600	—	—	—	7,600
Real estate - residential	67,647	2,464	1,011	—	71,122
Home equity	50,255	879	82	—	51,216
Consumer loans	12,877	79	1	—	12,957
Other loans	1,939	—	—	—	1,939
<b>Total</b>	<b>\$ 344,220</b>	<b>\$ 9,014</b>	<b>\$ 4,716</b>	<b>\$ —</b>	<b>\$ 357,950</b>

The following tables show the breakdown between performing and nonperforming loans by class as of December 31, 2020 and 2019:

<u>December 31, 2020</u>	<u>Performing</u>	<u>Non- Performing</u>	<u>Total</u>
	(dollars in thousands)		
Commercial	\$ 64,334	\$ —	\$ 64,334
SBA Paycheck Protection Program (PPP)	74,750	—	74,750
Real estate - commercial	145,153	2,076	147,229
Other real estate construction	31,881	1,039	32,920
Real estate 1 – 4 family construction	7,709	—	7,709
Real estate – residential	74,418	595	75,013
Home equity	51,567	48	51,615
Consumer loans	11,073	—	11,073
Other loans	3,098	—	3,098
<b>Total</b>	<b>\$ 463,983</b>	<b>\$ 3,758</b>	<b>\$ 467,741</b>

<u>December 31, 2019</u>	<u>Performing</u>	<u>Non- Performing</u>	<u>Total</u>
	(dollars in thousands)		
Commercial	\$ 59,075	\$ —	\$ 59,075
Real estate - commercial	128,910	2,088	130,998
Other real estate construction	23,043	—	23,043
Real estate 1 – 4 family construction	7,600	—	7,600
Real estate – residential	70,370	752	71,122
Home equity	51,134	82	51,216
Consumer loans	12,957	—	12,957
Other loans	1,939	—	1,939
<b>Total</b>	<b>\$ 355,028</b>	<b>\$ 2,922</b>	<b>\$ 357,950</b>

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**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, 2020, 2019, and 2018:

	As of December 31, 2020				Year Ended December 31, 2020	
	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Related Allowance	Average Recorded Investment	Interest Income
	(dollars in thousands)					
Commercial	\$ 651	\$ —	\$ 651	\$ 20	\$ 425	\$ 27
SBA Paycheck Protection Program (PPP)	—	—	—	—	—	—
Real estate - commercial	3,547	2,076	1,471	33	3,581	111
Other real estate construction	1,039	1,039	—	—	886	—
Real estate 1 -4 family construction	—	—	—	—	—	—
Real estate - residential	2,856	1,416	1,440	84	3,095	146
Home equity	48	15	33	10	67	2
Consumer loans	13	—	13	—	18	1
<b>Total</b>	<b>\$ 8,154</b>	<b>\$ 4,546</b>	<b>\$ 3,608</b>	<b>\$ 147</b>	<b>\$ 8,072</b>	<b>\$ 287</b>

	As of December 31, 2019				Year Ended December 31, 2019	
	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Related Allowance	Average Recorded Investment	Interest Income
	(dollars in thousands)					
Commercial	\$ 4	\$ —	\$ 4	\$ —	\$ 6	\$ —
Real estate - commercial	3,612	1,923	1,689	29	2,273	145
Other real estate construction	44	—	44	3	64	3
Real estate 1 -4 family construction	—	—	—	—	—	—
Real estate - residential	3,070	987	2,083	99	3,010	159
Home equity	82	13	69	10	116	5
Consumer loans	23	—	23	—	27	2
<b>Total</b>	<b>\$ 6,835</b>	<b>\$ 2,923</b>	<b>\$ 3,912</b>	<b>\$ 141</b>	<b>\$ 5,496</b>	<b>\$ 314</b>

	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
<b>Total</b>	<b>\$ 5,016</b>	<b>\$ 1,092</b>	<b>\$ 3,386</b>	<b>\$ 154</b>	<b>\$ 5,266</b>	<b>\$ 205</b>

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**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 TDRs 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 non-accrual 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, 2020, 2019 and 2018, the following table presents a breakdown of the types of concessions made by loan class:

	Year Ended December 31, 2020		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment (dollars in thousands)	Post-Modification Outstanding Recorded Investment
<b>Extend payment terms:</b>			
Commercial	—	\$ —	\$ —
Real estate - commercial	—	—	—
Other real estate construction	—	—	—
Real estate 1 – 4 family construction	—	—	—
Real estate – residential	—	—	—
Home equity	—	—	—
Consumer loans	—	—	—
Other loans	—	—	—
	—	\$ —	\$ —
<b>Other:</b>			
Commercial	1	\$ 649	\$ 649
Real estate - commercial	1	829	829
Other real estate construction	—	—	—
Real estate 1 – 4 family construction	—	—	—
Real estate – residential	4	486	486
Home equity	—	—	—
Consumer loans	—	—	—
Other loans	—	—	—
	6	\$ 1,964	\$ 1,964
<b>Total</b>	<b>6</b>	<b>\$ 1,964</b>	<b>\$ 1,964</b>

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note 5 – Troubled Debt Restructures (Continued)**

	Year Ended December 31, 2019		
	Number of Contracts	Pre-Modification	Post-Modification
		Outstanding Recorded Investment	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	\$ 50	\$ 4
Real estate - commercial	1	1,629	838
Other real estate construction	—	—	—
Real estate 1 – 4 family construction	—	—	—
Real estate – residential	3	261	219
Home equity	—	—	—
Consumer loans	—	—	—
Other loans	—	—	—
	5	\$ 1,940	\$ 1,061
<b>Total</b>	<b>5</b>	<b>\$ 1,940</b>	<b>\$ 1,061</b>

	Year Ended December 31, 2018		
	Number of Contracts	Pre-Modification	Post-Modification
		Outstanding Recorded Investment	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
<b>Total</b>	<b>6</b>	<b>\$ 434</b>	<b>\$ 387</b>

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note 5 – Troubled Debt Restructures (Continued)**

During the twelve months ended December 31, 2020, there was one TDR for which there was a payment default. There was one payment default in 2019 and one payment default on a TDR in 2018. The outstanding balance of TDRs at December 31, 2020 was \$4.4 million of which \$46,000 was in non-accrual status. Comparatively, the outstanding balance at December 31, 2019 was \$3.9 million of which \$26,000 was in non-accrual status.

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 \$137,000 in the allowance for loan loss as of December 31, 2020, as a direct result of these TDRs. At December 31, 2019 and 2018 there was \$117,000 and \$144,000 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, 2020, 2019 and 2018:

	<u>Paid In Full</u>		<u>Paying as restructured</u>		<u>Converted to non-accrual</u>		<u>Foreclosure/ Default</u>	
	<u>Number of Loans</u>	<u>Recorded Investments</u>	<u>Number of Loans</u>	<u>Recorded Investments</u>	<u>Number of Loans</u>	<u>Recorded Investments</u>	<u>Number of Loans</u>	<u>Recorded Investments</u>
(dollars in thousands)								
<b>December 31, 2020</b>								
Below market interest rate	—	\$ —	1	\$ 219	—	\$ —	—	\$ —
Extended payment terms	—	—	—	—	—	—	—	—
Other	5	374	5	1,745	—	—	1	41
<b>Total</b>	<b>5</b>	<b>\$ 374</b>	<b>6</b>	<b>\$ 1,964</b>	<b>—</b>	<b>\$ —</b>	<b>1</b>	<b>\$ 41</b>

	<u>Paid In Full</u>		<u>Paying as restructured</u>		<u>Converted to non-accrual</u>		<u>Foreclosure/ Default</u>	
	<u>Number of Loans</u>	<u>Recorded Investments</u>	<u>Number of Loans</u>	<u>Recorded Investments</u>	<u>Number of Loans</u>	<u>Recorded Investments</u>	<u>Number of Loans</u>	<u>Recorded Investments</u>
(dollars in thousands)								
<b>December 31, 2019</b>								
Extended payment terms	—	\$ —	—	\$ —	—	\$ —	—	\$ —
Other	1	37	5	1,940	—	—	—	—
<b>Total</b>	<b>1</b>	<b>\$ 37</b>	<b>5</b>	<b>\$ 1,940</b>	<b>—</b>	<b>\$ —</b>	<b>—</b>	<b>\$ —</b>

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

Effective March 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), which was signed into law on March 27, 2020, allows the Company to suspend the TDR classifications described above in an effort to provide relief to borrowers impacted by COVID-19. The Consolidated Appropriations Act, 2021 (CAA), which was signed into law on December 27, 2020, extends the expiration of TDR suspensions as set forth in the CARES Act. The Company has elected to adopt this suspension until January 1, 2022 or 60 days after the national emergency terminates, per the CAA. Modifications of loans subsequent to March 1, 2020 for COVID-19 reasons, and that were current as of December 31, 2019, are not considered TDRs and are tracked internally as “COVID-19 Modifications”.

The Company initially provided up to a three-month deferral period or conversion to interest only repayment for up to three months. Additional extensions have been considered. Loans are reviewed on a case-by-case basis and the Company will work with borrowers that express an interest in the assistance program. As of December 31, 2020, the Company had 3 current outstanding modified loans with a recorded investment of \$4.4 million. All 3 loans under accommodation had entered payment deferral a second time. Additionally, 202 previously modified loans with outstanding balances totaling \$52.0 million have come out of deferment. Of the loans removed from deferment, 18 with balances totaling \$4.1 million were paid-off, 179 loans totaling \$47.6 million were out of accommodation and current at December 31, 2020 and 5 loans totaling \$385,000 were removed due to noncompliance.

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note 5 – Troubled Debt Restructures (Continued)**

As of December 31, 2020, the Company’s remaining modified loans for COVID-19 related reasons are disclosed in the table below:

	Interest only		Payment deferral		Other		Total COVID-19 modifications	
	Number of Loans	Recorded Investments	Number of Loans	Recorded Investments	Number of Loans	Recorded Investments	Number of Loans	Recorded Investments
(dollars in thousands)								
<b>December 31, 2020</b>								
Commercial	—	\$ —	—	\$ —	—	\$ —	—	\$ —
Real estate - commercial	1	4,224	1	126	—	—	2	4,350
Other real estate construction	—	—	—	—	—	—	—	—
Other loans	—	—	—	—	—	—	—	—
Real estate – residential	—	—	—	—	—	—	—	—
Home equity	—	—	—	—	—	—	—	—
Consumer loans	—	—	1	12	—	—	1	12
<b>Total</b>	<b>1</b>	<b>4,224</b>	<b>2</b>	<b>138</b>	<b>—</b>	<b>—</b>	<b>3</b>	<b>4,362</b>

**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 \$599.3 million and \$419.4 million at December 31, 2020 and 2019, respectively. The carrying value of capitalized servicing rights, net of valuation allowances, is included in other assets. A summary of loan servicing rights follows:

	2020	2019	2018
	(dollars in thousands)		
Beginning of year servicing rights:	\$ 1,723	\$ 1,850	\$ 2,125
Amounts capitalized	3,366	694	388
Amortization	(1,132)	(821)	(663)
Impairment	—	—	—
<b>End of year</b>	<b>\$ 3,957</b>	<b>\$ 1,723</b>	<b>\$ 1,850</b>

Amortization expense is estimated as follows:

<b>Year ending December 31,</b>	
(dollars in thousands)	
2021	\$ 933
2022	809
2023	684
2024	558
2025	432
Thereafter	541
<b>Total</b>	<b>\$ 3,957</b>

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

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note 6 – Loan Servicing Assets (Continued)**

The fair value of loan servicing rights was \$4.1 million and \$3.2 million at December 31, 2020 and 2019, respectively. The key assumptions used to value mortgage servicing rights were as follows:

	2020	2019
Weighted average remaining life	281 months	261 months
Weighted average discount rate	12%	12%
Weighted average coupon	3.54%	4.04%
Weighted average prepayment speed	287%	182%

**Note 7 - Premises and Equipment**

The major classes of premises and equipment and the total accumulated depreciation at December 31, 2020 and 2019 are listed below:

	2020	2019
	(dollars in thousands)	
Land	\$ 3,155	\$ 3,192
Building and improvements	14,303	15,783
ROU assets	2,437	1,945
Furniture and equipment	9,221	8,518
Total fixed assets	29,116	29,438
Less accumulated depreciation	12,134	12,376
Net fixed assets	\$ 16,982	\$ 17,062

Depreciation expense was \$1.1 million for the years ended December 31, 2020, 2019 and 2018, and is included in net occupancy expense.

ROU assets are discussed further in Note 8 – Leases.

**Note 8 – Leases**

Our leases relate to three office locations, two of which are branch locations, with remaining terms of five to nine years. Certain lease arrangements contain extension options which range from five to ten years at the then fair market rental rates. As these extension options are not generally considered reasonably certain of exercise, they are not included in the lease term. As of December 31, 2020, operating lease ROU assets were \$2.4 million and the lease liability was \$2.6 million. Operating lease ROU assets were \$1.9 million and the lease liability was \$2.0 million at December 31, 2019. The table below depicts information related to the Company's leases:

	Twelve Months Ended December 31,	
	2020	2019
	(in thousands except percent and period data)	
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 382	\$ 357
ROU assets obtained in exchange for new operating lease liabilities	2,437	1,945
Weighted-average remaining lease term - operating leases, in years	6.9	7.6
Weighted-average discount rate - operating leases	2.4%	2.9%

Total rental expense related to the operating leases was \$381,622, \$371,327, and \$339,782 for the years ended December 31, 2020, 2019 and 2018, respectively, and is included in net occupancy expense. A table detailing the lease payments associated with the aforementioned properties is below.

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note 8 – Leases (Continued)**

<b>December 31,</b>	
(dollars in thousands)	
2021	\$ 390
2022	400
2023	408
2024	417
2025	428
Thereafter	752
Total lease payments	2,795
Less: Interest	(236)
Present value of lease liabilities	<u>\$ 2,559</u>

*Lease Commitments Disclosure at December 31, 2018 Prior to Adoption of ASU 2016-02*

Operating leases for 2018 were accounted for under ASC 840, *Leases*. Total rental expense related to the operating leases was \$339,782 for the year ended December 31, 2018, and is included in net occupancy expense. A table detailing the lease expense associated with the aforementioned properties is below.

<b>December 31,</b>	
(dollars in thousands)	
2019	\$ 345
2020	345
2021	306
2022	189
2023	189
Thereafter	812
Total	2,186

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note 9 - Deposits**

The composition of deposits at December 31, 2020 and 2019 is as follows:

	2020		2019	
	Amount	Percentage of Total	Amount	Percentage of Total
	(dollars in thousands)			
Demand noninterest-bearing	\$ 205,788	28%	\$ 150,283	26%
Interest checking and money market	381,502	51%	263,136	45%
Savings	74,792	10%	57,136	10%
Time deposits \$250,000 and over	28,825	4%	55,682	9%
Other time deposits	52,289	7%	59,641	10%
Total	<u>\$ 743,196</u>	<u>100%</u>	<u>\$ 585,878</u>	<u>100%</u>

The maturities of fixed-rate time deposits at December 31, 2020 are reflected in the table below:

<u>Year ending December 31,</u>	Time Deposits \$250,000 and Over	Other Time Deposits
	(dollars in thousands)	
2021	27,886	42,497
2022	939	4,896
2023	—	1,768
2024	—	872
2025	—	2,256
Thereafter	—	—
Total	<u>\$ 28,825</u>	<u>\$ 52,289</u>

**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 2020 and 2019:

	2020		2019	
	Amount	Rate	Amount	Rate
	(dollars in thousands)			
<u>At year-end</u>				
Master notes and other short-term borrowing	\$ 710	0.22%	\$ 626	0.89%
Notes payable	—	—	—	—
Short-term line of credit	—	—	—	—
	<u>\$ 710</u>	<u>0.22%</u>	<u>\$ 626</u>	<u>0.89%</u>

	2020		2019	
	Amount	Rate	Amount	Rate
	(dollars in thousands)			
<u>Average for the year</u>				
Federal funds purchased	\$ 2	0.75%	\$ 2	3.04%
Master notes and other short-term borrowing	532	0.41%	904	1.61%
Notes payable	—	—	—	—
Short-term line of credit	—	—	—	—
	<u>\$ 534</u>	<u>0.42%</u>	<u>\$ 906</u>	<u>1.62%</u>

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note 10 - Short-Term Borrowed Funds (Continued)**

	2020	2019
	(dollars in thousands)	
<u>Maximum month-end balance</u>		
Federal funds purchased	—	—
Master notes and other short-term borrowing	710	1,486

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 \$56.7 million at December 31, 2020.

**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 \$90.7 million with remaining availability of \$55.7 million at December 31, 2020. There were no long-term advances under this line at December 31, 2020 or at December 31, 2019. The Company also secured a \$3.0 million line of credit with TIB The Independent BankersBank, N.A. during 2020. The line is secured with 100% of the outstanding common shares of the Company's subsidiary bank. As of December 31, 2020, a balance of \$1.0 million was outstanding on the line of credit. This loan carries certain debt covenants. As of December 31, 2020, the Company was in compliance with these covenants with the exception of the Bank's leverage ratio due to our participation in SBA PPP loan funding. TIB is aware of this and has waived the covenant through December 31, 2020. 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 \$35.0 million at December 31, 2020.

During the third quarter of 2019, 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 \$10.0 million, of which the entire \$10.0 million was outstanding at December 31, 2020. These securities have a final maturity date of September 30, 2029 and may be redeemed by the Company after September 30, 2024. The junior subordinated debt pays interest quarterly at an annual fixed rate of 5.25%. 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 September 30, 2024.

As of December 31, 2020, the scheduled maturities of these long-term borrowings are as follows:

	<u>Year ending December 31,</u>	
	(dollars in thousands)	
2021	\$	—
2022		1,000
2023		—
2024		—
2025		—
Thereafter		9,992
Total	\$	<u>10,992</u>

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note 12 - Income Tax Matters**

The significant components of income tax expense for the years ended December 31, 2020, 2019 and 2018 are summarized as follows:

	2020	2019	2018
	(dollars in thousands)		
<b>Current tax expense:</b>			
Federal	\$ 2,203	\$ 662	\$ 524
State	285	94	94
Total	<u>2,488</u>	<u>756</u>	<u>618</u>
<b>Deferred tax expense (benefit):</b>			
Federal	(122)	26	(47)
State	(29)	(11)	8
Total	<u>(151)</u>	<u>15</u>	<u>(39)</u>
Net provision for income taxes	<u>\$ 2,337</u>	<u>\$ 771</u>	<u>\$ 579</u>

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:

	2020	2019	2018
	(dollars in thousands)		
Tax computed at the statutory federal rate	\$ 2,193	\$ 810	\$ 642
Increases (decrease) resulting from:			
Tax exempt interest, net	(207)	(133)	(143)
State income taxes, net of federal benefit	202	65	80
Executive compensation limitation	161	—	—
Revalue of deferred tax assets	—	—	—
Other	(12)	29	—
Provision for income taxes	<u>\$ 2,337</u>	<u>\$ 771</u>	<u>\$ 579</u>

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, 2020, 2019 and 2018 are as follows:

	2020	2019	2018
	(dollars in thousands)		
<b>Deferred tax assets relating to:</b>			
Allowance for loan losses	\$ 1,036	\$ 478	\$ 545
Deferred compensation	1,048	1,078	1,012
Other	88	89	104
Lease liability	588	462	—
Net unrealized loss on securities available for sale	—	—	505
Total deferred tax assets	<u>2,760</u>	<u>2,107</u>	<u>2,166</u>
<b>Deferred tax liabilities relating to:</b>			
Net unrealized gain on securities available for sale	(1,242)	(96)	—
Premises and equipment	(184)	(184)	(159)
Deferred loans fees and costs	(316)	(159)	(163)
Loan servicing	(220)	(92)	(99)
ROU asset	(560)	(447)	—
2016-01 unrealized gain	(104)	—	—
Total deferred tax liabilities	<u>(2,626)</u>	<u>(978)</u>	<u>(421)</u>
Net recorded deferred tax asset	<u>\$ 134</u>	<u>\$ 1,129</u>	<u>\$ 1,745</u>

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

**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, 2020 and 2019, outstanding financial instruments whose contract amounts represent credit risk were as follows:

	<u>2020</u>	<u>2019</u>
	(dollars in thousands)	
Commitments to extend credit	\$ 127,986	\$ 134,241
Credit card commitments	12,821	11,650
Standby letters of credit	8,277	1,213
	<u>\$ 149,084</u>	<u>\$ 147,104</u>

**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 in North Carolina. 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. The Bank's lending policy for all loans requires that they be supported by sufficient cash flows at the time of origination.

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**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 related interests are submitted to the Board of Directors for approval. A summary of loans to directors, executive officers and their related interests follows:

	2020	2019
	(dollars in thousands)	
Balance, at beginning of the year	\$ 10,295	\$ 9,284
Beginning balance adjustment	2,586	—
Disbursements during the year	7,708	4,833
Collections during the year	(3,643)	(3,822)
Balance, at end of the year	<u>\$ 16,946</u>	<u>\$ 10,295</u>

During 2020, the Company implemented new procedures to identify loans made to directors, executive officers and their related interests. In order to align the new identification process with the prior year method, a one-time adjustment to the December 31, 2020 beginning balance is reflected in the above table. At December 31, 2020, the Company had approved, but unused lines of credit, totaling \$2.9 million to executive officers and directors, and their related interests, compared to \$1.3 million at December 31, 2019. In addition, at December 31, 2020, the Company had \$30.5 million of deposits for executive officers and directors, and their related interests compared to \$12.7 million at December 31, 2019. Preferred stock issued to directors, executive officers and their related interests was \$1.2 million at December 31, 2020 and 2019. Additionally, certain directors have been issued the subordinated debt of the Company. The amount of related interest in the Company's subordinated debt in 2020 is \$1.3 million compared to \$1.1 million at December 31, 2019. In the ordinary course of business during 2020, the Bank purchased \$227,000 of vehicles from a dealership that is considered a related party.

During 2017, the Company's broker-dealer subsidiary (The Strategic Alliance Corporation) 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 Bank were involved with the transaction as investors in the private placement.

**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, 2020, the subsidiary bank was required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank in the aggregate amount of \$0 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, becoming fully phased-in on January 1, 2019. As of December 31, 2020, the Company and its subsidiary bank continue to exceed minimum capital standards and remain well-capitalized under the capital adequacy rules.

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note 15 – Shareholders’ Equity and Regulatory Matters (Continued)**

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.

	<u>Actual</u>		<u>Minimum For Capital Requirement</u>		<u>Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
(Dollars in thousands)						
<b>December 31, 2020</b>						
<b>Total Capital to Risk</b>						
Weighted Assets:						
Consolidated	\$ 59,237	11.7%	\$ 40,675	8.0%		
Uwharrie Bank	65,844	13.1%	40,272	8.0%	50,340	10.0%
<b>Tier 1 Capital to Risk</b>						
Weighted Assets:						
Consolidated	55,077	10.8%	30,506	6.0%		
Uwharrie Bank	61,442	12.2%	30,204	6.0%	40,272	8.0%
<b>Common Equity Tier 1 Capital to Risk Weighted Assets:</b>						
Consolidated	44,422	8.7%	22,880	4.5%		
Uwharrie Bank	50,787	10.1%	22,653	4.5%	32,721	6.5%
<b>Tier 1 Capital to Average Assets:</b>						
Consolidated	55,077	6.9%	32,033	4.0%		
Uwharrie Bank	61,442	7.7%	31,828	4.0%	39,785	5.0%

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**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)						
<b>December 31, 2019</b>						
Total Capital to Risk						
Weighted Assets:						
Consolidated	\$ 60,509	14.1%	\$ 34,387	8.0%		
Uwharrie Bank	58,082	13.6%	34,098	8.0%	42,622	10.0%
Tier 1 Capital to Risk						
Weighted Assets:						
Consolidated	48,536	11.3%	25,790	6.0%		
Uwharrie Bank	56,101	13.2%	25,573	6.0%	34,098	8.0%
Common Equity Tier 1 Capital to Risk Weighted Assets:						
Consolidated	37,881	8.8%	19,343	4.5%		
Uwharrie Bank	45,446	10.7%	19,180	4.5%	27,704	6.5%
Tier 1 Capital to Average Assets:						
Consolidated	48,536	7.4%	26,336	4.0%		
Uwharrie Bank	56,101	8.5%	26,249	4.0%	32,812	5.0%

As of December 31, 2020, 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.

During the third quarter of 2019, 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 \$10.0 million, of which the entire \$10.0 million was outstanding at December 31, 2019. These securities have a final maturity date of September 30, 2029 and may be redeemed by the Company after September 30, 2024. The junior subordinated debt pays interest quarterly at an annual fixed rate of 5.25%. 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 September 30, 2024.

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 2020, the Company repurchased 181,558 shares of outstanding common stock and repurchased 168,683 and 138,629 shares of outstanding common stock during 2019 and 2018, 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, 2020, both the SOP II plan and the SPP II plan had expired with no options outstanding.

As of December 31, 2020, there was no unrecognized compensation cost related to non-vested share-based compensation arrangements granted under all of the Company’s stock benefit plans.

There were no options exercised in 2020 or 2019. There were 13,378 options exercised in 2018 at a weighted average exercise price of \$4.93.

**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 eligible service. Employees are 100% vested in the plan once they enroll.

The Company’s annual contribution to the plan was \$488,795 in 2020, \$446,228 in 2019 and \$428,162 in 2018, 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.

**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 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 the year of 2020, \$238,300 was expensed for benefits provided under the plans. During 2019 and 2018, \$336,800 was expensed for benefits provided under the plans. The liability accrued for deferred compensation under the plan amounted to \$5.3 million and \$4.7 million at December 31, 2020 and 2019, 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 2020, 2019, and 2018, the expense associated with these policies was \$26,173, \$13,107, and \$1,846 respectively.

The liability associated with the split-dollar life insurance policies is \$812,000 and \$786,000 at December 31, 2020 and 2019, 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. During 2020 there were 23,256 shares granted at an expense of \$124,000 compared to 14,400 shares granted at an expense of \$72,000 in 2019 and 8,926 shares granted at an expense of \$50,000 in 2018.

**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, 2020 and December 31, 2019, 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, 2020 and December 31, 2019:

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

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

<u>December 31, 2020</u>	<u>Carrying Value</u>	<u>Estimated Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	(dollars in thousands)				
<b>FINANCIAL ASSETS</b>					
Cash and cash equivalents	\$ 88,868	\$ 88,879	\$ 87,623	\$ 1,256	\$ —
Securities available for sale	191,513	191,513	—	191,513	—
Securities held to maturity	28,207	29,600	—	19,664	9,936
Equity securities	1,352	1,352	1,352	—	—
Loans held for investment, net	463,339	458,706	—	—	458,706
Loans held for sale	6,959	6,959	—	6,959	—
Restricted stock	1,166	1,166	1,166	—	—
Loan servicing rights	3,957	4,054	—	4,054	—
Mortgage interest rate lock commitments	2,073	2,073	—	—	2,073
Accrued interest receivable	2,523	2,523	—	—	2,523
<b>FINANCIAL LIABILITIES</b>					
Deposits	\$ 743,196	743,378	\$ —	\$ 743,378	\$ —
Short-term borrowings	710	710	—	710	—
Long-term debt	10,992	10,909	—	—	10,909
Mortgage forward sales commitments	388	388	—	388	—
Accrued interest payable	21	21	—	—	21

<u>December 31, 2019</u>	<u>Carrying Value</u>	<u>Estimated Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	(dollars in thousands)				
<b>FINANCIAL ASSETS</b>					
Cash and cash equivalents	\$ 155,198	\$ 117,938	\$ 115,693	\$ 2,245	\$ —
Securities available for sale	88,524	88,524	5,012	83,512	—
Securities held to maturity	13,428	13,499	—	10,499	3,000
Loans held for investment, net	355,969	354,269	—	—	354,269
Loans held for sale	2,946	2,946	—	2,946	—
Restricted stock	1,144	1,144	1,144	—	—
Loan servicing rights	1,723	3,228	—	3,228	—
Accrued interest receivable	1,666	1,666	—	—	1,666
<b>FINANCIAL LIABILITIES</b>					
Deposits	\$ 585,878	\$ 567,130	\$ —	\$ 567,130	\$ —
Short-term borrowings	626	626	—	626	—
Long-term debt	9,992	10,180	—	—	10,180
Accrued interest payable	55	55	—	—	55

At December 31, 2020, 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.

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**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, 2020 and 2019:

	December 31, 2020 (dollars in thousands)			
	Total	Level 1	Level 2	Level 3
<b>Securities available for sale:</b>				
U.S. Treasury	\$ —	\$ —	\$ —	\$ —
U.S. Government agencies	37,389	—	37,389	—
GSE - Mortgage-backed securities and CMOs	41,496	—	41,496	—
Asset-backed securities	39,281	—	39,281	—
State and political subdivisions	69,164	—	69,164	—
Corporate bonds	4,183	—	4,183	—
Equity securities	1,352	1,352	—	—
Mortgage interest rate lock commitments	2,073	—	—	2,073
<b>Total assets at fair value</b>	<b>\$ 194,938</b>	<b>\$ 1,352</b>	<b>\$ 191,513</b>	<b>\$ 2,073</b>
Mortgage forward sales commitments	\$ 388	\$ —	\$ 388	\$ —
<b>Total liabilities at fair value</b>	<b>\$ 388</b>	<b>\$ —</b>	<b>\$ 388</b>	<b>\$ —</b>
	December 31, 2019 (dollars in thousands)			
	Total	Level 1	Level 2	Level 3
<b>Securities available for sale:</b>				
U.S. Treasury	\$ 5,012	\$ 5,012	\$ —	\$ —
U.S. Government agencies	25,686	—	25,686	—
GSE - Mortgage-backed securities and CMOs	38,576	—	38,576	—
State and political subdivisions	14,221	—	14,221	—
Corporate bonds	5,029	—	5,029	—
<b>Total assets at fair value</b>	<b>\$ 88,524</b>	<b>\$ 5,012</b>	<b>\$ 83,512</b>	<b>\$ —</b>
<b>Total liabilities at fair value</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

The following table provides a reconciliation for recurring Level 3 fair value measurements:

	December 31, 2020 (dollars in thousands)	
	Mortgage interest rate lock commitments	Total
Balance at December 31, 2019	—	—
Change in fair value:		
Included in income from mortgage banking	2,073	2,073
Balance at December 31, 2020	2,073	2,073

The fair value of mortgage interest rate lock commitments is calculated based on a notional amount of \$69 million. Significant unobservable inputs are used to determine the fair value of these derivatives. Such inputs include anticipated remaining costs associated with origination the loan of 0.83% and a projected pull-through rate of 86%. The estimated net margin to be earned from loan sales is also applied in the calculation. Changes in interest rates and other assumptions could significantly change these estimated values.

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

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

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 re-measured at fair value during the period are included in the table below as of December 31, 2020 and December 31, 2019:

	December 31, 2020 (dollars in thousands)			
	Total	Level 1	Level 2	Level 3
Impaired loans	\$ 3,461	\$ —	\$ —	\$ 3,461
Other real estate owned	—	—	—	—
<b>Total assets at fair value</b>	<b>\$ 3,461</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 3,461</b>
Total liabilities at fair value	\$ —	\$ —	\$ —	\$ —

	December 31, 2019 (dollars in thousands)			
	Total	Level 1	Level 2	Level 3
Impaired loans	\$ 3,771	\$ —	\$ —	\$ 3,771
Other real estate owned	364	—	—	364
<b>Total assets at fair value</b>	<b>\$ 4,135</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 4,135</b>
Total liabilities at fair value	\$ —	\$ —	\$ —	\$ —

Quantitative Information about Level 3 Fair Value Measurements:

December 31, 2020	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, 2019	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, 2020 and 2019, impaired loans were being evaluated with discounted expected cash flows for performing TDRs and discounted appraisals were being used on collateral dependent loans.

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**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,	
	2020	2019
	(dollars in thousands)	
<b>Assets</b>		
Cash and demand deposits	\$ 61	\$ 526
Interest-earning deposits	1,832	1,589
Equity securities	1,352	—
Investments in:		
Bank subsidiaries	54,946	45,770
Nonbank subsidiaries	356	381
Other assets	3,073	2,073
<b>Total assets</b>	<b>\$ 61,620</b>	<b>\$ 50,339</b>
<b>Liabilities and shareholders' equity</b>		
Master notes	\$ 710	\$ 626
Short term debt	—	—
Long term debt	10,992	9,992
Other liabilities	1,336	1,518
<b>Total liabilities</b>	<b>13,038</b>	<b>12,136</b>
Shareholders' equity	48,582	38,203
<b>Total liabilities and shareholders' equity</b>	<b>\$ 61,620</b>	<b>\$ 50,339</b>

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note 19 - Parent Company Financial Data (Continued)**

**Condensed Statements of Income**

	2020	2019	2018
	(dollars in thousands)		
Equity in undistributed earnings (loss) of subsidiaries	\$ 5,882	\$ 1,206	\$ 2,026
Dividends received from subsidiaries	2,500	2,750	1,150
Interest income	56	15	17
Other income	545	41	80
Interest expense	(561)	(577)	(571)
Other operating expense	(388)	(578)	(410)
Income tax benefit	73	230	185
Net income	<u>\$ 8,107</u>	<u>\$ 3,087</u>	<u>\$ 2,477</u>
Consolidated net income	<u>\$ 8,107</u>	<u>\$ 3,087</u>	<u>\$ 2,477</u>
Less: Net income attributable to noncontrolling interest	(567)	(564)	(570)
Net income attributable to Uwharrie Capital Corp	<u>7,540</u>	<u>2,523</u>	<u>1,907</u>
Net income available to common shareholders	<u>\$ 7,540</u>	<u>\$ 2,523</u>	<u>\$ 1,907</u>
Net income per common share			
Basic	<u>\$ 1.06</u>	<u>\$ 0.34</u>	<u>\$ 0.26</u>
Diluted	<u>\$ 1.06</u>	<u>\$ 0.34</u>	<u>\$ 0.26</u>
Weighted average shares outstanding			
Basic	7,130,772	7,343,247	7,373,919
Diluted	7,130,772	7,343,247	7,373,919

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note 19 - Parent Company Financial Data (Continued)**

**Condensed Statements of Cash Flows**

	2020	2019	2018
	(dollars in thousands)		
<b>Cash flows from operating activities</b>			
Net income	\$ 8,107	\$ 3,087	\$ 2,477
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(5,882)	(1,206)	(2,026)
Unrealized gain on equity securities	(451)	—	—
(Increase) decrease in other assets	120	(435)	(198)
Increase (decrease) in other liabilities	(182)	528	220
Net cash provided by operating activities	<u>1,712</u>	<u>1,974</u>	<u>473</u>
<b>Cash flows from investing activities</b>			
Purchase of equity securities	(901)	—	—
Purchase of investments in other assets	(1,120)	—	—
Net cash used by investing activities	<u>(2,021)</u>	<u>—</u>	<u>—</u>
<b>Cash flows from financing activities</b>			
Increase (decrease) in master notes	84	(564)	(562)
Increase (decrease) in long-term debt	1,000	(440)	440
Net increase in subordinated debentures	—	458	—
Net increase in investment in subsidiaries	—	—	(250)
Net proceeds from issuance of common stock - stock options	—	—	65
Repurchase of common stock, net	(991)	(850)	(747)
Cash paid for fractional shares	(7)	(7)	(7)
Other, net	1	1	—
Net cash provided (used) by financing activities	<u>87</u>	<u>(1,402)</u>	<u>(1,061)</u>
Net increase (decrease) in cash and cash equivalents	(222)	572	(588)
Cash and cash equivalents at beginning of year	2,115	1,543	2,131
Cash and cash equivalents at end of year	<u>\$ 1,893</u>	<u>\$ 2,115</u>	<u>\$ 1,543</u>

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**
**Selected Financial Data**

The following consolidated selected financial data is derived from our audited financial statements as of and for the five years ended December 31, 2020. The following consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and related notes included elsewhere in this report.

**Selected Financial Data**

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

	2020	2019	2018	2017	2016
<b>Summary of Operations</b>					
Interest income	\$ 24,075	\$ 23,767	\$ 21,873	\$ 19,340	\$ 18,046
Interest expense	2,236	3,565	1,882	1,277	1,310
Net interest income	21,839	20,202	19,991	18,063	16,736
Provision for (recovery of) loan losses	2,387	(588)	90	(236)	(88)
Noninterest income	20,877	9,005	8,279	8,425	9,357
Noninterest expense	29,885	25,937	25,124	23,304	23,075
Income taxes	2,337	771	579	1,809	895
Net income	<u>\$ 8,107</u>	<u>\$ 3,087</u>	<u>\$ 2,477</u>	<u>\$ 1,611</u>	<u>\$ 2,211</u>
Less: Net income attributable to noncontrolling interest	(567)	(564)	(570)	(592)	(593)
Less: Dividends on preferred stock	\$ —	\$ —	\$ —	\$ —	\$ —
Net Income available to common shareholders	<u>\$ 7,540</u>	<u>\$ 2,523</u>	<u>\$ 1,907</u>	<u>\$ 1,019</u>	<u>\$ 1,618</u>
<b>Per Common Share</b>					
Net income – basic <sup>(1)</sup>	\$ 1.06	\$ 0.34	\$ 0.26	\$ 0.13	\$ 0.21
Net income – diluted <sup>(1)</sup>	1.06	0.34	0.26	0.13	0.21
Book value <sup>(1)</sup>	6.89	5.28	4.66	4.49	4.31
<b>Weighted Average Shares</b>					
Outstanding:					
Basic <sup>(1)</sup>	7,130,772	7,343,247	7,373,919	7,575,577	7,681,987
Diluted <sup>(1)</sup>	7,130,772	7,343,247	7,373,919	7,576,360	7,682,100
<b>Ratios</b>					
Return on average assets	1.10%	0.48%	0.40%	0.28%	0.41%
Return on average equity	15.37%	6.43%	5.57%	3.62%	4.99%
Average equity to average assets	7.14%	7.43%	7.26%	7.78%	8.29%
<b>Selected Year-end Balances</b>					
Assets	\$ 827,770	\$ 656,793	\$ 632,304	\$ 577,253	\$ 548,230
Loans held for investment	467,741	357,950	369,970	356,871	341,829
Securities	221,072	101,952	102,136	107,201	117,889
Deposits	743,196	585,878	566,901	512,628	485,719
Borrowed funds	11,702	10,618	11,164	11,286	12,208
Shareholders' equity	59,237	48,858	45,175	44,540	43,525
<b>Selected Average Balances</b>					
Assets	\$ 738,060	\$ 645,681	\$ 612,403	\$ 572,630	\$ 534,296
Loans held for investment	431,235	369,540	369,419	348,980	334,317
Securities	158,017	100,775	103,223	113,025	107,396
Deposits	663,188	575,480	548,296	509,352	470,921
Borrowed funds	11,380	10,956	11,284	11,679	12,898
Shareholders' equity	52,732	47,993	44,468	44,542	44,283

<sup>(1)</sup> Net income per share, book value per share, weighted average shares outstanding and shares outstanding at year-end for years 2019 through 2016 have been adjusted to reflect the 2% stock dividends in 2020, 2019, 2018 and 2017.

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Management's Discussion and Analysis of Financial Condition**  
**And Results of Operations**

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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 8-52 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: the impact of the novel Coronavirus disease, or COVID-19, on our borrowers' ability to meet their financial obligations to us; increases in our past due loans and provisions for loan losses that may result from COVID-19; declines in general economic conditions, including increased stress in the financial markets due to COVID-19; 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. Any use of "we" or "our" in the following discussion refers to the Company on a consolidated basis.

**Financial Condition at December 31, 2020 and December 31, 2019**

The Company's total assets increased \$171.0 million from \$656.8 million at December 31, 2019 to \$827.8 million at December 31, 2020. The primary driver of this growth was an increase in customer deposits held by the bank. These deposits were used to fund a \$117.8 million increase in investments securities and a \$111.4 million increase in the net loan portfolio.

These aforementioned increases were offset by a decrease in cash and cash equivalents of \$66.3 million.

Investment securities consist of securities available for sale and securities held to maturity. Total investment securities increased \$117.8 million, or 115.5%, from \$102.0 million at December 31, 2019 to \$219.7 million at December 31, 2020, due to investments of cash into longer-term, higher yielding assets. At December 31, 2020, the Company had net unrealized gains on securities available for sale of \$5.4 million, compared to net unrealized gains of \$419,000 at December 31, 2019. The significant improvement is directly related to the increase in volume and the decline of the bond yields at December 31, 2020 compared to December 31, 2019, as the market reacted to the COVID-19 outbreak worldwide.

An additional investment of \$901,000 was made into an equity security during 2020. The value of the equity security increased \$451,000 by the end of the year, resulting in a fair value of \$1.4 million for the security at December 31, 2020.

Loans held for investment increased \$109.8 million from \$358.0 million at December 31, 2019 to \$467.7 million at December 31, 2020. The Company experienced net growth in nearly all sectors with the largest increase (not including PPP loans) occurring in the commercial real estate segment. During the second and third quarter of 2020, the Company funded 1,202 SBA PPP loans for a total of \$81.0 million. These loans are unsecured commercial loans, but are 100% guaranteed by the SBA. Payoffs and SBA forgiveness payments totaling \$4.6 million were received during the fourth quarter leaving an unpaid principal balance on SBA PPP loans of \$76.4 million at December 31, 2020. Loans held for sale increased 173.4%, or \$4.0 million, as many of the loans produced near the December 31, 2020 year-end date were not sold on the secondary market until early January and February. The increase in re-finance activity due to a favorable interest rate environment for borrowers has increased production for the mortgage division of the Company.

The allowance for loan loss was \$4.4 million at December 31, 2020, which represents 0.94% of the total loans held for investment, an increase from 0.55% at December 31, 2019. Additional discussion regarding the increase in the allowance is included in the Asset Quality section below.

Other changes in our consolidated assets are primarily related to prepaid assets, other assets and loan servicing assets. Prepaid assets have increased \$431,000 from December 31, 2019 to December 31, 2020, due to software maintenance contracts for various new technology investments in 2020. Other assets increased \$4.1 million during 2020, primarily due to the reflection of \$2.1 million in fair value of mortgage commitments and a \$1.1 million investment in a community development project. Loan servicing assets increased by \$2.2 million during the year as a result of the aforementioned production growth within the Company's mortgage division. During 2019, the Company adopted ASU 2016-02, "Leases, Topic 842", which resulted in the recognition of a ROU asset, which is recorded

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
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in the premises and equipment subtotal (see Note 1 (Significant Accounting Policies) to the Company's Notes to Consolidated Financial Statements). The value of this asset was \$1.9 million at December 31, 2019. In December of 2020, the Company exercised an option to extend on one of the operating leases by five years resulting in a one-time increase of \$821,000 to the ROU asset. At December 31, 2020, the ROU asset was \$2.4 million. Throughout 2020, other real estate owned declined \$494,000 to \$0 at December 31, 2020 as the Company sold all of the foreclosed property held at December 31, 2019. During 2020, the Company sold five pieces of foreclosed property realizing a gain of \$24,000.

Customer deposits, our primary funding source, experienced a \$157.3 million increase during the year, increasing from \$585.9 million to \$743.2 million at December 31, 2020, a 26.9% increase. A portion of this increase is related to funding of SBA PPP loans, some of the proceeds of which were deposited by our customers into their deposit accounts held at the Company's subsidiary bank. Demand noninterest-bearing checking accounts increased \$55.5 million and savings deposits increased \$17.7 million. Interest checking and money market accounts increased by \$118.4 million, of which \$41.0 million is related to an account that moved from time deposits greater than \$250,000 due to maturity. Other time deposits decreased \$34.2 million during the twelve-month period ended December 31, 2020. In general, the Company has seen an increase in average account balances of 20-30% during the year, driven by economic uncertainty and government stimulus support.

During 2020 the Company's net borrowings increased by \$1.1 million. 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, 2020 and 2019, there were no advances outstanding. The components of total borrowings include \$710,000 in master notes, \$1.0 million in use on a \$3.0 million line of credit and \$10.0 million in junior subordinated long-term debt at December 31, 2020. The subordinated debt securities have a final maturity date of September 30, 2029, though may be redeemed by the Company on or after September 30, 2024. The junior subordinated debt pays interest quarterly at an annual fixed rate of 5.25%.

Other liabilities increased from \$11.4 million at December 31, 2019 to \$13.6 million at December 31, 2020, an increase of \$2.2 million, largely due to the extension of an operating lease which increased lease liability by \$547,000 year over year. The valuation of mortgage forward commitments also increased other liabilities by \$388,000.

At December 31, 2020, total shareholders' equity was \$59.2 million, an increase of \$10.4 million from December 31, 2019. Net income for the period was \$8.1 million. Unrealized gains on investment securities net of tax increased \$3.8 million. The Company repurchased 181,558 outstanding shares of common stock at an aggregate repurchase price of \$991,000. The Company also paid \$567,000 in dividends attributed to noncontrolling interest. See Note 1 (Significant Accounting Policies) to the Company's Notes to Consolidated Financial Statements for additional discussion of the noncontrolling interest. At December 31, 2020, the Company and its subsidiary bank exceeded all applicable regulatory capital requirements.

## **Results of Operations for the Years Ended December 31, 2020 and 2019**

### **Earnings**

Uwharrie Capital Corp reported net income of \$8.1 million for the twelve months ended December 31, 2020, as compared to \$3.1 million for the twelve months ended December 31, 2019, an increase of \$5.0 million. Net income available to common shareholders was \$7.5 million or \$1.06 per common share for the year ended December 31, 2020, compared to net income available to common shareholders of \$2.5 million or \$0.34 per common share for the year ended December 31, 2019. 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 \$1.6 million to a total of \$21.8 million for the twelve months ended December 31, 2020 from the \$20.2 million earned in the same period of 2019. During 2020, growth in the volume of interest-earning assets outpaced the growth in interest-bearing liabilities by \$3.9 million. The average yield on our interest-earning assets decreased 46 basis points to 3.50%, while

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the average rate paid for interest-bearing liabilities decreased 35 basis points. These decreases resulted in a net decrease of 11 basis points in our interest rate spread, from 3.15% in 2019 to 3.04% in 2020. Our net interest margin for 2020 was 3.18%, compared to 3.37% in 2019. 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 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 presents a detailed analysis of the components of the Company's net interest income, while Financial Table 2 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. Financial Table 1 and Table 2, as well other Financial Tables referenced in this discussion and analysis, appear at the end of this annual report, immediately preceding the identification of the Company's board of directors and executive officers.

#### **Provision for Loan Losses**

The provision for (recovery of) loan losses was \$2.4 million and (\$588,000) for the twelve months ended December 31, 2020 and 2019, respectively. There were net loan recoveries of \$34,000 for the twelve months ended December 31, 2020 as compared to net loan recoveries of \$281,000 during the same period of 2019. Refer to the Asset Quality section below 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 increased 131.8%, from \$9.0 million in 2019, to \$20.9 million in 2020, an increase of \$11.9 million. The driving factor contributing to this growth was an increase in income from mortgage loan sales of \$10.9 million to \$14.7 million for 2020 compared to \$3.8 million during 2019. This increase is due to stronger margins and increased production from refinance transactions as long-term rates fell during the first quarter and remained historically low through the fourth quarter of 2020. In addition, an unrealized gain on an equity investment in preferred stock of another bank produced gains of \$451,000, which is reported in noninterest income.

#### **Noninterest Expense**

Noninterest expense for the year ended December 31, 2020 was \$29.9 million compared to \$25.9 million for 2019, an increase of \$4.0 million. Salaries and employee benefits, the largest component of noninterest expense, increased \$2.8 million, from \$17.1 million for the period ending December 31, 2019 to \$19.9 million for 2020. Wage and benefit cost increases as well as increased commissions for production growth in the mortgage division contributed to this increase. As a result of production growth in the mortgage division, loan costs increased by \$224,000 to \$583,000 at December 31, 2020. Costs associated with software and technology updates increased by \$338,000 from December 31, 2019 to December 31, 2020. Foreclosed real estate expense, another major component of the change in noninterest expense, decreased \$288,000, from \$300,000 in 2019 to \$12,000 during 2020. This decrease was made possible as smaller write downs were realized, and all of the foreclosed property was sold during 2020. Additionally, data processing costs experienced a decrease totaling \$37,000 for the comparable twelve-month period. Financial Table 5 reflects the additional breakdown of other noninterest expense.

#### **Income Tax Expense**

The Company had income tax expense of \$2.3 million for 2020 at an effective tax rate of 22.38% compared to income tax expense of \$771,000 in 2019 with an effective tax rate of 19.98%. Income taxes computed at the statutory rate are affected 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 2020 increased compared to 2019 due to an additional tax accrual related to a supplemental executive retirement plan (SERP) distribution.

#### **Results of Operations for the Years Ended December 31, 2019 and 2018**

Results of operations for the Years Ended December 31, 2019 and 2018 can be found in the 2019 10-K Annual Report filing.

### **Asset Quality**

The Company's allowance for loan losses is established through charges to earnings in the form of a provision for loan losses. The allowance is increased by provisions charged to operations and 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 losses. 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 to be impaired and evaluated as an impaired loan.

During the second quarter of 2020, management made adjustments to the allowance for loan losses methodology. The qualitative factors were expanded to include additional reserves for niche lending portfolios of hotel, retained interest in the unguaranteed portion of U.S. Small Business Administration (SBA) Loans (not including PPP loans), and SBA PPP loans. The risk in these portfolios is measurable, in addition to the standard probable loss calculation performed on all non-impaired loans. With the impact of COVID-19 on all industries, the hotel and SBA (non-PPP) loan categories on the Company's balance sheet have been identified as having elevated credit risk. The SBA (non-PPP) reflects the unguaranteed portion of SBA guaranteed loans originated by the Company. SBA PPP loans, while 100% guaranteed by SBA, could result in some loss if fraud occurs or there are reporting issues or duplicate funding of loans. These additional reserves allocated \$132,000 to the reserve during 2020 that was not present at December 31, 2019. In addition, management eliminated its qualitative factor based on a 21-day weighted average of the VIX index, a real-time index that measures the expectation of the market's 30-day forward-looking volatility, and replaced it with a multi-factor linear regression encompassing the following economic data: Case Shiller for North Carolina (NC) home price index, NC unemployment rate, 2-year 10-year US Treasury spread, customer sentiment, and a VIX quarterly average factor. This qualitative factor update increased provisions by approximately \$379,000 at the time of adoption.

During the third quarter, due to the lagging nature of the data (primarily unemployment data from U.S. Government data) used in the multi-factor linear regression, management adopted an additional qualitative factor to incorporate more current unemployment data that was developed from unofficial sources. The impact to the third quarter resulted in a \$675,000 additional reserve for loan losses. The factor further represents the uncertainty surrounding the COVID-19 pandemic and extended economic impacts.

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 specific indicators of potential issues in the market. 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. An additional calculation based on economic uncertainty is added to the probable losses, thus deriving the estimated loss scenario by FDIC call report codes. Together, these expected components, as well as a reserve for qualitative factors based on management's discretion of economic conditions, 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 derived from the Company's internal historical data, representing a one-year loss horizon for each obligor. Credit scores are used within the model to determine the probability of default. The Company updates the credit scores for individuals that either have a loan, or are financially responsible for the loan, semi-annually, during the first and third quarters. During 2020, the average effective credit score of the portfolio, excluding loans in default, increased slightly from 768 to 772. The probability of default associated with each credit score is a major driver in the allowance for loan losses.

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The allowance for loan losses represents management's best estimate of an appropriate amount to provide for probable credit risk 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 losses, 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 losses in conformity with generally accepted accounting principles, there can be no assurance that banking regulators, in reviewing the Company's portfolio, will not require an adjustment to the allowance for loan losses. 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 losses is adequate or that increases will not be necessary, should the quality of any loans deteriorate because of the factors discussed herein. Unexpected global events, such as the unprecedented economic disruption due to COVID-19, are the type of future events that often cause material adjustments to the allowance to be necessary. Any material increase in the allowance for loan losses may adversely affect the Company's financial condition and results of operations.

At December 31, 2020, the levels of our impaired loans, which includes all loans in non-accrual status, TDRs, and other loans deemed by management to be impaired, were \$8.2 million, compared to \$6.8 million at December 31, 2019, a net increase of \$1.3 million. The increase is related to one large relationship moving into non-accrual status during the first quarter of 2020 and one large relationship being modified as a TDR in the second quarter of 2020. Total non-accrual loans, which are a component of impaired loans, increased from \$2.9 million at December 31, 2019 to \$3.8 million at December 31, 2020. During 2020, five additional loans totaling \$2.0 million were added to impaired loans; however, eight loans totaling \$376,000 were closed. That was offset by net pay downs of \$297,000.

The allowance, expressed as a percentage of gross loans held for investment, increased thirty-nine basis points from 0.55% at December 31, 2019 to 0.94% at December 31, 2020. The collectively evaluated reserve allowance as a percentage of collectively evaluated loans was 0.52% at December 31, 2019 and 0.93% at December 31, 2020. The increase is attributable to the model adjustments discussed above allowing additional economic factors to increase qualitative factors related to the worldwide COVID-19 outbreak. This outbreak, which resulted in many businesses closing and staff layoffs, led management to increase the allowance allocated based on economic outlook in the model to the largest allowable based on internal policy. The individually evaluated allowance as a percentage of individually evaluated loans decreased from 2.06% to 1.81% for the same periods, mainly due to the two large relationships totaling \$1.7 million that were deemed impaired during 2020, though little reserve is recognized based on the net realizable value.

The ratio of nonperforming loans, which consists of non-accrual loans and loans past due 90 days and still accruing, to total loans decreased slightly from 0.82% at December 31, 2019, to 0.80% at December 31, 2020.

As of December 31, 2020, management believed the level of the allowance for loan losses was appropriate in light of the risk inherent in the loan portfolio.

Other real estate owned decreased from \$494,000 at December 31, 2019 to \$0 at December 31, 2020. The Company sold all five pieces of foreclosed property held at December 31, 2019, realizing a gain of \$24,000. The Company had \$21,000 in write-downs during 2020, and there were no loans foreclosed on during the year.

Troubled debt restructured loans at December 31, 2020 totaled \$4.4 million compared to \$3.9 million at December 31, 2019 and are included in impaired loans. The increase is related to one relationship of \$650,000 that was added during the second quarter of 2020. At December 31, 2020, there was one troubled debt restructured loan in non-accrual status, which had a balance of \$46,000.

As discussed in Note 5 (Troubled Debt Restructures) of our Notes to Consolidated Financial Statements, the CARES Act allows for loan modifications related to COVID-19 impacts to be excluded from TDR status. As of December 31, 2020, the Company had three current outstanding loan portfolio modifications of COVID-19 impacted loans with a recorded investment of \$4.4 million. All three of the loans currently under accommodation had entered payment deferral a second time. Additionally, 202 previously modified loans with outstanding balances totaling \$52.0 million have come out of deferment. Of the loans removed from deferment, 18 with balances totaling \$4.1 million were paid-off, 179 loans totaling \$47.6 million were out of accommodation and current at December 31, 2020 and 5 loans totaling \$385,000 were removed due to noncompliance.

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

**Nonperforming Assets**  
(dollars in thousands)

	At December 31,				
	2020	2019	2018	2017	2016
<b>Nonperforming Assets:</b>					
Accruing loans past due 90 days or more	\$ —	\$ —	\$ —	\$ —	\$ —
Non-accrual loans	3,758	2,922	1,044	1,025	1,450
Other real estate owned	—	494	1,047	2,349	4,176
<b>Total nonperforming assets</b>	<b>\$ 3,758</b>	<b>\$ 3,416</b>	<b>\$ 2,091</b>	<b>\$ 3,374</b>	<b>\$ 5,626</b>
Allowance for loan losses	\$ 4,402	\$ 1,981	\$ 2,374	\$ 2,458	\$ 2,707
Nonperforming loans to total loans	0.80%	0.82%	0.28%	0.29%	0.42%
Allowance for loan losses to total loans	0.94%	0.55%	0.65%	0.69%	0.79%
Nonperforming assets to total assets	0.45%	0.52%	0.33%	0.58%	1.03%
Allowance for loan losses to nonperforming loans	117.14%	67.80%	227.38%	239.80%	186.69%

**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, becoming fully phased-in on 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, 2020, the Company and its subsidiary bank continue to exceed minimum capital standards and remain well-capitalized under applicable capital adequacy 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 the bank and pays dividends at a rate of 5.30%. The offering raised \$7.9 million less issuance costs of \$113,000.

During the third quarter of 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.

During the third quarter of 2019, 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 \$10.0 million. These debt securities have a final maturity date of September 30, 2029 and may be redeemed by the Company after September 30, 2024. The junior subordinated debt pays interest quarterly at an annual fixed rate of 5.25%. All proceeds of this private placement qualify and are included in the calculation of the Company’s 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 at the Company level. The Company will have a twenty percent reduction beginning at September 30, 2024.

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 bank’s capital ratios.

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**Dividends**

The Board of Directors of Uwharrie Capital Corp declared a 2% stock dividend in each of 2020, 2019, and 2018. 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, are supported by cash flows from mortgage-backed securities that have longer-term contractual maturities. Other funding sources at year-end 2020 included \$28.0 million in federal funds lines of credit from correspondent banks and approximately \$56.0 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 \$28.7 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, 2020, short-term borrowings amounted to \$710,000. Long-term debt at that date consisted of \$1.0 million outstanding on a line of credit and junior subordinated debt of \$10.0 million.

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, 2020.

	Payments Due by Period (in thousands)				
	Total	On Demand or less than 1 year	1-3 Years	3-5 Years	After 5 Years
<b>Contractual Obligations</b>					
Short-term debt	\$ 710	\$ 710	\$ —	\$ —	\$ —
Long-term debt	10,992	—	1,000	—	9,992
Operating leases	2,795	390	808	845	752
Total contractual cash obligations, excluding deposits	14,497	1,100	1,808	845	10,744
Deposits	743,196	729,949	7,830	3,489	1,928
Total contractual cash obligations, including deposits	<u>\$ 757,693</u>	<u>\$ 731,049</u>	<u>\$ 9,638</u>	<u>\$ 4,334</u>	<u>\$ 12,672</u>

**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 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 net realizable value of the collateral. This evaluation is inherently subjective as it requires estimates that are susceptible to significant

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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.

#### ***Loan Servicing Rights***

The Company capitalizes mortgage and U.S. Small Business Administration (SBA) loan servicing rights when loans are sold and the loan servicing is retained. Servicing revenue is recognized in the statement of income as a component of other noninterest income. The amortization of servicing rights is realized over the estimated period that net servicing revenues are expected to be received. These projections are based on 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.

#### **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 interest-bearing 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 (6.42%) on Net Interest Income (Margin) in rates down scenario and a positive impact of 8.91% 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-

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sensitive assets and interest-sensitive liabilities to protect Net Interest Income (Margin) from wide fluctuations as a result of 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**

	2020			2019			2018		
	Average Balance	Interest Income/Expense	Average Yield/Rate <sup>(1)</sup>	Average Balance	Interest Income/Expense	Average Yield/Rate <sup>(1)</sup>	Average Balance	Interest Income/Expense	Average Yield/Rate <sup>(1)</sup>
<b>(dollars in thousands)</b>									
<b>Interest-earning assets</b>									
Taxable securities	\$ 130,640	2,570	1.97%	\$ 84,206	1,680	2.00%	\$ 88,328	1,497	1.69%
Non-taxable securities <sup>(1)</sup>	26,427	732	3.57%	16,569	408	3.08%	17,580	434	3.05%
Short-term investments	103,167	639	0.62%	130,985	2,702	2.06%	93,566	1,737	1.86%
Equity Securities	950	51	5.37%	—	—	0.00%	—	—	0.00%
Taxable loans <sup>(2)</sup>	424,768	19,812	4.66%	362,728	18,727	5.16%	362,002	17,954	4.96%
Non-taxable loans <sup>(1)</sup>	9,756	270	3.57%	9,523	250	3.28%	10,128	251	3.06%
Total interest-earning assets	<u>695,708</u>	<u>24,074</u>	<u>3.50%</u>	<u>604,011</u>	<u>23,767</u>	<u>3.96%</u>	<u>571,604</u>	<u>21,873</u>	<u>3.85%</u>
<b>Non-earning assets</b>									
Cash and due from banks	3,718			2,695			5,905		
Premises and equipment, net	16,766			16,740			15,037		
Interest receivable and other	21,868			22,235			19,857		
Total non-earning assets	<u>42,352</u>			<u>41,670</u>			<u>40,799</u>		
Total assets	<u>\$738,060</u>			<u>\$645,681</u>			<u>\$612,403</u>		
<b>Interest-bearing liabilities</b>									
Savings deposits	\$ 65,671	\$ 62	0.09%	\$ 56,589	\$ 102	0.18%	\$ 52,484	\$ 91	0.17%
Interest checking & MMDA	331,809	716	0.22%	271,496	1,435	0.53%	304,997	948	0.31%
Time deposits	78,447	897	1.14%	101,717	1,450	1.43%	59,260	273	0.46%
Total deposits	<u>475,927</u>	<u>1,675</u>	<u>0.35%</u>	<u>429,802</u>	<u>2,987</u>	<u>0.69%</u>	<u>416,741</u>	<u>1,312</u>	<u>0.31%</u>
Short-term borrowed funds	534	2	0.37%	905	15	1.66%	1,641	16	0.98%
Long-term debt	10,846	559	5.15%	10,051	563	5.60%	9,643	554	5.75%
Total interest-bearing liabilities	<u>487,307</u>	<u>2,236</u>	<u>0.46%</u>	<u>440,758</u>	<u>3,565</u>	<u>0.81%</u>	<u>428,025</u>	<u>1,882</u>	<u>0.44%</u>
<b>Noninterest liabilities</b>									
Transaction deposits	187,261			145,678			131,556		
Interest payable and other	10,760			11,252			8,354		
Total liabilities	<u>685,328</u>			<u>597,688</u>			<u>567,935</u>		
<b>Shareholders' equity</b>	<u>52,732</u>			<u>47,993</u>			<u>44,468</u>		
Total liabilities and shareholders' equity	<u>\$738,060</u>			<u>\$645,681</u>			<u>\$612,403</u>		
<b>Interest rate spread</b>			<u>3.04%</u>			<u>3.15%</u>			<u>3.41%</u>
<b>Net interest income and net interest margin</b>		<u>\$21,838</u>	<u>3.18%</u>		<u>\$20,202</u>	<u>3.37%</u>		<u>\$19,991</u>	<u>3.53%</u>

<sup>(1)</sup> 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 2020, 2019 and 2018.

<sup>(2)</sup> Non-accrual loans are included in loans, net of unearned income.

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**Financial Table 2**

**Volume and Rate Variance Analysis**

(dollars in thousands)	2020 Versus 2019			2019 Versus 2018		
	Volume	Rate	Net Change	Volume	Rate	Net Change
<b>Interest-earning assets</b>						
Taxable securities	\$ 920	\$ (30)	\$ 890	\$ (76)	\$ 259	\$ 183
Non-taxable securities	258	66	324	(25)	(1)	(26)
Short-term investments	(373)	(1,690)	(2,063)	733	232	965
Equity securities	26	25	51	—	—	—
Taxable loans	3,048	(1,963)	1,085	37	736	773
Non-taxable loans	6	14	20	(15)	14	(1)
Total interest-earning assets	3,885	(3,578)	307	654	1,240	1,894
<b>Interest-bearing liabilities</b>						
Savings deposits	12	(52)	(40)	7	4	11
Transaction and MMDA deposits	224	(943)	(719)	(141)	628	487
Other time deposits	(299)	(254)	(553)	400	777	1,177
Short-term borrowed funds	(4)	(9)	(13)	(10)	9	(1)
Long-term debt	43	(47)	(4)	23	(14)	9
Total interest-bearing liabilities	(24)	(1,305)	(1,329)	279	1,404	1,683
<b>Net interest income</b>	<u>\$ 3,909</u>	<u>\$ (2,273)</u>	<u>\$ 1,636</u>	<u>\$ 375</u>	<u>\$ (164)</u>	<u>\$ 211</u>

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.

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**Financial Table 3**

**Investment Securities Portfolio Analysis**

(dollars in thousands)	December 31, 2020			December 31, 2019			December 31, 2018		
	Amortized Cost	Estimated Fair Value	Book Yield <sup>(1)</sup>	Amortized Cost	Estimated Fair Value	Book Yield <sup>(1)</sup>	Amortized Cost	Estimated Fair Value	Book Yield <sup>(1)</sup>
<b>Securities available for sale</b>									
<b>U.S. Treasury</b>									
Due within twelve months	\$ —	\$ —	—	\$ 4,976	\$ 5,012	2.66%	\$ —	\$ —	—
Due after one but within five years	—	—	—	—	—	—	4,944	4,955	2.66%
	—	—	—	—	—	2.66%	4,944	4,955	2.66%
<b>U.S. Government agencies</b>									
Due within twelve months	14,978	15,127	1.49%	—	—	—	17,504	17,398	1.24%
Due after one but within five years	4,005	4,120	1.80%	18,958	18,945	1.55%	25,093	24,398	1.63%
Due after five but within ten years	10,272	10,513	1.72%	6,911	6,741	1.94%	6,626	6,399	1.78%
Due after ten years	7,548	7,629	1.33%	—	—	—	3,712	3,721	2.65%
	36,803	37,389	1.55%	25,869	25,686	1.66%	52,935	51,916	1.59%
<b>Mortgage-backed securities</b>									
Due within twelve months	88	88	2.27%	—	—	—	—	—	—
Due after one but within five years	256	266	3.15%	7,137	7,123	1.95%	1,557	1,544	2.57%
Due after five but within ten years	16,685	18,258	2.41%	16,685	17,059	2.62%	7,815	7,587	2.06%
Due after ten years	22,692	22,884	1.03%	14,483	14,394	2.37%	7,845	7,571	2.09%
	39,721	41,496	1.62%	38,305	38,576	2.40%	17,217	16,702	2.12%
<b>Asset-backed securities</b>									
Due after ten years	38,536	39,281	1.28%	—	—	—	—	—	—
	38,536	39,281	1.28%	—	—	—	—	—	—
<b>State and political</b>									
Due within twelve months	709	713	2.15%	—	—	—	1,010	1,014	3.25%
Due after one but within five years	725	727	5.40%	1,334	1,336	3.64%	1,079	1,064	3.23%
Due after five but within ten years	2,755	2,825	2.14%	1,398	1,423	2.74%	1,688	1,646	3.13%
Due after ten years	62,959	64,899	2.44%	11,205	11,462	3.02%	9,596	9,231	3.10%
	67,148	69,164	2.45%	13,937	14,221	3.05%	13,373	12,955	3.12%
<b>Corporate Bonds</b>									
Due within twelve months	—	—	—	2,808	2,815	2.51%	—	—	—
Due after one but within five years	3,902	4,183	3.20%	2,210	2,214	2.75%	5,030	4,771	2.94%
	3,902	4,183	3.20%	5,018	5,029	2.62%	5,030	4,771	2.94%
<b>Total Securities available for sale</b>									
Due within twelve months	15,775	15,928	1.52%	7,784	7,827	2.61%	18,514	18,412	1.35%
Due after one but within five years	8,888	9,296	2.75%	29,639	29,618	1.83%	37,703	36,732	2.02%
Due after five but within ten years	29,712	31,596	2.14%	24,994	25,223	2.44%	16,129	15,632	2.06%
Due after ten years	131,735	134,693	1.79%	25,688	25,856	2.65%	21,153	20,523	2.65%
	\$186,110	\$191,513	1.87%	\$88,105	\$88,524	2.31%	\$93,499	\$91,299	2.04%

<sup>(1)</sup> 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 2020, 2019 and 2018.

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Management's Discussion and Analysis of Financial Condition**  
**And Results of Operations**

**Financial Table 3**

**Investment Securities Portfolio Analysis (Continued)**

(dollars in thousands)	December 31, 2020			December 31, 2019			December 31, 2018		
	Amortized Cost	Estimated Fair Value	Book Yield <sup>(1)</sup>	Amortized Cost	Estimated Fair Value	Book Yield <sup>(1)</sup>	Amortized Cost	Estimated Fair Value	Book Yield <sup>(1)</sup>
<b>Securities held to maturity</b>									
U.S. Government agencies									
Due after one but within five years	\$ 459	\$ 470	2.89%	\$ 578	\$ 583	2.69%	\$ —	\$ —	—
Due after five but within ten years	—	—	—	—	—	—	855	843	2.42%
	459	470	2.89%	578	583	2.69%	855	843	2.42%
State and political									
Due within twelve months	1,373	1,385	2.06%	1,501	1,502	1.87%	—	—	—
Due after one but within five years	2,882	2,968	2.70%	4,397	4,457	2.40%	5,545	5,493	2.21%
Due after five but within ten years	—	—	—	928	929	2.15%	1,332	1,329	2.42%
Due after ten years	13,493	14,777	3.45%	—	—	—	—	—	—
	17,748	19,130	3.22%	6,826	6,888	2.25%	6,877	6,822	2.25%
Corporate Bonds									
Due within twelve months	—	—	—	3,024	3,028	2.76%	1,543	1,534	2.73%
Due after one but within five years	—	—	—	—	—	—	1,562	1,551	2.79%
Due after five but within ten years	10,000	10,000	5.01%	3,000	3,000	5.50%	—	—	—
	10,000	10,000	5.01%	6,024	6,028	4.13%	3,105	3,085	2.76%
Total Securities held to maturity									
Due within twelve months	1,373	1,385	2.06%	4,525	4,530	2.46%	1,543	1,534	2.73%
Due after one but within five years	3,341	3,438	2.73%	4,975	5,040	2.43%	7,107	7,044	2.34%
Due after five but within ten years	10,000	10,000	5.01%	3,928	3,929	4.71%	2,187	2,172	2.42%
Due after ten years	13,493	14,777	3.45%	—	—	—	—	—	—
	\$ 28,207	\$ 29,600	3.85%	\$ 13,428	\$ 13,499	3.11%	\$ 10,837	\$ 10,750	2.41%

<sup>(1)</sup> 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 2020, 2019 and 2018.

**Financial Table 4**

**Noninterest Income**

(dollars in thousands)	Year Ended December 31,		
	2020	2019	2018
Service charges on deposit accounts	\$ 1,027	\$ 1,348	\$ 1,220
Other banking fees	338	499	722
Interchange and card transaction fees, net	917	826	648
Asset management fees	1,710	1,716	1,529
Brokerage commissions	571	472	370
Other noninterest income	1,116	290	357
Income from mortgage loan sales	14,714	3,835	2,980
Security gains (losses)	71	(35)	—
Other gains (losses) from sale of assets	413	54	453
Total noninterest income	\$ 20,877	\$ 9,005	\$ 8,279

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Management's Discussion and Analysis of Financial Condition**  
**And Results of Operations**

**Financial Table 5**

**Other Noninterest Expense**

(dollars in thousands)	Year Ended December 31,		
	2020	2019	2018
Postage	\$ 187	\$ 186	\$ 204
Telephone and data lines	182	187	182
Office supplies and printing	108	102	180
Shareholder relations expense	123	159	162
Dues and subscriptions	369	256	257
Other	1,317	979	932
Total other noninterest expense	<u>\$ 2,286</u>	<u>\$ 1,869</u>	<u>\$ 1,917</u>

**Financial Table 6**

**Loan Portfolio Composition**

(dollars in thousands)	At December 31,					
	2020		2019		2018	
	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
Loan type:						
Commercial	\$ 64,334	13.71%	\$ 59,075	16.49%	\$ 57,176	15.45%
SBA Paycheck Protection Program (PPP)	76,398	16.28%	—	—	—	—
Real estate - construction	40,629	8.66%	30,643	8.55%	38,946	10.52%
Real estate - residential	126,615	26.98%	122,586	34.22%	129,105	34.88%
Real estate - commercial	147,229	31.37%	130,998	36.57%	130,634	35.29%
Consumer	11,073	2.36%	12,957	3.62%	12,159	3.29%
Other	3,098	0.66%	1,939	0.54%	2,110	0.57%
Total loans	<u>469,376</u>	<u>100.00%</u>	<u>358,198</u>	<u>100.00%</u>	<u>370,130</u>	<u>100.00%</u>
Less:						
Allowance for loan losses	(4,402)		(1,981)		(2,374)	
Unearned net loan (fees) costs	(1,635)		(248)		(160)	
Net loans	<u>\$ 463,339</u>		<u>\$ 355,969</u>		<u>\$ 367,596</u>	

Loan type:	At December 31,			
	2017		2016	
	Amount	% of Total Loans	Amount	% of Total Loans
Commercial	\$ 54,912	15.38%	\$ 55,752	16.31%
Real estate - construction	45,210	12.66%	32,344	9.46%
Real estate - residential	128,529	36.01%	132,514	38.77%
Real estate - commercial	114,712	32.13%	109,752	32.11%
Consumer	10,774	3.02%	9,711	2.84%
Other	2,838	0.80%	1,687	0.49%
Total loans	<u>356,975</u>	<u>100.00%</u>	<u>341,760</u>	<u>100.00%</u>
Less:				
Allowance for loan losses	(2,458)		(2,707)	
Unearned net loan (fees) costs	(104)		69	
Net loans	<u>\$ 354,413</u>		<u>\$ 339,122</u>	

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Management's Discussion and Analysis of Financial Condition**  
**And Results of Operations**

**Financial Table 7**

**Selected Loan Maturities**

(dollars in thousands)	December 31, 2020			
	One Year or Less	One to Five Years	Over Five Years	Total
Commercial and agricultural	\$ 9,405	\$ 90,606	\$ 40,721	\$ 140,732
Real estate – construction	12,946	6,768	20,915	40,629
Total selected loans	\$ 22,351	\$ 97,374	\$ 61,636	\$ 181,361
Fixed rate loans	\$ 6,356	\$ 100,456	\$ 60,663	\$ 167,475
Sensitivity to rate changes:				
Variable interest rates	\$ 24,960	\$ 19,527	\$ 255,779	\$ 300,266

**Financial Table 8**

**Activity in the Allowance for Loan Loss**

(dollars in thousands)	At or for the Year Ended December 31,				
	2020	2019	2018	2017	2016
Allowance for loan losses at beginning of year	\$ 1,981	\$ 2,374	\$ 2,458	\$ 2,707	\$ 2,884
Provision for (recovery of) loan losses	2,387	(588)	90	(236)	(88)
Other	—	(86)	—	—	—
Loan charge-offs:					
Commercial	76	10	89	16	76
Real estate	7	2	158	107	172
Consumer	51	148	79	85	142
Total charge-offs	134	160	326	208	390
Recoveries of loans previously charged off:					
Commercial	73	14	28	75	19
Real estate	44	379	100	82	209
Consumer	51	48	24	38	73
Total recoveries	168	441	152	195	301
Net charge-offs (recoveries)	(34)	(281)	174	13	89
Allowance for loan losses at end of year	\$ 4,402	\$ 1,981	\$ 2,374	\$ 2,458	\$ 2,707
Net charge-offs (recoveries) as a percent of average loans	(0.01)%	(0.08)%	0.05%	0.00%	0.03%

**Financial Table 9**

**Allocation of the Allowance for Loan Losses**

(dollars in thousands)	At December 31,					
	2020		2019		2018	
	Amount	% of Total Loans <sup>(1)</sup>	Amount	% of Total Loans <sup>(1)</sup>	Amount	% of Total Loans <sup>(1)</sup>
Commercial	\$ 789	17.92%	\$ 337	16.49%	\$ 519	15.45%
Real estate - construction	418	9.50%	150	8.55%	282	10.52%
Real estate - residential	1,496	33.98%	755	34.22%	825	34.88%
Real estate - commercial	1,546	35.12%	635	36.57%	576	35.29%
Other	153	3.48%	104	3.62%	172	3.29%
Unallocated	—	—	—	0.54%	—	0.57%
Total loans	\$ 4,402	100.00%	\$ 1,981	100.00%	\$ 2,374	100.00%

**UWHARRIE CAPITAL CORP AND SUBSIDIARIES**  
**Management's Discussion and Analysis of Financial Condition**  
**And Results of Operations**

	At December 31,			
	2017		2016	
	Amount	% of Total Loans <sup>(1)</sup>	Amount	% of Total Loans <sup>(1)</sup>
Commercial	\$ 770	15.38%	\$ 636	16.31%
Real estate – construction	168	12.66%	240	9.46%
Real estate – residential	971	36.01%	1,103	38.77%
Real estate – commercial	497	32.13%	553	32.11%
Other	52	3.02%	175	2.84%
Unallocated	—	0.80%	—	0.49%
<b>Total loans</b>	<b>\$ 2,458</b>	<b>100.00%</b>	<b>\$ 2,707</b>	<b>100.00%</b>

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

**Financial Table 10**

**Short-Term Borrowings**

(dollars in thousands)	2020		2019		2018	
	Amount	Rate	Amount	Rate	Amount	Rate
<b>At year-end</b>						
Master notes and other secured borrowings	710	0.22%	626	0.89%	1,190	1.49%
Notes payable	—	0.00%	—	0.00%	—	0.00%
Short-term line of credit	—	0.00%	—	0.00%	—	0.00%
	<u>\$ 710</u>	<u>0.22%</u>	<u>\$ 626</u>	<u>0.89%</u>	<u>\$ 1,190</u>	<u>0.50%</u>
<b>Average for the year</b>						
Federal funds purchase	\$ 2	0.75%	\$ 2	3.04%	\$ 2	2.92%
Master notes and other secured borrowings	532	0.41%	904	1.61%	1,638	1.00%
Notes payable	—	0.00%	—	0.00%	—	0.00%
Short-term line of credit	—	0.00%	—	0.00%	—	0.00%
Short-term advances from FHLB	—	0.00%	—	0.00%	—	0.00%
	<u>\$ 534</u>	<u>0.42%</u>	<u>\$ 906</u>	<u>1.62%</u>	<u>\$ 1,640</u>	<u>1.00%</u>
<b>Maximum month-end balance</b>						
Master notes and other secured borrowings	710		1,486		2,006	
Notes payable	—		—		—	
Short-term line of credit	—		—		—	
Short-term advances from FHLB	—		—		—	

**Financial Table 11**

**Maturities of Time Deposits**

(dollars in thousands)	December 31, 2020				
	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	\$ 19,021	\$ 1,406	\$ 7,459	\$ 939	\$ 28,825
Other Time Deposits	18,175	12,707	11,615	9,792	52,289
	<u>\$ 37,196</u>	<u>\$ 14,113</u>	<u>\$ 19,074</u>	<u>\$ 10,731</u>	<u>\$ 81,114</u>

## UWHARRIE CAPITAL CORP

### Board of Directors

**Merlin Amirtharaj**

Retired; previously,  
Associate Vice President of the  
School of Business and Technology  
Stanly Community College

**Dean M. Bowers**

Regional Sales Manager/Co-Owner  
Quality Equipment, LLC

**Joe S. Brooks**

Owner and Manager  
Brothers Precision Tool Co.

**James O. Campbell**

Vice President of Construction Sales  
AvidXchange, Inc.

**Tara G. Eudy**

**Board Chair**  
President and Treasurer  
Carolina Title Company, Inc.

**Deidre B. Foster**

Community Volunteer and  
Non-Profit Board Member

**Allen K. Furr**

Secretary and Treasurer  
PEJA, Inc.  
DBA East Albemarle Xpress Lube

**Thomas M. Hearne, Jr.**

Retired; previously,  
Geopavement Engineer  
North Carolina Department  
of Transportation

**Matthew R. Hudson**

General Manager and Vice President  
Hudson Pool Distributors, Inc.

**Harvey H. Leavitt, III**

Owner and Operator  
Leavitt Funeral Home

**W. Chester Lowder**

Retired; previously,  
Director of Livestock Program  
Public Policy Division  
NC Farm Bureau Federation, Incorporated

**Wesley A. Morgan**

General Manager  
Rolling Hills Gin, LLC

**Cynthia L. Mynatt**

President  
Ben Mynatt Buick - GMC

**James E. Nance**

Founder and Managing Member  
North State Acquisitions, LLC

**Chris M. Poplin**

Chief Financial Officer and  
Chief Operating Officer  
Faison Enterprises, Inc.

**Frank A. Rankin, III**

Chair, Board of Directors  
Concord Engineering & Surveying, Inc.

**Randy T. Russell**

President  
Sports Med Properties, LLC

**Vernon A. Russell**

**Board Vice Chair**  
Attorney and Owner  
Vernon A. Russell  
Attorney at Law, PLLC

**Matthew A. Shaver, MD**

General Surgeon  
Atrium Health Stanly and  
Medical Director of  
Albemarle Surgical Associates

**S. Todd Swaringen**

Certified Public Accountant/Partner  
Beane Swaringen & Company, PLLC

### Executive Officers

**Roger L. Dick**

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

**R. David Beaver, III**

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

**Jason R. Andrew**

Chief Information Officer  
Uwharrie Capital Corp and  
Uwharrie Bank

**Christy D. Stoner**

President and Chief Executive Officer  
Uwharrie Investment Advisors, Inc.;  
Chief Marketing Officer  
Uwharrie Capital Corp and  
Uwharrie Bank

**Jeffrey L. Trout**

President  
Uwharrie Bank Mortgage

**UWHARRIE CAPITAL CORP**  
**SUBSIDIARIES OF THE REGISTRANT**

**At December 31, 2020**

**Subsidiaries of Uwharrie Capital Corp**

Uwharrie Bank

Uwharrie Investment Advisors, Inc.

Uwharrie Mortgage, Inc.

**Subsidiaries of Uwharrie Bank**

The Strategic Alliance Corporation

BOS Agency, Inc.

Gateway Mortgage, Inc.

**State of Incorporation**

North Carolina

North Carolina

North Carolina

**State of Incorporation**

North Carolina

North Carolina

North Carolina

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors  
Uwharrie Capital Corporation and Subsidiaries

We consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-146595 and 333-207626) of Uwharrie Capital Corp of our report dated March 5, 2021, with respect to the consolidated financial statements of Uwharrie Capital Corp and Subsidiaries, which report appears in Uwharrie Capital Corp's 2020 Annual Report on Form 10-K.

/s/ Dixon Hughes Goodman LLP

Asheville, North Carolina  
March 5, 2021

**UWHARRIE CAPITAL CORP**  
CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Roger L. Dick, certify that:

1. I have reviewed this report on Form 10-K of Uwharrie Capital Corp (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: March 5, 2021

By: /s/ Roger L. Dick  
Roger L. Dick  
Chief Executive Officer

**UWHARRIE CAPITAL CORP**  
CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, R. David Beaver, III, certify that:

1. I have reviewed this report on Form 10-K of Uwharrie Capital Corp (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: March 5, 2021

/s/ R. David Beaver, III  
\_\_\_\_\_  
R. David Beaver, III  
Principal Financial Officer

**Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C.ss.1350)**

The undersigned hereby certifies that, to his or her knowledge, (i) the Form 10-K filed by Uwharrie Capital Corp (the “Issuer”) for the fiscal year ended December 31, 2020, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in that report fairly presents, in all material respects, the financial condition and results of operations of the Issuer on the dates and for the periods presented therein.

Date: March 5, 2021

/s/ Roger L. Dick  
Roger L. Dick  
Chief Executive Officer

Date: March 5, 2021

/s/ R. David Beaver, III  
R. David Beaver, III  
Principal Financial Officer