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**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, 2007

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

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

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act from their obligations under those Sections.

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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 asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. \$37,454,957

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date: 7,409,772 shares of common stock outstanding as of March 3, 2008.

Documents Incorporated by Reference.

Portions of the Registrant's 2007 Annual Report to Shareholders are incorporated by reference into Part II of this report. Portions of the Registrant's definitive Proxy Statement dated March 28, 2008 are incorporated by reference into Part III of this report.

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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, 2007 and (ii) the Registrant's Proxy Statement dated March 28, 2008 for the Annual Meeting of Shareholders to be held May 13, 2008 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, 2007

Proxy Proxy Statement dated March 28, 2008 for Annual Meeting of Shareholders to be held May 13, 2008

10-K 10-K for the fiscal year ended December 31, 2007

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PART I

Item 1. Business

Uwharrie Capital Corp (the “Company”) is a North Carolina bank holding company. The Company was organized on July 1, 1993 to become the bank holding company for the Bank of Stanly (“Stanly”), a North Carolina commercial bank chartered on September 28, 1983 and its three wholly-owned subsidiaries, The Strategic Alliance Corporation (“Strategic Alliance”), BOS Agency, Inc. (“BOS Agency”) and Gateway Mortgage, Inc. (“Gateway”), a mortgage brokerage company acquired in August 2000. The Company also owns two non-bank subsidiaries, 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. The savings bank operates under the name Anson Bank & Trust Co. (“Anson”).

During 2002, the Company expanded its service area into the Cabarrus County market with two banking offices of Stanly. On April 10, 2003 the Company capitalized a new wholly-owned subsidiary bank, Cabarrus Bank & Trust Company (“Cabarrus” and together with Stanly and Anson, the “Banks”). As of that date, Cabarrus purchased the two branch offices of Stanly located in Cabarrus County in order to commence operation.

The Company and its subsidiaries are located in Stanly County, Anson County and Cabarrus 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. 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 high cost of delivering competitive services.

At December 31, 2007 the Company and related subsidiaries had 139 full-time and 33 part-time employees.

Business of the Banks

Stanly is a North Carolina chartered commercial bank, which was incorporated in 1983 and which commenced banking operations on January 26, 1984. Its main banking office is located at 167 North Second Street, Albemarle, North Carolina, and it operates four other banking offices located in Stanly County, North Carolina. Stanly 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. Stanly 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. Stanly’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. Stanly also offers Internet Banking, 24-Hour

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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 four branches of Stanly and at most automated teller machines of other banks linked to the STAR® or CIRRUS® networks. Stanly is licensed to offer MasterCard® credit cards. Stanly does not provide the services of a trust department.

Anson, acquired by the Company on January 19, 2000, was originally chartered in 1889 as Anson Building and Loan Association, a North Carolina chartered mutual savings institution. Later changed to Anson Savings Bank, it was converted to a stock-chartered institution in June 1998. As a subsidiary of the Company, Anson provides the same level of financial services to the Anson County market as those of Stanly described above. Its main office and banking location is 211 South Greene Street in Wadesboro, North Carolina.

Cabarrus, which opened on April 10, 2003, is a full-service commercial bank located in Cabarrus County. Its main office is located at 25 Palaside Drive, NE in Concord, North Carolina and it operates another branch in Mt. Pleasant, North Carolina. As a subsidiary of the Company, Cabarrus provides the same level of financial services as the Company's other banking subsidiaries.

Non-bank Subsidiaries

Stanly has three wholly-owned subsidiaries, BOS Agency, Strategic Alliance and Gateway. 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 Securities and Exchange Commission and licensed by the Financial Industry Regulatory Authority ("FINRA") as a securities broker-dealer. Gateway is a mortgage brokerage company, acquired by Stanly in 2000.

The Company has two non-bank subsidiaries. Strategic Investment Advisors Inc., which is registered as an investment advisor with the Securities and Exchange Commission, began operations on April 1, 1999 and provides portfolio management services to customers in the Uwharrie Lakes Region. The Company established Uwharrie Mortgage, Inc., a subsidiary to serve in the capacity of trustee and substitute trustee under deeds of trust.

Competition

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

Among commercial banks, Stanly, Anson and Cabarrus compete in their market areas with some of the largest banking organizations in the state, several of which have hundreds of branches in North Carolina and billions of dollars in assets. Moreover, competition is not limited to financial institutions based in North Carolina. The enactment of federal legislation authorizing nationwide interstate banking has greatly increased the size and financial resources of some of the Company's competitors. 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. As a result, the Company could encounter increased competition in the future 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.

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Each of the Banks 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 and Cabarrus Counties, and more generally, in the Uwharrie Lakes Region. 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 Stanly, Anson and Cabarrus Counties and the Uwharrie Lakes Region could cause increases in non-performing assets and impair the values of real estate collateral, thereby causing operating losses, diminishing liquidity and erosion of 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, such as internet banking. 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 (including software applications) and by strengthening its policies and procedures. At the same time, the Company anticipates that it will expand its array of technology-based products to its customers.

Regulation of the Company

Federal Regulation. The Company is subject to examination, regulation and periodic reporting under the Bank Holding Company Act of 1956, as amended, (the "BHC Act"), as administered by the Federal Reserve Board. The Federal Reserve Board has adopted capital adequacy guidelines for bank holding companies on a consolidated basis.

The Company is required to obtain the prior approval of the Federal Reserve Board to acquire all, or substantially all, of the assets of any bank or bank holding company. Prior Federal Reserve Board approval is required for the Company to acquire direct or indirect ownership or control of any voting securities of any bank or bank holding company if, after giving effect to such acquisition, it would, directly or indirectly, own or control more than five percent of any class of voting shares of such bank or bank holding company.

The merger or consolidation of the Company with another bank holding company, or the acquisition by the Company of the stock or assets of another bank, or the assumption of liability by the Company to pay any deposits in another bank, will require the prior written approval of the primary federal bank regulatory agency of the acquiring or surviving bank under the federal Bank Merger Act. This decision is based upon a consideration of statutory factors similar to those outlined above with respect to the BHC Act. In addition, in certain such cases an application to, and the prior approval of, the Federal Reserve Board under the BHC Act and/or the North Carolina Banking Commission may be required.

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The Company is required to give the Federal Reserve Board 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 the Company's consolidated net worth. The Federal Reserve Board may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, Federal Reserve Board order or directive, or any condition imposed by, or written agreement with, the Federal Reserve Board. Such notice and approval is not required for a bank holding company that would be treated as "well capitalized" and "well managed" under applicable regulations of the Federal Reserve Board, that has received a composite "1" or "2" rating at its most recent bank holding company inspection by the Federal Reserve Board, and that is not the subject of any unresolved supervisory issues.

The status of the Company as a registered bank holding company under the BHC Act does not exempt it from certain federal and state laws and regulations applicable to corporations generally, including, without limitation, certain provisions of the federal securities laws.

In addition, a bank holding company is prohibited generally from engaging in non-banking activities, or acquiring five percent or more of any class of voting securities of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities found by the Federal Reserve Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the principal activities that the Federal Reserve Board has determined by regulation to be so closely related to banking as to be a proper incident thereto are:

- making or servicing loans;
- performing certain data processing services;
- providing discount brokerage services;
- acting as fiduciary, investment or financial advisor;
- leasing personal or real property;
- making investments in corporations or projects designed primarily to promote community welfare; and
- acquiring a savings and loan association.

In evaluating a written notice of such an acquisition, the Federal Reserve Board will consider various factors, including among others the financial and managerial resources of the notifying bank holding company and the relative public benefits and adverse effects which may be expected to result from the performance of the activity by an affiliate of such company. The Federal Reserve Board may apply different standards to activities proposed to be commenced *de novo* and activities commenced by acquisition, in whole or in part, of a going concern. The required notice period may be extended by the Federal Reserve Board under certain circumstances, including a notice for acquisition of a company engaged in activities not previously approved by regulation of the Federal Reserve Board. If such a proposed acquisition is not disapproved or subjected to conditions by the Federal Reserve Board within the applicable notice period, it is deemed approved by the Federal Reserve Board.

However, with the passage of the Gramm-Leach-Bliley Financial Services Modernization Act of 1999 (the "Modernization Act"), which became effective on March 11, 2000, the types of activities in which bank holding companies may engage were significantly expanded. Subject to various limitations, the Modernization Act generally permits a bank holding company to elect to become a "financial holding company." A financial holding company may affiliate with securities firms and insurance companies and engage in other activities that are "financial in nature." Among the activities that are deemed "financial in nature" are, in addition to traditional lending

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activities, securities underwriting, dealing in or making a market in securities, sponsoring mutual funds and investment companies, insurance underwriting and agency activities, certain merchant banking activities and activities that the Federal Reserve Board considers to be closely related to banking.

A bank holding company may become a financial holding company under the Modernization Act if each of its subsidiary banks is “well capitalized” under the Federal Deposit Insurance Corporation Improvement Act prompt corrective action provisions, is well managed, and has at least a satisfactory rating under the Community Reinvestment Act. In addition, the bank holding company must file a declaration with the Federal Reserve Board that the bank holding company wishes to become a financial holding company. A bank holding company that falls out of compliance with these requirements may be required to cease engaging in some of its activities.

Under the Modernization Act, the Federal Reserve Board serves as the primary “umbrella” regulator of financial holding companies, with supervisory authority over each parent company and limited authority over its subsidiaries. Expanded financial activities of financial holding companies generally will be regulated according to the type of such financial activity: banking activities by banking regulators, securities activities by securities regulators, and insurance activities by insurance regulators. The Modernization Act also imposes additional restrictions and heightened disclosure requirements regarding private information collected by financial institutions. The Company has not elected to become a financial holding company.

Capital Requirements. The Federal Reserve Board uses capital adequacy guidelines in its examination and regulation of bank holding companies. If capital falls below minimum guidelines, a bank holding company may, among other things, be denied approval to acquire or establish additional banks or non-bank businesses.

The Federal Reserve Board’s capital guidelines establish the following minimum regulatory capital requirements for bank holding companies:

- a leverage capital requirement expressed as a percentage of total assets;
- a risk-based requirement expressed as a percentage of total risk-weighted assets; and
- a Tier 1 leverage requirement expressed as a percentage of total assets.

The leverage capital requirement consists of a minimum ratio of total capital to total assets of 4%, with an expressed expectation that banking organizations generally should operate above such minimum level. The risk-based requirement consists of a minimum ratio of total capital to total risk-weighted assets of 8%, of which at least one-half must be Tier 1 capital (which consists principally of shareholders’ equity). The Tier 1 leverage requirement consists of a minimum ratio of Tier 1 capital to total assets of 3% for the most highly-rated companies, with minimum requirements of 4% to 5% for all others.

The risk-based and leverage standards presently used by the Federal Reserve Board are minimum requirements, and higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual banking organizations. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions (i.e., Tier 1 capital less all intangible assets), well above the minimum levels.

Source of Strength for Subsidiaries. Bank holding companies are required to serve as a source of strength for their depository institution subsidiaries, and if their depository institution subsidiaries become undercapitalized, bank holding companies may be required to guarantee the subsidiaries’ compliance with capital restoration plans filed with their bank regulators, subject to certain limits.

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The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) requires the federal bank regulatory agencies biennially to review risk-based capital standards to ensure that they adequately address interest rate risk, concentration of credit risk and risks from non-traditional activities and, since adoption of the Riegle Community Development and Regulatory Improvement Act of 1994 (the “Riegle Act”), to do so taking into account the size and activities of depository institutions and the avoidance of undue reporting burdens. In 1995, the agencies adopted regulations requiring as part of the assessment of an institution’s capital adequacy the consideration of (a) identified concentrations of credit risks, (b) the exposure of the institution to a decline in the value of its capital due to changes in interest rates and (c) the application of revised conversion factors and netting rules on the institution’s potential future exposure from derivative transactions.

In addition, in September 1996 the agencies adopted amendments to their respective risk-based capital standards to require banks and bank holding companies having significant exposure to market risk arising from, among other things, trading of debt instruments, (1) to measure that risk using an internal value-at-risk model conforming to the parameters established in the agencies’ standards and (2) to maintain a commensurate amount of additional capital to reflect such risk. The new rules were adopted effective January 1, 1997, with compliance mandatory from and after January 1, 1998.

Under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (“FIRREA”), depository institutions are liable to the FDIC for losses suffered or anticipated by the FDIC in connection with the default of a commonly controlled depository institution or any assistance provided by the FDIC to such an institution in danger of default. This law is applicable to the extent that the Company maintains depository institutions as separate subsidiaries.

Subsidiary banks of a bank holding company are subject to certain quantitative and qualitative restrictions imposed by the Federal Reserve Act on any extension of credit to, or purchase of assets from, or letter of credit on behalf of, the bank holding company or its subsidiaries, and on the investment in or acceptance of stocks or securities of such holding company or its subsidiaries as collateral for loans. In addition, provisions of the Federal Reserve Act and Federal Reserve Board regulations limit the amounts of, and establish required procedures and credit standards with respect to, loans and other extensions of credit to officers, directors and principal shareholders of the Banks, the Company, any subsidiary of the Company and related interests of such persons. Moreover, subsidiaries of bank holding companies are prohibited from engaging in certain tying arrangements (with the holding company or any of its subsidiaries) in connection with any extension of credit, lease or sale of property or furnishing of services.

Any loans by a bank holding company to a subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of the subsidiary bank. In the event of a bank holding company’s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank would be assumed by the bankruptcy trustee and entitled to priority of payment. This priority would also apply to guarantees of capital plans under FDICIA.

Branching

Under the Riegle Act, the Federal Reserve Board may approve bank holding company acquisitions of banks in other states, subject to certain aging and deposit concentration limits. As of June 1, 1997, banks in one state may merge with banks in another state, unless the other state has chosen not to implement this section of the Riegle Act. These mergers are also subject to similar aging and deposit concentration limits. North Carolina “opted-in” to the provisions of the Riegle Act. Since July 1, 1995, an out-of-state bank that did not already maintain a branch in North Carolina was permitted to establish and maintain a *de novo* branch in North Carolina, or acquire a branch in North Carolina, if the laws of the home state of the out-of-state

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bank permit North Carolina banks to engage in the same activities in that state under substantially the same terms as permitted by North Carolina. Also, North Carolina banks may merge with out-of-state banks, and an out-of-state bank resulting from such an interstate merger transaction may maintain and operate the branches in North Carolina of a merged North Carolina bank, if the laws of the home state of the out-of-state bank involved in the interstate merger transaction permit interstate merger.

Regulation of the Banks

The Banks are extensively regulated under both federal and state law. Generally, these laws and regulations are intended to protect depositors and borrowers, not shareholders. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. Any change in applicable law or regulation may have a material effect on the business of the Company and the Banks.

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

Deposit Insurance. As member institutions of the FDIC, the Banks’ deposits are insured up to a per depositor maximum of \$250,000 for retirement accounts and \$100,000 for all other accounts through the Deposit Insurance Fund, administered by the FDIC, and each member institution is required to pay semi-annual deposit insurance premium assessments to the FDIC. The FDIC determines the Banks’ deposit insurance assessment rates on the basis of four risk categories. The Banks’ assessment is determined by a formula that ranges from 0.02% to 0.04% at the lowest assessment category up to a maximum of 0.40% of the Banks’ average deposit base, with the exact assessment determined by the Banks’ assets, its capital and the FDIC’s supervisory opinion of its operations. The insurance assessment rate may change periodically and was significantly increased for all depository institutions during 2007. Increases in the assessment rate may have an adverse effect on the Banks’ operating results. The FDIC has the authority to terminate deposit insurance.

Capital Requirements. The federal banking regulators have adopted certain risk-based capital guidelines to assist in the assessment of the capital adequacy of a banking organization’s operations for both transactions reported on the balance sheet as assets and transactions, such as letters of credit, and recourse arrangements, which are recorded as off balance sheet items. Under these guidelines, nominal dollar amounts of assets and credit equivalent amounts of off- balance sheet items are multiplied by one of several risk adjustment percentages which range from 0% for assets with low credit risk, such as certain U.S. Treasury securities, to 100% for assets with relatively high credit risk, such as business loans.

A banking organization’s risk-based capital ratios are obtained by dividing its qualifying capital by its total risk adjusted assets. The regulators measure risk-adjusted assets, which include off- balance sheet items, against both total qualifying capital (the sum of Tier 1 capital and limited amounts of Tier 2 capital) and Tier 1 capital. “Tier 1,” or core capital, includes common equity, qualifying noncumulative perpetual preferred stock and minority interests in equity accounts of consolidated subsidiaries, less goodwill and other intangibles, subject to certain exceptions. “Tier 2,” or supplementary capital, includes among other things, limited-life preferred stock,

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hybrid capital instruments, mandatory convertible securities, qualifying subordinated debt, and the allowance for loan and lease losses, subject to certain limitations and less required deductions. The inclusion of elements of Tier 2 capital is subject to certain other requirements and limitations of the federal banking agencies. Banks and bank holding companies subject to the risk-based capital guidelines are required to maintain a ratio of Tier 1 capital to risk-weighted assets of at least 4% and a ratio of total capital to risk-weighted assets of at least 8%. The appropriate regulatory authority may set higher capital requirements when particular circumstances warrant. As of December 31, 2007, Stanly was classified as “well-capitalized” with Tier 1 and Total Risk-Based Capital of 11.05% and 12.17% respectively. As of December 31, 2007, Anson was classified as “well-capitalized” with Tier 1 and Total Risk-Based Capital of 11.45% and 12.53% respectively. As of December 31, 2007 Cabarrus was classified as “well-capitalized” with Tier 1 and Total Risk-Based Capital of 9.98% and 10.89% respectively.

The federal banking agencies have adopted regulations specifying that they will include, in their evaluations of a bank’s capital adequacy, an assessment of the bank’s interest rate risk (“IRR”) exposure. The standards for measuring the adequacy and effectiveness of a banking organization’s IRR management include a measurement of board of directors and senior management oversight, and a determination of whether a banking organization’s procedures for comprehensive risk management are appropriate for the circumstances of the specific banking organization.

Failure to meet applicable capital guidelines could subject a banking organization to a variety of enforcement actions, including limitations on its ability to pay dividends, the issuance by the applicable regulatory authority of a capital directive to increase capital and, in the case of depository institutions, the termination of deposit insurance by the FDIC, as well as the measures described under FDICIA described below, as applicable to undercapitalized institutions. In addition, future changes in regulations or practices could further reduce the amount of capital recognized for purposes of capital adequacy. Such a change could affect the ability of the Banks to grow and could restrict the amount of profits, if any, available for the payment of dividends to the shareholders.

FDICIA. In December 1991, Congress enacted FDICIA, which substantially revised the bank regulatory and funding provisions of the Federal Deposit Insurance Act and made significant revisions to several other federal banking statutes. FDICIA provides for, among other things:

- publicly available annual financial condition and management reports for certain financial institutions, including audits by independent accountants,
- the establishment of uniform accounting standards by federal banking agencies,
- the establishment of a “prompt corrective action” system of regulatory supervision and intervention, based on capitalization levels, with greater scrutiny and restrictions placed on depository institutions with lower levels of capital,
- additional grounds for the appointment of a conservator or receiver, and
- restrictions or prohibitions on accepting brokered deposits, except for institutions which significantly exceed minimum capital requirements.

FDICIA also provides for increased funding of the FDIC insurance fund and the implementation of risk-based premiums.

A central feature of FDICIA is the requirement that the federal banking agencies take “prompt corrective action” with respect to depository institutions that do not meet minimum capital requirements. Pursuant to FDICIA, the federal bank regulatory authorities have adopted regulations setting forth a five-tiered system for measuring the capital adequacy of the

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depository institutions that they supervise. Under these regulations, a depository institution is classified in one of the following capital categories: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critically undercapitalized.” An institution may be deemed by the regulators to be in a capitalization category that is lower than is indicated by its actual capital position if, among other things, it receives an unsatisfactory examination rating with respect to asset quality, management, earnings or liquidity.

FDICIA provides the federal banking agencies with significantly expanded powers to take enforcement action against institutions which fail to comply with capital or other standards. Such action may include the termination of deposit insurance by the FDIC or the appointment of a receiver or conservator for the institution. FDICIA also limits the circumstances under which the FDIC is permitted to provide financial assistance to an insured institution before appointment of a conservator or receiver.

International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001. On October 26, 2001, the USA PATRIOT Act of 2001 was enacted. This act contains the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001, which sets forth anti-money laundering measures affecting insured depository institutions, broker-dealers and other financial institutions. The Act requires U.S. financial institutions to adopt new policies and procedures to combat money laundering and grants the Secretary of the Treasury broad authority to establish regulations and to impose requirements and restrictions on the operations of financial institutions. This act has not had a material impact on our operations.

Check 21. On October 28, 2003, President Bush signed into law the Check Clearing for the 21st Century Act, also known as Check 21. This law gives “substitute checks,” such as a digital image of a check and copies made from that image, the same legal standing as the original paper check. Some of the major provisions include:

- allowing check truncation without making it mandatory;
- demanding that every financial institution communicate to accountholders in writing a description of its substitute check processing program and their rights under the law;
- legalizing substitutions for and replacements of paper checks without agreement from consumers;
- retaining in place the previously mandated electronic collection and return of checks between financial institutions only when individual agreements are in place;
- requiring that when accountholders request verification, financial institutions produce the original check (or a copy that accurately represents the original) and demonstrate that the account debit was accurate and valid; and
- requiring recrediting of funds to an individual’s account on the next business day after a consumer proves that the financial institution has erred.

Miscellaneous. The dividends that may be paid by the Banks are subject to legal limitations. In accordance with North Carolina banking law, dividends may not be paid unless the Banks’ capital surplus is at least 50% of its paid-in capital.

The earnings of the Banks will be affected significantly by the policies of the Federal Reserve Board, which is responsible for regulating the United States money supply in order to mitigate recessionary and inflationary pressures. Among the techniques used to implement these

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objectives are open market transactions in United States government securities, changes in the rate paid by banks on bank borrowings, and changes in reserve requirements against bank deposits. These techniques are used in varying combinations to influence overall growth and distribution of bank loans, investments, and deposits, and their use may also affect interest rates charged on loans or paid for deposits.

The monetary policies of the Federal Reserve Board have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. In view of changing conditions in the national economy and money markets, as well as the effect of actions by monetary and fiscal authorities, no prediction can be made as to possible future changes in interest rates, deposit levels, loan demand or the business and earnings of the Banks.

Community Reinvestment Act. The Banks are subject to the provisions of the Community Reinvestment Act of 1977, as amended (“CRA”). Under the terms of the CRA, the appropriate federal bank regulatory agency is required, in connection with the examination of a bank, to assess such bank’s record in meeting the credit needs of the community served by that bank, including low and moderate-income neighborhoods. The regulatory agency’s assessments of the Banks’ records are made available to the public. Such an assessment is required of any bank that has applied for any application for a domestic deposit-taking branch, relocation of a main office, branch or ATM, merger or consolidation with or acquisition of assets or assumption of liabilities of a federally insured depository institution.

Under CRA regulations, banks with assets of less than \$1 billion are subject to streamlined small bank performance standards and much less stringent data collection and reporting requirements than larger banks. The agencies emphasize that small banks are not exempt from CRA requirements. The streamlined performance method for small banks focuses on the bank’s loan-to-deposit ratio, adjusted for seasonal variations and as appropriate, other lending-related activities, such as loan originations for sale to secondary markets or community development lending or qualified investments; the percentage of loans and, as appropriate, other lending-related activities located in the Banks’ assessment areas; the Banks’ record of lending to and, as appropriate, other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; the geographic distribution of the Banks’ loans given its assessment areas, capacity to lend, local economic conditions, and lending opportunities; and the Banks’ record of taking action, if warranted, in response to written complaints about its performance in meeting the credit needs of its assessment areas.

Regulatory agencies will assign a composite rating of “outstanding,” “satisfactory,” “needs to improve,” or “substantial noncompliance” to the institution using the foregoing ground rules. A bank’s performance need not fit each aspect of a particular rating profile in order for the bank to receive that rating; exceptionally strong performance with respect to some aspects may compensate for weak performance in others, and the bank’s overall performance must be consistent with safe and sound banking practices and generally with the appropriate rating profile. To earn an outstanding rating, the bank first must exceed some or all of the standards mentioned above. The agencies may assign a “needs to improve” or “substantial noncompliance” rating depending on the degree to which the bank has failed to meet the standards mentioned above.

The regulation further states that the agencies will take into consideration these CRA ratings when considering any application and that a bank’s record of performance may be the basis for denying or conditioning the approval of an application.

Change of Control

State and federal law restricts the amount of voting stock of a bank holding company or a bank that a person may acquire without the prior approval of banking regulators. The overall effect of such laws is to make it more difficult to acquire a bank holding company or bank by tender offer or similar means than it might be to acquire control of another type of corporation.

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Pursuant to North Carolina law, no person may, directly or indirectly, purchase or acquire voting stock of any bank holding company or bank which would result in the change of control of that entity unless the Commissioner first shall have approved such proposed acquisition. A person will be deemed to have acquired “control” of the bank holding company or the bank if he, she or it, directly or indirectly, (i) owns, controls or has the power to vote 10% or more of the voting stock of the bank holding company or bank, or (ii) possesses the power to direct or cause the direction of its management and policy.

Federal law imposes additional restrictions on acquisitions of stock in bank holding companies and FDIC-insured banks. Under the federal Change in Bank Control Act and the regulations thereunder, a person or group acting in concert must give advance notice to the Federal Reserve Board or the FDIC before directly or indirectly acquiring the power to direct the management or policies of, or to vote 25% or more of any class of voting securities of, any bank holding company or federally-insured bank. Upon receipt of such notice, the federal regulator either may approve or disapprove the acquisition. The Change in Bank Control Act generally creates a rebuttable presumption of a change in control if a person or group acquires ownership or control of or the power to vote 10% or more of any class of a bank holding company or bank’s voting securities; the bank holding company has a class of securities that are subject to registration under the Securities Exchange Act of 1934; and, following such transaction, no other person owns a greater percentage of that class of securities.

Government Monetary Policy and Economic Controls

As a bank holding company whose primary asset is the ownership of the capital stock of a commercial bank and a savings bank, the Company is directly affected by the government’s monetary policy and the economy in general. The actions and policies of the Federal Reserve Board, which acts as the nation’s central bank, can directly affect the money supply and, in general, affect a bank’s lending activities by increasing or decreasing their costs and availability of funds. An important function of the Federal Reserve Board is to regulate the national supply of bank credit in order to combat recession and curb inflation pressures. Among the instruments of monetary policy used by the Federal Reserve Board to implement these objectives are open market operations in U.S. Government securities, changes in the discount rate and surcharge, if any, on member bank borrowings, and changes in reserve requirements against bank deposits. These methods are used in varying combinations to influence overall growth of bank loans, investments and deposits, and interest rates charged on loans or paid for deposits. The Banks are not members of the Federal Reserve System but are subject to reserve requirements imposed by the Federal Reserve Board on non-member banks. The monetary policies of the Federal Reserve Board have had a significant effect on the operating results of banks in the past and are expected to continue to do so in the future.

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

Not Applicable

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. In addition, a section of one building is leased to a local non-profit organization and this complex is also the location of Stanly’s subsidiary, Strategic Alliance.

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Stanly's Main Office is located at 167 North Second Street, Albemarle, North Carolina. Stanly has leased a portion of the Main Office facility since it opened in 1984, and its administrative and executive offices occupy an adjoining building, purchased in 1991. Stanly owns a commercial building and parking lot adjacent to its Main Office. Stanly also acquired a commercial building in downtown Albemarle in December 2001 that is held for future expansion. Stanly acquired a lot in Montgomery County in 2003 that is held as a potential ATM site.

Stanly 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 office located at 624 North Main Street in Oakboro, North Carolina. Stanly also leases an office at 111 Ray Kennedy Drive, Locust, North Carolina.

All of Stanly's existing offices are freestanding, fully equipped and have adequate parking and drive-up banking facilities, with the exception of the Main Office in Albemarle and the branch location in Locust which do not have drive-up facilities.

Cabarrus 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 some property adjacent to the Mt. Pleasant banking office located at 1480 South Main Street. Cabarrus leases a suite at 700 North Church Street in Concord, North Carolina where it previously provided banking services and which currently serves as an administrative office.

Anson owns its banking facility located at 211 South Greene Street, Wadesboro, North Carolina. Anson also owns an ATM site at 426 East Caswell Street, Wadesboro, North Carolina.

Item 3. Legal Proceedings

Neither the Company nor its subsidiaries, nor any of their properties are subject to any material legal proceedings other than ordinary routine litigation incidental to their business.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of the Company's security holders during the fourth quarter of 2007.

PART II.

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

It is the philosophy of Uwharrie Capital Corp to promote a strong, base of local shareholders. While bid and asked prices for the Company's common stock are quoted on the Over the Counter Bulletin Board under the symbol UWHR, trading is sporadic with most trades 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. The Company has an independent valuation of its common stock performed on a quarterly basis and makes this valuation available to interested shareholders in order to promote fairness and market efficiency in privately negotiated transactions.

The Board of Directors has adopted a dividend policy on an annual basis. For 2007, Uwharrie Capital Corp declared a 3% stock dividend. The Board of Directors will determine on an annual

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basis, consistent with the capital needs of the Company an appropriate dividend. In addition, Uwharrie Capital Corp has adopted a stock repurchase program whereby the Company may make open market purchase of shares of its stock. The combination of private trades as well as the holding company purchases provides liquidity for the investors of Uwharrie Capital Corp.

Additional information regarding the market for the Company's stock is incorporated by reference to the Company's Annual Report to Shareholders for the fiscal year ended December 31, 2007 on page 4. 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.

The following table sets forth information with respect to shares of common stock repurchased by the Company during the three months ended December 31, 2007.

	(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 (2)
October 1, 2007 Through October 31, 2007	—	\$ —	—	\$ —
November 1, 2007 Through November 30, 2007	54,117	\$ 5.92	—	\$ —
December 1, 2007 Through December 31, 2007	3,060	\$ 5.75	—	\$ —
Total	57,177	\$ 5.91	—	—

- (1) The Company 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. This plan was initially adopted in 1995 and is approved annually by resolution of the Board of Directors or the Executive Committee of the Board.
- (2) On March 20, 2007 the Board of Directors of Uwharrie Capital Corp unanimously approved the repurchase of 95,252 shares of its common stock at a cost of \$566,807. This resolution is under a Stock Repurchase Plan that is contingent upon maintaining a well capitalized regulatory capital ratio. The purchase price under the plan is set on a quarterly basis, based on an independent valuation of the Company's stock price, and is approved by the Board. The Board individually approves stock repurchases that exceed \$50,000 in any one transaction.

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- (3) On June 28, 2007, the Executive Committee of Uwharrie Capital Corp mandated by resolution that the Company could repurchase up to \$375,000 of its common stock during the third quarter of 2007.
- (4) On September 18, 2007, the Board of Directors of Uwharrie Capital Corp mandated by resolution that the Company could repurchase up to an additional \$125,000 of its common stock during the third quarter of 2007.
- (5) On November 20, 2007, the Board of Directors of Uwharrie Capital Corp mandated by resolution that the Company could repurchase up to an additional \$338,093 of its common stock during the fourth quarter of 2007.

Item 6. Selected Financial Data

Incorporated by reference to the Company's Annual Report to Shareholders for the fiscal year ended December 31, 2007 on page 41.

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, 2007 on Page 42.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The Company's primary market risk is interest rate risk. Interest rate risk is the result of differing maturities or repricing intervals of interest-earning assets and interest-bearing liabilities and the fact that rates on these financial instruments do not change uniformly. These conditions may impact the earnings generated by the Company's interest earning assets or the cost of its interest-bearing liabilities, thus directly impacting the Company's overall earnings. The Company's management actively monitors and manages interest rate risk. One way this is accomplished is through the development of and adherence to the Company's asset/liability policy. This policy sets forth management's strategy for matching the risk characteristics of the Company's interest-earning assets and liabilities so as to mitigate the effect of changes in the rate environment.

Market Risk Analysis of Financial Instruments

(dollars in thousands)

	Contractual Maturities at December 31, 2007						Beyond Five Years	Total	Average Interest Rate	Estimated Fair Value
	2008	2009	2010	2011	2012					
Financial Assets										
Debt securities	\$ 7,541	\$ 2,283	\$ 206	\$ 1,218	\$ 336	\$ 39,421	\$ 51,005	5.94%	\$ 51,005	
Loans										
Fixed rate	23,186	8,760	17,443	19,418	25,391	49,784	143,982	7.22%	149,144	
Variable rate	60,165	26,425	12,491	10,831	9,946	58,147	178,005	7.42%	172,971	
Interest-bearing bank balances	—	—	—	—	—	2,432	2,432	4.05%	2,432	
Federal funds sold	—	—	—	—	—	—	—	0.00%	—	
Total	<u>\$ 90,892</u>	<u>\$37,468</u>	<u>\$30,140</u>	<u>\$31,467</u>	<u>\$35,673</u>	<u>\$149,784</u>	<u>\$375,424</u>	<u>7.12%</u>	<u>\$375,552</u>	
Financial Liabilities										
Money Market, NOW & savings deposits	\$ —	\$ —	\$ —	\$ —	\$ —	\$128,611	\$128,611	1.94%	\$126,165	
Time deposits	134,050	10,457	3,345	1,249	348	—	149,449	4.67%	149,525	
Federal Home Loan Bank advances	14,787	3,000	5,000	6,000	1,000	—	29,787	4.38%	30,124	
Other borrowed funds	17,141	6,608	9	9	9	56	23,832	6.49%	23,636	
Total	<u>\$165,978</u>	<u>\$20,065</u>	<u>\$ 8,354</u>	<u>\$ 7,258</u>	<u>\$ 1,357</u>	<u>\$128,667</u>	<u>\$331,679</u>	<u>3.72%</u>	<u>\$329,450</u>	

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Please refer to the description on Interest Rate Sensitivity in Management's Discussion and Analysis contained in the Company's annual report filed herewith as Exhibit 13 and incorporated by reference into Item 7 of this annual report on Form 10-K.

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, 2007 beginning on Page 8.

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

None

Item 9A(T). 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-14.

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 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, 2007. 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 ("COSO") in Internal Control—Integrated Framework. 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.

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The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Based on that assessment, we believe that, as of December 31, 2007, the Company's internal control over financial reporting is effective based on those criteria.

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 temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report.

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 2007. 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 that have materially affected or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Roger L. Dick
Chief Executive Officer

Barbara S. Williams
Principal Financial Officer

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 dated March 28, 2008 on Pages 2-7.

The Company has adopted a Code of Ethics that applies, among others, to its Principal Executive Officer and Principal Financial Officer. The Company's Code of Ethics is available at www.uwharrie.com.

Item 11. Executive Compensation

Incorporated by reference to the Company's definitive proxy statement dated March 28, 2008 on Pages 11-15.

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Item 12. Security Ownership Of Certain Beneficial Owners And Management and Related Stockholder Matters

Incorporated by reference to the Company's definitive proxy statement dated March 28, 2008 on pages 13-14.

The following table sets forth equity compensation plan information at December 31, 2007.

Equity Compensation Plan Information

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u> (a)	<u>Weighted-average exercise price of outstanding options, warrants and rights</u> (b)	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a))</u> (c)
Equity compensation plans approved by security holders	504,207	\$ 4.61	262,685
Equity compensation plans not approved by security holders	NA	NA	NA
Total	504,207	\$ 4.61	262,685

A description of the Company's equity compensation plans is presented in Note 16 to the Company's consolidated financial statements filed here within.

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

Incorporated by reference to the Company's definitive proxy statement dated March 28, 2008 on Pages 7-8 and 15.

Item 14. Principal Accounting Fees and Services

Incorporated by reference to the Company's definitive proxy statement dated March 28, 2008 on Page 16.

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 stockholders for the fiscal year ended December 31, 2007, which are incorporated herein by reference:

[Consolidated Balance Sheets as of December 31, 2007 and 2006.](#)

[Consolidated Statements of Income for the years ended December 31, 2007, 2006 and 2005.](#)

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[Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2007, 2006 and 2005.](#)

[Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005.](#)

[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

Exhibit Number	Description of Exhibit
3(a)	Registrant's Articles of Incorporation *
3(b)	Registrant's By-laws *
4	Form of stock certificate*
10(a)	Incentive Stock Option Plan, as amended, a compensatory plan *
10(b)	Employee Stock Ownership Plan and Trust, a compensatory plan**
10(c)	2006 Incentive Stock Option Plan, a compensatory plan ***
10(d)	2006 Employee Stock Purchase Plan, a compensatory plan ***
13	2007 Annual Report to Shareholders (filed herewith)
21	Subsidiaries of the Registrant (filed herewith)
23	Consent of Dixon Hughes PLLC
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
99	Registrant's definitive proxy statement dated March 28, 2008***
*	Incorporated by reference from exhibits to Registrant's Registration Statement on Form S-4 (Reg. No. 33-58882).
**	Incorporated by reference to Registrant's Annual Report on Form 10-KSB for the fiscal year ended 1999.
***	Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.
****	Filed with the Commission pursuant to Rule 14a-6 (b).

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<u>/s/ Emmett S. Patterson</u> Emmett S. Patterson, Director	March 18, 2008
<u>/s/ Timothy J. Propst</u> Timothy J. Propst, Director	March 18, 2008
<u>Susan J. Rourke, Director</u>	March 18, 2008
<u>/s/ Donald P. Scarborough</u> Donald P. Scarborough, Director	March 18, 2008
<u>John W. Shealy, Jr., Director</u>	March 18, 2008
<u>/s/ Michael E. Snyder, Sr.</u> Michael E. Snyder, Sr., Director	March 18, 2008
<u>/s/ Douglas L. Stafford</u> Douglas L. Stafford, Director	March 18, 2008
<u>/s/ Emily M. Thomas</u> Emily M. Thomas, Director	March 18, 2008

UWHARRIE CAPITAL CORP

Exhibit Index

Exhibit Number	Description
13	2007 Annual Report to Shareholders
21	Subsidiaries of the Registrant
23	Consent of Dixon Hughes PLLC
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

UWHARRIE CAPITAL CORP

2007 ANNUAL REPORT

Uwharrie Capital Corp

2007

ANNUAL REPORT TO SHAREHOLDERS

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Description of Business

Uwharrie Capital Corp (the “Company”) is a North Carolina bank holding company. The Company was organized on July 1, 1993 to become the bank holding company for the Bank of Stanly (“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 three non-bank subsidiaries, Strategic Investment Advisors, Inc., Uwharrie Mortgage, Inc. and Uwharrie Statutory Trust 1.

Stanly engages in retail and commercial banking, with five banking offices in Stanly County. Stanly 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 provides financial services to customers through one banking office in Anson County.

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 Stanly to begin its operation. Cabarrus operates as a commercial bank and provides a full range of banking services.

The Company and its subsidiaries are located in Stanly County, Anson County and Cabarrus County. However, the Company intends to prudently expand its service area to include the entire Uwharrie Lakes Region of North Carolina.

Depository services offered by the subsidiary banks include personal and commercial checking, savings, money market, certificates of deposit accounts and individual retirement accounts, all tailored to meet customers’ needs. The banks provide fixed and variable rate loans, which include mortgage, home equity, lines of credit, consumer and commercial loans. The banks also offer Internet 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.

Strategic Investment Advisors Inc. provides portfolio management services to its customers. The Strategic Alliance Corporation (Strategic Alliance®) is a registered broker-dealer with the National Association of Securities Dealers, Inc. (“NASD”). BOS Agency provides insurance products and is licensed in the state of North Carolina. Through Strategic Investment Group, a DBA for a partnership with UVEST Financial Services, Inc., securities and insurance products are offered including fixed annuities, long-term care, and life products. Group insurance products are offered through an arrangement with Benchmark Life Strategies as well as Medicare supplement products.

The Strategic Alliance Corporation. Member NASD/SIPC.

Securities and insurance products are offered by, and Financial Consultants are registered with UVEST Financial Services, member NASD/SIPC.

UVEST, Strategic Investment Group and Uwharrie Capital Corp affiliates are independent entities. Securities and/or insurance products are not FDIC insured, are not deposits or other obligations of any depository institution, are not guaranteed by any depository institution and are subject to investment risks, including possible loss of the principal amount invested.

Bank of Stanly, Member FDIC, Equal Housing Lender.

Anson Bank & Trust Co., Member FDIC, Equal Housing Lender.

Cabarrus Bank & Trust Company, Member FDIC, Equal Housing Lender.

UWHARRIE CAPITAL CORP AND SUBSIDIARIES

Financial Highlights

<i>(Dollars in thousands except per share amounts)</i>	2007	2006	Percent Increase (Decrease)
<i>For the year:</i>			
Net income	\$ 2,959	\$ 2,071	42.88%
Basic net income per common share (1)	\$ 0.40	\$ 0.28	42.86%
Diluted net income per common share	\$ 0.40	\$ 0.27	48.15%
Weighted average common shares outstanding (diluted)	7,482,361	7,574,856	(1.22)%
<i>At year-end:</i>			
Total assets	\$ 411,944	\$ 383,261	7.48%
Total earning assets	380,549	350,823	8.47%
Loans held for investment	321,987	288,135	11.75%
Total interest-bearing liabilities	331,679	303,780	9.18%
Shareholders' equity	31,574	29,633	6.55%
Book value per share (1)	\$ 4.26	\$ 3.87	10.08%
<i>Averages for the year:</i>			
Total assets	\$ 393,188	\$ 368,781	6.62%
Total earning assets	365,579	341,995	6.90%
Loans held for investment	308,149	293,394	5.03%
Total interest-bearing liabilities	313,570	291,041	7.74%
Shareholders' equity	30,402	28,299	7.43%
<i>Financial Ratios (in percentage):</i>			
Return on average assets	0.75%	0.56%	
Return on average shareholders' equity	9.73%	7.32%	
Average equity to average assets	7.73%	7.67%	
Net interest margin (fully tax equivalent basis)	4.22%	4.10%	
Allowance as % of loans at year-end	1.09%	1.10%	
Allowance as % of nonperforming loans	195.57%	261.78%	
Nonperforming loans to total loans	0.56%	0.42%	
Nonperforming assets to total assets	0.48%	0.37%	
Net loan charge-offs (recoveries) to average loans	(0.11)%	0.55%	

(1) Net income per share, book value per share, and shares outstanding at year-end have been adjusted to reflect the 3% stock dividends in 2007 and in 2006.

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

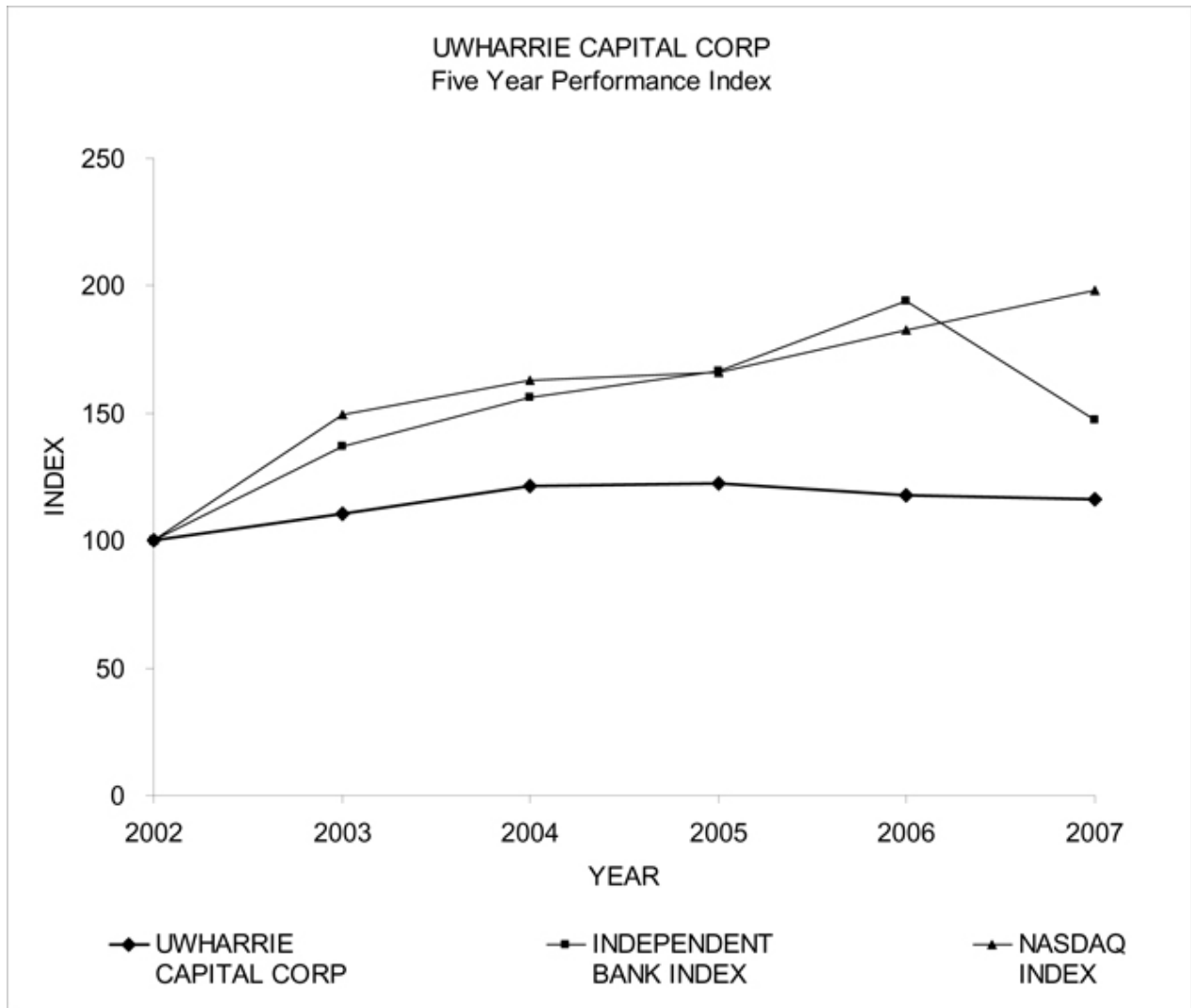
It is the philosophy of Uwharrie Capital Corp to promote a strong, base of local shareholders. While bid and asked prices for the Company's common stock are quoted on the Over the Counter Bulletin Board under the symbol UWHR, trading is sporadic with the most trades taking place in privately negotiated 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. The Company has an independent valuation of its common stock performed on a quarterly basis and makes this valuation available to interested shareholders in order to promote fairness and market efficiency in privately negotiated transactions.

The Board of Directors has adopted a dividend policy on an annual basis. For 2007, Uwharrie Capital Corp declared a 3% stock dividend. The Board of Directors will determine on an annual basis, consistent with the capital needs of the Company an appropriate dividend. In addition, Uwharrie Capital Corp has adopted a stock repurchase program whereby the Company may make open market purchase of shares of its stock. The combination of private trades as well as the holding company purchases provides liquidity for the investors of Uwharrie Capital Corp.

UWHARRIE CAPITAL CORP AND SUBSIDIARIES

The following graph compares (i) the yearly change in the cumulative total shareholder return on the Company's common stock with (ii) the cumulative return of The Carson Medlin Company Independent Bank Index, and (iii) the Nasdaq Composite. The graph assumes that the value of an investment in the Company's common stock and in each index was \$100 on December 31, 2002, and that all dividends were reinvested. The performance shown in the graph represents past performance and should not be considered the indication of future performance.

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.



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DIXON HUGHES PLLC

Certified Public Accountants and Advisors

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors
Uwharrie Capital Corp
Albemarle, North Carolina

We have audited the accompanying consolidated balance sheets of Uwharrie Capital Corp and Subsidiaries (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Uwharrie Capital Corp and Subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

Dixon Hughes PLLC

Raleigh, North Carolina
March 14, 2008

UWHARRIE CAPITAL CORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2007 and 2006

	2007	2006
	(dollars in thousands)	
ASSETS		
Cash and due from banks	\$ 13,765	\$ 15,088
Interest-earning deposits with banks	2,432	2,147
Federal funds sold	—	17,525
Securities available for sale, at fair value	51,005	37,150
Loans held for sale	2,916	3,814
Loans:		
Loans held for investment	321,987	288,135
Less allowance for loan losses	(3,510)	(3,171)
Net loans held for investment	318,477	284,964
Premises and equipment, net	8,751	8,618
Interest receivable	2,055	1,775
Federal Home Loan Bank stock	2,137	1,980
Bank owned life insurance	5,318	5,133
Goodwill	987	987
Other assets	4,101	4,080
Total assets	<u>\$411,944</u>	<u>\$383,261</u>
LIABILITIES		
Deposits:		
Demand noninterest-bearing	\$ 46,597	\$ 48,149
Interest checking and money market accounts	102,411	101,470
Savings deposits	26,200	27,833
Time deposits, \$100,000 and over	54,729	48,450
Other time deposits	94,720	83,698
Total deposits	324,657	309,600
Short-term borrowed funds	31,928	13,040
Long-term debt	21,691	29,289
Interest payable	596	503
Other liabilities	1,498	1,196
Total liabilities	380,370	353,628
Off balance sheet items, commitments and contingencies (Note 12)		
SHAREHOLDERS' EQUITY		
Common stock, \$1.25 par value: 20,000,000 shares authorized; shares issued and outstanding 7,414,707 and 7,423,550 shares, respectively	9,268	9,279
Additional paid-in capital	13,453	13,541
Unearned ESOP compensation	(800)	(859)
Undivided profits	9,266	7,502
Accumulated other comprehensive income	387	170
Total shareholders' equity	31,574	29,633
Total liabilities and shareholders' equity	<u>\$411,944</u>	<u>\$383,261</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, 2007, 2006 and 2005

	2007	2006	2005
	(in thousands, except share and per share data)		
Interest Income			
Loans, including fees	\$ 23,916	\$ 21,959	\$ 17,446
Investment securities:			
US Treasury	98	98	98
US Government agencies and corporations	1,401	832	537
State and political subdivisions	633	679	653
Other	128	174	125
Interest-earning deposits with banks and federal funds sold	733	611	302
Total interest income	<u>26,909</u>	<u>24,353</u>	<u>19,161</u>
Interest Expense			
Interest checking and money market accounts	2,550	2,342	1,002
Savings deposits	526	734	580
Time deposits \$100,000 and over	2,316	2,100	1,168
Other time deposits	4,138	3,091	1,723
Short-term borrowed funds	1,128	758	354
Long-term debt	1,218	1,677	1,803
Total interest expense	<u>11,876</u>	<u>10,702</u>	<u>6,630</u>
Net interest income	15,033	13,651	12,531
Provision for loan losses	15	298	755
Net interest income after provision for loan losses	<u>15,018</u>	<u>13,353</u>	<u>11,776</u>
Noninterest Income			
Service charges on deposit accounts	2,188	2,000	1,707
Other service fees and commissions	3,097	2,329	1,728
Gain (loss) on sale of securities	(76)	60	(16)
Income from mortgage loan sales	957	764	554
Other income	424	316	378
Total noninterest income	<u>6,590</u>	<u>5,469</u>	<u>4,351</u>
Noninterest Expense			
Salaries and employee benefits	10,156	9,130	8,002
Net occupancy expense	871	711	643
Equipment expense	598	618	639
Data processing costs	742	939	843
Other noninterest expense	4,995	4,520	3,960
Total noninterest expense	<u>17,362</u>	<u>15,918</u>	<u>14,087</u>
Income before income taxes	4,246	2,904	2,040
Income taxes	1,287	833	523
Net income	<u>\$ 2,959</u>	<u>\$ 2,071</u>	<u>\$ 1,517</u>
Net income per common share			
Basic	<u>\$ 0.40</u>	<u>\$ 0.28</u>	<u>\$ 0.20</u>
Diluted	<u>\$ 0.40</u>	<u>\$ 0.27</u>	<u>\$ 0.20</u>
Weighted average common shares outstanding			
Basic	7,382,033	7,462,115	7,459,530
Diluted	7,482,361	7,574,856	7,641,336

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, 2007, 2006 and 2005

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(in thousands)		
Net Income	\$2,959	\$2,071	\$1,517
Other comprehensive income (loss):			
Unrealized gains (losses) on available for sale securities	275	(197)	(761)
Related tax effect	(105)	76	293
Reclassification of losses (gains) recognized in net income	76	(60)	16
Related tax effect	(29)	23	(6)
Total other comprehensive income (loss)	<u>217</u>	<u>(158)</u>	<u>(458)</u>
Comprehensive income	<u>\$3,176</u>	<u>\$1,913</u>	<u>\$1,059</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, 2007, 2006 and 2005

	Common Stock		Additional Paid-in Capital	Unearned ESOP Compensation	Undivided Profits	Accumulated Other Comprehensive Income	Total
	Shares	Amount					
Balance, December 31, 2004	7,057,755	\$8,822	\$12,043	\$ (965)	\$ 6,469	\$ 786	\$27,155
Net income	—	—	—	—	1,517	—	1,517
Other comprehensive loss	—	—	—	—	—	(458)	(458)
Release of ESOP shares	—	—	33	51	—	—	84
Common stock issued pursuant to:							
3% stock dividend	206,730	258	1,013	—	(1,271)	—	—
Stock options exercised	71,227	89	258	—	—	—	347
Tax benefit of stock options exercised	—	—	31	—	—	—	31
Repurchase of common stock	(197,026)	(246)	(968)	—	—	—	(1,214)
Cash paid—fractional shares	—	—	—	—	(9)	—	(9)
Balance, December 31, 2005	7,138,686	8,923	12,410	(914)	6,706	328	27,453
Net income	—	—	—	—	2,071	—	2,071
Other comprehensive loss	—	—	—	—	—	(158)	(158)
Release of ESOP shares	—	—	37	55	—	—	92
Common stock issued pursuant to:							
3% stock dividend	214,634	269	997	—	(1,266)	—	—
Stock options exercised	94,094	117	107	—	—	—	224
Tax benefit of stock options exercised	—	—	48	—	—	—	48
Repurchase of common stock	(23,864)	(30)	(115)	—	—	—	(145)
Cash paid—fractional shares	—	—	—	—	(9)	—	(9)
Stock compensation expense	—	—	57	—	—	—	57
Balance, December 31, 2006	7,423,550	9,279	13,541	(859)	7,502	170	29,633
Net income	—	—	—	—	2,959	—	2,959
Other comprehensive income	—	—	—	—	—	217	217
Release of ESOP shares	—	—	31	59	—	—	90
Common stock issued pursuant to:							
3% stock dividend	216,062	270	916	—	(1,186)	—	—
Stock options exercised	12,764	16	20	—	—	—	36
Tax benefit of stock options exercised	—	—	3	—	—	—	3
Repurchase of common stock	(237,669)	(297)	(1,107)	—	—	—	(1,404)
Cash paid—fractional shares	—	—	—	—	(9)	—	(9)
Stock compensation expense	—	—	49	—	—	—	49
Balance, December 31, 2007	7,414,707	\$9,268	\$13,453	\$ (800)	\$ 9,266	\$ 387	\$31,574

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, 2007, 2006 and 2005

	2007	2006	2005
Cash flows from operating activities			
Net income	\$ 2,959	\$ 2,071	\$ 1,517
Adjustments to reconcile net income to net cash Provided by operating activities:			
Depreciation	625	625	646
Net amortization of security premiums/discounts	(220)	(41)	37
Net amortization of mortgage servicing rights	407	382	390
Provision for loan losses	15	298	755
Deferred income taxes	205	439	52
Stock compensation	49	57	—
Net realized (gain) loss on available for sale securities	76	(60)	16
Income from mortgage loan sales	(957)	(764)	(554)
Proceeds from sales of loans held for sale	45,603	39,038	29,162
Origination of loans held for sale	(43,748)	(38,734)	(29,058)
(Gain) loss on sale of premises, equipment and other assets	(26)	9	(76)
Increase in cash surrender value of life insurance	(185)	(184)	(155)
(Gain) loss on sales of foreclosed real estate	2	24	(12)
Release of ESOP Shares	90	92	84
Net change in interest receivable	(280)	(250)	(252)
Net change in other assets	(866)	(243)	(13)
Net change in interest payable	93	134	67
Net change in other liabilities	302	(190)	316
Net cash provided by operating activities	<u>4,144</u>	<u>2,703</u>	<u>2,922</u>
Cash flows from investing activities			
Proceeds from sales, maturities and calls of securities available for sale	10,382	9,190	1,487
Purchase of securities available for sale	(23,744)	(11,480)	(8,777)
Net increase in loans	(33,588)	(17,165)	(14,332)
Proceeds from sale of premises, equipment and other assets	87	—	230
Purchase of premises and equipment	(758)	(813)	(776)
Proceeds from sales of foreclosed real estate	98	205	1,392
Net change in Federal Home Loan Bank stock	(157)	(313)	245
Net cash used by investing activities	<u>(47,680)</u>	<u>(20,376)</u>	<u>(20,531)</u>
Cash flows from financing activities			
Net increase in deposit accounts	15,057	35,624	27,037
Net increase (decrease) in short-term borrowed funds	18,888	5,136	(6,789)
Net decrease in long-term debt	(7,598)	(9,814)	—
Repurchases of common stock	(1,404)	(145)	(1,214)
Net proceeds from issuance of common stock	36	224	347
Tax benefit of stock options exercised	3	48	31
Cash paid for fractional shares	(9)	(9)	(9)
Net cash provided by financing activities	<u>24,973</u>	<u>31,064</u>	<u>19,403</u>
Decrease (increase) in cash and cash equivalents	<u>(18,563)</u>	<u>13,391</u>	<u>1,794</u>
Cash and cash equivalents, beginning of period	<u>34,760</u>	<u>21,369</u>	<u>19,575</u>
Cash and cash equivalents, end of period	<u>\$ 16,197</u>	<u>\$ 34,760</u>	<u>\$ 21,369</u>
Supplemental disclosures of cash flow information			
Interest paid	\$ 11,783	\$ 10,568	\$ 6,563
Income taxes paid	1,311	687	241
Supplemental schedule of non-cash investing and financing activities			
Increase (decrease) in fair value of securities available for sale, net of tax	217	(158)	(456)
Loans transferred to foreclosed real estate	60	262	1,064

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

Note 1 - Significant Accounting Policies

Nature of Business

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

Stanly 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 Stanly are insured by the Federal Deposit Insurance Corporation ("FDIC"). Stanly is under regulation of both the FDIC and the North Carolina State Banking Commission. Through its five branch locations in Stanly County, Stanly provides a wide range of deposit accounts, commercial, consumer, home equity and residential mortgage loans, safe deposit boxes and automated banking.

In 1987, Stanly established a wholly-owned subsidiary, BOS Agency, Inc. ("BOS Agency"), which engages in insurance product sales. In 1989, Stanly 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 by the National Association of Securities Dealers.

The Company formed a new subsidiary, Strategic Investment Advisors, Inc. ("SIA"), during 1999 to provide investment advisory and asset management services. This subsidiary is registered as an investment advisor with the Securities and Exchange Commission.

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.

On August 4, 2000, Stanly acquired another subsidiary, Gateway Mortgage, Inc. ("Gateway"), a mortgage origination company.

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 Stanly to begin its operation. Cabarrus operates as a commercial bank and provides a full range of banking services.

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, Stanly, Anson, Cabarrus, SIA and their subsidiaries, BOS Agency, Strategic Alliance and Gateway. All significant intercompany transactions and balances have been eliminated in consolidation.

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, 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," "Interest-earning deposits with banks," and "Federal funds sold".

Investment Securities Held To Maturity

Investment securities classified as held to maturity are debt securities the Company has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for amortization of premium and accretion of discount, computed by the interest method over their contractual lives. Declines in the fair value of individual held to maturity 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. The Company had no securities held to maturity at December 31, 2007 and 2006.

Investment Securities Available for Sale

Investment securities available for sale consist of bonds and notes not classified as trading securities nor as held to maturity securities. 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. 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. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

Loans Held for Sale

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

Loans

The Company grants mortgage, commercial and consumer loans to customers. 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

Note 1 - Significant Accounting Policies (Continued)

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 interest method.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Credit card loans and other personal loans are typically charged off no later than 180 days past due. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, 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.

Allowance for Loan Losses

The allowance for loan losses 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 uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility 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. 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 loss 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.

Note 1 - Significant Accounting Policies (Continued)

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer, residential and other loans for impairment disclosures.

Servicing Rights

The Company capitalizes servicing rights when loans are either securitized or sold and the loan servicing is retained. The cost of servicing rights is amortized in proportion to and over the estimated period of net servicing revenues. The amortization of servicing rights is recognized in the statement of income as an offset to other noninterest income. Servicing assets are evaluated for impairment based upon the fair value. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance.

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 upon foreclosure, establishing a new cost basis. After foreclosure, 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 other expenses. Property is evaluated regularly to ensure that the recorded amount is supported by its current fair value.

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.

Federal Home Loan Bank Stock

As a requirement for membership, the banks invest in the stock of the Federal Home Loan Bank of Atlanta ("FHLB"). This investment is carried at cost. Due to the redemption provisions of the FHLB, the Company estimated that fair value approximates cost and that this investment was not impaired.

Note 1 - Significant Accounting Policies (Continued)

Goodwill

Goodwill resulted from the 2000 acquisition of Anson BanCorp, Inc. and its subsidiary, Anson Savings Bank. Goodwill is evaluated for impairment annually, or more frequently if circumstances indicate potential impairment.

Stock-Based Compensation

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R (revised 2004, "Share-Based Payment", ("SFAS No. 123R")) which was issued by the FASB in December 2004. SFAS No. 123R revises SFAS No. 123 "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25 "Accounting for Stock Issued to Employees" (APB No. 25) and its related interpretations. SFAS No. 123R requires recognition of 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). SFAS No. 123R 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. SFAS No. 123R also amends SFAS No. 95 "Statement of Cash Flows", to require that excess tax benefits be reported as financing cash inflows, rather than as a reduction of taxes paid, which is included within operating cash flows.

The Company adopted SFAS No. 123R using the modified prospective application as permitted under SFAS No. 123R. Accordingly, prior period amounts have not been restated. Under this application, the Company is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. Prior to the adoption of SFAS No. 123R, the Company used the intrinsic value method as prescribed by APB No. 25 and thus recognized no compensation expense for options granted with exercise prices equal to the fair market value of the common stock on the date of grant.

During 1996, the Company adopted the 1996 Incentive Stock Option Plan ("SOP") and the Employee Stock Purchase Plan ("SPP"), 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 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 are fully vested at the date of grant and expire, if not exercised, within two years of the grant date. Both of these plans expired in 2006. At December 31, 2007, the SOP had 504,207 options still outstanding and the SPP had no options outstanding.

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, 2007 there were no options outstanding under the SOP II or the SPP II. The compensation cost charged against income for the Company's options, plans for the twelve months ended December 31, 2007, and 2006 was \$49 thousand and \$57 thousand, respectively.

Note 1 - Significant Accounting Policies (Continued)

The fair market value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. There were no shares granted during the twelve months ended December 31, 2007. There were 15,450 shares granted during 2006 under the SOP II. The fair value at the grant date was \$1.55 using the following assumptions; a risk-free interest rate of 4.5%, a dividend yield of 0%, an expected life equal to 70% of the term of the option, and volatility of 14%. These shares were forfeited in 2007. All options granted in 2005 were forfeited in 2006.

The following is a summary of stock option activity for the twelve months ended December 31, 2007:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Aggregate Intrinsic Value (in thousands)</u>
Outstanding at December 31, 2006	535,546	\$ 4.59	
Granted	—	—	
Exercised	(13,144)	2.74	
Forfeited	(18,195)	5.46	
Outstanding at December 31, 2007	<u>504,207</u>	4.61	\$ 576
Options exercisable at December 31, 2007	<u>473,088</u>	4.55	568

A summary of the status of the Company's non-vested stock options as of December 31, 2007, and changes during the year then ended is presented below:

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Non-vested December 31, 2006	81,276	\$ 1.38
Granted	—	—
Vested	(34,707)	1.23
Forfeited	(15,450)	1.62
Non-vested December 31, 2007	<u>31,119</u>	1.44

The grant date fair value of stock options vested over the twelve months ended December 31, 2007, 2006 and 2005 was \$42 thousand, \$64 thousand and \$101 thousand, respectively.

As of December 31, 2007, there was \$31 thousand of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under all of the Company's stock benefit plans. That cost is expected to be recognized over a weighted-average period of 1.47 years.

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

Note 1 - Significant Accounting Policies (Continued)

For the twelve months ended December 31, 2007, 2006 and 2005 the intrinsic value of options exercised was \$38 thousand, \$332 thousand, and \$114 thousand, respectively.

The following illustrates the effect on net income available to common stockholders if the Company had applied the fair value recognition provisions of SFAS No. 123 to the results for the twelve months ended December 31, 2005. (in thousands, except per share data):

	<u>2005</u>
Net income as reported	\$1,517
Add: Stock-based employee compensation expenses included in reported net income, net of related income tax effects	—
Less: Stock-based compensation determined under fair value based method of all awards, net of related income taxes	(136)
Net income, pro forma	<u>\$1,381</u>
Net income per share:	
Basic net income per common share	
As reported	\$.20
Pro forma	.19
Diluted net income per share	
As reported	.20
Pro forma	.18

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 operating loss and tax credit carryforwards 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.

Fair Value of Financial Instruments

SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*, requires disclosure of fair value information about financial instruments, whether or not recognized in the consolidated balance sheets, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. Statement No. 107 excludes certain financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying market value or liquidation value of the Company.

Note 1 - Significant Accounting Policies (Continued)

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

Carrying amounts approximate fair values for cash and due from banks; interest-bearing deposits with banks; federal funds sold; interest receivable and payable; variable rate loans that reprice frequently where no significant change in credit risk has occurred; bank owned life insurance; Federal Home Loan Bank stock; variable rate money market, demand, interest checking and savings accounts; variable rate time deposits; federal funds purchased and securities sold under repurchase agreements and short-term borrowed funds.

Quoted market prices, where available, or if not available, quoted market prices of comparable instruments are used for investment securities.

Discounted cash flows using interest rates currently being offered on instruments with similar terms and with similar credit quality are used for long-term debt; all loans (except variable rate loans described above) and fixed rate time deposits.

Comprehensive Income

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

Earnings per Common Share

The Company issued 3% stock dividends in 2007, 2006 and 2005. All references in these consolidated financial statements to earnings per common share and weighted average common and common equivalent shares outstanding have been adjusted for the effect of these stock dividends. In 2006, there were 15,450 stock options outstanding that were anti-dilutive since the exercise price exceeded the average market price. There were no anti-dilutive stock options outstanding during 2007 or 2005.

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.

Note 1 - Significant Accounting Policies (Continued)

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Weighted average number of common shares used in computing basic net income per common share	7,527,997	7,623,532	7,635,271
Effect of ESOP shares	(145,964)	(161,417)	(175,741)
Adjusted weighted average number of common shares used in computing basic net income per common share	7,382,033	7,462,115	7,459,530
Effect of dilutive stock options	100,328	112,741	181,806
Weighted average number of common shares and dilutive potential common shares used in computing diluted net income per common share	<u>7,482,361</u>	<u>7,574,856</u>	<u>7,641,336</u>

Recent Accounting Pronouncements

FIN 48

The Company adopted the Financial Accounting Standards Board's Interpretation No. 48 "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48"), effective January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements and requires the impact of a tax position to be recognized in the financial statements if that position is more likely than not of being sustained by the taxing authority. The adoption of FIN 48 did not have a material effect on our consolidated financial position or results of operations and unrecognized tax benefits as of December 31, 2007 and 2006 were immaterial. The Company classifies interest and penalties related to income tax assessments, if any, in income tax expense in the consolidated statement of operations and interest and penalties recognized in 2007, 2006, and 2005 were immaterial. Fiscal years ending on or after December 31, 2003 are subject to examination by federal and state tax authorities.

SFAS 156

The provisions of Statement of Financial Accounting Standards No.156 ("SFAS 156"), Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 10, were effective beginning January 1, 2007. The adoption of the provisions of SFAS No. 156 had no effect on financial position or results of operations.

SFAS 157

Statement of Financial Accounting Standards No. 157 ("SFAS 157"), Fair Value Measurements, defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is in the process of evaluating the impact of the adoption of SFAS No. 157 on the consolidated financial statements.

Note 1 - Significant Accounting Policies (Continued)

SFAS 159

Statement of Financial Accounting Standards No. 159 (“SFAS 159”), The Fair Value Option for Financial Assets and Financial Liabilities, permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of this standard is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is effective for fiscal years beginning after November 15, 2007, with early adoption permitted under certain circumstances. The Company has chosen not to adopt the provision of SFAS 159 on an early basis. The Company has evaluated this statement and does not believe it will have a material effect on the Company’s consolidated financial statements.

EITF 06-4

The Emerging Issues Task Force (EITF) reached a consensus at its September 2006 meeting regarding EITF 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. The scope of EITF 06-4 is limited to the recognition of a liability and related compensation costs for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to postretirement periods. Therefore, this EITF would not apply to a split-dollar life insurance arrangement that provides a specified benefit to an employee that is limited to the employee’s active service period with an employer. This EITF 06-4 is effective for fiscal years beginning after December 15, 2007, with earlier application permitted. The Company adopted EITF 06-4 on January 1, 2008 and it had the effect of reducing beginning consolidated undivided profits by approximately \$273,000.

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 2006 and 2005 financial statements have been reclassified to conform to the 2007 presentation. The reclassifications had no effect on net income or shareholders’ equity as previously reported.

Note 2 - Investment Securities

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

<u>December 31, 2007</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u> (dollars in thousands)	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
U.S. Treasury	\$ 2,997	\$ —	\$ 2	\$ 2,995
U.S. Government agencies	6,506	62	—	6,568
Mortgage-backed securities and CMO's	28,179	197	84	28,292
State and political subdivisions	12,187	452	5	12,634
Corporate bonds	501	—	1	500
Total debt securities	50,370	711	92	50,989
Equity securities	8	8	—	16
Total securities available for sale	<u>\$ 50,378</u>	<u>\$ 719</u>	<u>\$ 92</u>	<u>\$ 51,005</u>

<u>December 31, 2006</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u> (dollars in thousands)	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
U.S. Treasury	\$ 2,992	\$ —	\$ 78	\$ 2,914
U.S. Government agencies	7,509	—	149	7,360
Mortgage-backed securities and CMO's	12,918	38	50	12,906
State and political subdivisions	12,931	521	26	13,426
Corporate bonds	514	6	—	520
Total debt securities	36,864	565	303	37,126
Equity securities	8	16	—	24
Total securities available for sale	<u>\$ 36,872</u>	<u>\$ 581</u>	<u>\$ 303</u>	<u>\$ 37,150</u>

Results from sales of securities available for sale for the years ended December 31, 2007, 2006 and 2005 are as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(dollars in thousands)		
Gross proceeds from sales	<u>\$ 4,643</u>	<u>\$ 2,885</u>	<u>\$ 1,295</u>
Realized gains from sales	\$ —	\$ 60	\$ 4
Realized losses from sales	(76)	—	(20)
Net realized gains (losses)	<u>\$ (76)</u>	<u>\$ 60</u>	<u>\$ (16)</u>

At December 31, 2007, 2006 and 2005 securities available for sale with a carrying amount of \$15.2 million, \$16.6 million and \$13.1 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, 2007 and 2006. These unrealized losses on investment securities are a result of temporary fluctuations in the market prices due to a rise in interest rates, which will adjust if rates decline, and are in no way a reflection of the quality of the investments. At December 31, 2007 the unrealized losses related to three U.S. Treasuries, one corporate bond, fifteen mortgage backed securities and CMOs, and four state and political subdivisions securities. All unrealized losses on investment securities are considered by management to be temporary given the credit ratings on these investment securities and management's intent and ability to hold these investments until maturity.

Note 2 - Investment Securities (Continued)

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2007	(dollars in thousands)					
Securities available for sale:						
U.S. Treasury	\$ —	\$ —	\$ 2,995	\$ 2	\$ 2,995	\$ 2
Mortgage-backed securities and CMO's	8,776	40	2,347	44	11,123	84
State and political subdivisions	751	5	—	—	751	5
	<u>\$ 9,527</u>	<u>\$ 45</u>	<u>\$ 5,342</u>	<u>\$ 46</u>	<u>\$ 14,869</u>	<u>\$ 91</u>
December 31, 2006						
Securities available for sale:						
U.S. Treasury	\$ —	\$ —	\$ 2,992	\$ 78	\$ 2,992	\$ 78
U.S. Government agencies	—	—	7,360	149	7,360	149
Mortgage-backed securities and CMO's	7,391	38	1,684	12	9,075	50
State and political subdivisions	1,025	16	1,464	10	2,489	26
	<u>\$ 8,416</u>	<u>\$ 54</u>	<u>\$ 13,500</u>	<u>\$ 249</u>	<u>\$ 21,916</u>	<u>\$ 303</u>

Note 3 - Loans Held for Investment

The composition of net loans held for investment as of December 31, 2007 and 2006 is as follows:

	2007	2006
	(dollars in thousands)	
Commercial	\$ 37,724	\$ 36,406
Real estate - construction	46,546	27,342
Real estate - residential	135,842	126,111
Real estate - commercial	86,593	84,744
Consumer	15,022	13,262
Other	143	133
	<u>321,870</u>	<u>287,998</u>
Less:		
Allowance for loan losses	(3,510)	(3,171)
Deferred loan (fees) costs, net	117	137
Loans held for investment, net	<u>\$318,477</u>	<u>\$284,964</u>

Although the subsidiary banks' loan portfolios are diversified, there is a concentration of mortgage real estate loans, primarily one to four family residential mortgage loans, which represent 42.20% of total loans. Additionally, there is concentration in commercial loans secured primarily by real estate, to finance manufacturing buildings, shopping center locations, commercial land development, commercial buildings and equipment that comprise 26.90% of total loans. There is not a concentration of a particular type of credit in this group of commercial loans.

Impaired loans, which consisted of nonaccrual loans and other loans identified by management as impaired, totaled \$7.5 million and \$6.8 million at December 31, 2007 and 2006, respectively. The nonaccrual status of these loans had the effect of reducing net income by \$6,077 in 2007 and \$72,800 in 2006. Of the \$7.5 million in impaired loans at December 31, 2007, \$5.3 million carried an allowance of \$1.3 million while \$2.2 million were evaluated and required no specific allowance. Of the \$6.8 million in impaired loans at December 31, 2006, \$4.8 million carried an allowance of \$1.6 million while \$2.0 million required no specific allowance. The allowance for impaired loans amounted to \$1.3 million at December 31, 2007 and \$1.6 million at December 31, 2006. Loans past due 90 days and still accruing interest were \$0 and \$499,982 at December 31, 2007 and 2006, respectively. Restructured loans, excluding those included in impaired loans, amounted to \$168,489 at December 31, 2007.

Note 3 - Loans Held for Investment (Continued)

The carrying value of foreclosed properties held as other real estate was \$163,452 and \$202,976 at December 31, 2007 and 2006, respectively.

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

Note 4 - Allowance for Loan Losses

Changes in the allowance for loan losses for the years ended December 31, 2007, 2006 and 2005 are presented below:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(dollars in thousands)		
Balance, beginning of year	\$3,171	\$ 4,482	\$ 4,983
Charge-offs	(224)	(1,687)	(1,378)
Recoveries	548	78	122
Provision charged against income	15	298	755
Balance, end of year	<u>\$3,510</u>	<u>\$ 3,171</u>	<u>\$ 4,482</u>

Note 5 - Servicing Assets

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 \$205 million and \$186 million at December 31, 2007 and 2006, respectively. The carrying value of capitalized servicing rights, net of valuation allowances, is included in other assets. A summary of mortgage servicing rights follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(dollars in thousands)		
Beginning of year mortgage servicing rights:	\$1,244	\$1,138	\$1,236
Amounts capitalized	484	488	292
Amortization	(407)	(382)	(390)
End of year	<u>\$1,321</u>	<u>\$1,244</u>	<u>\$1,138</u>

Amortization expense is estimated as follows:

	<u>Year ending December 31,</u>
	(dollars in thousands)
2008	\$ 312
2009	270
2010	228
2011	187
2012	145
Thereafter	179
Total	<u>\$1,321</u>

Note 6 - Premises and Equipment

The major classes of premises and equipment and the total accumulated depreciation at December 31, 2007 and 2006 are listed below:

	<u>2007</u>	<u>2006</u>
	(dollars in thousands)	
Land	\$ 2,915	\$ 2,785
Building and improvements	6,579	6,280
Furniture and equipment	4,946	4,740
	<u>14,440</u>	<u>13,805</u>
Less accumulated depreciation	<u>5,689</u>	<u>5,187</u>
Total	<u>\$ 8,751</u>	<u>\$ 8,618</u>

The Company will begin renovations on one of their buildings during the first quarter of 2008. The contract bid for this project is \$1.4 million. The Company has also entered into an agreement to purchase an adjacent piece of property for future parking needs for \$255 thousand.

Note 7 - Leases

The Company's subsidiary, Bank of Stanly has entered into a noncancelable operating lease for a branch location in Albemarle that expires in 2008, with annual rental payments of \$19 thousand. The lease has one five year renewal option at the expiration of the initial term. Stanly has also entered into a noncancelable operating lease for a branch location in Locust that expires in 2008 with annual rental payments of \$42 thousand. The lease has two one year renewal options at the expiration of the initial term.

The Company's subsidiary, Cabarrus Bank and Trust has entered into a noncancelable operating lease for an administrative office location in Concord that expires in 2017 with annual rental payments of \$60 thousand. The lease has two five year renewal options at the expiration of the initial term.

Future minimum lease payments under these leases for years subsequent to December 31, 2007 are as follows:

	<u>Year ending December 31,</u>
	(dollars in thousands)
2008	\$121
2009	120
2010	113
2011	79
2012	78
Thereafter	<u>293</u>
Total	<u>\$804</u>

Total rental expense related to the operating leases was \$76,449, \$23,807 and \$18,575 for the years ended December 31, 2007, 2006 and 2005 respectively, and is included in occupancy expense.

Note 8 - Deposits

The composition of deposits at December 31, 2007 and 2006 is as follows:

	2007		2006	
	Amount	Percentage of Total	Amount	Percentage of Total
	(dollars in thousands)			
Demand deposits	\$ 46,597	14%	\$ 48,149	16%
Interest checking and money market	102,411	32%	101,470	32%
Savings	26,200	8%	27,833	9%
Time deposits \$100,000 and over	54,729	17%	48,450	16%
Other time deposits	94,720	29%	83,698	27%
Total	<u>\$324,657</u>	<u>100%</u>	<u>\$309,600</u>	<u>100%</u>

The maturities of fixed-rate time deposits at December 31, 2007 are reflected in the table below:

Year ending December 31,	Time Deposits \$100,000 and Over	Other Time Deposits
	(dollars in thousands)	
2008	\$50,038	\$84,012
2009	3,674	6,783
2010	546	2,799
2011	471	778
2012	—	348
Total	<u>\$54,729</u>	<u>\$94,720</u>

Note 9 - 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 2007 and 2006.

At year-end	2007		2006	
	Amount	Rate	Amount	Rate
Federal funds purchased	\$ 5,900	4.60%	\$ —	—
Securities sold under repurchase agreements	1,604	2.82%	2,025	4.31%
Master notes	9,630	2.67%	6,608	4.34%
Notes payable	7	6.00%	407	8.21%
Short-term advances from FHLB	14,787	3.85%	4,000	4.57%
	<u>\$31,928</u>	<u>3.58%</u>	<u>\$13,040</u>	<u>3.12%</u>

Note 9 - Short-Term Borrowed Funds (Continued)

	2007		2006	
	Amount	Rate	Amount	Rate
(dollars in thousands)				
<u>Average for the year</u>				
Federal funds purchased	\$ 1,331	5.22%	\$ 1,478	5.10%
Securities sold under repurchase agreements	1,798	3.81%	2,980	4.33%
Master notes	12,058	3.95%	7,692	4.29%
Notes payable	302	6.22%	407	6.94%
Short-term advances from FHLB	13,882	3.54%	4,129	4.15%
	<u>\$29,371</u>	<u>3.84%</u>	<u>\$16,686</u>	<u>4.40%</u>

	2007	2006
	(dollars in thousands)	
<u>Maximum month-end balance</u>		
Federal funds purchased	\$ 6,150	\$11,000
Securities sold under repurchase agreements	2,194	3,439
Master notes	15,830	11,007
Notes payable	407	407
Short-term advances from FHLB	16,587	12,000

Federal funds purchased represent unsecured overnight borrowings from other financial institutions. Securities sold under repurchase agreements represent short-term borrowings collateralized by securities of the United States government or its agencies. Master notes represent an overnight investment in commercial paper issued by the Company to customers of its subsidiary banks, where an agreement is in place.

The subsidiary banks have combined available lines of credit for federal funds in the amount of \$14.3 million at December 31, 2007.

Note 10 - 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 \$79.6 million at December 31, 2007. The long-term advances under this line amounted to \$15.0 million and \$14.0 million at December 31, 2007 and 2006, respectively. Interest rates ranged from 2.96% to 7.52% in both 2007 and 2006. Two subsidiary banks also have standby letters of credit issued by the Federal Home Loan Bank to be used as collateral for public funds deposits. The amount of the letters of credit was \$14.0 million at December 31, 2007.

On April 30, 2001, the Company borrowed \$4.0 million from a bank at an interest rate of prime less one percent. The note is payable in annual installments of \$400 thousand. The balance outstanding at December 31, 2006 was \$2.0 million. This loan was paid off on September 25, 2007.

On September 25, 2007, the Company borrowed \$6.6 million from a bank at an interest rate of prime less one percent. This is a two year note that is payable at maturity, with interest payable quarterly.

On September 26, 2002, the Company issued \$5.2 million of junior subordinated debentures to Uwharrie Statutory Trust I in exchange for the proceeds of the trust preferred securities issued

Note 10 - Long-Term Debt (Continued)

by the Trust. The junior subordinated debentures were included in long-term debt and the Company's equity interest in the Trust was included in other assets. The junior subordinated debentures paid interest quarterly at an annual rate, reset quarterly, equal to LIBOR plus 3.40%. The Company fully and unconditionally guaranteed the trust preferred securities through the combined operation of the junior subordinated debentures and other related documents. The Company's obligation under the guarantee was unsecured and subordinate to senior and subordinated indebtedness of the Company.

The trust preferred securities presently qualify as Tier 1 regulatory capital and are reported in Federal Reserve regulatory reports as a minority interest in a consolidated subsidiary. The junior subordinated debentures do not qualify as Tier 1 regulatory capital. On March 1, 2005, the Board of Governors of the Federal Reserve adopted a final rule that allows the continued limited inclusion of trust preferred securities in Tier 1 capital. The final rule limits trust preferred securities to 25 percent of all core capital elements, net of goodwill. Amounts of restricted core capital elements in excess of these limits generally may be included in Tier 2 capital. The final rule provides a five-year transition period, ending March 31, 2009, for application of the quantitative limits.

On September 26, 2007, the Company redeemed the \$5.2 million in junior subordinated debentures. After the redemption, the Company still remained well capitalized under the regulatory guidelines for bank holding companies.

On November 19, 2002, the Company executed a mortgage in the amount of \$129,000 for the purchase of property for branch expansion. This loan bears interest at 6.00% and is to be paid in 60 quarterly installments of \$3,277. The outstanding principal balance on this note was \$98,000 at December 31, 2007.

As of December 31, 2007, the scheduled maturities of these advances and notes payable are as follows:

	<u>Year ending December 31,</u> <u>(dollars in thousands)</u>	
2009		\$ 9,608
2010		5,009
2011		6,009
2012		1,009
2013		9
Thereafter		47
Total		<u>\$21,691</u>

Note 11 - Income Tax Matters

The significant components of income tax expense for the years ended December 31 are summarized as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(dollars in thousands)		
Current tax expense:			
Federal	\$ 844	\$ 217	\$ 379
State	238	177	92
Total	<u>1,082</u>	<u>394</u>	<u>471</u>
Deferred tax expense:			
Federal	198	343	38
State	7	96	14
Total	<u>205</u>	<u>439</u>	<u>52</u>
Net provision for income taxes	<u>\$ 1,287</u>	<u>\$ 833</u>	<u>\$ 523</u>

The difference between the provision for income taxes and the amounts computed by applying the statutory federal income tax rate of 34% to income before income taxes is summarized below:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(dollars in thousands)		
Tax computed at the statutory federal rate	\$ 1,443	\$ 987	\$ 693
Increases (decrease) resulting from:			
Tax exempt interest, net	(245)	(245)	(224)
State income taxes, net of federal benefit	162	143	70
Other	(73)	(52)	(16)
Provision for income taxes	<u>\$ 1,287</u>	<u>\$ 833</u>	<u>\$ 523</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 are as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(dollars in thousands)		
Deferred tax assets relating to:			
Allowance for loan losses	\$ 935	\$ 912	\$1,496
Deferred compensation	357	316	279
Other	—	236	130
Valuation allowance	(10)	(12)	(8)
Total deferred tax assets	<u>\$ 1,282</u>	<u>\$1,452</u>	<u>\$1,897</u>
Deferred tax liabilities relating to:			
Net unrealized gain on securities available for sale	\$ (241)	\$ (107)	\$ (206)
Premises and equipment	(369)	(364)	(392)
Deferred loans fees and costs	(213)	(212)	(218)
Loan servicing	(78)	(71)	(60)
Prepaid expenses	(110)	(96)	(79)
Other	(8)	—	—
Total deferred tax liabilities	<u>(1,019)</u>	<u>(850)</u>	<u>(955)</u>
Net recorded deferred tax asset	<u>\$ 263</u>	<u>\$ 602</u>	<u>\$ 942</u>

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

Note 12 - Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk

The subsidiary banks are parties to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of their 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 banks' risks of loss with the unfunded loans and lines of credit or standby letters of credit are represented by the contractual amount of these instruments. The banks use the same credit policies in making commitments under such instruments as they do 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, 2007 and 2006, outstanding financial instruments whose contract amounts represent credit risk were as follows:

	<u>2007</u>	<u>2006</u>
	(dollars in thousands)	
Commitments to extend credit	\$79,162	\$73,450
Credit card commitments	9,017	7,672
Standby letters of credit	1,641	616
	<u>\$89,820</u>	<u>\$81,738</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 bank subsidiaries make commercial, agricultural, real estate mortgage, home equity and consumer loans primarily in Stanly, Anson and Cabarrus counties. A substantial portion of the Company's customers' ability to honor their contracts is dependent on the economy in these counties.

Although the Company's composition of loans is diversified, there is some concentration of mortgage loans in the total portfolio. The Bank Policy is to abide by real estate loan-to-value margin limits corresponding to guidelines issued by the federal supervisory agencies on March 19, 1993. Lending policy for all loans requires that they be supported by sufficient cash flows. Credit losses related to this real estate concentration are consistent with credit losses experienced in the portfolio as a whole.

Note 13 - 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,

Note 13 - Related Party Transactions (Continued)

in management's opinion, do not involve more than the normal risk of collectibility. All loans to directors and executive officers or their interests are submitted to the Board of Directors for approval. A summary of loans to directors, executive officers and their related interests follows:

(dollars in thousands)

Balance at December 31, 2006	\$ 22,459
Disbursements during the year	7,733
Collections during the year	<u>(14,380)</u>
Balance at December 31, 2007	<u>\$ 15,812</u>

At December 31, 2007, the Company had approved, but unused lines of credit, totaling \$2.2 million to executive officers, directors, officers and their related interests.

Note 14 - Regulatory Matters

The Company, and its bank subsidiaries, 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 noninterest-bearing deposits with the Federal Reserve Bank.

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

December 31, 2007	Actual		Minimum For Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
Total Capital to Risk						
Weighted Assets:						
Consolidated	\$33,713	10.2%	\$26,346	8.00%	\$ 32,933	10.00%
Bank of Stanly	27,035	12.2%	17,771	8.00%	22,214	10.00%
Anson Bank and Trust	4,511	12.5%	2,880	8.00%	3,600	10.00%
Cabarrus Bank and Trust	7,693	10.9%	5,653	8.00%	7,067	10.00%
Tier I Capital to Risk						
Weighted Assets:						
Consolidated	30,200	9.2%	13,173	4.00%	19,760	6.00%
Bank of Stanly	24,550	11.1%	8,885	4.00%	13,328	6.00%
Anson Bank and Trust	4,123	11.5%	1,440	4.00%	2,160	6.00%
Cabarrus Bank and Trust	7,053	10.0%	2,827	4.00%	4,240	6.00%

Note 14 - Regulatory Matters (Continued)

Tier I Capital to						
Average Assets:						
Consolidated	30,200	7.6%	15,833	4.00%	19,791	5.00%
Bank of Stanly	24,550	9.1%	10,775	4.00%	13,468	5.00%
Anson Bank and Trust	4,123	8.8%	1,884	4.00%	2,355	5.00%
Cabarrus Bank and Trust	7,053	8.8%	3,212	4.00%	4,015	5.00%

December 31, 2006

Total Capital to Risk						
Weighted Assets:						
Consolidated	\$36,778	12.7%	\$23,107	8.00%	\$28,884	10.00%
Bank of Stanly	25,731	13.3%	15,406	8.00%	19,258	10.00%
Anson Bank and Trust	4,320	13.5%	2,563	8.00%	3,203	10.00%
Cabarrus Bank and Trust	7,013	11.0%	5,116	8.00%	6,395	10.00%

Tier I Capital to Risk						
Weighted Assets:						
Consolidated	33,601	11.6%	11,554	4.00%	17,330	6.00%
Bank of Stanly	23,402	12.2%	7,703	4.00%	11,555	6.00%
Anson Bank and Trust	3,983	12.4%	1,281	4.00%	1,922	6.00%
Cabarrus Bank and Trust	6,502	10.2%	2,558	4.00%	3,837	6.00%

Tier I Capital to						
Average Assets:						
Consolidated	33,601	8.8%	15,249	4.00%	19,061	5.00%
Bank of Stanly	23,402	9.0%	10,457	4.00%	13,072	5.00%
Anson Bank and Trust	3,983	8.8%	1,856	4.00%	2,320	5.00%
Cabarrus Bank and Trust	6,502	8.1%	3,223	4.00%	4,029	5.00%

As of December 31, 2007, the most recent notification from the Federal Deposit Insurance Corporation categorized all subsidiary banks 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 categorizations.

For the reserve maintenance period in effect at December 31, 2007, the subsidiary banks were required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank in the aggregate amount of \$3.7 million as reserves on deposit liabilities.

Note 15 - Stock Matters

Employee Stock Plans

During 1996, the Company adopted the 1996 Incentive Stock Option Plan ("SOP") and the Employee Stock Purchase Plan ("SPP"), 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 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 are fully vested at the date of grant and expire if not exercised within two years of the grant date. Both of these plans expired in 2006. At December 31, 2007, the SOP had 504,207 shares still outstanding and the SPP had no options outstanding.

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 are exercisable in established increments according to vesting schedules,

Note 15 - Stock Matters (Continued)

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, 2007, neither the SOP II nor the SPP II had options outstanding.

Activity under all option plans, reflecting the effects of the 3% stock dividends issued in 2007, 2006 and 2005, are as follows:

	2007		2006		2005	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding at the beginning of the year	535,546	\$ 4.59	703,650	\$ 4.32	723,440	\$ 4.22
Options granted	—	—	15,450	5.97	89,807	5.28
Options exercised	(13,144)	2.74	(99,686)	2.25	(75,565)	4.47
Forfeitures	(18,195)	5.46	(83,868)	5.32	(34,032)	4.60
Options outstanding at the end of the year	<u>504,207</u>	<u>\$ 4.61</u>	<u>535,546</u>	<u>\$ 4.59</u>	<u>703,650</u>	<u>\$ 4.32</u>
Options exercisable at the end of the year	<u>473,088</u>	<u>\$ 4.55</u>	<u>454,272</u>	<u>\$ 4.45</u>	<u>540,794</u>	<u>\$ 4.03</u>

At December 31, 2007, options outstanding had a weighted-average remaining term of 3.1 years. Total options outstanding at December 31, 2007 included 504,207 options exercisable at a range of \$2.74 to \$5.94 per share with a weighted average expected term of 3.1 years. Exercisable options at December 31, 2007 included 473,088 options exercisable at a range of \$2.74 to \$5.94 per share. At December 31, 2007, authorized shares of common stock reserved for future grants of options totaled 162,458 under the SOP II, and 100,227 under the SPP II.

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. Pursuant to stock repurchase authorizations and limitations, the Company purchased 237,669 shares during 2007 and 23,864 shares during 2006 at an aggregate purchase price of \$1,403,749 and \$145,093, respectively.

Note 16 - Employee and Director Benefit Plans

Employees' Savings Plus and Profit Sharing Plan

The Company has established an associate tax deferred savings plan under Section 401(k) of the Internal Revenue Code of 1986. All associates who are scheduled to work 500 hours or more are eligible to participate upon completion of six months of employment.

The Company's annual contribution to the plan was \$192,776 in 2007, \$169,982 in 2006 and \$143,210 in 2005, determined as follows:

- A matching contribution equivalent to 50% of the first 6% of each associate's compensation contributed to the plan.

Note 16 - Employee and Director Benefit Plans (Continued)

- 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.

Directors' Deferred Compensation Plan

On March 1, 1994, the Company established a Directors' Deferred Compensation Plan in accordance with the laws of the State of North Carolina under which each Director could elect to defer receipt for services rendered to the Company as a Director during the term of his or her service by entering into a written deferred compensation election. This plan was closed to new participants in 2001; subsequently, only two directors continue to defer receipt of fees. The balance in deferred directors' compensation, not yet disbursed, was \$195,938 and \$212,382 at December 31, 2007 and 2006, respectively. Expense for the years ended December 31, 2007, 2006 and 2005 was \$12,956, \$12,283 and \$13,931, respectively.

Employee Stock Ownership Plan

The Company established an Employee Stock Ownership Plan ("ESOP") to benefit all qualified employees. The ESOP purchased 284,676 dividend adjusted shares of common stock in 1999 with proceeds received from a loan of \$1.2 million from the Company. The loan is to be repaid over eighteen years with interest at 8%. The loan may be prepaid without penalty. The unallocated shares of stock held by the ESOP are pledged as collateral for the loan. The ESOP is funded by contributions made by the Company and its subsidiaries in amounts sufficient to retire the debt. At December 31, 2007, the outstanding balance of the loan is \$799,866 and is presented as a reduction of shareholders' equity.

Shares released as the debt is repaid and earnings from the common stock held by the ESOP are allocated among active participants on the basis of compensation in the year of allocation. Benefits vest 100% as they are allocated to participants. Dividends on unallocated shares may be used by the ESOP to repay the loan to the Company and are not reported as dividends in the financial statements. Dividends on allocated or committed to be allocated shares are credited to the accounts of the participants and reported as dividends in the consolidated financial statements.

Expenses of \$317,256, \$237,022 and \$251,437 during the years ended December 31, 2007, 2006 and 2005, respectively, have been incurred in connection with the ESOP. At December 31, 2007, 201,740 shares held by the ESOP, including additional shares purchased, have been released or committed to be released to the ESOP's participants for purposes of computing earnings per share. The fair value of the unallocated shares amounted to approximately \$783 thousand at December 31, 2007.

Supplemental Executive Retirement Plan

The Company has implemented a non-qualifying deferred compensation plan for certain executive officers. The Company has purchased life insurance policies in order to provide future funding of benefit payments. Certain of the plan benefits will accrue and vest during the period of employment, and will be paid in fixed monthly benefit payments from ten to fifteen years commencing with the officer's retirement at any time after attainment of the age specified in the

Note 16 - Employee and Director Benefit Plans (Continued)

officer's plan agreement. Other benefits will accrue based upon the performance of the underlying life insurance policies both during employment and after retirement. Such benefits will continue to accrue and be paid throughout the participant's life assuming satisfactory performance of the funding life insurance policy. 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 attainment of retirement age.

Effective July 1, 2007, this plan was amended and restated for all but one of the plan participants to comply with Section 409A of the Internal Revenue Code. The participants' account liability balances as of December 31, 2007 will 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 participant has been calculated through the participant's expected retirement date. Under terms of the agreement, the Company has reserved the absolute right, at its sole discretion, to either fund or refrain from funding the plan. The plan also provides for payment of death benefits and for payment of disability benefits in the event the officer becomes permanently disabled prior to attainment of retirement age.

During 2007, 2006 and 2005 a provision of \$199,328, \$23,446 and \$137,688, respectively, was expensed for future benefits to be provided under the plan. The liability accrued for compensation deferred under the plan amounts to \$731,010, and \$531,682 at December 31, 2007 and 2006, respectively.

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.

Note 17- Fair Values of Financial Instruments and Interest Rate Risk

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, 2007 and 2006.

	2007		2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(dollars in thousands)			
Financial Assets				
Cash and cash equivalents	\$ 16,197	\$ 16,197	\$ 34,760	\$ 34,760
Securities available for sale	51,005	51,005	37,150	37,150
Loans, net of unearned income and allowance for loan losses	318,477	322,115	284,964	287,974
Loans held for sale	2,916	2,917	3,814	3,818
Other financial assets	9,510	9,510	8,888	8,888
Financial Liabilities				
Deposits	\$324,657	\$322,287	\$309,600	\$314,986
Short-term borrowings	31,928	31,928	13,040	13,040
Long-term debt	21,691	21,832	29,289	29,147
Other financial liabilities	596	596	503	503

At December 31, 2007, the subsidiary banks 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; therefore, they were deemed to have no current fair value. See Note 12.

Interest Rate Risk

The Company assumes interest rate risk (the risk that general interest rate levels will change) in the course of its normal operations. As a result, fair values of the Company's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are more likely to prepay in a falling rate environment and less likely to prepay in a rising rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Company's overall interest rate risk.

Note 18 - Parent Company Financial Data

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

Condensed Balance Sheets

	December 31,	
	2007	2006
	(dollars in thousands)	
Assets		
Cash and demand deposits with bank subsidiaries	\$ 289	\$ 214
Interest-earning deposits with bank subsidiaries	9,830	6,865
Investments in:		
Bank subsidiaries	37,100	35,045
Nonbank subsidiaries	252	511
Other assets	770	894
Total assets	<u>\$48,241</u>	<u>\$43,529</u>
Liabilities and shareholders' equity		
Master notes	\$ 9,630	\$ 6,608
Long-term debt	6,600	2,000
Junior subordinated debentures	—	5,155
Other liabilities	437	133
Shareholders' equity	31,574	29,633
Total liabilities and shareholders' equity	<u>\$48,241</u>	<u>\$43,529</u>

Condensed Statement of Operations

	2007	2006	2005
	(dollars in thousands)		
Equity in earnings of subsidiaries	\$3,734	\$2,915	\$1,922
Interest income	493	354	175
Management and service fees	4,227	3,854	3,797
Other income	119	190	107
Interest expense	1,029	921	625
Other operating expense	4,978	4,537	4,030
Income tax benefit	(393)	(216)	(171)
Net income	<u>\$2,959</u>	<u>\$2,071</u>	<u>\$1,517</u>

Note 18 - Parent Company Financial Data (Continued)

Condensed Statements of Cash Flows

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(dollars in thousands)		
Cash flows from operating activities			
Net income	\$ 2,959	\$ 2,071	\$ 1,517
Adjustments to reconcile net income to net cash			
Provided (used) by operating activities:			
Equity in earnings of subsidiaries	(3,734)	(2,915)	(1,922)
Decrease in other assets	618	1,020	524
Increase (decrease) in other liabilities	304	(61)	(426)
Net cash provided (used) by operating activities	<u>147</u>	<u>115</u>	<u>(307)</u>
Cash flows from investing activities			
Dividends received from subsidiaries	1,800	—	1,000
Net cash provided by investing activities	<u>1,800</u>	<u>—</u>	<u>1,000</u>
Cash flows from financing activities			
Net increase (decrease) in master notes	3,022	2,153	(576)
Net increase (decrease) in long-term debt	4,600	(400)	(400)
Net decrease in subordinated debentures	(5,155)	—	—
Repurchase of common stock	(1,404)	(145)	(1,214)
Proceeds from issuance of common stock	36	224	347
Tax benefit of stock options exercised	3	48	31
Cash paid for fractional shares	(9)	(9)	(9)
Net cash provided (used) by financing activities	<u>1,093</u>	<u>1,871</u>	<u>(1,821)</u>
Net increase (decrease) in cash and cash equivalents	3,040	1,986	(1,128)
Cash and cash equivalents at beginning of period	<u>7,079</u>	<u>5,093</u>	<u>6,221</u>
Cash and cash equivalents at end of period	<u>\$10,119</u>	<u>\$ 7,079</u>	<u>\$ 5,093</u>

Note 19 - Quarterly Financial Data

	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
	(in thousands, except per share data)			
2007				
Interest income	\$ 6,542	\$ 6,650	\$ 6,846	\$ 6,871
Interest expense	(3,058)	(2,972)	(2,964)	(2,882)
Net interest income	3,484	3,678	3,882	3,989
Provision for loan losses	—	138	(18)	(135)
Net interest income after provision for loan losses	3,484	3,816	3,864	3,854
Noninterest income	1,542	1,492	1,660	1,896
Noninterest expense	(4,083)	(4,273)	(4,414)	(4,592)
Income before taxes	943	1,035	1,110	1,158
Income taxes	285	318	336	348
Net income	<u>\$ 658</u>	<u>\$ 717</u>	<u>\$ 774</u>	<u>\$ 810</u>
Net income per common share				
Basic	<u>\$ 0.09</u>	<u>\$ 0.10</u>	<u>\$ 0.10</u>	<u>\$ 0.11</u>
Diluted	<u>\$ 0.09</u>	<u>\$ 0.10</u>	<u>\$ 0.10</u>	<u>\$ 0.11</u>
	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
	(in thousands, except per share data)			
2006				
Interest income	\$ 5,477	\$ 5,972	\$ 6,412	\$ 6,492
Interest expense	(2,171)	(2,562)	(2,960)	(3,009)
Net interest income	3,306	3,410	3,452	3,483
Provision for loan losses	(145)	(99)	(54)	—
Net interest income after provision for loan losses	3,161	3,311	3,398	3,483
Noninterest income	1,261	1,277	1,437	1,494
Noninterest expense	(3,856)	(4,002)	(3,900)	(4,160)
Income before taxes	566	586	935	817
Income taxes	140	145	282	266
Net income	<u>\$ 426</u>	<u>\$ 441</u>	<u>\$ 653</u>	<u>\$ 551</u>
Net income per common share				
Basic	<u>\$ 0.06</u>	<u>\$ 0.06</u>	<u>\$ 0.09</u>	<u>\$ 0.07</u>
Diluted	<u>\$ 0.06</u>	<u>\$ 0.06</u>	<u>\$ 0.09</u>	<u>\$ 0.06</u>

Selected Financial Data
(In Thousands Except Per Share and Shares Outstanding Information)

	2007	2006	2005	2004	2003
Summary of Operations					
Interest income	\$ 26,909	\$ 24,353	\$ 19,161	\$ 15,906	\$ 14,597
Interest expense	11,876	10,702	6,630	4,734	4,606
Net interest income	15,033	13,651	12,531	11,172	9,991
Provision for loan losses	15	298	755	2,092	593
Noninterest income	6,590	5,469	4,351	4,271	5,159
Noninterest expense	17,362	15,918	14,087	13,297	12,466
Income taxes	1,287	833	523	(199)	531
Net income	<u>\$ 2,959</u>	<u>\$ 2,071</u>	<u>\$ 1,517</u>	<u>\$ 253</u>	<u>\$ 1,560</u>
Per Common Share					
Net income – basic (1)	\$ 0.40	\$ 0.28	\$ 0.20	\$ 0.03	\$ 0.20
Net income – diluted (1)	0.40	0.27	0.20	0.03	0.20
Book value (1)	4.26	3.87	3.62	3.52	3.54
Weighted Average Shares					
Outstanding:					
Basic (1)	7,382,033	7,462,115	7,459,530	7,582,331	7,594,285
Diluted (1)	7,482,361	7,574,856	7,641,336	7,759,854	7,736,441
Ratios					
Return on average assets	0.75%	0.56%	0.45%	0.08%	0.57%
Return on average equity	9.73%	7.32%	5.58%	0.91%	5.78%
Average equity to average assets	7.73%	7.67%	8.14%	8.64%	9.86%
Selected Year-end Balances					
Assets	\$ 411,944	\$ 383,261	\$ 350,190	\$ 329,262	\$ 300,529
Loans held for investment	321,987	288,135	272,842	260,835	235,151
Securities	51,005	37,150	35,016	28,524	27,707
Deposits	324,657	309,600	273,976	246,939	212,563
Borrowed funds	53,619	42,329	47,007	53,796	58,924
Shareholders' equity	31,574	29,633	27,453	27,156	27,852
Selected Average Balances					
Assets	\$ 393,188	\$ 368,781	\$ 334,193	\$ 321,093	\$ 273,679
Loans held for investment	308,149	293,394	267,164	256,525	221,158
Securities	41,188	35,227	29,038	28,846	27,281
Deposits	312,261	289,742	254,591	234,424	188,803
Borrowed funds	48,075	48,510	50,265	57,296	56,263
Shareholders' equity	30,402	28,299	27,187	27,741	26,980

(1) Net income per share, book value per share, weighted average shares outstanding and shares outstanding at year-end for 2003 through 2007 have been adjusted to reflect 3% stock dividends issued in 2007, 2006, 2005, 2004 and 2003.

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 8-40. References to changes in assets and liabilities represent end of period balances unless otherwise noted. All references in this Annual Report to net income per share and weighted average common and common equivalent shares outstanding have been adjusted to reflect 3% stock dividends in 2007, 2006 and 2005. 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 as a result of market and other factors. Such forward-looking statements are subject to risks and uncertainties which 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 from time to time. Such forward-looking statements may be identified by the use of such words as "believe," "expect," "anticipate," "should," "might," "planned," "estimated," and "potential." Examples of forward-looking statements include, but are not limited to, estimates with respect to the financial condition, expected or anticipated revenue, results of operations and business of the Company that are subject to various factors which could cause actual results to differ materially from these estimates. These factors include, but are not limited to, general economic conditions, changes in interest rates, deposit flows, loan demand, real estate values, and competition; changes in accounting principles, policies, or guidelines; changes in legislation or regulation; and other economic, competitive, governmental, regulatory, and technological factors affecting the Company's operations, pricing, products and services.

Financial Condition at December 31, 2007 and December 31, 2006

The Company's total assets increased \$28.6 million or 7.5% from \$383.3 million at December 31, 2006 to \$411.9 million at December 31, 2007. This increase resulted primarily from a \$33.9 million increase in loans held for investment and a \$13.8 million increase in securities available for sale. These increases were offset by a decrease of \$18.6 million in cash and cash equivalents.

Loans held for investment increased \$33.9 million, from \$288.1 million at December 31, 2006 to \$322.0 million at December 31, 2007, an increase of 11.8%. The growth was largely due to the 12.9%, or \$30.8 million, increase in our loans secured by real estate. Our commercial and consumer portfolios experienced growth as well. Loans held for sale decreased \$898 thousand, or 23.54%, for the period. At December 31, 2007 the allowance for loan losses was \$3.5 million which represents 1.09% of the loan held for investment portfolio.

Investment securities increased 37.3% during 2007, from \$37.2 million at December 31, 2006 to \$51.0 million at December 31, 2007. Throughout the year we invested in mortgage backed securities and US Government Agencies. Mortgage backed securities increased \$15.4 million, or 119.2%, during the period. During the year the Company executed a transaction selling \$4.0 million in US Government Agencies realizing a loss of \$75 thousand and reinvested the proceeds to improve its yield. The Company also had an additional sale realizing a loss of \$1 thousand.

Cash and cash equivalents decreased by \$18.6 million during 2007. This decrease was generated by a \$17.5 million, or 100%, decrease in federal funds sold. At December 31, 2006 the Company had made a decision to keep a portion of its investments in short-term federal funds. During 2007 this short-term investment was used to fund growth in both our investment and loan portfolios resulting in an improved yield. Cash and due from banks declined \$1.3 million while interest earning deposits with banks grew \$285 thousand.

Other changes in our consolidated assets related to premises and equipment, interest receivable, Federal Home Loan Bank stock and bank owned life insurance. Premises and equipment increased due to the opening of a new retail branch in 2007, while interest receivable grew \$280 thousand or 15.8% impacted by both loan and investment growth. Federal Home Loan Bank stock increased \$157 thousand. Federal Home Loan Bank stock ownership is a requirement for member banks that utilize Federal Home Loan Bank for borrowing funds. The amount of stock owned by each member bank is based primarily on the amount of borrowings outstanding. Bank owned life insurance also experienced growth of \$185 thousand.

Customer deposits continued to be our principal funding source in 2007, allowing us to fund the growth in assets discussed above. At December 31, 2007, deposits from our customers totaled \$324.7 million, an increase of \$15.1 million, or 4.9%, from \$309.6 million at December 31, 2006. Time deposits grew \$17.3 million, or 13.1%, during the period, while interest checking and money market accounts increased \$941 thousand, or 0.9%. Offsetting the growth in the aforementioned areas were declines in savings accounts of 5.9%, or \$1.6 million and demand, noninterest bearing of \$1.6 million. During the past year with the increasing interest rate environment our customers have been moving their interest earning deposits into higher yielding deposit accounts.

The aforementioned growth in the loan and investment portfolios required the Company to increase net borrowings by \$11.3 million during 2007. 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, 2007, \$29.8 million of the total borrowings of \$53.6 million were attributed to Federal Home Loan Bank advances.

The Company had long-term debt of \$5.2 million of junior subordinated debentures to Uwharrie Statutory Trust I, issued in 2002, in exchange for the proceeds of the trust preferred securities issued by the Trust. The junior subordinated debentures were incurred in long-term debt and were redeemable on September 26, 2007 or afterwards. The annual interest rate was LIBOR plus 3.40%. During the third quarter, the Company made a decision to help improve its interest margin by refinancing the subordinated debt. The Company redeemed the debt during 2007, however market rates increased during the process and the replacement of the subordinated debt was placed on hold pending more favorable market conditions. The Company did replace the debt with other shorter term borrowings.

At December 31, 2007, total shareholders' equity was \$31.6 million, an increase of \$2.0 million from December 31, 2006. Net income for the period was \$2.9 million and the Company received \$36 thousand from the exercise of stock options. Unrealized gains on investment securities, net of tax, increased \$217 thousand. These increases were offset by the repurchase of 237,669 shares of the Company's common stock at a cost of \$1.4 million.

Results of Operations for the Years Ended December 31, 2007 and 2006

Earnings

The Company earned net income of \$2.9 million, or \$0.40, per basic share for 2007 as compared with net income of \$2.1 million, or \$0.28 per basic share, in 2006.

Net Interest Income

As with most financial institutions, the primary component of earnings for our banks, is net interest income. Net interest income is the difference between interest income, principally from loan and investment securities portfolios, and interest expense, principally on customer deposits and 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 by levels of noninterest bearing liabilities and capital.

Net interest income increased \$1.4 million to \$15.0 million for 2007 compared to the \$13.6 million earned in 2006. During 2007 with the interest rates stabilizing the increase in net interest income resulted from growth in the loan and investment portfolio. The average yield on our interest-earning assets increased 24 basis points to 7.49%, while the average rate we paid for our interest-bearing liabilities increased 11 basis points. These increases resulted in an increase of 13 basis points in our interest rate spread, from 3.57% in 2006 to 3.70% in 2007. Our net interest margin for 2007 was 4.22%, compared to 4.10% in 2006. Financial Table 1 on page 52 presents a detailed analysis of the components of the Company's net interest income while Financial Table 2 on page 53 summarizes the effects on net interest income from changes in interest rates and in the dollar volume of the components of interest-earning assets and interest bearing liabilities.

Provision for Loan Losses

The provision for loan losses was \$15 thousand and \$298 thousand for the twelve months ended December 31, 2007 and 2006 respectively. There were net loan recoveries of \$324 thousand for the twelve months ended December 31, 2007 as compared with net loan charge-offs of \$1.6 million during the same period of 2006. Refer to the Asset Quality discussion beginning on page 46 for further information.

Noninterest Income

The Company generates most of its revenue from net interest income; however, diversification of our earnings base is of major importance to our long term success. Noninterest income increased 20.5%, from \$5.5 million in 2006 to \$6.6 million in 2007, an increase of \$1.1 million. Income generated from brokerage commissions and asset management fees increased \$554 thousand to \$1.9 million, while other banking fees increased \$214 thousand or 21.8% during 2007. Service charges on deposit accounts grew \$188 thousand to \$2.2 million. The Company also benefited from an increase in income from mortgage loan sales of \$193 thousand resulting from an increase in mortgage loan originations. During 2007, the Company sold investment securities realizing a loss of \$76 thousand, while other income increased \$108 thousand.

Noninterest Expense

Noninterest expense increased \$1.4 million to \$17.4 million in 2007 compared to \$15.9 million in 2006. Salaries and employee benefits, the largest component of noninterest expense, increased \$1.0 million, from \$9.1 million in 2006 to \$10.1 million in 2007. Additions at the executive and bank support staff levels together with normal salary increases, primarily account for this increase. Other noninterest expense increased \$475 thousand for the year, including electronic

banking expense, a major component of this category, which increased by \$102 thousand. Increased usage of electronic banking products is the reason for the increase. Professional fees and services, another component of this category, also increased \$102 thousand. This increase was primarily due to compliance with Sarbanes Oxley. At the end of 2006, the remaining costs associated with a core system conversion were amortized off, resulting in a decrease in data processing costs of \$197 thousand. In relation to the aforementioned discussion on the subordinated debt, the Company expensed \$126 thousand in remaining unamortized issue costs during third quarter contributing to the increase in other noninterest expense.

Income Tax Expense

The Company had income tax expense of \$1.3 million for 2007 at an effective tax rate of 30.3% compared to income tax expense of \$833 thousand in 2006 at an effective tax rate of 28.7%. Income taxes computed at the statutory rate are reduced primarily by the eligible amount of interest earned on state and municipal securities and income earned on bank owned life insurance. The growth in taxable income out paced the growth in nontaxable income resulting in the increase in the effective tax rate.

Results of Operations for the Years Ended December 31, 2006 and 2005**Earnings**

The Company earned net income of \$2.1 million, or \$0.28 per basic share for 2006 as compared with net income of \$1.5 million, or \$0.20 per basic share, in 2005.

Net Interest Income

As with most financial institutions, the primary component of earnings for our banks, is net interest income. Net interest income is the difference between interest income, principally from loan and investment securities portfolios, and interest expense, principally on customer deposits and 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 by levels of noninterest bearing liabilities and capital.

Net interest income increased \$1.1 million to \$13.6 million for 2006 compared to the \$12.5 million earned in 2005. During 2006 with the interest rates stabilizing the increase in net interest income resulted from growth in the loan and investment portfolio. The average yield on our interest-earning assets increased 87 basis points to 7.25%, while the average rate we paid for our interest-bearing liabilities increased 114 basis points. These increases resulted in a decrease of 27 basis points in our interest rate spread, from 3.84% in 2005 to 3.57% in 2006. Our net interest margin for 2006 was 4.10%, compared to 4.21% in 2005. Financial Table 1 on page 52 presents a detailed analysis of the components of the Company's net interest income while Financial Table 2 on page 53 summarizes the effects on net interest income from changes in interest rates and in the dollar volume of the components of interest-earning assets and interest bearing liabilities.

Provision and Allowance for Loan Losses

The provision for loan losses was \$298 thousand and \$755 thousand for the twelve months ended December 31, 2006 and 2005 respectively. There were net loan charge-offs of \$1.6 million for the twelve months ended December 31, 2006 as compared with net loan charge-offs of \$1.3 million during the same period of 2005. Refer to the Asset Quality discussion beginning on page 46 for further information.

Noninterest Income

The Company generates most of its revenue from net interest income; however, diversification of our earnings base is of major importance to our long term success. Noninterest income increased 25.7%, from \$4.4 million in 2005 to \$5.5 million in 2006, an increase of \$1.1 million. Income generated from brokerage commissions and asset management fees increased \$424 thousand to \$1.3 million, while other banking fees increased \$177 thousand or 21.9% during 2006. Service charges on deposit accounts grew \$293 thousand to \$2.0 million. During 2005, the Company implemented a new non-sufficient funds program. This new program along with the growth in demand deposit accounts resulted in a \$348 thousand increase in NSF fees. The Company also benefited from an increase in income from mortgage loan sales of \$210 thousand resulting in an increase in mortgage loan originations. During 2006, the Company sold investment securities realizing a gain of \$60 thousand. These increases were offset by a decline in other income of \$62 thousand.

Noninterest Expense

Noninterest expense increased \$1.8 million to \$15.9 million in 2006 compared to \$14.1 million in 2005. Salaries and employee benefits, the largest component of noninterest expense, increased \$1.1 million, from \$8.0 million in 2005 to \$9.1 million in 2006. Additions at the executive and bank support staff levels together with normal salary increases, primarily account for this increase. Data processing costs increased 11.4% or \$96 thousand in 2006 with growth in loans and deposits. Other noninterest expense increased \$560 thousand for the year, including electronic banking expense, a major component of this category, which increased by \$276 thousand. Increased usage of electronic banking products is the reason for the increase. Marketing and donations another component of this category increased \$235 thousand.

Income Tax Expense

The Company had income tax expense of \$833 thousand for 2006 at an effective tax rate of 28.7% compared to income tax expense of \$523 thousand in 2005 at an effective tax rate of 25.6%. Income taxes computed at the statutory rate are reduced primarily by the eligible amount of interest earned on state and municipal securities and income earned on bank owned life insurance. The growth in taxable income out paced the growth in nontaxable income resulting in the increase in the effective tax rate.

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 by recoveries of amounts previously charged off, and reduced by loans charged off. Management evaluates the adequacy of the allowance at least quarterly. In evaluating the adequacy of the allowance, management considers 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, 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 either on discounted cash flows using the loan's initial effective interest rate or on the fair value of the collateral for certain collateral dependent loans. 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 the risk-grading program to facilitate the evaluation of probable inherent loan losses and the adequacy of the allowance for loan losses. In this program, risk grades are initially assigned by loan officers and reviewed and monitored by credit administration. The Company strives to maintain its loan portfolio in accordance with conservative loan underwriting policies that result in loans specifically tailored to the needs of its market area. Every effort is made to identify and minimize the credit risks associated with such lending strategies. The Company has no foreign loans and does not engage in significant lease financing or highly leveraged transactions. The Company follows a loan review program designed to evaluate the credit risk in the loan portfolio. This process includes the maintenance of an internally classified watch list that helps 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. As a result of this process, certain loans are categorized as substandard, doubtful or loss, and reserves are allocated based on management's judgment and historical experience.

The allowance for loan losses represents management's estimate of an amount adequate to provide for known and inherent losses 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 substantially 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 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 as a result of the factors discussed herein. Any material increase in the allowance for loan losses may adversely affect the Company's financial condition and results of operations.

The provision for loan losses declined from \$298 thousand in 2006 to \$15 thousand in 2007, a decrease of \$283 thousand. This decline in the level of our provision in 2007 resulted primarily from recoveries totaling approximately \$317 thousand on two loans charged off in prior years. Impaired loans, which include all loans in nonaccrual status and other loans deemed by management to be impaired, were \$7.5 million at December 31, 2007 compared to \$6.8 million at December 31, 2006 resulting in an increase of \$701 thousand. Total nonaccrual, which are a

component, increased from \$1.2 million at December 31, 2006 to \$1.8 million at December 31, 2007. The level of specific reserves identified for impaired loans decreased by \$370 thousand. The decline in the level of specific reserves for impaired loans resulted from the Company's continued efforts in improving its collateral positions. The Company had net loan recoveries in 2007 of \$324 thousand compared to net loan charge-offs of \$1.6 million in 2006. Three loans which were impaired as of December 31, 2005 accounted for \$1.4 million of the total \$1.6 million in net charge-offs in 2006.

The allowance expressed as a percentage of gross loans held for investment decreased 1 basis point from 1.10% at December 31, 2006 to 1.09% at December 31, 2007. The allowance, as a percentage of total impaired loans, decreased from 51.2% at December 31, 2006 to 35.7% at December 31, 2007. Likewise, the portion of the allowance specifically allocable to impaired loans decreased from 24.0% at December 31, 2006 to 16.8% at December 31, 2007. Nonperforming loans, which consist solely of nonaccrual loans, were \$1.8 million at December 31, 2007 as compared to \$1.2 million at December 31, 2006. Nonperforming loans to total loans increased from 0.42% at December 31, 2006, to 0.56% at the end of 2007. The total allowance relative to non-performing loans decreased from 261.8% at the end of 2006 to 195.6% at this year end. Management believes the current level of allowance for loan losses to be adequate at this time.

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

Nonperforming Assets

(dollars in thousands)

	At December 31,				
	2007	2006	2005	2004	2003
Nonperforming Assets:					
Nonaccrual loans	\$ 1,795	\$ 1,211	\$ 1,875	\$ 3,376	\$ 1,577
Other real estate owned	163	203	169	481	108
Total nonperforming assets	<u>\$ 1,958</u>	<u>\$ 1,414</u>	<u>\$ 2,044</u>	<u>\$ 3,857</u>	<u>\$ 1,685</u>
Accruing loans past due 90 days or more	\$ —	\$ 500	\$ 339	\$ 1,150	\$ 607
Allowance for loan losses	3,510	3,171	4,482	4,983	3,224
Nonperforming loans to total loans	0.56%	0.42%	0.69%	1.30%	0.67%
Allowance for loan losses to total loans	1.09%	1.10%	1.64%	1.92%	1.37%
Nonperforming assets to total loans and other real estate	0.61%	0.49%	0.75%	1.47%	0.72%
Nonperforming assets to total assets	0.48%	0.37%	0.58%	1.17%	0.56%
Allowance for loan losses to nonperforming loans	195.57%	261.78%	239.09%	147.59%	204.44%

Capital Resources

The Company continues to maintain good capital ratios that support its asset growth. The capital position is maintained through the retention of earnings and controlled growth. Regulatory agencies divide capital into Tier I (consisting of shareholders' equity less ineligible

intangible assets and accumulated other comprehensive income and allowable portions of trust preferred securities) and Tier II (consisting of the allowable portion of the reserve for loan losses and certain long-term debt) and measure capital adequacy by applying both capital levels to a banking company's risk-adjusted assets and off-balance sheet items. In addition to these capital ratios, regulatory agencies have established a Tier I leverage ratio that measures Tier I capital to average assets less ineligible intangible assets.

Regulatory guidelines require a minimum of total capital to risk-adjusted assets ratio of 8% with one-half consisting of tangible common shareholders' equity and a minimum Tier I leverage ratio of 4%. Banks which meet or exceed a Tier I ratio of 6%, a total capital ratio of 10% and a Tier I leverage ratio of 5% are considered well capitalized by regulatory standards. At December 31, 2007, the Company and its subsidiary banks were all well capitalized.

The Company expects to continue to exceed these minimums without altering current operations or strategy. The Company does however plan to do a private placement of subordinated debt during the first half of 2008 that will qualify as regulatory capital. Note 14 to the Consolidated Financial Statements presents additional information regarding the Company's and its subsidiary banks' capital ratios.

Dividends

The Board of Directors of Uwharrie Capital Corp declared a 3% stock dividend in 2007, 2006, and in 2005. 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 impacting 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 4 on page 55, are supported by cash flows from mortgage-backed securities that have longer-term contractual maturities.

Other funding sources at year-end 2007 included \$14.3 million in federal funds lines of credit from correspondent banks and approximately \$35.8 million of remaining credit availability from the Federal Home Loan Bank. The Company may also borrow from the Federal Reserve Bank discount window. 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, 2007, borrowings from federal funds lines and securities sold under repurchase agreements amounted to \$7.5 million, while other short-term borrowings totaled \$24.4 million. Long-term debt at that date consisted of advances of \$15.0 million from the Federal Home Loan Bank, a note payable of \$6.6 million to another bank, and a mortgage payable of \$91 thousand.

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, 2007.

	Payments Due by Period (in thousands)				
	Total	On Demand or less than 1 year	1-3 Years	4-5 Years	After 5 Years
Contractual Obligations					
Short-term debt	\$ 31,928	\$ 31,928	\$ —	\$ —	\$ —
Long-term debt	21,691	—	20,626	1,018	47
Operating leases	804	121	233	157	293
Property purchase	255	255	—	—	—
Building construction	1,365	1,365	—	—	—
Total contractual cash obligations, excluding deposits	55,788	33,414	20,859	1,175	340
Deposits	324,657	309,258	13,802	1,597	—
Total contractual cash obligations, including deposits	<u>\$380,700</u>	<u>\$342,927</u>	<u>\$34,661</u>	<u>\$ 2,772</u>	<u>\$ 340</u>

Critical Accounting Policy

The Company's most significant critical accounting policy is the determination of its allowance for loan losses. 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 the discussion within Allowance for Loan Losses and in Note 1 to the consolidated financial statements for a comprehensive discussion regarding this accounting policy.

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 12 to the consolidated financial statements for more information regarding these commitments and contingent liabilities.

Interest Rate Sensitivity

The major component of income for the Company is net interest income, the difference between yield earned on assets and interest paid on liabilities. This differential or margin can vary over time as changes in interest rates occur. The volatility of changes in this differential can be measured by the timing (or repricing) difference between 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 time periods. Gap analysis at December 31, 2007 is reflected in Financial Table 3 on page 54. While management reviews this information, it has implemented the use of a simulation model which calculates

expected net interest income based on projected interest-earning assets, interest-bearing liabilities and interest rates and provides a more relevant view of interest rate risk than traditional gap tables. The simulation allows comparison of flat, rising and falling rate scenarios to determine sensitivity of earnings to changes in interest rates.

The Company models immediate rising and declining rate shocks of 2% on its subsidiary banks as preferred by regulators. The most recent consolidated 2% rate shock projections from the asset liability model, measured over a twelve-month period, indicate a negative impact of 8.08% on net interest income in a rates down scenario and a negative impact of 1.71% on net interest income in a rates up environment. Two of the subsidiary banks are asset sensitive and typically have some negative impact when rates decline, since the majority of interest bearing assets will reprice more quickly than the interest bearing liabilities. The other bank is liability sensitive, with the opposite effect, and the blend provides some balance in the consolidated results.

The principal goals of the Company's asset liability management are the maintenance of adequate liquidity and the management of interest rate risk. Interest rate risk management attempts to balance the effects of interest rate changes on interest-sensitive assets and liabilities to protect net interest income from wide fluctuations that could result from changes in interest rates. The Company's Asset Liability Management Committee monitors market changes in interest rates and assists with pricing loan and deposit products consistent with funding source needs and asset growth projections.

Financial Table 1**Average Balances and Net Interest Income Analysis**

(dollars in thousands)

	2007			2006			2005		
	Average Balance	Interest Income/Expense	Average Yield/Rate (1)	Average Balance	Interest Income/Expense	Average Yield/Rate (1)	Average Balance	Interest Income Expense	Average Yield Rate (1)
Interest-earning assets									
Taxable securities	\$ 30,364	\$ 1,711	5.63%	\$ 25,741	\$ 1,266	4.92%	\$ 19,363	\$ 881	4.55%
Non-taxable securities (1)	12,847	549	6.95%	11,586	517	7.26%	11,962	533	7.25%
Short-term investments	14,219	733	5.16%	11,274	611	5.42%	8,740	302	3.46%
Taxable loans (2)	304,195	23,724	7.80%	289,194	21,758	7.52%	263,168	17,252	6.56%
Non-taxable loans (1)	3,954	192	7.90%	4,200	201	7.79%	3,996	193	7.86%
Total interest-earning assets	<u>365,579</u>	<u>26,909</u>	<u>7.49%</u>	<u>341,995</u>	<u>24,353</u>	<u>7.25%</u>	<u>307,229</u>	<u>19,161</u>	<u>6.38%</u>
Non-earning assets									
Cash and due from banks	11,253			11,833			11,904		
Premises and equipment, net	8,694			8,419			8,367		
Interest receivable and other	7,662			6,534			6,693		
Total non-earning assets	<u>27,609</u>			<u>26,786</u>			<u>26,964</u>		
Total assets	<u>\$393,188</u>			<u>\$368,781</u>			<u>\$334,193</u>		
Interest-bearing liabilities									
Savings deposits	\$ 26,635	\$ 526	1.97%	\$ 32,304	\$ 734	2.27%	\$ 37,987	\$ 580	1.53%
Interest checking & MMDA	102,643	2,550	2.48%	89,174	2,342	2.63%	72,755	1,002	1.38%
Time deposits	136,217	6,454	4.74%	121,053	5,191	4.29%	99,704	2,891	2.90%
Total deposits	<u>265,495</u>	<u>9,530</u>	<u>3.59%</u>	<u>242,531</u>	<u>8,267</u>	<u>3.41%</u>	<u>210,446</u>	<u>4,473</u>	<u>2.13%</u>
Short-term borrowed funds	27,742	1,128	4.07%	17,928	758	4.23%	12,992	354	2.72%
Long-term debt	20,333	1,218	5.99%	30,582	1,677	5.48%	37,273	1,803	4.84%
Total interest-bearing Liabilities	<u>313,570</u>	<u>11,876</u>	<u>3.79%</u>	<u>291,041</u>	<u>10,702</u>	<u>3.68%</u>	<u>260,711</u>	<u>6,630</u>	<u>2.54%</u>
Noninterest liabilities									
Transaction deposits	46,766			47,210			44,145		
Interest payable and other	2,450			2,231			2,150		
Total liabilities	<u>362,786</u>			<u>340,482</u>			<u>307,006</u>		
Shareholders' equity									
	<u>30,402</u>			<u>28,299</u>			<u>27,187</u>		
Total liabilities and Shareholders equity	<u>\$393,188</u>			<u>\$368,781</u>			<u>\$334,193</u>		
Interest rate spread									
			<u>3.70%</u>			<u>3.57%</u>			<u>3.84%</u>
Net interest income and net interest margin		<u>\$15,033</u>	<u>4.22%</u>		<u>\$13,651</u>	<u>4.10%</u>		<u>\$12,531</u>	<u>4.21%</u>

1) Yields related to securities and loans exempt from federal and/or state income taxes are stated on a fully tax-equivalent basis, assuming a 38.55% tax rate.

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

Financial Table 2**Volume and Rate Variance Analysis**

(dollars in thousands)

	2007 Versus 2006			2006 Versus 2005		
	Volume	Rate	Net Change	Volume	Rate	Net Change
Interest-earning assets						
Taxable securities	\$ 244	\$ 201	\$ 445	\$ 302	\$ 83	\$ 385
Non-taxable securities	55	(23)	32	(17)	1	(16)
Short-term investments	156	(34)	122	112	197	309
Taxable loans	1,149	817	1,966	1,832	2,674	4,506
Non-taxable loans	(12)	3	(9)	10	(2)	8
Total interest-earning assets	<u>1,592</u>	<u>964</u>	<u>2,556</u>	<u>2,239</u>	<u>2,953</u>	<u>5,192</u>
Interest-bearing liabilities						
Savings deposits	(120)	(88)	(208)	(108)	262	154
Transaction and MMDA deposits	344	(136)	208	329	1,011	1,340
Other time deposits	684	579	1,263	767	1,533	2,300
Short-term borrowed funds	407	(37)	370	172	232	404
Long-term debt	(588)	129	(459)	(345)	219	(126)
Total interest-bearing liabilities	<u>727</u>	<u>447</u>	<u>1,174</u>	<u>815</u>	<u>3,257</u>	<u>4,072</u>
Net interest income	<u>\$ 865</u>	<u>\$ 517</u>	<u>\$ 1,382</u>	<u>\$1,424</u>	<u>\$ (304)</u>	<u>\$ 1,120</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.

Financial Table 3**Interest Rate Sensitivity Analysis**

(dollars in thousands)

	1-90 Day Position	3-6 Month Position	6-12 Month Position	1-5 Year Position	> 5 Year Position	Total Position
Interest-earning assets						
Interest-earning deposits with banks	\$ 2,432	\$ —	\$ —	—	\$ —	\$ 2,432
Investment securities	166	103	7,272	4,042	39,422	51,005
FHLB and other stock	—	—	—	—	2,209	2,209
Loans held for sale	2,916	—	—	—	—	2,916
Loans held for investment	189,858	6,822	13,721	76,133	35,453	321,987
Total interest-earning assets	<u>195,372</u>	<u>6,925</u>	<u>20,993</u>	<u>80,175</u>	<u>77,084</u>	<u>380,549</u>
Interest-bearing liabilities						
Deposits	42,567	60,318	72,353	93,517	9,305	278,060
Short-term borrowed funds	31,928	—	—	—	—	31,928
Long-term debt	—	—	—	21,635	56	21,691
Total interest-bearing liabilities	<u>74,995</u>	<u>60,318</u>	<u>72,353</u>	<u>115,152</u>	<u>9,361</u>	<u>331,679</u>
Interest sensitivity GAP per period	<u>\$120,877</u>	<u>\$(53,393)</u>	<u>\$(51,360)</u>	<u>\$(34,977)</u>	<u>\$67,723</u>	<u>\$ 48,870</u>
Cumulative interest sensitivity GAP	<u>\$120,877</u>	<u>\$ 67,484</u>	<u>\$ 16,124</u>	<u>\$(18,853)</u>	<u>\$48,870</u>	<u>\$ 48,870</u>
Ratios						
Cumulative gap as a percentage of total interest-earning assets	31.76%	17.73%	4.24%	(4.95)%	12.84%	12.84%
Cumulative interest-earning assets as a percentage of interest-bearing liabilities	262.26%	150.06%	107.78%	94.15%	114.73%	114.73%

Financial Table 4**Investment Securities Portfolio Analysis**

(dollars in thousands)

	December 31, 2007		
	Amortized Cost	Estimated Fair Value	Book Yield(1)
Securities available for sale			
U.S. Treasury			
Due within one year	\$ 2,997	\$ 2,995	3.11%
U.S. Government agencies			
Due within one year	3,995	4,017	3.94%
Due after one but within five years	2,511	2,551	4.34%
	<u>6,506</u>	<u>6,568</u>	<u>4.09%</u>
Mortgage-backed securities			
Due within one year	2	2	6.50%
Due after five but within ten year	2,617	2,642	5.28%
Due after ten years	25,560	25,648	5.74%
	<u>28,179</u>	<u>28,292</u>	<u>5.70%</u>
State and political			
Due within one year	503	511	8.84%
Due after one but within five years	1,440	1,492	8.58%
Due after five but within ten year	3,647	3,775	7.79%
Due after ten years	6,597	6,856	8.49%
	<u>12,187</u>	<u>12,634</u>	<u>8.31%</u>
Corporate Bond			
Due after ten years	501	500	3.23%
Equity Securities			
Due within one year	8	16	9.61%
Total Securities available for sale			
Due within one year	7,505	7,541	3.94%
Due after one but within five years	3,951	4,043	5.89%
Due after five but within ten year	6,264	6,417	6.74%
Due after ten years	32,658	33,004	6.26%
	<u>\$ 50,378</u>	<u>\$ 51,005</u>	<u>5.94%</u>

1) Yields on securities and investments exempt from federal and/or state income taxes are stated on a fully tax- equivalent basis, assuming a 38.55% tax rate.

Financial Table 5**Noninterest Income**

(dollars in thousands)

	Year Ended December 31,		
	2007	2006	2005
Service charges on deposit accounts	\$2,188	\$2,000	\$1,707
Other banking fees	1,198	984	807
Asset management fees	1,473	974	497
Brokerage commissions	426	371	424
Other noninterest income	400	348	290
Core noninterest income	5,685	4,677	3,725
Income from mortgage loan sales	957	764	554
Security gains (losses)	(76)	60	(16)
Gains (losses) from sale of OREO	(2)	(23)	12
Other gains (losses) from sale of assets	26	(9)	76
Total noninterest income	<u>\$6,590</u>	<u>\$5,469</u>	<u>\$4,351</u>

Financial Table 6**Other Noninterest Expense**

(dollars in thousands)

	Year Ended December 31,		
	2007	2006	2005
Professional fees and services	\$ 720	\$ 618	\$ 456
Marketing and donations	639	669	434
Office supplies and printing	277	280	260
Postage	173	192	167
Telephone and data lines	232	212	200
Electronic banking expense	706	604	328
Software amortization and maintenance	448	372	257
Loan collection cost	140	172	299
Subordinated debt issue costs	130	5	5
Other	1,660	1,396	1,554
Total other noninterest expense	<u>\$4,995</u>	<u>\$4,520</u>	<u>\$3,960</u>

Financial Table 7**Loan Portfolio Composition**

(dollars in thousands)

	At December 31,					
	2007		2006		2005	
	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
Loan type:						
Commercial	\$ 37,724	11.72%	\$ 36,406	12.64%	\$ 37,299	13.68%
Real estate - construction	46,546	14.46%	27,342	9.49%	21,206	7.78%
Real estate - residential	135,842	42.21%	126,111	43.79%	116,715	42.81%
Real estate - commercial	86,593	26.90%	84,744	29.43%	83,861	30.76%
Consumer	15,022	4.67%	13,262	4.60%	13,479	4.94%
Other	143	0.04%	133	0.05%	72	0.03%
Total loans	321,870	100.00%	287,998	100.00%	272,632	100.00%
Less:						
Allowance for loan losses	(3,510)		(3,171)		(4,482)	
Unearned net loan fees	117		137		210	
Net loans	<u>\$318,477</u>		<u>\$284,964</u>		<u>\$268,360</u>	
	At December 31,					
	2004		2003			
	Amount	% of Total Loans	Amount	% of Total Loans		
Loan type:						
Commercial	\$37,718	14.47%	\$ 38,517	16.38%		
Real estate - construction	25,480	9.77%	21,813	9.28%		
Real estate - residential	102,627	39.38%	76,933	32.72%		
Real estate - commercial	81,283	31.18%	84,920	36.12%		
Consumer	13,488	5.17%	12,741	5.42%		
Other	90	0.03%	187	0.08%		
Total loans	\$260,686	100.00%	235,111	100.00%		
Less:						
Allowance for loan losses	(4,983)		(3,224)			
Unearned net loan fees	149		40			
Net loans	<u>\$255,852</u>		<u>\$231,927</u>			

Financial Table 8**Selected Loan Maturities**

(dollars in thousands)

	December 31, 2007			Total
	One Year or Less	One to Five Years	Over Five Years	
Commercial and agricultural	\$ 17,202	\$ 15,365	\$ 5,157	\$ 37,724
Real estate – construction	32,034	12,629	1,883	46,546
Total selected loans	<u>\$ 49,236</u>	<u>\$ 27,994</u>	<u>\$ 7,040</u>	<u>\$ 84,270</u>
Fixed rate loans	<u>\$ 32,396</u>	<u>\$ 76,133</u>	<u>\$35,453</u>	<u>\$143,982</u>
Sensitivity to rate changes:				
Variable interest rates	<u>\$178,005</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$178,005</u>

Financial Table 9**Activity in the Allowance for Loan Loss**

(dollars in thousands)

	At or for the Year Ended December 31,				
	2007	2006	2005	2004	2003
Allowance for loan losses at beginning of year	\$3,171	\$4,482	\$4,983	\$3,224	\$2,755
Provision for loan losses	15	298	755	2,092	593
Loan charge-offs:					
Commercial	—	1,533	1,124	224	10
Real estate	—	14	—	—	45
Consumer	224	140	254	149	95
Total charge-offs	224	1,687	1,378	373	150
Recoveries of loans previously charged off:					
Commercial	440	34	3	1	—
Real estate	—	—	—	—	1
Consumer	108	44	119	39	25
Total recoveries	548	78	122	40	26
Net charge-offs (recoveries)	(324)	1,609	1,256	333	124
Allowance for loan losses at end of year	\$3,510	\$3,171	\$4,482	\$4,983	\$3,224
Net (charge-offs) recoveries as a percent of average loans	0.11%	(0.55)%	(0.47)%	(0.13)%	(0.06)%

Financial Table 10**Allocation of the Allowance for Loan Losses**

(dollars in thousands)

	At December 31,					
	2007		2006		2005	
	Amount	% of Total Loans (1)	Amount	% of Total Loans (1)	Amount	% of Total Loans (1)
Commercial	\$ 326	11.72%	\$ 356	12.64%	\$2,474	13.68%
Real estate - construction	325	14.46%	255	9.49%	101	7.78%
Real estate - residential	922	42.21%	1,235	43.79%	323	42.81%
Real estate - commercial	1,715	26.90%	1,123	29.43%	1,159	30.76%
Consumer loans	222	4.67%	202	4.60%	369	4.94%
Other	—	0.04%	—	0.05%	—	— %
Unallocated	—	— %	—	— %	56	0.03%
Total loans	<u>\$3,510</u>	<u>100.00%</u>	<u>\$3,171</u>	<u>100.00%</u>	<u>\$4,482</u>	<u>100.00%</u>

	At December 31,			
	2004		2003	
	Amount	% of Total Loans (1)	Amount	% of Total Loans (1)
Commercial	\$ 897	14.47%	\$1,204	16.38%
Real estate - construction	185	9.77%	171	9.28%
Real estate - residential	509	39.38%	472	32.72%
Real estate - commercial	2,965	31.18%	877	36.12%
Consumer	359	5.17%	450	5.42%
Other	—	— %	—	— %
Unallocated	68	0.03%	50	0.08%
Total loans	<u>\$4,983</u>	<u>100.00%</u>	<u>\$3,224</u>	<u>100.00%</u>

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

Financial Table 11**Maturities of Time Deposits of \$100,000 or More**

(dollars in thousands)

	3 Months or Less	Over 3 Months to 6 Months	Over 6 Months to 12 Months	Over 12 Months	Total
Time Deposits of \$100,000 or more	\$12,292	\$ 15,806	\$ 21,940	\$ 4,691	\$54,729

Financial Table 12**Securities Performance Ratios**

	At December 31,				
	2007	2006	2005	2004	2003
Return on average assets	0.75%	0.56%	0.45%	0.08%	0.57%
Return on average equity	9.73%	7.32%	5.58%	0.91%	5.78%
Equity to average assets ratio	7.73%	7.67%	8.14%	8.64%	9.86%

UWHARRIE CAPITAL CORP
Board of Directors

Joe S. Brooks
Owner and Manager
Brothers Precision Tool Co.

B. Franklin Lee
Owner and Manager
Franklin Lee Farm

Susan J. Rourke
President and Owner
U.S. Land Management Co.

Henry E. Farmer, Sr.
President and Owner
Henry E. Farmer, Inc.

W. Chester Lowder
Director of Livestock Program
Public Policy Division
NC Farm Bureau Federation, Inc.

Donald P. Scarborough
President and Owner
Plank Road Realty, Inc.

Charles F. Geschickter, III
President and Chief Executive Officer
ST Motorsports, Inc.;
JTG Racing, Inc. and
Wood / JTG Racing, Inc.

John P. Murray, MD
Board Vice Chairman
Retired – Physician and Owner
Albemarle Ear, Nose and Throat

John W. Shealy, Jr.
President
Capital Concrete Co.

Thomas M. Hearne, Jr.
Geopavement Engineer
NC Department of Transportation

James E. Nance
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Confederate Motors, Inc.

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Board Chairman
Vice President
EJS and Sons, LLC

Charles D. Horne
President
Hornwood, Inc.

Emmett S. Patterson
Retired – General Manager and Executive Vice President
Pee Dee Electric Membership Corporation

Douglas L. Stafford
Principal
Griffin Stafford, LLC

Joseph R. Kluttz, Jr.
President
Albemarle Insurance Agency, Inc.

Timothy J. Propst
Executive Vice President
Propst Construction Co., Inc.

Emily M. Thomas
Vice President - Administration and Finance
CMH Flooring Products, Inc.

Executive Officers

Roger L. Dick
President and Chief Executive Officer
Uwharrie Capital Corp

W.D. “Bill” Lawhon, Jr.
President and Chief Executive Officer
Bank of Stanly

Jimmy L. Strayhorn
President and Chief Executive Officer
Anson Bank & Trust Co.

Brendan P. Duffey
Executive Vice President and Chief Operating Officer
Uwharrie Capital Corp

Christy D. Stoner
President and Chief Executive Officer
The Strategic Alliance Corporation, BOS Agency, Inc.
Chief Executive Officer
Strategic Investment Advisors, Inc.
Executive Vice President Marketing
Uwharrie Capital Corp

Jeffrey M. Talley
President
Strategic Investment
Advisors, Inc.

Patricia K. Horton
Chief Executive Officer
Cabarrus Bank & Trust
Company

Barbara S. Williams
Executive Vice President and
Controller
Uwharrie Capital Corp

UWHARRIE CAPITAL CORP
SUBSIDIARIES OF THE REGISTRANT

At December 31, 2007

Subsidiaries of Uwharrie Capital Corp

Bank of Stanly

Anson Bank & Trust Co.

Cabarrus Bank & Trust Company

Strategic Investment Advisors, Inc.

Uwharrie Mortgage, Inc.

Subsidiaries of Bank of Stanly

The Strategic Alliance Corporation

BOS Agency, Inc.

Gateway Mortgage, Inc

State of Incorporation

North Carolina

North Carolina

North Carolina

North Carolina

North Carolina

State of Incorporation

North Carolina

North Carolina

North Carolina



Consent of Independent Registered Public Accounting Firm

The Board of Directors
Uwharrie Capital Corp:

We consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-146595) of Uwharrie Capital Corp of our report dated March 14, 2008, with respect to the consolidated financial statements of Uwharrie Capital Corp and Subsidiaries, which report appears in Uwharrie Capital Corp's 2007 Annual Report on Form 10-K.

Dixon Hughes PLLC

Raleigh, North Carolina
March 26, 2008

2501 Blue Ridge Road, Suite 500
Raleigh, NC 27607
Ph. 919.876.4546 Fx. 919.876.8680
www.dixon-hughes.com



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 18, 2008

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, Barbara S. Williams, 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 18, 2008

By: /s/ Barbara S. Williams
Barbara S. Williams
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, 2007, 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 18, 2008

/s/ Roger L. Dick

Roger L. Dick
Chief Executive Officer

Date: March 18, 2008

/s/ Barbara S. Williams

Barbara S. Williams
Principal Financial Officer