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, 2021

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	**56-1814206**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
132 NORTH FIRST STREET ALBEMARLE, NORTH CAROLINA	**28001**
(Address of Principal Executive Offices)	**(Zip Code)**

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

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

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

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

COMMON STOCK, PAR VALUE $1.25 PER SHARE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

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

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

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
Emerging growth company	☐		

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

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and ask price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. $57,764,863.20.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date: 6,940,317 shares of common stock outstanding as of March 6, 2022.

Documents Incorporated by Reference.

Portions of the Registrant's definitive Proxy Statement for the 2022 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

FORM 10-K CROSS REFERENCE INDEX

As indicated below, portions of the Registrant's definitive Proxy Statement for the 2022 Annual Meeting of Shareholders, which the Registrant plans to file with the Securities and Exchange Commission subsequent to the date hereof, are incorporated by reference into Part III of this report.

Key	
10-K	This annual report on Form 10-K for the fiscal year ended December 31, 2021
Proxy	Definitive Proxy Statement for the 2022 Annual Meeting of Shareholders

PART I

Item 1. Business.

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

On January 19, 2000, the Company completed its acquisition of Anson Bancorp, Inc. and its subsidiary, Anson Savings Bank. The savings bank retained its North Carolina savings bank charter and became a wholly owned subsidiary of the Company until September 1, 2013 when it was merged with and into the Bank.

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

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

At December 31, 2021, the Company and related subsidiaries had 178 full-time and 13 part-time employees.

Business of the Bank

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

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

Non-Bank Subsidiaries

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

The Company has two non-bank subsidiaries. Uwharrie Investment Advisors, Inc., which is registered as an investment advisor with the SEC, began operations on April 1, 1999 and provides portfolio management services to customers in the Charlotte Metropolitan and Uwharrie Lakes Regions. The Company established Uwharrie Mortgage, Inc., a subsidiary to serve in the capacity of trustee and substitute trustee under deeds of trust, in 2004.

Competition

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

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

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

Exposure to Local Economic Conditions

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

Impact of Technological Advances; Upgrade to Company’s Infrastructure

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

Federal Bank Holding Company Regulation and Structure

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

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

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

- it may merge or consolidate with any other bank holding company.

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

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

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

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

In 2020, the Federal Reserve revised the "controlling influence" prong of its "control" rules promulgated under the BHCA. These revisions largely reaffirmed the Federal Reserve's existing framework for analyzing "controlling influence" but with some new rules for presumptions of control for investments in and by banking organizations that represent more than 4.9% and less than 24.9% of control over any class of voting securities. The revisions apply to questions of control under the BHCA, but does not extend to the Change in Bank Control Act.

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

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

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

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

Bank Merger Act

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

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

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

State Law

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

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

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

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

Payment of Dividends and Other Restrictions

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

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

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

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

Capital Adequacy

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

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

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

At December 31, 2021 the Bank's total risk-based capital ratio and its Tier 1 risk-based capital ratio were 15.56% and 14.87%, respectively. The Bank has not been advised by any federal banking agency of any additional specific minimum capital ratio requirement applicable to it.

In addition, the Federal Reserve has established minimum leverage ratio guidelines for bank holding companies. These guidelines provide for a minimum ratio of Tier 1 Capital to average assets, less goodwill and certain other intangible assets, of 3% for bank holding companies that meet specified criteria. All other bank holding companies generally are required to maintain a minimum leverage ratio of 4%. The Company's ratio at December 31, 2021 was 6.71%, compared to 6.88% at December 31, 2020. The guidelines also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the Federal Reserve has indicated that it will consider a "tangible Tier 1 Capital leverage ratio" and other indications of capital strength in evaluating proposals for expansion or new activities. The Federal Reserve has not advised us of any additional specific minimum leverage ratio or tangible Tier 1 Capital leverage ratio applicable to the Company.

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

The Federal Deposit Insurance Act, or FDI Act, requires the federal regulatory agencies to take "prompt corrective action" if a depository institution does not meet minimum capital requirements. The FDI Act establishes five capital tiers: "well capitalized,"

"adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." A depository institution's capital tier will depend upon how its capital levels compare to various relevant capital measures and certain other factors, as established by regulation.

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

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

An institution may be downgraded to, or deemed to be in, a capital category that is lower than is indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. As of December 31, 2021, the Bank had capital levels that qualify as "well capitalized" under such regulations.

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

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

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

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

The major provisions of the rule applicable to us are:

- The rule implemented higher minimum capital requirements, including a new common equity Tier 1 capital requirement, and established criteria that instruments must meet in order to be considered Common Equity Tier 1 capital, additional Tier 1 capital, or Tier 2 capital. The minimum capital to risk-weighted assets ("RWA") requirements under the rule are a common equity Tier 1 capital ratio of 4.5% and a Tier 1 capital ratio of 6.0%, which is an increase from 4.0%, and a total capital ratio that remains at 8.0%. The minimum leverage ratio (Tier 1 capital to average total assets) is 4.0%. The rule maintains the general structure of the current prompt corrective action, or PCA, framework while incorporating these increased minimum requirements.

- The rule implemented changes to the definition of capital, including stricter eligibility criteria for regulatory capital instruments that disallows the inclusion of instruments such as trust preferred securities in Tier 1 capital going forward (subject to certain exceptions), and new constraints on the inclusion of minority interests, mortgage-servicing assets (“MSAs”), deferred tax assets (“DTAs”), and certain investments in the capital of unconsolidated financial institutions.
- Under the rule, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of common equity Tier 1 capital above its minimum risk-based capital requirements. This buffer is intended to help ensure that banking organizations conserve capital when it is most needed, allowing them to better weather periods of economic stress. The buffer is measured relative to RWA. A banking organization with a buffer greater than 2.5% would not be subject to limits on capital distributions or discretionary bonus payments; however, a banking organization with a buffer of less than 2.5% would be subject to increasingly stringent limitations as the buffer approaches zero. The rule also prohibits a banking organization from making distributions or discretionary bonus payments during any quarter if its eligible retained income is negative in that quarter and its capital conservation buffer ratio was less than 2.5% at the beginning of the quarter. The minimum capital requirements plus the capital conservation buffer exceed the PCA well-capitalized thresholds.
- The rule also increased the risk weights for past-due loans, certain commercial real estate loans, and some equity exposures, and made selected other changes in risk weights and credit conversion factors.

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

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

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

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

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

Acquisitions

The Company must comply with numerous laws related to any potential acquisition activity. Under the BHCA, a bank holding company may not directly or indirectly acquire ownership or control of more than 5% of the voting shares or substantially all of the assets of any bank or merge or consolidate with another bank holding company without the prior approval of the Federal Reserve. The acquisition of non-banking companies is also regulated by the Federal Reserve. Current federal law authorizes interstate acquisitions of banks and bank holding companies without geographic limitation. Furthermore, a bank headquartered in one state is authorized to merge with a bank headquartered in another state, as long as neither of the states has opted out of such interstate merger authority prior to such date, and subject to any state requirement that the target bank shall have been in existence and operating for a minimum period of time, not to exceed five years, and to certain deposit market-share limitations. After a bank has established branches in a state through an interstate merger transaction, the bank may establish and acquire additional branches at any location in the state where a bank headquartered in that state could have established or acquired branches under applicable federal or state law. Additionally, under the Dodd-Frank Act, banks are permitted to open a de novo branch in any state if that state would permit a bank organized in that state to open a branch.

Restrictions on Affiliate Transactions

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

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

FDIC Insurance Assessments

Assessments are paid by each Deposit Insurance Fund (DIF) member institution. The assessment rates for an insured depository institution vary according to the level of risk incurred in its activities, which for established small institutions like the Bank (i.e., those institutions with less than $10 billion in assets and insured for five years or more), is generally determined by reference to the institution’s supervisory ratings. The assessment rate schedule can change from time to time, at the discretion of the FDIC, subject to certain limits. The Bank’s insurance assessments during 2021 and 2020 were $263,000 and $307,000, respectively.

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

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

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

Community Reinvestment Act

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

The Community Reinvestment Act regulations provide for certain disclosure obligations. Each institution must post a notice advising the public of its right to comment to the institution and its regulator on the institution's Community Reinvestment Act performance and to review the institution's Community Reinvestment Act public file. Each lending institution must maintain for public inspection a file that includes a listing of branch locations and services, a summary of lending activity, a map of its communities and any written comments from the public on its performance in meeting community credit needs. The Community Reinvestment Act requires public disclosure of a financial institution's written Community Reinvestment Act evaluations. This promotes enforcement of Community Reinvestment Act requirements by providing the public with the status of a particular institution's community reinvestment record.

Community Reinvestment Act agreements with private parties must be disclosed and annual Community Reinvestment Act reports must be made available to a bank's primary federal regulator. A bank holding company will not be permitted to become a financial holding company and no new activities authorized under the Gramm-Leach-Bliley Act may be commenced by a holding company or by a bank financial subsidiary if any of its bank subsidiaries received less than a satisfactory Community Reinvestment Act rating in its latest Community Reinvestment Act examination. The Bank received a "Satisfactory" rating in its last CRA examination, which was conducted as of November 16, 2020.

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

Consumer Protection Laws

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

Privacy and Cybersecurity

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

In November 2021, the U.S. federal bank regulatory agencies issued a joint final rule to establish computer-security incident notification requirements for banking organizations and bank service providers. Under the final rule, a bank holding company, such as the Company, and an FDIC-supervised depository institution, such as the Bank, are required to notify the Federal Reserve or FDIC, respectively, as soon as possible and no later than 36 hours after a determination that a computer-security incident that rises to the level of a notification incident has occurred. A computer-security incident is an occurrence that results in actual harm to the confidentiality, integrity, or availability of an information system or the information that the system processes, stores, or transmits. A notification incident is defined as a computer-security incident that has materially disrupted or degraded, or is reasonably likely to materially disrupt or degrade, a banking organization's: (i) ability to carry out banking operations, activities, or processes, or deliver banking products and services to a material portion of its customer base, in the ordinary course of business; (ii) business line(s), including associated operations, services, functions, and support, that upon failure would result in a material loss of revenue, profit, or franchise value; or (iii) operations, including associated services, functions and support, as applicable, the failure or discontinuance of which would pose a threat to the financial stability of the United States. For example, a notification incident may include a major computer-system failure; a cyber-related interruption, such as a distributed denial of service or ransomware attack; or another type of significant operational interruption.

Additional Legislative and Regulatory Matters

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

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

Fiscal and Monetary Policy

Banking is a business which interest rate depends on differentials for success. In general, the difference between the interest paid by a bank on its deposits and its other borrowings, and the interest received by a bank on its loans and securities holdings, constitutes the significant portion of a bank's earnings. Thus, our earnings and growth will be subject to the influence of economic conditions generally, both domestic and foreign, and also to the monetary and fiscal policies of the United States and its agencies, particularly the Federal Reserve. The Federal Reserve regulates the supply of money through various means, including open market dealings in United States government securities, the discount rate at which banks may borrow from the Federal Reserve and the reserve requirements on deposits. The nature and timing of any changes in such policies and their effect on our business and results of operations cannot be predicted.

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

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

Federal Home Loan Bank System

The FHLB System consists of 12 district Federal Home Loan Banks ("FHLBs") subject to supervision and regulation by the Federal Housing Finance Agency ("FHFA"). The FHLBs provide a central credit facility primarily for member institutions. As a member of the FHLB of Atlanta, the Bank is required to acquire and hold shares of capital stock in the FHLB of Atlanta. The Bank was in compliance with this requirement with investment in FHLB of Atlanta stock of $411,000 at December 31, 2021. The FHLB of Atlanta serves as a reserve or central bank for its member institutions within its assigned district. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It offers advances to members in accordance with policies and procedures established by the FHFA and the Board of Directors of the FHLB of Atlanta. Long-term advances may only be made for the purpose of providing funds for residential housing finance, small businesses, small farms and small agribusinesses.

Real Estate Lending Evaluations

The federal regulators have adopted uniform standards for evaluations of loans secured by real estate or made to finance improvements to real estate. Banks are required to establish and maintain written internal real estate lending policies consistent with safe and sound banking practices and appropriate to the size of the institution and the nature and scope of its operations. The

regulations establish loan to value ratio limitations on real estate loans. The Bank's loan policies establish limits on loan to value ratios that are equal to or less than those established in such regulations.

Commercial Real Estate Concentrations

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

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

As of December 31, 2021, our C&D concentration as a percentage of risk-based capital totaled 40.5% and our CRE concentration, net of owner-occupied loans, as a percentage of risk-based capital totaled 118.1%.

Limitations on Incentive Compensation

In 2010, the Federal Reserve, joined by the FDIC and the Office of the Comptroller of the Currency, issued the incentive compensation guidance designed to help ensure that incentive compensation policies at banking organizations do not encourage excessive risk-taking or undermine the safety and soundness of the organization. As such, the Federal Reserve announced that it would review incentive compensation arrangements of bank holding companies such as Uwharrie Capital Corp as part of the regular, risk-focused supervisory process. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide employees incentives that appropriately balance risk and reward and, thus, do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. Any deficiencies in compensation practices that are identified may be incorporated into the organization's supervisory ratings, which can affect its ability to make acquisitions or perform other actions. The guidance provides that enforcement actions may be taken against a banking organization if its incentive compensation arrangements or related risk-management control or governance processes pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

Economic Environment

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

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

Evolving Legislation and Regulatory Action

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

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

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

- <u>Tax Rate</u>. The Tax Act replaced the graduated corporate tax rates applicable under prior law, which imposed a maximum tax rate of 35%, with a reduced 21% flat tax rate.
- <u>Employee Compensation</u>. A "publicly held corporation" is not permitted to deduct compensation in excess of $1 million per year paid to certain employees. The Tax Act eliminates certain exceptions to the $1 million limit applicable under prior to law related to performance-based compensation, such as equity grants and cash bonuses that are paid only on the attainment of performance goals.
- <u>Business Asset Expensin</u>g. The Tax Act allowed taxpayers immediately to expense the entire cost (instead of only 50%, as under prior law) of certain depreciable tangible property and real property improvements acquired and placed in service after September 27, 2017 and before January 1, 2023 (with an additional year for certain property). This 100% "bonus" depreciation is phased out proportionately for property placed in service on or after January 1, 2023 and before January 1, 2027 (with an additional year for certain property).
- <u>Interest Expense</u>. The Tax Act limited a taxpayer's annual deduction of business interest expense to the sum of (i) business interest income and (ii) 30% of "adjusted taxable income," defined as a business's taxable income without taking into account business interest income or expense, net operating losses, and, for 2018 through 2021, depreciation, amortization and depletion.

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

The Coronavirus Aid, Relief, and Economic Security Act

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

Paycheck Protection Program. The CARES Act amended the SBA's loan program, in which the Bank participates, to create a guaranteed, unsecured loan program, the Paycheck Protection Program, or PPP, to fund operational costs of eligible businesses, organizations and self-employed persons during the COVID-19 pandemic. As a participating lender in the PPP, the Bank continues to monitor legislative, regulatory, and supervisory developments related thereto.

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

Temporary Regulatory Capital Relief related to Impact of CECL. Concurrent with enactment of the CARES Act, federal banking agencies issued an interim final rule that delays the estimated impact on regulatory capital resulting from the adoption of the current expected credit loss model, or CECL, for determining credit loss estimates. The interim final rule provides banking organizations that implemented CECL before the end of 2020 the option to delay for two years the estimated impact of CECL on regulatory capital relative to regulatory capital determined under the prior incurred loss methodology, followed by a three-year transition period to phase out the aggregate amount of capital benefit provided during the initial two-year delay. The federal banking agencies have since issued a final rule that makes certain technical changes to the interim final rule. The changes in the final rule apply only to those banking organizations that elect the CECL transition relief provided under the rule. The Company did not implement CECL before the end of 2021.

The Consolidated Appropriations Act

The Consolidated Appropriations Act, 2021, or CAA, which was signed into law on December 27, 2020, continued many of the programs and provisions set forth by the CARES Act due to the continuation of the COVID-19 pandemic.

Paycheck Protection Program. The CAA reserved $284 billion for small business by establishing a second round of PPP forgivable loans, commonly referred to as "PPP2", for certain eligible borrowers. The second round of PPP allows for both first-time draws and second draw loans. To be eligible for a second draw, which is capped at $2 million, the borrower must (i) have 300 or fewer employees and (ii) have experienced a 25% or higher reduction in gross receipts during any calendar quarter in 2020 compared to the same quarter in 2019 and (iii) have used or will use the full amount of their first PPP loan. The application window opened January 15, 2021 for lenders with $1 billion or less in assets and ended on May 31, 2021. The Bank also participated as a lender in the second round of PPP.

Troubled Debt Restructuring and Loan Modifications for Affected Borrowers. The CAA extends the expiration of TDR classification suspensions as provided by the CARES Act. The applicable period was updated to include loan modifications made during the period beginning March 1, 2020 and ending on the earlier of (i) January 1, 2022 or (ii) 60 days after the date when the national emergency concerning COVID-19 terminates. The Company elected to adopt this suspension until January 1, 2022.

Future Legislation

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

Item 1A. Risk Factors.

Item not required for smaller reporting companies.

Item 1B. Unresolved Staff Comments.

Item not required for non-accelerated filers.

Item 2. Properties.

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

The Bank's Main Office has been located at 167 North Second Street, Albemarle, North Carolina since it opened in 1984. The Bank's credit administration offices and portion of its lending offices occupy an adjoining building, purchased in 1991. The Bank owns a commercial building which houses some of its operations offices and parking lot adjacent to its Main Office. During 2009, the Bank acquired property in downtown Albemarle for future expansion.

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

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

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

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

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

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

Item 3. Legal Proceedings.

In the ordinary course of operations, the Company and the Bank are at times involved in legal proceedings. In the opinion of management, as of December 31, 2021 there are no material pending legal proceedings to which the Company, or any of its subsidiaries, is a party, or of which any of their property is the subject.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

Market Information

It is the philosophy of Uwharrie Capital Corp to promote a strong base of local shareholders. While bid and ask prices for the Company’s common stock are quoted on the OTCQX ® Best Market through www.otcmarkets.com, operated by OTC Market Groups, Inc. and under the symbol UWHR, trading is limited and sporadic with most trades taking place in privately negotiated transactions. Any over-the-counter market quotations of the Company’s common stock reflect inter-dealer prices, without retail mark-up, mark-down, or commission, and may not necessarily represent actual transactions. Management makes every reasonable effort to match willing buyers with willing sellers as they become known for the purpose of private negotiations for the purchase and sale of the Company’s common stock. The Company has an independent valuation of its common stock performed on an annual basis and makes this valuation available to interested shareholders in order to promote fairness and market efficiency in privately negotiated transactions.

Holders

On December 31, 2021, there were approximately 3,138 shareholders of record of the Company’s common stock. This number does not include shareholders for whom shares are held in “nominee” or “street” name.

Dividends

There were no cash dividends declared on the Company’s common stock in 2021 or 2020. The timing and amount of cash dividends paid depends on the Company’s earnings, capital requirements, financial condition and other relevant factors. See “Payment of Dividends and Other Restrictions” under Item 1 of this Report for more information on restrictions on the Company’s ability to declare and pay dividends. The Company can offer no assurance that the board of directors will declare or pay cash dividends in any future period.

Recent Sales of Unregistered Securities

None.

Securities Authorized for Issuance under Equity Compensation Plans

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table sets forth information with respect to shares of common stock repurchased by the Company during each of the three months in the quarterly period ended December 31, 2021.

	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Program (1)	(d) Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans
October 1, 2021 Through October 31, 2021	5,003	$ 9.73	—	$ —
November 1, 2021 Through November 30, 2021	179,157	$ 9.33	—	$ —
December 1, 2021 Through December 31, 2021	12,031	$ 9.03	—	$ —
Total	196,191	$ 9.32	—	$ —

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

Item 6. [Reserved].

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

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 F-8 through F-52 of this Annual Report. References to changes in assets and liabilities represent end-of-period balances unless otherwise noted. Statements contained in this Annual Report, which are not historical facts, are forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. Amounts herein could vary because of market and other factors. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those currently anticipated due to a number of factors, which include, but are not limited to, factors discussed in documents filed by the Company with the Securities and Exchange Commission periodically. Such forward-looking statements may be identified by the use of such words as "believe," "expect," "anticipate," "should," "might," "planned," "estimated," "potential," and similar words. Examples of forward-looking statements include, but are not limited to, estimates with respect to the financial condition, expected or anticipated revenue, results of operations and business of the Company that are subject to various factors, which could cause actual results to differ materially from these estimates. These factors include, but are not limited to: the impact of the novel Coronavirus disease, or COVID-19, on our borrowers' ability to meet their financial obligations to us; increases in our past due loans and provisions for loan losses that may result from COVID-19; declines in general economic conditions, including increased stress in the financial markets due to COVID-19; changes in interest rates, deposit flows, loan demand, real estate values, and competition; changes in accounting principles, policies, or guidelines; changes in legislation or regulation; and other economic, competitive, governmental, regulatory, and technological factors affecting the Company's operations, pricing, products and services. Any use of "we" or "our" in the following discussion refers to the Company on a consolidated basis.

Financial Condition at December 31, 2021 and December 31, 2020

The Company's total assets increased $111.9 million from $827.8 million at December 31, 2020 to $939.7 million at December 31, 2021. The primary driver of this growth was an increase in customer deposits held by the Bank which was due, in large part, to our customers' receipt of government economic stimulus payments. This deposit growth was utilized to fund a substantial increase in the investment securities portfolio during the twelve months ended December 31, 2021.

Investment securities consist of securities available for sale and securities held to maturity. Total investment securities increased $141.4 million, or 64.4%, from $219.7 million at December 31, 2020 to $361.1 million at December 31, 2021, due to investments of cash into longer-term, higher yielding assets. At December 31, 2021, the Company had net unrealized losses on securities available for sale of $1.5 million, compared to net unrealized gains of $5.4 million at December 31, 2020. The significant decline in fair value is directly related to the increase in market interest rates at December 31, 2021 compared to December 31, 2020, as the market signals recovery from the COVID-19 outbreak worldwide.

During the first quarter of 2021, the Company sold a portion of an equity security investment bringing its principal value down to $270,000 at December 31, 2021 from $901,000 at December 30, 2020. At December 31, 2021, the unrealized gain on the investment totaled $122,000, resulting in a fair value of $392,000 for the security.

Loans held for investment decreased $47.0 million from $467.7 million at December 31, 2020 to $420.8 million at December 31, 2021. The main reason for the decline was a $60.6 million reduction in SBA PPP loans due to receipt of loan forgiveness. Not including SBA PPP loans, the Company experienced net growth overall with the largest increase occurring in the commercial segment. During 2021 the Company funded 879 SBA PPP Round 2 loans for a total of $46.4 million. These loans are unsecured commercial loans, but are 100% guaranteed by the SBA. These new SBA PPP loans, however, were offset by forgiveness and payoffs of $80.4 million on SBA PPP loans originally funded during 2020 and forgiveness and payoffs of $31.1 million of SBA PPP Round 2 loans. Loans held for sale increased 211.6%, or $14.7 million, as many of the closed loans are being held longer in an effort to earn additional interest income before selling the loans on the secondary market.

The allowance for loan loss was $4.0 million at December 31, 2021, which represents 0.96% of the total loans held for investment, a decrease of 8.6% from December 31, 2020. Additional discussion regarding the decrease in the allowance is included in the Asset Quality section below.

Other changes in consolidated assets are primarily related to loan servicing assets, mortgage banking derivatives and other assets. Loan servicing assets increased $1.1 million from December 31, 2020 to December 31, 2021 due to retention of servicing rights related to sustained sales of residential mortgage loans. The fair value of mortgage banking derivatives decreased $804,000 during 2021, and other assets decreased $1.3 million primarily due to the $1.1 million sale of an investment in a community development project.

Customer deposits, our primary funding source, experienced a $93.6 million increase during the year, increasing from $743.2 million to $836.8 million at December 31, 2021, a 12.6% increase. In addition to receipt of government stimulus deposits, a large portion of

this increase is related to the funding of SBA PPP Round 2 loans, some of the proceeds of which were deposited by our customers into their deposit accounts held at the Company's subsidiary bank. Demand noninterest-bearing checking accounts increased $33.6 million, interest checking and money market accounts increased by $41.4 million and savings deposits increased $28.5 million during the twelve-month period ended December 31, 2021. Time deposits decreased $10.1 million during the same period as customers transitioned to liquid accounts.

During 2021, the Company's net borrowings increased by $18.9 million. Borrowings consist of both short-term and long-term borrowed funds. The Company utilizes both short-term and long-term advances from the Federal Home Loan Bank. At December 31, 2021 and 2020, there were no outstanding advances. Short-term borrowings consisted of $1.1 million in master notes, and long-term borrowings consisted solely of junior subordinated debt securities totaling $29.5 million at December 31, 2021. During the third quarter of 2019, the Company issued $10.0 million in subordinated debt securities with a final maturity date of September 30, 2029 that may be redeemed on or after September 30, 2024. This junior subordinated debt pays interest quarterly at an annual fixed rate of 5.25%. During the third quarter of 2021, the Company issued $12.0 million and $8.0 million of 10-year and 15-year fixed-to-floating rate subordinated debt securities, respectively. The 10-year subordinated notes mature on September 3, 2031, though redeemable on or after September 3, 2026, and initially pay interest quarterly at an annual rate of 3.5%. From and including September 3, 2026 to but excluding September 3, 2031, or up to an early redemption date, the interest rate on the 10-year subordinated notes will reset quarterly to an annual rate equal to the then-current three-month Secured Overnight Financing Rate, or SOFR, plus 283 basis points payable quarterly in arrears. The 15-year subordinated notes mature on September 3, 2036, though redeemable on or after September 3, 2031, and initially pay interest quarterly at an annual rate of 4.0%. From and including September 3, 2031 to but excluding September 3, 2036, or up to an early redemption date, the interest rate on the 15-year subordinated notes will reset quarterly to an annual rate equal to the then-current three-month SOFR plus 292 basis points payable quarterly in arrears. The subordinated debt has been structured to qualify as and is included in the calculation of the Company's Tier 2 capital. The Company also has a $3.0 million line of credit of which $3.0 million was available to use at December 31, 2021.

Other consolidated liabilities decreased $2.1 million from $13.6 million at December 31, 2020 to $11.5 million at December 31, 2021. The valuation of mortgage banking derivatives decreased by $338,000. Other liabilities decreased by $1.8 million as a result of a reduction in the reserve for federal income tax and a decrease in supplemental executive retirement plan liabilities.

At December 31, 2021, total shareholders' equity was $60.8 million, an increase of $1.6 million from December 31, 2020. Net income for the period was $10.1 million. Unrealized gains on investment securities, net of tax, declined by $5.3 million to a loss position as the yield curve continues to steepen. The Company repurchased 298,700 outstanding shares of common stock at an aggregate repurchase price of $2.6 million. The Company also paid $565,000 in dividends attributed to noncontrolling interest. See Note 1 (Significant Accounting Policies) to the Company's Notes to Consolidated Financial Statements for additional discussion of the noncontrolling interest. At December 31, 2021, the Company and its subsidiary bank exceeded all applicable regulatory capital requirements.

Results of Operations for the Years Ended December 31, 2021 and 2020

Earnings

Uwharrie Capital Corp reported net income of $10.1 million for the twelve months ended December 31, 2021, as compared to $8.1 million for the twelve months ended December 31, 2020, an increase of $2.0 million. Net income available to common shareholders was $9.5 million, or $1.33 per common share, for the year ended December 31, 2021, compared to net income available to common shareholders of $7.5 million, or $1.03 per common share, for the year ended December 31, 2020. Net income available to common shareholders is net income less any dividends paid on the aforementioned noncontrolling interest.

Net Interest Income

As with most financial institutions, the primary component of earnings for our subsidiary bank is net interest income. Net interest income is the difference between interest income, principally from the loan and investment securities portfolios, and interest expense, principally on customer deposits and wholesale borrowings. Changes in net interest income result from changes in volume, spread and margin. For this purpose, volume refers to the average dollar level of interest-earning assets and interest-bearing liabilities, spread refers to the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities, and margin refers to net interest income divided by average interest-earning assets. Margin is influenced by the level and relative mix of interest-earning assets and interest-bearing liabilities, as well as levels of noninterest bearing liabilities and capital.

Net interest income increased $4.3 million to a total of $26.1 million for the twelve months ended December 31, 2021 from the $21.8 million earned in the same period of 2020. The average yield on our interest-earning assets decreased 8 basis points to 3.42%, while the average rate paid for interest-bearing liabilities decreased 18 basis points. These decreases resulted in a net increase of 11 basis

points in our interest rate spread, from 3.04% in 2020 to 3.15% in 2021. Our net interest margin for 2021 was 3.23%, compared to 3.18% in 2020. As a part of the loan agreements, a portion of the Company's loan portfolio has interest rate floors and caps. The interest rate floor feature allows the Company to maintain a more favorable interest margin despite a decline in rates; however, the interest rate cap could hurt the margin in a rising rate environment. Financial Table 1 presents a detailed analysis of the components of the Company's net interest income, while Financial Table 2 summarizes the effects on net interest income from changes in interest rates and in the dollar volume of the components of interest-earning assets and interest-bearing liabilities. Financial Table 1 and Table 2, as well other Financial Tables referenced in this discussion and analysis, appear at the end of this annual report, immediately preceding the identification of the Company's board of directors and executive officers.

Provision for Loan Losses

The recovery of loan losses was $917,000 for the twelve months ended December 31, 2021, compared to a provision of $2.4 million for the same period in 2020. There were net loan recoveries of $541,000 for the twelve months ended December 31, 2021, as compared to net loan recoveries of $34,000 during the same period of 2020. Refer to the Asset Quality section below for further information.

Noninterest Income

The Company generates most of its revenue from net interest income; however, diversification of our earnings base is a key strategic initiative to our long-term success. Noninterest income decreased 9.3%, from $20.9 million in 2020, to $18.9 million in 2021, a decrease of $1.9 million. The primary factor contributing to the decrease was a decline in income from mortgage loan sales as production began to level out after the surge in refinancing caused by the lower interest rate environment during the first year of the COVID-19 pandemic. The gain on sale of securities increased by $920,000 to $991,000 at December 31, 2021, compared to $77,000 at December 31, 2020. This gain served to offset the decline in income from mortgage banking as the Company worked to reduce the duration of the investment portfolio in an attempt to protect capital as long-term interest rates rise.

Noninterest Expense

Noninterest expense for the year ended December 31, 2021 was $33.1 million compared to $29.9 million for 2020, an increase of $3.2 million. Salaries and employee benefits, the largest component of noninterest expense, increased $1.8 million, from $19.9 million for the period ending December 31, 2020 to $21.6 million for 2021 to account for wage and benefit cost increases. Marketing and donations increased $334,000 as the Company makes a continued effort to support the communities we serve by giving back and supporting economic development and growth. Supplemental executive retirement plan expense increased $610,000 during 2021 to $942,000 due to market valuation adjustments. Financial Table 5 reflects the additional breakdown of other noninterest expense.

Income Tax Expense

The Company had income tax expense of $2.8 million for 2021 at an effective tax rate of 21.51% compared to income tax expense of $2.3 million in 2020 with an effective tax rate of 22.38%. Income taxes computed at the statutory rate are affected primarily by the eligible amount of interest earned on state and municipal securities, tax-free municipal loans and income earned on bank-owned life insurance. For the twelve months ended December 31, 2021, the effective tax rate decreased due to an additional tax accrual in the 2020 period related to a supplemental executive retirement plan distribution.

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

Results of operations for the Years Ended December 31, 2020 and 2019 can be found in the 2020 10-K Annual Report filing.

Asset Quality

The Company’s allowance for loan losses is established through charges to earnings in the form of a provision for loan losses. The allowance is increased by provisions charged to operations and recoveries of amounts previously charged off and is reduced by recovery of provisions and charge offs of loans. Management continuously evaluates the adequacy of the allowance for loan losses. In evaluating the adequacy of the allowance, management considers the following: the growth, composition and industry diversification of the portfolio; historical loan loss experience; current delinquency levels; adverse situations that may affect a borrower’s ability to repay; estimated value of any underlying collateral; prevailing economic conditions; and other relevant factors. The Company’s credit administration function, through a review process, periodically validates the accuracy of the initial risk grade assessment. In addition, as a given loan’s credit quality improves or deteriorates, the credit administration department has the responsibility to change the borrower’s risk grade accordingly. For loans determined to be impaired, the allowance is based on either the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s observable market price, or the estimated fair value of the underlying collateral less the selling costs. This evaluation is inherently subjective, as it requires material estimates, including the amounts and timing of future cash flows expected to be received on impaired loans, which may be susceptible to significant change. In addition, regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require additions for estimated losses based upon judgments different from those of management.

Management uses a risk-grading program designed to evaluate the credit risk in the loan portfolio. In this program, risk grades are initially assigned by loan officers then reviewed and monitored by credit administration. This process includes the maintenance of an internally classified loan list that is designed to help management assess the overall quality of the loan portfolio and the adequacy of the allowance for loan losses. In establishing the appropriate classification for specific assets, management considers, among other factors, the estimated value of the underlying collateral, the borrower’s ability to repay, the borrower’s payment history, and the current delinquent status. Because of this process, certain loans are deemed to be impaired and evaluated as an impaired loan.

During the second quarter of 2020, management made adjustments to the allowance for loan losses methodology. The qualitative factors were expanded to include additional reserves for niche lending portfolios of hotel, retained interest in the unguaranteed portion of U.S. Small Business Administration (SBA) Loans (not including PPP loans), and SBA PPP loans. The risk in these portfolios is measurable, in addition to the standard probable loss calculation performed on all non-impaired loans. With the impact of COVID-19 on all industries, the hotel and SBA (non-PPP) loan categories on the Company’s balance sheet have been identified as having elevated credit risk. The SBA (non-PPP) reflects the unguaranteed portion of SBA guaranteed loans originated by the Company. SBA PPP loans, while 100% guaranteed by SBA, could result in some loss if fraud occurs or there are reporting issues or duplicate funding of loans. In addition, management eliminated its qualitative factor based on a 21-day weighted average of the VIX index, a real-time index that measures the expectation of the market’s 30-day forward-looking volatility, and replaced it with a multi-factor linear regression encompassing the following economic data: Case Shiller for North Carolina (NC) home price index, NC unemployment rate, 2-year/10-year US Treasury spread, customer sentiment, and a VIX quarterly average factor. During the third quarter of 2020, due to the lagging nature of the data (primarily unemployment data from U.S. government data) used in the multi-factor linear regression, management adopted an additional qualitative factor to incorporate more current unemployment data that was developed from non-governmental sources. The factor further represents the uncertainty surrounding the COVID-19 pandemic and extended economic impacts. There were no significant adjustments to the allowance for loan losses methodology during 2021.

The portion of the Company’s allowance for loan loss model related to general reserves captures the mean loss of individual loans within the loan portfolio and adds additional loss based on economic uncertainty and specific indicators of potential issues in the market. Specifically, the Company calculates probable losses on loans by computing a probability of loss and multiplying that by a loss given default derived from historical experience. An additional calculation based on economic uncertainty is added to the probable losses, thus deriving the estimated loss scenario by FDIC call report codes. Together, these expected components, as well as a reserve for qualitative factors based on management’s discretion of economic conditions, form the basis of the allowance model. The loans that are impaired and included in the specific reserve are excluded from these calculations.

The Company assesses the probability of losses inherent in the loan portfolio using probability of default data derived from the Company’s internal historical data, representing a one-year loss horizon for each obligor. Credit scores are used within the model to determine the probability of default. The Company updates the credit scores for individuals that either have a loan, or are financially responsible for the loan, semi-annually, during the first and third quarters. During 2021, the average effective credit score of the portfolio, excluding loans in default, decreased slightly from 768 to 767. The probability of default associated with each credit score is a major driver in the allowance for loan losses.

The allowance for loan losses represents management’s best estimate of an appropriate amount to provide for probable credit risk inherent in the loan portfolio in the normal course of business. While management believes that it uses the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary and results of operations could be adversely affected if circumstances differ from the assumptions used in making the determinations. Furthermore, while management

believes it has established the allowance for loan losses in conformity with generally accepted accounting principles, there can be no assurance that banking regulators, in reviewing the Company's portfolio, will not require an adjustment to the allowance for loan losses. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that increases will not be necessary, should the quality of any loans deteriorate because of the factors discussed herein. Unexpected global events, such as the unprecedented economic disruption due to COVID-19, are the type of future events that often cause material adjustments to the allowance to be necessary. Any material increase in the allowance for loan losses may adversely affect the Company's financial condition, results of operations and the value of its securities.

At December 31, 2021, the levels of our impaired loans, which includes all loans in non-accrual status, TDRs, and other loans deemed by management to be impaired, were $4.7 million, compared to $8.2 million at December 31, 2020, a net decrease of $3.4 million. The decrease is related to four large impaired loans paying off in during 2021. Three of these large impaired relationships were loans in non-accrual status. As a result, non-accrual loans decreased from $3.8 million at December 31, 2020 to $972,000 at December 31, 2021.

The allowance, expressed as a percentage of gross loans held for investment, increased two basis points from 0.94% at December 31, 2020 to 0.96% at December 31, 2021. The collectively evaluated reserve allowance as a percentage of collectively evaluated loans was 0.93% at December 31, 2020 and 0.92% at December 31, 2020. The individually evaluated allowance as a percentage of individually evaluated loans increased from 1.81% to 4.54% for the same periods, a direct result of the $3.4 million net decrease in impaired loans during the year.

The ratio of nonperforming loans, which consists of non-accrual loans and loans past due 90 days and still accruing, to total loans decreased significantly from 0.80% at December 31, 2020, to 0.23% at December 31, 2021. This improvement is attributable to the previously mentioned payoffs of three large non-accrual loans.

As of December 31, 2021, management believed the level of the allowance for loan losses was appropriate in light of the risk inherent in the loan portfolio.

Other real estate owned remained at $0 through December 31, 2021, as there were no loans foreclosed on during the year.

Troubled debt restructured loans, a component of impaired loans, totaled $3.8 million at December 31, 2021, compared to $4.4 million at December 31, 2020. One relationship of $214,000 was added during the year, but this increase was offset by pay-offs and pay-downs totaling $876,000. At December 31, 2021, there was one troubled debt restructured loan in non-accrual status, which had a balance of $39,000.

As discussed in Note 5 (Troubled Debt Restructures) of our Notes to Consolidated Financial Statements, the CARES Act allowed for loan modifications related to COVID-19 impacts to be excluded from TDR status. As of December 31, 2021, the Company had no remaining COVID-19 modifications on outstanding loans.

The following table shows the comparison of nonperforming assets as of December 31, 2021 and 2020:

Nonperforming Assets
(dollars in thousands)

	At December 31,	
	2021	**2020**
Nonperforming Assets:		
Accruing loans past due 90 days or more	$ —	$ —
Nonaccrual loans	972	3,758
Other real estate owned	—	—
Total nonperforming assets	$ 972	$ 3,758
Allowance for loan losses	$ 4,026	$ 4,402
Nonaccrual loans to total loans	0.23%	0.80%
Allowance for loan losses to total loans	0.96%	0.94%
Allowance for loan losses to nonaccrual loans	414.20%	117.14%

Capital Resources

The Company continues to maintain capital ratios that support its asset growth. In 2013, bank regulatory agencies approved regulatory capital guidelines (“Basel III”) aimed at strengthening existing capital requirements for banking organizations. The rules include a common equity Tier 1 capital to risk-weighted assets minimum ratio of 4.50%, a minimum ratio of Tier 1 capital to risk-weighted assets of 6.00%, require a minimum ratio of total capital to risk-weighted assets of 8.00%, and require a minimum Tier 1 leverage ratio of 4.00%. A capital conservation buffer, comprised of common equity Tier 1 capital, was also established above the regulatory minimum capital requirements. This capital conservation buffer began phasing in on January 1, 2016 at 0.625% of risk-weighted assets and increased each subsequent year by an additional 0.625% until reaching its final level of 2.50% on January 1, 2019. Strict eligibility criteria for regulatory capital instruments were also implemented under the rules. The rules also revise the definition and calculation of Tier 1 capital, total capital, and risk-weighted assets.

The phase-in period for the rules became effective for the Company and its subsidiary bank on January 1, 2015, with full compliance of all the rules’ requirements phased in over a multi-year schedule, becoming fully phased-in on January 1, 2019. Pursuant to the Federal Reserve’s Small Bank Holding Company Policy Statement, the Company is exempt from Basel III. As of December 31, 2021, the Company and its subsidiary bank continue to exceed minimum capital standards and remain well-capitalized under applicable capital adequacy rules.

In January 2013, the Company’s subsidiary bank issued $7.9 million of Fixed Rate Noncumulative Perpetual Preferred Stock, Series B. The preferred stock qualifies as Tier 1 capital at the bank and pays dividends at a rate of 5.30%. The offering raised $7.9 million less issuance costs of $113,000.

During the third quarter of 2013, the Company’s subsidiary bank raised an additional $2.8 million of Fixed Rate Noncumulative Perpetual Preferred Stock, Series C. The preferred stock qualifies as Tier 1 capital at the bank and pays dividends at an annual rate of 5.30%. The preferred stock has no voting rights. The offering raised $2.8 million less issuance costs of $23,000.

During the third quarter of 2019, the Company conducted a private placement offering of fixed rate junior subordinated debt securities at $1,000 per security with a required minimum investment of $50,000. The offering raised $10.0 million, of which the entire $10.0 million was outstanding at December 31, 2021. These securities have a final maturity date of September 30, 2029 and may be redeemed by the Company after September 30, 2024. The junior subordinated debt pays interest quarterly at an annual fixed rate of 5.25%. All proceeds of this private placement qualify and are included in the calculation of Tier 2 capital. Once the final maturity drops under five years, the Company must impose a twenty percent annual reduction per year of the amount of the proceeds from the sale of these securities that are eligible to be counted as Tier 2 capital. The Company will have a twenty percent reduction beginning at September 30, 2024.

During the third quarter of 2021, the Company issued $12.0 million and $8.0 million of 10-year and 15-year fixed-to-floating rate subordinated debt securities, respectively. The 10-year subordinated notes mature on September 3, 2031, though redeemable on or after September 3, 2026, and initially pay interest quarterly at an annual rate of 3.5%. From and including September 3, 2026 to but excluding September 3, 2031, or up to an early redemption date, the interest rate on the 10-year subordinated notes will reset quarterly to an annual rate equal to the then-current three-month SOFR plus 283 basis points payable quarterly in arrears. The 15-year subordinated notes mature on September 3, 2036, though redeemable on or after September 3, 2031, and initially pay interest quarterly at an annual rate of 4.0%. From and including September 3, 2031 to but excluding September 3, 2036, or up to an early redemption date, the interest rate on the 15-year subordinated notes will reset quarterly to an annual rate equal to the then-current three-month SOFR plus 292 basis points payable quarterly in arrears. The subordinated debt has been structured to qualify as and is included in the calculation of the Company’s Tier 2 capital. Once the final maturity drops under five years, the Company must impose a twenty percent annual reduction per year of the amount of the proceeds from the sale of these securities that are eligible to be counted as Tier 2 capital. The Company will have a twenty percent reduction beginning at September 3, 2026 and September 3, 2031 for the 10-year and 15-year subordinated notes, respectively.

All of the Company’s aforementioned investment in its subsidiary bank qualifies for Tier 1 capital treatment for the Bank and is included as such in its year end capital ratios.

The Company expects to continue to exceed required minimum capital ratios without altering current operations or strategy. Note 15 (Shareholders’ Equity and Regulatory Matters) to the Notes to Consolidated Financial Statements presents additional information regarding the Company’s and its subsidiary bank’s capital ratios.

Dividends

The Board of Directors of Uwharrie Capital Corp declared a 3% stock dividend in 2021 and 2% stock dividend in both 2020 and 2019. 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

The objective of the Company's liquidity management policy is to ensure the availability of sufficient cash flows to meet all financial commitments and to capitalize on any opportunities for expansion. Liquidity management addresses the ability to meet deposit withdrawals on demand or at contractual maturity, to repay borrowings as they mature and to fund new loans and investments as opportunities arise. Liquidity is managed primarily by the selection of asset mix and the maturity mix of liabilities. Maturities and the marketability of securities and other funding sources provide a source of liquidity to meet deposit fluctuations. Maturities in the securities portfolio, presented in Financial Table 3, are supported by cash flows from mortgage-backed securities that have longer-term contractual maturities. The Company's other sources of internally generated funds are principal and interest payments on loans and cash flows generated from operation. Growth in deposits is typically the primary source of funds for loan growth, supported by long-term credit available from the Federal Home Loan Bank. The Company and its subsidiary bank have multiple funding sources, in addition to deposits, that can be used to increase liquidity and provide additional financial flexibility. Other funding sources at year-end 2021 included $43.0 million in federal funds lines of credit from correspondent banks and approximately $93.8 million of credit availability from the Federal Home Loan Bank. The Company may also borrow from the Federal Reserve Bank discount window with credit availability of $17.6 million.

At December 31, 2021, short-term borrowings amounted to $1.1 million. Long-term debt at that date consisted solely of $29.5 million of junior subordinated debt. Other contractual obligations of the Company exist in the form of operating leases and deposits. Obligations for operating leases and deposits totaled $2.4 million and $836.8 million, respectively, at December 31, 2021. Note 8 (Leases) and Note 9 (Deposits) to the Notes to Consolidated Financial Statements provide additional information, including maturities, regarding these obligations.

The Company has various financial instruments (outstanding commitments) with off-balance sheet risk that are issued in the normal course of business to meet the financing needs of its customers. See Note 13 (Commitments and Contingencies) to the Company's Notes to Consolidated Financial Statements for more information regarding these commitments and contingent liabilities.

Management believes that the Company's current sources of funds provide adequate liquidity for its current cash flow needs.

Critical Accounting Policies

A critical accounting policy is one that is both very important to the portrayal of the Company's financial condition and results, and requires management's most difficult, subjective and/or complex judgments. What makes these judgments difficult, subjective and/or complex is the need to make estimates about the effects of matters that are inherently uncertain. Refer to Note 1 (Significant Accounting Policies) in Notes to Consolidated Financial Statements for more information about these and other accounting policies utilized by the Company.

Allowance for Loan Losses

The allowance for loan losses represents management's best estimate of the losses that have been incurred in the loan portfolio but have not yet been charged-off. The allowance is a critical accounting estimate in the financial statements as it provides, by reference, an indication of the quality of the loan portfolio. Estimating credit losses is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Additional measurement uncertainty in the estimate is due, in part, to the large amount of data evaluated, the long-term nature of the underlying assets and the analysis of economic indicators. Regulatory examiners may require the Company to recognize adjustments to the allowance for loan losses based on their judgement about information available to them at the time of their assessment.

On a regular basis, the allowance for loan losses is evaluated both individually and collectively by loan class. Homogeneous loans are collectively evaluated by loan class for impairment. However, once a loan is deemed impaired, it is evaluated individually for specific impairment. Appropriately dividing the loan portfolio into different segments with similar risk characteristics aids in providing a more accurate estimation of the portfolio's loss. The Company's methodology for estimating loan losses is well documented and supported by internal controls, and validation of the process is performed on a recurring basis.

Loan Servicing Assets

The Company capitalizes mortgage and U.S. Small Business Administration (SBA) loan servicing rights when loans are sold and the loan servicing is retained. Servicing revenue is recognized in the statement of income as a component of other noninterest income. The amortization of servicing rights is realized over the estimated period that net servicing revenues are expected to be received. Essential assumptions used to value the loan servicing rights include prepayment speeds, discount rates and costs to service the loan. Servicing assets are periodically evaluated for impairment based upon their fair value, and any resulting impairment is recognized through a valuation allowance and charged to other expense. An unrelated third party performs a quarterly valuation of the Company's Fannie Mae Mortgage Servicing Rights. Significant judgement is required to estimate the value of servicing rights due to the nature and variety of assumptions used. As such, changes in assumptions could materially affect the estimated value of loan servicing assets.

Interest Rate Sensitivity

Net Interest Income (Margin) is the single largest component of revenue for the Company. Net Interest Margin is the difference between the yield on earning assets and interest paid on interest-bearing liabilities. The margin can vary over time as interest rates change. The variance fluctuates based on both the timing (repricing) and magnitude of maturing assets and liabilities.

To identify interest rate sensitivity, a common measure is a gap analysis, which reflects the difference or "gap" between rate sensitive assets and liabilities over various periods. While management reviews this information, it has implemented the use of an income simulation model, which calculates expected future Net Interest Income (Margin) based on projected interest-earning assets, interest-bearing liabilities and forecasted interest rates along with multiple other forecasted assumptions. Management believes this provides a more relevant view of interest rate risk sensitivity than the traditional gap analysis because the gap analysis ignores optionality embedded in the balance sheet, such as prepayments or changes based on interest rates. The income simulation model allows a comparison of flat, rising and falling rate scenarios to determine the interest rate sensitivity of earnings in varying interest rate environments.

The Company models immediate rising and declining rate shocks of up to 4% (in 1% intervals) on its subsidiary bank, using a static balance sheet for a two-year horizon, as preferred by regulators. The most recent consolidated 2% rate shock projections for a one-year horizon, indicates a negative impact of (9.81%) on Net Interest Income (Margin) in a rates-down scenario and a positive impact of 10.69% on Net Interest Income (Margin) in a rates-up scenario. Based on the most recent twelve-month forecast, the subsidiary bank is asset-sensitive and may experience some negative impact to earnings should interest rates decline. While many interest-bearing assets would reprice in a declining interest rate environment; many liabilities are already approaching 0% interest rates. The subsidiary bank has the potential to benefit from a rising interest rate environment, but current market deposit pricing and embedded options in the balance sheet may limit the upside potential.

The principal goals for asset liability management for the Company are to maintain adequate levels and sources of liquidity and to manage interest rate risk. Interest rate risk management attempts to balance the effects of interest rate changes on both interest-sensitive assets and interest-sensitive liabilities to protect Net Interest Income (Margin) from wide fluctuations as a result of changes in market interest rates. To that end, management has recommended and the board has approved policy limits that minimize the downside risk from interest rate shifts. The aforementioned ratios are within those stated limits of -18% for the respective modeled scenarios at the subsidiary bank and combined. Managing interest rate risk is an important factor to the long-term viability of the Company since Net Interest Income (Margin) is such a large component of earnings. The Company's Asset Liability Management Committee (ALCO) monitors market changes in interest rates and assists with the pricing of loans and deposit products while considering the funding source needs, asset growth projections, and necessary operating liquidity.

Financial Table 1

Average Balances and Net Interest Income Analysis

	2021			2020			2019		
(dollars in thousands)	**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	$216,345	3,152	1.46%	$130,640	2,570	1.97%	$ 84,206	1,680	2.00%
Non-taxable securities (1)	49,207	1,148	2.97%	26,427	732	3.57%	16,569	408	3.08%
Short-term investments	97,244	144	0.15%	103,167	639	0.62%	130,985	2,702	2.06%
Equity Securities	485	20	4.12%	950	51	5.37%	—	—	0.00%
Taxable loans (2)	447,904	22,956	5.13%	424,768	19,812	4.66%	362,728	18,727	5.16%
Non-taxable loans (1)	7,562	211	3.55%	9,756	270	3.57%	9,523	250	3.28%
Total interest-earning assets	818,747	27,631	3.42%	695,708	24,074	3.50%	604,011	23,767	3.96%
Non-earning assets									
Cash and due from banks	3,708			3,718			2,695		
Premises and equipment, net	16,506			16,766			16,740		
Interest receivable and other	23,970			21,868			22,235		
Total non-earning assets	44,184			42,352			41,670		
Total assets	$862,931			$738,060			$645,681		
Interest-bearing liabilities									
Savings deposits	$ 87,878	$ 65	0.07%	$ 65,671	$ 62	0.09%	$ 56,589	$ 102	0.18%
Interest checking & MMDA	375,425	401	0.11%	331,809	716	0.22%	271,496	1,435	0.53%
Time deposits	71,946	272	0.38%	78,447	897	1.14%	101,717	1,450	1.43%
Total deposits	535,249	738	0.14%	475,927	1,675	0.35%	429,802	2,987	0.69%
Short-term borrowed funds	1,289	4	0.31%	534	2	0.37%	905	15	1.66%
Long-term debt	16,946	774	4.57%	10,846	559	5.15%	10,051	563	5.60%
Total interest-bearing liabilities	553,484	1,516	0.27%	487,307	2,236	0.46%	440,758	3,565	0.81%
Noninterest liabilities									
Transaction deposits	236,048			187,261			145,678		
Interest payable and other	12,978			10,760			11,252		
Total liabilities	802,510			685,328			597,688		
Shareholders' equity	60,421			52,732			47,993		
Total liabilities and shareholders' equity	$862,931			$738,060			$645,681		
Interest rate spread			3.15%			3.04%			3.15%
Net interest income and net interest margin		$26,115	3.23%		$21,838	3.18%		$20,202	3.37%

(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 21.00% tax rate for 2021, 2020 and 2019.

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

Financial Table 2

Volume and Rate Variance Analysis

(dollars in thousands)	2021 Versus 2020 Volume	2021 Versus 2020 Rate	2021 Versus 2020 Net Change	2020 Versus 2019 Volume	2020 Versus 2019 Rate	2020 Versus 2019 Net Change
Interest-earning assets						
Taxable securities	$ 1,467	$ (885)	$ 582	$ 920	$ (30)	$ 890
Non-taxable securities	581	(165)	416	258	66	324
Short-term investments	(23)	(472)	(495)	(373)	(1,690)	(2,063)
Equity securities	(22)	(9)	(31)	26	25	51
Taxable loans	1,132	2,012	3,144	3,048	(1,963)	1,085
Non-taxable loans	(61)	2	(59)	6	14	20
Total interest-earning assets	3,074	483	3,557	3,885	(3,578)	307
Interest-bearing liabilities						
Savings deposits	19	(16)	3	12	(52)	(40)
Transaction and MMDA deposits	70	(385)	(315)	224	(943)	(719)
Other time deposits	(49)	(576)	(625)	(299)	(254)	(553)
Short-term borrowed funds	3	(1)	2	(4)	(9)	(13)
Long-term debt	297	(82)	215	43	(47)	(4)
Total interest-bearing liabilities	340	(1,060)	(720)	(24)	(1,305)	(1,329)
Net interest income	$ 2,734	$ 1,543	$ 4,277	$ 3,909	$ (2,273)	$ 1,636

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

Weighted Average Yield on Investments Securities

	December 31, 2021 Weighted Average Yield (1)	December 31, 2020 Weighted Average Yield (1)
Securities available for sale		
U.S. Treasury		
Due within twelve months	—	—
Due after five but within ten years	1.24%	—
	1.24%	—
U.S. Government agencies		
Due within twelve months	1.80%	1.49%
Due after one but within five years	1.93%	1.80%
Due after five but within ten years	0.83%	1.72%
Due after ten years	0.94%	1.33%
	1.04%	1.55%
Mortgage-backed securities		
Due within twelve months	—	2.27%
Due after one but within five years	3.40%	3.15%
Due after five but within ten years	1.24%	2.41%
Due after ten years	1.16%	1.03%
	1.29%	1.62%
Asset-backed securities		
Due after ten years	1.12%	1.28%
	1.12%	1.28%
State and political		
Due within twelve months	4.50%	2.15%
Due after one but within five years	2.73%	5.40%
Due after five but within ten years	1.99%	2.14%
Due after ten years	1.82%	2.44%
	1.85%	2.45%
Corporate Bonds		
Due within twelve months	2.98%	—
Due after one but within five years	1.68%	3.20%
Due after five but within ten years	2.00%	—
	2.00%	3.20%
Total Securities available for sale		
Due within twelve months	2.23%	1.52%
Due after one but within five years	2.44%	2.75%
Due after five but within ten years	1.22%	2.14%
Due after ten years	1.39%	1.79%
	1.41%	1.87%

(1) Yields on securities and investments exempt from federal and/or state income taxes are stated on a fully tax-equivalent basis, assuming a 21.00% tax rate for 2021 and 2020.

Financial Table 3

Weighted Average Yield on Investments Securities (Continued)

	December 31, 2021 Weighted Average Yield (1)	December 31, 2020 Weighted Average Yield (1)
Securities held to maturity		
U.S. Government agencies		
Due after one but within five years	2.75%	2.89%
Due after five but within ten years	—	—
	2.75%	2.89%
State and political		
Due within twelve months	1.70%	2.06%
Due after one but within five years	2.23%	2.70%
Due after five but within ten years	—	—
Due after ten years	2.85%	3.45%
	2.75%	3.22%
Corporate Bonds		
Due within twelve months	—	—
Due after one but within five years	—	—
Due after five but within ten years	4.73%	5.01%
Due after ten years	3.68%	—
	4.57%	5.01%
Total Securities held to maturity		
Due within twelve months	1.70%	2.06%
Due after one but within five years	2.28%	2.73%
Due after five but within ten years	4.73%	—
Due after ten years	2.97%	3.45%
	3.64%	3.21%

(1) Yields on securities and investments exempt from federal and/or state income taxes are stated on a fully tax-equivalent basis, assuming a 21.00% tax rate for 2021 and 2020.

Financial Table 4

Noninterest Income

(dollars in thousands)	Year Ended December 31, 2021	2020	2019
Service charges on deposit accounts	$ 995	$ 1,027	$ 1,348
Other banking fees	424	338	499
Asset management fees	2,050	1,710	1,716
Brokerage commissions	587	571	472
Interchange and card transaction fees, net	1,181	917	826
Investment securities gains (losses)	991	71	(35)
Other gains (losses) from sale of assets	48	413	54
Income from mortgage banking	11,294	14,714	3,835
Supplemental executive retirement plan gain (loss)	942	746	(51)
Other noninterest income	420	370	341
Total noninterest income	$ 18,932	$ 20,877	$ 9,005

Financial Table 5

Other Noninterest Expense

(dollars in thousands)	Year Ended December 31, 2021	2020	2019
Postage	$ 197	$ 187	$ 186
Telephone and data lines	174	182	187
Office supplies and printing	102	108	102
Shareholder relations expense	196	123	159
Dues and subscriptions	373	369	256
Other	1,260	985	1,030
Total other noninterest expense	$ 2,302	$ 1,954	$ 1,920

Financial Table 6

Loan Portfolio Composition

	At December 31,			
	2021		2020	
(dollars in thousands)	Amount	% of Total Loans	Amount	% of Total Loans
Loan type:				
Commercial	$ 73,035	17.35%	$ 64,334	13.71%
SBA Paycheck Protection Program (PPP)	15,840	3.76%	76,398	16.28%
Real estate - commercial	150,382	35.73%	147,229	31.37%
Real estate - construction	36,699	8.72%	40,629	8.66%
Real estate - residential	129,827	30.85%	126,615	26.98%
Consumer	9,579	2.28%	11,073	2.36%
Other	5,496	1.31%	3,098	0.66%
Total loans	420,858	100.00%	469,376	100.00%
Less:				
Allowance for loan losses	(4,026)		(4,402)	
Unearned net loan (fees) costs	(79)		(1,635)	
Net loans	$ 416,753		$ 463,339	

Financial Table 7

Selected Loan Maturities

	December 31, 2021				
(dollars in thousands)	One Year or Less	One to Five Years	Five to Fifteen Years	Over Fifteen Years	Total
Commercial and agricultural	$ 9,413	$ 36,127	$ 24,772	$ 18,563	$ 88,875
Real estate - construction	7,642	4,841	8,636	15,580	36,699
Total selected loans	$ 17,055	$ 40,968	$ 33,408	$ 34,143	$ 125,574
Fixed rate loans	$ 1,503	$ 38,566	$ 43,248	$ 41,934	$ 125,251
Sensitivity to rate changes:					
Variable interest rates	$ 22,304	$ 22,863	$ 137,011	$ 113,350	$ 295,528

Financial Table 8

Allocation of Charge-Offs and Recoveries

	At December 31,					
	2021			2020		
(dollars in thousands)	Net charge-offs (recoveries)	Average loans	Net charge-offs (recoveries) to average loans	Net charge-offs (recoveries)	Average loans	Net charge-offs (recoveries) to average loans
Commercial	$ 65	$ 67,154	0.10%	$ 3	$ 62,083	—
SBA Paycheck Protection Program (PPP)	—	48,299	—	—	46,589	—
Real estate - commercial	(359)	147,094	(0.24)%	(12)	141,203	(0.01)%
Other real estate construction	(185)	31,156	(0.59)%	(4)	30,539	(0.01)%
Real estate 1-4 family construction	—	5,994	—	—	7,968	—
Real estate - residential	(69)	79,467	(0.09)%	(16)	74,971	(0.02)%
Home equity	(17)	51,227	(0.03)%	(5)	52,773	(0.01)%
Consumer loans	24	10,232	0.23%	—	12,329	—
Other loans	—	4,322	—	—	2,780	—
Total	$ (541)	$ 444,945	(0.12)%	$ (34)	$ 431,235	(0.01)%

Financial Table 9

Allocation of the Allowance for Loan Losses

	At December 31,			
	2021		2020	
(dollars in thousands)	Amount	% of Total Loans (1)	Amount	% of Total Loans (1)
Commercial	$ 718	17.35%	$ 789	13.70%
SBA Paycheck Protection Program (PPP)	—	3.77%	—	16.28%
Real estate - commercial	1,370	35.73%	1,546	31.37%
Other real estate construction	330	6.72%	418	7.01%
Real estate 1-4 family construction	—	2.00%	—	1.64%
Real estate - residential	982	18.73%	901	15.98%
Home equity	492	12.12%	595	11.00%
Consumer loans	123	2.28%	153	2.36%
Other loans	11	1.31%	—	0.66%
Total loans	$ 4,026	100.00%	$ 4,402	100.00%

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

Financial Table 10

Maturities of Time Deposits

	December 31, 2021 (dollars in thousands)				
	3 Months or Less	Over 3 Months to 1 Year	Over 1 Year to 3 Years	Over 3 Years	Total
U.S. time deposits in amounts in excess of the FDIC insurance limit	$ 7,682	$ 14,682	$ 1,356	$ —	$ 23,720
Other time deposits	12,218	20,886	10,890	3,333	47,327
	$ 19,900	$ 35,568	$ 12,246	$ 3,333	$ 71,047

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

Item not required for smaller reporting companies.

Item 8. Financial Statements and Supplementary Data.

Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors
Uwharrie Capital Corp and Subsidiaries

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Uwharrie Capital Corp and Subsidiaries (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows, for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

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

Allowance for Loan Losses

The Company’s allowance for loan losses (ALL) was $4.0 million as of December 31, 2021. As described in Note 1 and Note 4 to the consolidated financial statements, the ALL is evaluated both individually and collectively by loan class on a regular basis by management. Loans are collectively evaluated based upon management’s periodic review of the collectability of the loans in light of historical loss 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, certain portfolio concentrations, and prevailing economic conditions. The ALL for individually evaluated loans is based upon discounted cash flows or the net realizable value of the collateral. Management’s process is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

We identified the Company’s estimate of the ALL as a critical audit matter. The principal considerations for our determination included the high degree of judgment and subjectivity in management’s identification and measurement of the qualitative factors. This required a high degree of audit effort, including specialized skills and knowledge, and significant auditor judgement in evaluating the Company’s estimate of the ALL, particularly as it relates to the identification and measurement of the qualitative factors.

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

- We obtained an understanding of the Company’s process and internal controls for establishing the ALL, including the selection, application, and related adjustments of the qualitative factor components of the ALL.
- We evaluated the reasonableness of management’s application of qualitative factor adjustments to the ALL, including evaluating the appropriateness and level of qualitative factor adjustments based on Company-specific data and third-party data.
- We tested the mathematical accuracy of the ALL, including the application of the qualitative factors on the loan portfolio.
- We assessed relevant trends in credit quality and evaluated the relationship of the trends to the identification of relevant qualitative factors and directional consistency of the qualitative factors.

- We evaluated subsequent events and transactions and considered whether they corroborated or contradicted the Company’s conclusion.

/s/ Dixon Hughes Goodman LLP

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

Asheville, NC
March 9, 2022

UWHARRIE CAPITAL CORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2021 and 2020

	2021	2020
	(dollars in thousands)	
ASSETS		
Cash and due from banks	$ 5,298	$ 6,301
Interest-earning deposits with banks	89,112	82,567
Cash and cash equivalents	94,410	88,868
Securities available for sale, at fair value	330,337	191,513
Securities held to maturity (fair value $32,045 and $29,600, respectively)	30,801	28,207
Equity securities, at fair value	392	1,352
Loans held for sale	21,684	6,959
Loans:		
Loans held for investment	420,779	467,741
Less allowance for loan losses	(4,026)	(4,402)
Net loans held for investment	416,753	463,339
Premises and equipment, net	15,987	16,982
Interest receivable	2,554	2,524
Restricted stock	921	1,166
Bank owned life insurance	9,066	8,936
Other real estate owned	—	—
Prepaid assets	968	1,146
Loan servicing assets	5,078	3,957
Mortgage banking derivatives	1,269	2,073
Other assets	9,460	10,748
Total assets	$ 939,680	$ 827,770
LIABILITIES		
Deposits:		
Demand noninterest-bearing	$ 239,422	$ 205,788
Interest checking and money market accounts	422,942	381,502
Savings deposits	103,341	74,792
Time deposits, $250,000 and over	23,720	28,825
Other time deposits	47,327	52,289
Total deposits	836,752	743,196
Short-term borrowed funds	1,081	710
Long-term debt	29,530	10,992
Interest payable	7	21
Mortgage banking derivatives	50	388
Other liabilities	11,473	13,226
Total liabilities	878,893	768,533
Off balance sheet items, commitments and contingencies (Note 13)		
SHAREHOLDERS' EQUITY		
Common stock, $1.25 par value: 20,000,000 shares authorized; shares issued and outstanding 6,959,556 and 7,052,143, at December 31, 2021 and 2020, respectively	8,700	8,815
Additional paid-in capital	12,032	12,607
Undivided profits	30,551	23,000
Accumulated other comprehensive income (loss)	(1,151)	4,160
Total Uwharrie Capital shareholders' equity	50,132	48,582
Noncontrolling interest	10,655	10,655
Total shareholders' equity	60,787	59,237
Total liabilities and shareholders' equity	$ 939,680	$ 827,770

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, 2021, 2020 and 2019

	2021	2020	2019
		(dollars in thousands, except share and per share data)	
Interest Income			
Loans, including fees	$ 23,167	$ 20,082	$ 18,977
Investment securities:			
US Treasury	109	74	131
US Government agencies and corporations	1,774	1,598	1,490
State and political subdivisions non-taxable	1,148	732	408
State and political subdivisions taxable	1,269	898	59
Equity securities	20	51	—
Interest-earning deposits with banks and federal funds sold	144	640	2,702
Total interest income	27,631	24,075	23,767
Interest Expense			
Interest checking and money market accounts	401	716	1,435
Savings deposits	65	62	102
Time deposits $250,000 and over	81	370	830
Other time deposits	192	527	620
Short-term borrowed funds	3	2	15
Long-term debt	774	559	563
Total interest expense	1,516	2,236	3,565
Net interest income	26,115	21,839	20,202
Provision for (recovery of) loan losses	(917)	2,387	(588)
Net interest income after provision for (recovery of) loan losses	27,032	19,452	20,790
Noninterest Income			
Service charges on deposit accounts	995	1,027	1,348
Other service fees and commissions	3,061	2,619	2,687
Interchange and card transaction fees, net	1,181	917	826
Gain (loss) on sale of securities	991	71	(35)
Realized/unrealized gain (loss) on equity security	(31)	451	—
Income from mortgage banking	11,294	14,714	3,835
Supplemental executive retirement plan gain (loss)	942	332	(51)
Other income	499	746	395
Total noninterest income	18,932	20,877	9,005
Noninterest Expense			
Salaries and employee benefits	21,637	19,874	17,122
Net occupancy expense	1,738	1,781	1,693
Equipment expense	754	803	720
Data processing costs	680	669	706
Loan costs	803	583	359
Foreclosed real estate expense	—	12	300
Professional fees and services	955	927	929
Marketing and donations	1,306	972	758
Electronic banking expense	393	414	424
Software amortization and maintenance	1,380	1,263	925
FDIC insurance	228	301	132
Supplemental executive retirement plan gain (loss)	942	332	(51)
Other noninterest expense	2,302	1,954	1,920
Total noninterest expense	33,118	29,885	25,937
Income before income taxes	12,846	10,444	3,858
Income taxes	2,763	2,337	771
Net income	$ 10,083	$ 8,107	$ 3,087
Consolidated net income	$ 10,083	$ 8,107	$ 3,087
Less: Net income attributable to noncontrolling interest	(565)	(567)	(564)
Net income attributable to Uwharrie Capital Corp and common shareholders	9,518	7,540	2,523
Net income per common share			
Basic	$ 1.33	$ 1.03	$ 0.33
Diluted	$ 1.33	$ 1.03	$ 0.33
Weighted average common shares outstanding			
Basic	7,179,402	7,344,695	7,563,545
Diluted	7,179,402	7,344,695	7,563,545

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, 2021, 2020 and 2019

	2021	2020	2019
		(dollars in thousands)	
Net Income	$ 10,083	$ 8,107	$ 3,087
Other comprehensive income (loss):			
Unrealized gain (loss) on available for sale securities	(5,906)	5,055	2,584
Related tax effect	1,373	(1,163)	(595)
Reclassification of (gain) loss recognized in net income	(991)	(71)	35
Related tax effect	213	16	(7)
Total other comprehensive income (loss)	(5,311)	3,837	2,017
Comprehensive income	4,772	11,944	5,104
Less: Comprehensive income attributable to noncontrolling interest	(565)	(567)	(564)
Comprehensive income attributable to Uwharrie Capital Corp	$ 4,207	$ 11,377	$ 4,540

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, 2021, 2020 and 2019

	Number of Common Shares Issued	Common Stock	Additional Paid-in Capital	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total
			(dollars in thousands, except share data)				
Balance, December 31, 2018	7,126,541	$ 8,908	$ 12,885	$ 14,421	$ (1,694)	$ 10,655	$ 45,175
Net Income	—	—	—	2,523	—	564	3,087
Repurchase of common stock	(168,683)	(211)	(639)	—	—	—	(850)
2% stock dividend	138,062	173	538	(711)	—	—	—
Cash paid – fractional shares	—	—	—	(7)	—	—	(7)
Other comprehensive income	—	—	—	—	2,017	—	2,017
Record preferred stock dividend series B (noncontrolling interest)	—	—	—	—	—	(416)	(416)
Record preferred stock dividend series C (noncontrolling interest)	—	—	—	—	—	(148)	(148)
Balance, December 31, 2019	7,095,920	$ 8,870	$ 12,784	$ 16,226	$ 323	$ 10,655	$ 48,858
Net Income	—	—	—	7,540	—	567	8,107
Repurchase of common stock	(181,558)	(227)	(764)	—	—	—	(991)
2% stock dividend	137,781	172	587	(759)	—	—	—
Cash paid – fractional shares	—	—	—	(7)	—	—	(7)
Other comprehensive income	—	—	—	—	3,837	—	3,837
Record preferred stock dividend series B (noncontrolling interest)	—	—	—	—	—	(418)	(418)
Record preferred stock dividend series C (noncontrolling interest)	—	—	—	—	—	(149)	(149)
Balance, December 31, 2020	7,052,143	$ 8,815	$ 12,607	$ 23,000	$ 4,160	$ 10,655	$ 59,237
Net Income	—	—	—	9,518	—	565	10,083
Repurchase of common stock	(298,700)	(373)	(2,271)	—	—	—	(2,644)
3% stock dividend	206,113	258	1,696	(1,954)	—	—	—
Cash paid – fractional shares	—	—	—	(13)	—	—	(13)
Other comprehensive loss	—	—	—	—	(5,311)	—	(5,311)
Record preferred stock dividend series B (noncontrolling interest)	—	—	—	—	—	(417)	(417)
Record preferred stock dividend series C (noncontrolling interest)	—	—	—	—	—	(148)	(148)
Balance, December 31, 2021	6,959,556	$ 8,700	$ 12,032	$ 30,551	$ (1,151)	$ 10,655	$ 60,787

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, 2021, 2020 and 2019

	2021	2020	2019
		(dollars in thousands)	
Cash flows from operating activities			
Net income	$ 10,083	$ 8,107	$ 3,087
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Depreciation and amortization	1,125	1,129	1,074
Right of use asset amortization	337	329	313
Provision for (recovery of) loan losses	(917)	2,387	(588)
(Gain) loss on sale of investment securities available for sale	(991)	(71)	35
Gain on sale of mortgage loans	8,645	9,401	2,877
(Gain) loss on sale of premises and equipment	(23)	69	(6)
(Gain) loss on sale of OREO	—	(24)	40
OREO write-downs	—	21	237
Realized/unrealized (gain) loss on equity securities	31	(451)	—
Net amortization of premium on investment securities available for sale	1,716	537	555
Net amortization of premium on investment securities held to maturity	153	145	139
Amortization of loan servicing rights	1,589	1,132	831
Originations and purchases of mortgage loans for sale	(334,132)	(342,680)	(124,973)
Proceeds from sale of mortgage loans for sale	310,762	328,160	123,134
Mortgage banking derivatives	466	(1,685)	—
Loan servicing assets	(2,710)	(3,366)	(704)
Accrued interest receivable	(31)	(857)	97
Prepaid assets	178	(432)	(156)
Cash surrender value of life insurance	(130)	(140)	(125)
Miscellaneous other assets	1,925	(390)	1,125
Deferred income taxes	143	(151)	15
Accrued interest payable	(14)	(34)	39
Miscellaneous other liabilities	(1,753)	1,021	(6)
Net cash provided (used) by operating activities	(3,548)	2,157	7,040
Cash flows from investing activities			
Proceeds from sale of investment securities available for sale	49,280	17,358	3,351
Proceeds from sale of equity securities	929	—	—
Proceeds from maturities, calls and paydowns of securities available for sale	22,200	11,206	23,919
Proceeds from maturities, calls and paydowns of securities held to maturity	2,253	5,656	270
Purchase of investment securities available for sale	(217,926)	(127,035)	(22,466)
Purchase of investment securities held to maturity	(5,000)	(20,580)	(3,000)
Purchase of equity securities	—	(901)	—
Purchase of investments in other assets	(314)	(1,120)	—
Proceeds from sale of investments in other assets	1,120	—	—
Net change in restricted stock	245	(22)	(50)
Net (increase) decrease in loans	47,504	(109,757)	12,034
Purchase of premises and equipment	(765)	(720)	(1,576)
Proceeds from sale of premises, equipment and other assets	340	94	189
Proceeds from sale of OREO	—	497	543
Net cash provided (used) by investing activities	(100,134)	(225,324)	13,214
Cash flows from financing activities			
Net increase in deposit accounts	93,556	157,318	18,977
Net increase (decrease) in federal funds purchased and other short-term borrowings	371	84	(564)
Proceeds from long-term borrowings	20,000	1,000	9,992
Debt issuance costs	(481)	—	—
Repayment of long-term borrowings	(1,000)	—	(9,974)
Repurchase of common stock, net	(2,644)	(991)	(850)
Dividends paid on preferred stock (noncontrolling interest)	(565)	(567)	(564)
Cash paid for fractional shares	(13)	(7)	(7)
Net cash provided by financing activities	109,224	156,837	17,010
Increase (decrease) in cash and cash equivalents	5,542	(66,330)	37,264
Cash and cash equivalents, beginning of year	88,868	155,198	117,934
Cash and cash equivalents, end of year	$ 94,410	$ 88,868	$ 155,198
Supplemental disclosures of cash flow information			
Interest paid	$ 1,530	$ 2,250	$ 3,526
Income taxes paid	2,741	2,271	933
Supplemental schedule of non-cash activities			
Net change in fair value of securities available for sale, net of tax	(5,311)	3,837	2,017
Initial right of use asset for leased properties	—	—	2,256
Initial lease liability for leased properties	—	—	2,308
Extension of right of use asset for leased properties	—	821	—
Extension of lease liability for leased properties	—	874	—
Loans transferred to foreclosed real estate	—	—	267
Company financed OREO	—	90	(70)

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. On September 1, 2013, Bank of Stanly changed its name to Uwharrie Bank (“Uwharrie” or the “Bank”).

Uwharrie was incorporated on September 28, 1983, under the laws of the State of North Carolina and began operations on January 26, 1984 in Albemarle, North Carolina. Deposits with Uwharrie are insured by the Federal Deposit Insurance Corporation (“FDIC”). Uwharrie is under regulation of the Federal Reserve, the FDIC and the North Carolina Commissioner of Banks. In North Carolina, Uwharrie has ten branch locations that provide a wide range of deposit accounts, commercial, consumer, home equity and residential mortgage loans, safe deposit boxes and automated banking.

In 1987, Uwharrie established a wholly owned subsidiary, BOS Agency, Inc. (“BOS Agency”), which engages in insurance product sales. In 1989, Uwharrie established a second wholly owned subsidiary, BOS Financial Corporation, for the purpose of conducting business as a “broker dealer” in securities. During 1993, BOS Financial Corporation changed its name to The Strategic Alliance Corporation (“Strategic Alliance”) and was registered as a “broker dealer” and is regulated by the Financial Industry Regulatory Authority (“FINRA”).

The Company formed a new subsidiary, Strategic Investment Advisors, Inc. (“SIA”), during 1998 to provide investment advisory and asset management services. This subsidiary is registered as an investment advisor with the Securities and Exchange Commission. During 2015, SIA changed its name to Uwharrie Investment Advisors, Inc. (“UIA”).

On January 19, 2000, the Company completed its acquisition of Anson BanCorp, Inc. and its subsidiary, Anson Savings Bank. The savings bank retained its North Carolina savings bank charter and became a wholly owned subsidiary of Uwharrie Capital Corp as Anson Bank & Trust Company (“Anson”), operating out of its main office branch in Wadesboro. Anson was consolidated into Uwharrie Bank effective September 1, 2013.

On August 4, 2000, Uwharrie acquired another subsidiary, Gateway Mortgage, Inc. (“Gateway”), a mortgage origination company. This company is currently inactive and does not affect the Company’s consolidated financial statements.

On April 10, 2003, the Company capitalized a new wholly owned subsidiary bank, Cabarrus Bank & Trust Company (“Cabarrus”), located in Concord, North Carolina. As of that date, Cabarrus purchased two branch offices located in Cabarrus County from Uwharrie to begin its operation. Cabarrus operated as a commercial bank and provided a full range of banking services. Cabarrus was consolidated into Uwharrie Bank effective September 1, 2013.

On April 7, 2004 Uwharrie Mortgage, Inc. was established as a subsidiary of the Company to serve in the capacity of trustee and substitute trustee under deeds of trust.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, Uwharrie, UIA and Uwharrie’s subsidiaries, BOS Agency and Strategic Alliance. All significant intercompany transactions and balances have been eliminated in consolidation.

Note 1 - Significant Accounting Policies (Continued)

Risks and Uncertainties

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

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

Financial position and results of operations

The Company’s interest income could be reduced due to COVID-19. The Company worked with customers affected by the pandemic to defer payments, interest and fees. Based on U.S. generally accepted accounting principles, or GAAP, the interest and fees will continued to accrue during the deferment period. At this time, the Company is unable to project the materiality potential credit losses, but recognizes the breadth of the economic impact may affect its borrowers’ ability to repay in future periods. As such, interest income in future periods could be negatively impacted.

Lending operations and accommodations to borrowers

As outlined in the CARES Act, and encouraged through guidance by federal banking agencies, the Company is provided a payment deferral option for commercial and consumer loans adversely affected by the pandemic. In accordance with the CARES Act, these modifications were not required to be reported as troubled debt restructurings if (i) the loan modification is made between March 1, 2020 and December 31, 2020 and (ii) the applicable loan was not more than 30 days past due as of December 31, 2019. The CAA extended the applicable period of the CARES Act, as related to troubled debt restructurings, to the earlier of January 1, 2022 or 60 days after the date the national emergency concerning COVID-19 terminates. The Company initially provided up to a three-month deferral period or conversion to interest only repayment for up to three months to allow for re-evaluation in a timely manner based on the economic impact at that time. As of December 31, 2021, the Company had no current outstanding loans modified for reasons related to the COVID-19 pandemic.

The Paycheck Protection Program (“PPP”), which is administered by the U.S. Small Business Administration (“SBA”), was created as part of the CARES Act. The Company participated in assisting its customers with applications for funds through the program. PPP loans have a two-year term or, if approved after June 5, 2020, a five-year term and earn interest at 1%. The Company believes that the majority of these loans will ultimately be forgiven by the SBA in accordance with the terms of the program. As of December 31, 2020, the Company had funded 1,202 PPP loans representing $81 million. Of the loans funded during 2020, 1,161 loans totaling $80.4 million had been paid off or forgiven by the SBA as of December 31, 2021. The CAA established another round of PPP loan funding for certain eligible borrowers, and the Company assisted these borrowers in obtaining a first or second draw loan. During 2021, the Company funded 879 second round PPP loans totaling $46.4 million. Of the loans funded during the second round, 581 loans totaling $31.1 million had been paid off or forgiven by the SBA as of December 31, 2021. It is the Company’s understanding that loans funded through the PPP are fully guaranteed by the U.S. government. Should those circumstances change, the Company could be required to establish additional allowance for loan loss through additional provision expense charged to earnings.

Allowance for loan losses

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

Note 1 - Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America ("GAAP"), requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses.

Cash and Cash Equivalents

For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents are defined as those amounts included in the balance sheet captions "Cash and due from banks" and "Interest-earning deposits with banks."

Investment Securities Available for Sale

Investment securities available for sale consist of United States Treasuries, United States Government agencies, Government Sponsored Enterprise (GSE) mortgage-backed securities and collateralized mortgage obligations (CMOs), Federal Family Education Loan Program (FFELP) student loan asset-backed securities, corporate bonds and state and political subdivision bonds. Unrealized holding gains and losses on available for sale securities are reported as a net amount in other comprehensive income, net of income taxes. Gains and losses on the sale of available for sale securities are determined using the specific identification method and recorded on a trade basis. Declines in the fair value of individual available for sale securities below their cost that are other than temporary would result in write-downs of the individual securities, to their fair value. Such write-downs would be included in earnings as realized losses to the extent the losses are associated with the credit quality of the issuer. Amortization of premiums and accretion of discounts are recognized in interest income using the interest method over the period to maturity.

Investment Securities Held to Maturity

Investment securities held to maturity consist of United States Government agencies, corporate bonds and state and political subdivision bonds. The Company has both the intent and ability to hold the securities to maturity. These securities are reported at amortized cost.

Loans Held for Sale

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

Loans Held for Investment

The Company divides the loans it originates into two segments, commercial and noncommercial loans. Commercial loans are broken down into the following classes: commercial loans, real estate commercial loans, other real estate construction loans and other loans. Noncommercial loans are divided into the following classes: real estate 1-4 family construction loans, real estate 1-4 family residential loans, home equity loans and consumer loans. The ability of the Company's borrowers to honor their contracts is largely dependent upon the real estate and general economic conditions in the Company's market area. Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the effective interest method. The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Credit card loans and other personal loans are typically charged off no later than 180 days past due. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful. The exception to this policy is credit card loans that remain in accrual status 90 days or more until they are paid current or charged off.

All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these impaired loans is accounted for on a cash basis until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Generally, a minimum of six months of sustained performance is required.

Note 1 - Significant Accounting Policies (Continued)

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses. The provision for loan losses is expensed to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The Company has different specific risks identified within the loan segments. Specific risks within the commercial loan segment arise with borrowers that are experiencing diminished operating cash flows, depreciated collateral values or prolonged sales and rental absorption periods. Concentrations within the portfolio, if unmanaged, pose additional risk. Occasionally, the Company will purchase participation loans from other institutions. If these loans are not independently underwritten by the Bank, they could carry additional risk. Generally, owner-occupied commercial real estate loans carry less risk than non-owner occupied. Specific risks within the non-commercial portfolio tend to be tied to economic factors including high unemployment rates and decreased real estate values. Risk to the Company is greater as home values deteriorate more rapidly than amortization in a loan, leaving little to no equity in properties, especially in junior lien positions. Concentration in the portfolio, such as home equity lines of credit, could pose additional risk if not appropriately managed.

The allowance for loan losses is evaluated both individually and collectively by loan class on a regular basis by management. Loans are collectively evaluated based upon management’s periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral and prevailing economic conditions. Individually evaluated loans are based upon discounted cash flows or the net realizable value of the collateral. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. In addition, regulatory examiners may require the Company to recognize adjustments to the allowance for loan losses based on their judgment about information available to them at the time of their assessment.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Homogeneous loans are collectively evaluated by loan class for impairment. However, once a loan is deemed impaired, it will be evaluated individually for specific impairment.

Troubled debt restructure loans (TDRs) are modifications of a loan when a borrower is experiencing financial difficulty and the modification involves providing a concession to the existing loan contract. TDRs are considered to be impaired loans and are individually evaluated for impairment.

The portion of the Company’s allowance for loan loss model related to general reserves captures the mean loss of individual loans within the loan portfolio and adds additional loss based on economic uncertainty and volatility. Specifically, the Company calculates probable losses on loans by computing a probability of loss and multiplying that by a loss given default derived from historical experience, thus deriving the estimated loss scenario by FDIC call report codes. Together, these components, as well as a reserve for qualitative factors based on management’s discretion of economic conditions and portfolio concentrations, form the basis of the allowance model. The loans that are impaired and included in the specific reserve are excluded from these calculations.

Loan Servicing Assets

The Company capitalizes mortgage and U.S. Small Business Administration (SBA) loan servicing rights when loans are sold and the loan servicing is retained. Servicing revenue is recognized in the statement of income as a component of other noninterest income. The amortization of servicing rights is realized over the estimated period that net servicing revenues are expected to be received. These projections are based on the amount and timing of estimated future cash flows. The amortization of servicing rights is recognized in the statement of income as an offset to other noninterest income. Servicing assets are periodically evaluated for impairment based upon their fair value. Fair value is based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance and charged to other expense.

Note 1 - Significant Accounting Policies (Continued)

Mortgage Banking Derivatives

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

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

The Company also enters into purchase and sale agreements of to-be-announced mortgage-backed securities trades (TBAs). A TBA trade is a contract to buy or sell mortgage-backed securities on a specific date while the underlying mortgages are not announced until just prior to settlement. These TBA trades provide an economic hedge against the effect of changes in interest rates resulting from IRLCs. TBAs are accounted for as derivatives under Accounting Standards Codification (ASC) 815, issued by the Financial Accounting Standards Board (FASB), when either of the following conditions exist: (i) when settlement of the TBA trade is not expected to occur at the next regular settlement date (which is typically the next month) or (ii) a mechanism exists to settle the contract on a net basis. As a result, these instruments are recorded at fair value in the mortgage banking derivatives liability with changes in fair value recorded in income from mortgage banking within the consolidated statement of income. The fair value of the TBA trades is based on the gain or loss that would occur if the Company were to pair-off the trade at the measurement date.

The following table reflects the notional amount and fair value of mortgage banking derivatives included in the balance sheet at fair value as of December 31, 2021 and December 31, 2020.

	Notional Amount	Fair Value
	(dollars in thousands)	
Balance at December 31, 2021		
Included in mortgage banking derivatives asset:		
Interest rate lock commitments	$ 28,939	$ 1,016
Forward sales commitments	8,417	253
To-be-announced mortgage-backed securities trades	—	—
Included in mortgage banking derivatives liability:		
Forward sales commitments	—	—
To-be-announced mortgage-backed securities trades	44,000	50
Balance at December 31, 2020		
Included in mortgage banking derivatives asset:		
Interest rate lock commitments	66,452	2,073
Forward sales commitments	—	—
To-be-announced mortgage-backed securities trades	—	—
Included in mortgage banking derivatives liability:		
Forward sales commitments	47,260	388
To-be-announced mortgage-backed securities trades	—	—

Note 1 - Significant Accounting Policies (Continued)

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Foreclosed Real Estate

Real estate properties acquired through foreclosure or other proceedings are initially recorded at fair value less costs to sell upon foreclosure, establishing a new cost basis. Annually, valuations are performed and the foreclosed property is adjusted to the lower of cost or fair value of the properties, less costs to sell. Any write-down at the time of transfer to foreclosed properties is charged to the allowance for loan losses. Subsequent write-downs are charged to noninterest expense, and costs related to the improvement of the property are capitalized if the fair value less cost to sell will allow it. If not, these costs are expensed also.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Land is carried at cost. Additions and major replacements or betterments which extend the useful lives of premises and equipment are capitalized. Maintenance, repairs and minor improvements are expensed as incurred. Depreciation is computed principally by the straight-line method over estimated useful lives, except in the case of leasehold improvements, which are amortized over the term of the leases, if shorter. Useful lives range from five to seven years for furniture, fixtures and equipment, to ten to thirty-nine years for leasehold improvements and buildings, respectively. Upon retirement or other disposition of the assets, the cost and the related accumulated depreciation are removed from the accounts and any gains or losses are reflected in income. Right-of-use (ROU) assets that are recognized at the initial adoption of a lease arrangement are included in premises and equipment. More information regarding ROU assets can be found in Note 8 (Leases).

Restricted Stock

As a requirement for membership, the Bank invests in the stock of the Federal Home Loan Bank of Atlanta (“FHLB”) and Federal Reserve Bank (“FRB”). These investments are carried at cost. Due to the redemption provisions of these investments, the Company estimated that fair value approximates cost and that these investments were not impaired.

Stock-Based Compensation

The Company recognizes the cost of employee services received in exchange for an award of equity instruments in the financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period). ASC 718 also requires measurement of the cost of employee services received in exchange for an award based on the grant-date fair value of the award. As of December 31, 2021 and December 31, 2020, there are no outstanding awards.

Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return and separate North Carolina income tax returns. The Bank files a separate South Carolina income tax return. The provision for income taxes in the accompanying consolidated financial statements is provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. We record uncertain tax positions in accordance with ASC 740 on the basis of a two-step process whereby (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more likely than not recognition threshold. The tax returns for the Company are subject to audit by federal and state taxing authorities for the 2018 fiscal year and thereafter. It is the Company’s policy to recognize interest and penalties associated with uncertain tax positions as components of other expenses in the income statement; however, if interest becomes a material amount, it would be reclassified as interest expense. There were no interest or penalties accrued during the years ended December 31, 2021, 2020 and 2019.

Note 1 - Significant Accounting Policies (Continued)

Leases

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

Revenue Recognition

For revenue not associated with financial instruments, loan servicing guarantees and lease contracts, we apply the following steps when recognizing revenue from contracts with customers: (i) identify the contract, (ii) identify the performance obligations, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations and (v) recognize revenue when the performance obligation is satisfied. Our contracts with customers are generally short term in nature, typically due within one year or less or cancellable by us or our customer upon a short notice period. Performance obligations for our customer contracts are generally satisfied at a single point in time, typically when the transaction is complete, or over time. For performance obligations satisfied over time, we primarily use the output method, directly measuring the value of the products/services transferred to the customer, to determine when performance obligations have been satisfied. We typically receive payment from customers and recognize revenue concurrent with the satisfaction of our performance obligations. In most cases, this occurs within a single financial reporting period. For payments received in advance of the satisfaction of performance obligations, revenue recognition is deferred until such time the performance obligations have been satisfied. In cases where we have not received payment despite satisfaction of our performance obligations, we accrue an estimate of the amount due in the period our performance obligations have been satisfied.

For contracts with variable components, only amounts for which collection is probable are accrued. We generally act in a principal capacity, on our own behalf, in most of our contracts with customers. In such transactions, we recognize revenue and the related costs to provide our services on a gross basis in our financial statements. In some cases, we act in an agent capacity, deriving revenue through assisting other entities in transactions with our customers. In such transactions, we recognize revenue and the related costs to provide our services on a net basis in our financial statements. These transactions primarily relate to insurance and brokerage commissions and fees derived from our customers' use of various interchange and ATM/debit card/credit card networks. Network costs associated with debit card and credit card transactions are netted against the related fees from such transactions. For the twelve months ended December 31, 2021, gross interchange and card transaction fees totaled $2.6 million while related network costs totaled $1.4 million. On a net basis, we reported $1.2 million as interchange and card transaction fees in the accompanying Consolidated Statement of Income for the twelve months ended December 31, 2021. For the twelve months ended December 31, 2020 and December 31, 2019, interchange and card transaction fees were $2.1 million and $2.0 million, respectively, on a gross basis while related network costs were $1.2 million and $1.2 million, respectively.

Fair Value of Financial Instruments

ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 does not require any new fair value measurements, but clarifies and standardizes some divergent practices that have emerged since prior guidance was issued. ASC 820 creates a three-level hierarchy under which individual fair value estimates are to be ranked based on the relative reliability of the inputs used in the valuation.

ASC 820 defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, the Company considers the principal or most advantageous market in which those assets or liabilities are sold and considers assumptions that market participants would use when pricing those assets or liabilities. Fair values determined using Level 1 inputs rely on active and observable markets to price identical assets or liabilities. In situations where identical assets and liabilities are not traded in active markets, fair values may be determined based on Level 2 inputs, which exist when observable data exists for similar assets and liabilities. Fair values for assets and liabilities for which identical or similar assets and liabilities are not actively traded in observable markets are based on Level 3 inputs, which are considered to be unobservable.

Note 1 - Significant Accounting Policies (Continued)

Among the Company's assets and liabilities, investment securities available for sale and mortgage banking derivatives are reported at their fair values on a recurring basis. Certain other assets are adjusted to their fair value on a nonrecurring basis, including other real estate owned, impaired loans, loans held for sale, which are carried at the lower of cost or market, and loan servicing rights, where fair value is determined using similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Deposits, short-term borrowings and long-term obligations are not reported at fair value.

Prices for US Treasury and marketable equity securities are readily available in the active markets in which those securities are traded, and the resulting fair values are shown in the Level 1 input column. Prices for government agency securities, mortgage-backed securities, asset-backed securities and for state, county and municipal securities are obtained for similar securities, and the resulting fair values are shown in the Level 2 input column. Prices for all other non-marketable investments are determined based on various assumptions that are not observable. The fair values for these investment securities are shown in the Level 3 input column. Non-marketable investment securities, which are carried at their purchase price, include those that may only be redeemed by the issuer. The changes in securities between Level 1 and Level 2 were related to the purchase and sale of several securities and not the transfer of securities.

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

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment by using one of several methods including collateral value, fair value of similar debt or discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the present value of the expected
repayments or fair value of collateral exceed the recorded investments in such loans. The Company typically bases the fair value of the collateral on appraised values which the Company considers Level 3 valuations.

Foreclosed assets are adjusted to fair value upon transfer of the loans to other real estate owned. Real estate acquired in settlement of loans is recorded initially at the estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charged to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. The Company typically bases the fair value of the collateral on appraised values which the Company considers Level 3 valuations.

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate, based on secondary market prices. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. These loans are recorded in Level 2.

Note 1 - Significant Accounting Policies (Continued)

Comprehensive Income (Loss)

The Company reports as comprehensive income all changes in shareholders' equity during the year from sources other than shareholders. Other comprehensive income refers to all components (revenues, expenses, gains, and losses) of comprehensive income that are excluded from net income. The Company's only component of other comprehensive income is unrealized gains and losses, net of income tax, on investment securities available for sale. The following table presents the changes in accumulated other comprehensive income for the years ended December 31, 2021, 2020 and 2019:

	Year ended December 31,		
	2021	2020	2019
	(dollars in thousands)		
Beginning Balance	$ 4,160	$ 323	$ (1,694)
Accumulated other comprehensive income (loss) before reclassifications, net of $1,373, ($1,163) and ($595) tax effect, respectively	(4,533)	3,892	1,989
Amounts reclassified from accumulated other comprehensive income, net of $213, $16, and ($7) tax effect, respectively (included in noninterest income)	(778)	(55)	28
Net current-period other comprehensive income (loss)	(5,311)	3,837	2,017
Ending Balance	$ (1,151)	$ 4,160	$ 323

Earnings per Common Share

The Company had no stock options outstanding at December 31, 2021, 2020 and 2019.

Basic earnings per share ("EPS") excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. On October 19, 2021, the Company's Board of Directors declared a 3% stock dividend payable on November 23, 2021 to shareholders of record on November 9, 2021. All information presented in the accompanying consolidated financial statements regarding earnings per share and weighted average number of shares outstanding has been computed giving effect to this stock dividend.

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

	2021	2020	2019
Weighted average number of common shares used in computing basic net income per common share	7,179,402	7,344,695	7,563,545
Effect of dilutive stock options	—	—	—
Weighted average number of common shares and dilutive potential common shares used in computing diluted net income per common share	7,179,402	7,344,695	7,563,545

Noncontrolling Interest

In January 2013 the Company's subsidiary bank issued a total of $7.9 million of Fixed Rate Noncumulative Perpetual Preferred Stock, Series B. The preferred stock qualified as Tier 1 capital at each bank and pays dividends at an annual rate of 5.30%. The preferred stock has no voting rights. This capital is presented as noncontrolling interest in the consolidated balance sheets. Dividends declared on this preferred stock are presented as earnings allocated to the noncontrolling interest in the consolidated statements of income. Effective September 1, 2013, the Fixed Rate Noncumulative Perpetual Preferred Stock, Series B was rolled into one issue under Uwharrie Bank in connection with the consolidation and name change.

During 2013, the Company's subsidiary bank, Uwharrie Bank, raised $2.8 million of Fixed Rate Noncumulative Perpetual Preferred Stock, Series C. The preferred stock qualifies as Tier 1 capital at the bank and pays dividends at an annual rate of 5.30%. The preferred stock has no voting rights.

Recent Accounting Pronouncements

In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". ASU 2016-13 requires an entity to utilize a new impairment model known as the current expected credit loss ("CECL") model to estimate its lifetime "expected credit loss" and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model is expected to result in earlier recognition of credit losses. ASU 2016-13 also requires new disclosures for financial assets measured at amortized cost, loans and available-for-sale debt securities. During 2019, the effective date was extended to fiscal years beginning on or after December 15, 2022 for public entities that qualify as smaller reporting companies, per the Securities and Exchange Commission definition, which currently includes the Company. Early adoption is permitted. Entities will apply the standard's provisions as a cumulative effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. We have entered into a contract to outsource our current model with a CECL-ready vendor. We are currently working on setting, and supporting, the model assumptions for the various methods of determining credit losses within the CECL methodology supported by the software. The impact of the adoption is dependent on loan portfolio composition and credit quality at adoption date, as well as economic conditions and forecasts at that time.

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

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 2020 and 2019 financial statements have been reclassified to conform to the 2021 presentation. These reclassifications do not have a material impact on net income or shareholders' equity.

Note 2 – Investment and Equity Securities

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

December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(dollars in thousands)			
Securities available for sale				
U.S. Treasury	$ 26,675	$ 16	$ 310	$ 26,381
U.S. Government agencies	40,066	172	426	39,812
GSE - Mortgage-backed securities and CMOs	121,994	190	1,736	120,448
Asset-backed securities	43,383	875	60	44,198
State and political subdivisions	89,786	892	1,201	89,477
Corporate bonds	9,928	148	55	10,021
Total securities available for sale	$ 331,832	$ 2,293	$ 3,788	$ 330,337

December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(dollars in thousands)			
Securities held to maturity				
U.S. Government agencies	$ 175	$ 1	$ —	$ 176
State and political subdivisions	15,626	1,096	—	16,722
Corporate bonds	15,000	196	49	15,147
Total securities held to maturity	$ 30,801	$ 1,293	$ 49	$ 32,045

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

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

At December 31, 2021 and December 31, 2020, the Company owned Federal Reserve Bank (FRB) stock reported at cost of $509,000 for both periods. The Company owned Federal Home Loan Bank (FHLB) stock reported at cost of $411,000 and $657,000 at December 31, 2021 and December 31, 2020, respectively. The investments in Federal Reserve stock and FHLB stock are required investments related to the Company's membership in, and borrowings with, these banks and are classified as restricted stock on the consolidated balance sheet. These investments are carried at cost since there is no ready market and redemption has historically been made at par value. The Company estimated the fair value approximated cost and that these investments were not impaired at December 31, 2021.

Note 2 - Investment and Equity Securities (Continued)

Results from sales of securities available for sale for the years ended December 31, 2021, 2020 and 2019 are as follows:

	2021	2020	2019
	(dollars in thousands)		
Gross proceeds from sales	$ 49,280	$ 17,358	$ 3,351
Realized gains from sales	$ 1,505	$ 85	$ —
Realized losses from sales	(514)	(14)	(35)
Net realized gains (losses)	$ 991	$ 71	$ (35)

At December 31, 2021 and 2020 securities available for sale with a carrying amount of $104.9 million and $82.8 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, 2021 and December 31, 2020. We believe these unrealized losses on investment securities are a result of a volatile market and fluctuations in market prices due to a rise in interest rates, which will adjust if rates decline. Management does not believe these fluctuations are a reflection of the credit quality of the investments. At December 31, 2021, the unrealized losses on available for sale securities less than twelve months related to three U.S. Treasury bonds, fourteen government agency bonds, thirty government sponsored enterprise (GSE) mortgage-backed securities, five asset-backed securities, thirty-four state and political subdivision bonds and three corporate bonds. There were eight corporate held to maturity bonds that had been in a loss position less than twelve months at December 31, 2021. At December 31, 2020, the unrealized loss on available for sale securities less than twelve months related to four government agency bonds, three GSE mortgage-backed securities, two asset-backed securities and ten state and political subdivision bonds. The Company had two government agency bonds, one GSE mortgage-backed security and nine state and political subdivision bonds that had been in a loss position for more than twelve months at December 31, 2021.

December 31, 2021	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(dollars in thousands)					
Securities available for sale temporary impairment						
U.S. Treasury	$ 16,306	$ 310	$ —	$ —	$ 16,306	$ 310
U.S. Government agencies	19,702	396	2,313	30	22,015	426
GSE - Mortgage-backed securities and CMOs	93,928	1,607	4,210	129	98,138	1,736
Asset-backed securities	8,531	60	—	—	8,531	60
State and political subdivisions	52,959	892	9,272	309	62,231	1,201
Corporate bonds	5,945	55	—	—	5,945	55
Total securities available for sale	$ 197,371	$ 3,320	$ 15,795	$ 468	$ 213,166	$ 3,788

December 31, 2021	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(dollars in thousands)					
Securities held to maturity temporary impairment						
Corporate bonds	$ 5,201	$ 49	$ —	$ —	$ 5,201	$ 49
Total securities held to maturity	$ 5,201	$ 49	$ —	$ —	$ 5,201	$ 49

Note 2 - Investment and Equity Securities (Continued)

December 31, 2020	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(dollars in thousands)					
Securities available for sale temporary impairment						
U.S. Government agencies	$ 5,061	$ 26	$ —	$ —	$ 5,061	$ 26
GSE - Mortgage-backed securities and CMOs	10,263	68	—	—	10,263	68
Asset-backed securities	2,686	3	—	—	2,686	3
State and political subdivisions	11,286	91	—	—	11,286	91
Total securities available for sale	$ 29,296	$ 188	$ —	$ —	$ 29,296	$ 188

December 31, 2020	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(dollars in thousands)					
Securities held to maturity temporary impairment						
U.S. Government agencies	$ —	$ —	$ —	$ —	$ —	$ —
State and political subdivisions	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Total securities held to maturity	$ —	$ —	$ —	$ —	$ —	$ —

Declines in the fair value of the investment portfolio are believed by management to be temporary in nature. When evaluating an investment for other-than-temporary impairment, management considers, among other things, the length of time and the extent to which the fair value has been in a loss position, the financial condition of the issuer and the intent and the ability of the Company to hold the investment until the loss position is recovered.

Any unrealized losses were largely due to increases in market interest rates over the yields available at the time of purchase. The fair value is expected to recover as the bonds approach their maturity date or market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality, but that the losses are temporary in nature. At December 31, 2021, the Company does not intend to sell and is not likely to be required to sell the available for sale securities that were in a loss position prior to full recovery.

The following tables show contractual maturities of the investment portfolio as of December 31, 2021:

	Amortized Cost	Estimated Fair Value
	(dollars in thousands)	
Securities available for sale		
Due within twelve months	$ 6,106	$ 6,171
Due after one but within five years	16,157	16,356
Due after five but within ten years	98,112	96,959
Due after ten years	211,457	210,851
	$ 331,832	$ 330,337

	Amortized Cost	Estimated Fair Value
	(dollars in thousands)	
Securities held to maturity		
Due within twelve months	$ 305	$ 307
Due after one but within five years	2,135	2,190
Due after five but within ten years	12,750	12,897
Due after ten years	15,611	16,651
	$ 30,801	$ 32,045

Note 2 - Investment and Equity Securities (Continued)

The portion of unrealized gains and losses for the twelve months ended December 31, 2021 and 2020 related to equity securities still held at the reporting date is calculated as follows:

	Twelve Months Ended December 31,	
	2021	2020
	(dollars in thousands)	
Gross proceeds from sales	$ 929	$ —
Net gains (losses) recognized during the period on equity securities	$ (31)	$ 451
Less: Net gains (losses) recognized from equity securities sold during the period	(18)	—
Unrealized gains (losses) recognized during the period on equity securities still held at the reporting date	$ (13)	$ 451

Note 3 – Loans Held for Investment

The composition of net loans held for investment by class as of December 31, 2021 and 2020 is as follows:

	2021	**2020**
	(dollars in thousands)	
Commercial		
Commercial	$ 73,035	$ 64,334
SBA Paycheck Protection Program (PPP)	15,840	76,398
Real estate - commercial	150,382	147,229
Other real estate construction loans	28,275	32,920
Other loans	5,496	3,098
Noncommercial		
Real estate 1-4 family construction	8,424	7,709
Real estate - residential	78,824	75,000
Home equity	51,003	51,615
Consumer loans	9,579	11,073
	420,858	469,376
Less:		
Allowance for loan losses	(4,026)	(4,402)
Deferred loan fees, net	(79)	(1,635)
Loans held for investment, net	$ 416,753	$ 463,339

Although the Bank's loan portfolio is diversified, there is a concentration of mortgage real estate loans, primarily 1 to 4 family residential and construction mortgage loans and home equity loans, which represent 32.9% of total loans. Additionally, there is a concentration in commercial loans (not including PPP loans) secured primarily by real estate, shopping center locations, commercial land development, commercial buildings, equipment, and general commercial loans that represent 59.8% of total loans. There is not a concentration of a particular type of credit in this group of commercial loans. 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.

The total recorded investment in impaired loans totaled $4.7 million and $8.2 million at December 31, 2021 and 2020, respectively. Impaired loans are individually evaluated for impairment and consist of non-accrual loans troubled debt restructures. Individually evaluated loans are disclosed in more detail in Note 4 (Allowance for Loan Losses).

The carrying value of foreclosed properties held as other real estate was $0 at December 31, 2021 and 2020. The Company had no residential real estate in process of foreclosure at December 31, 2021. At December 31, 2020, the Company had $51,000 of residential real estate in process of foreclosure.

Note 4 - Allowance for Loan Losses

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

With the impact of COVID-19 on all industries, the hotel and SBA (non-PPP) loan categories on the Company's balance sheet have been identified as having elevated credit risk. The SBA (non-PPP) loan category reflects the unguaranteed portion of SBA guaranteed loans originated by the Company. SBA PPP loans, while 100% guaranteed by SBA, could result in some loss if fraud occurs or there are reporting issues or duplicate funding of loans. These additional qualitative factors allocated $132,000 to the reserve during 2020 that was not present at December 31, 2019.

In addition, management eliminated its qualitative factor based on a 21-day weighted average of the VIX index, a real-time index that measures the expectation of the market's 30-day forward-looking volatility, and replaced it with a multi-factor linear regression encompassing the following economic data: Case Shiller for North Carolina (NC) home price index, NC unemployment rate, 2-year 10-year US Treasury spread, customer sentiment, and a VIX quarterly average factor. This qualitative factor update increased provisions by approximately $379,000 for the year ended December 31, 2020.

There were no significant adjustments to the allowance for loan losses methodology during 2021.

Changes in the allowance for loan losses by loan segment for the years ended December 31, 2021, 2020 and 2019 are presented below (the "other" category represents a one-time impact of re-classification for unfunded commitments' allowance from the allowance for loan losses to an unfunded commitment liability):

Commercial	2021	2020	2019
	(dollars in thousands)		
Balance, beginning of year	$ 2,753	$ 1,087	$ 1,334
Provision (recovery) charged to operations	(803)	1,653	(571)
Charge-offs	(156)	(81)	(11)
Recoveries	635	94	367
Net (charge-offs) recoveries	479	13	356
Other	—	—	(32)
Balance, end of year	$ 2,429	$ 2,753	$ 1,087

Non-Commercial	2021	2020	2019
	(dollars in thousands)		
Balance, beginning of year	$ 1,649	$ 894	$ 1,040
Provision (recovery) charged to operations	(114)	734	(17)
Charge-offs	(56)	(53)	(149)
Recoveries	118	74	74
Net (charge-offs) recoveries	62	21	(75)
Other	—	—	(54)
Balance, end of year	$ 1,597	$ 1,649	$ 894

Total	2021	2020	2019
	(dollars in thousands)		
Balance, beginning of year	$ 4,402	$ 1,981	$ 2,374
Provision (recovery) charged to operations	(917)	2,387	(588)
Charge-offs	(212)	(134)	(160)
Recoveries	753	168	441
Net (charge-offs) recoveries	541	34	281
Other	—	—	(86)
Balance, end of year	$ 4,026	$ 4,402	$ 1,981

Note 4 - Allowance for Loan Losses (Continued)

The following table shows period-end loans and reserve balances by loan segment both individually and collectively evaluated for impairment at December 31, 2021 and 2020:

December 31, 2021	Individually Evaluated		Collectively Evaluated		Total	
	Reserve	Loans	Reserve	Loans	Reserve	Loans
	(dollars in thousands)					
Commercial	$ 102	$ 2,573	$ 2,327	$ 269,876	$ 2,429	$ 272,449
Non-Commercial	112	2,135	1,485	146,195	1,597	148,330
Total	$ 214	$ 4,708	$ 3,812	$ 416,071	$ 4,026	$ 420,779

December 31, 2020	Individually Evaluated		Collectively Evaluated		Total	
	Reserve	Loans	Reserve	Loans	Reserve	Loans
	(dollars in thousands)					
Commercial	$ 53	$ 5,237	$ 2,700	$ 317,094	$ 2,753	$ 322,331
Non-Commercial	94	2,917	1,555	142,493	1,649	145,410
Total	$ 147	$ 8,154	$ 4,255	$ 459,587	$ 4,402	$ 467,741

Past due loan information is used by management when assessing the adequacy of the allowance for loan losses. The following tables summarize the past due information of the loan portfolio by class as of the dates indicated:

December 31, 2021	Loans 30-89 Days Past Due	Loans 90 Days or More Past due and Non - Accrual	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
			(dollars in thousands)			
Commercial	$ 201	$ 310	$ 511	$ 72,524	$ 73,035	$ —
SBA Paycheck Protection Program (PPP)	—	—	—	15,100	15,100	
Real estate - commercial	127	292	419	150,124	150,543	—
Other real estate construction	—	—	—	28,275	28,275	—
Real estate 1-4 family construction	—	—	—	8,424	8,424	—
Real estate - residential	559	337	896	78,428	79,324	—
Home equity	—	33	33	50,970	51,003	—
Consumer loans	27	—	27	9,552	9,579	—
Other loans	—	—	—	5,496	5,496	—
Total	$ 914	$ 972	$ 1,886	$ 418,893	$ 420,779	$ —

December 31, 2020	Loans 30-89 Days Past Due	Loans 90 Days or More Past due and Non - Accrual	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
			(dollars in thousands)			
Commercial	$ —	$ —	$ —	$ 64,334	$ 64,334	$ —
SBA Paycheck Protection Program (PPP)	—	—	—	74,750	74,750	
Real estate - commercial	—	2,076	2,076	145,153	147,229	—
Other real estate construction	52	1,039	1,091	31,829	32,920	—
Real estate 1-4 family construction	—	—	—	7,709	7,709	—
Real estate - residential	299	595	894	74,119	75,013	—
Home equity	—	48	48	51,567	51,615	—
Consumer loans	46	—	46	11,027	11,073	—
Other loans	—	—	—	3,098	3,098	—
Total	$ 397	$ 3,758	$ 4,155	$ 463,586	$ 467,741	$ —

Note 4 - Allowance for Loan Losses (Continued)

Once a loan becomes 90 days past due, the loan is automatically transferred to a non-accrual status. The exception to this policy is credit card loans that remain in accrual status 90 days or more until they are paid current or charged off.

The composition of non-accrual loans by class as of December 31, 2021 and 2020 is as follows:

	2021	2020
	(dollars in thousands)	
Commercial	$ 310	$ —
SBA Paycheck Protection Program (PPP)	—	—
Real estate - commercial	292	2,076
Other real estate construction	—	1,039
Real estate 1-4 family construction	—	—
Real estate - residential	337	595
Home equity	33	48
Consumer loans	—	—
Other loans	—	—
	$ 972	$ 3,758

Management uses a risk-grading program to facilitate the evaluation of probable inherent loan losses and to measure the adequacy of the allowance for loan losses. In this program, risk grades are initially assigned by the loan officers and reviewed and monitored by the lenders and credit administration on an ongoing basis. The program has eight risk grades summarized in five categories as follows:

Pass: Loans that are pass grade credits include loans that are fundamentally sound and risk factors are reasonable and acceptable. They generally conform to policy with only minor exceptions and any major exceptions are clearly mitigated by other economic factors.

Watch: Loans that are watch credits include loans on management's watch list where a risk concern may be anticipated in the near future.

Substandard: Loans that are considered substandard are loans that are inadequately protected by current sound net worth, paying capacity of the obligor or the value of the collateral pledged. All non-accrual loans are graded as substandard.

Doubtful: Loans that are considered to be doubtful have all weaknesses inherent in loans classified substandard, plus the added characteristic that the weaknesses make the collection or liquidation in full on the basis of current existing facts, conditions and values highly questionable and improbable.

Loss: Loans that are considered to be a loss are considered to be uncollectible and of such little value that their continuance as bankable assets is not warranted.

The tables below summarize risk grades of the loan portfolio by class as of December 31, 2021 and 2020:

December 31, 2021	Pass	Watch	Sub-standard	Doubtful	Total
			(dollars in thousands)		
Commercial	$ 70,235	$ 2,490	$ 310	$ —	$ 73,035
SBA Paycheck Protection Program (PPP)	15,100	—	—	—	15,100
Real estate - commercial	145,084	4,387	1,072	—	150,543
Other real estate construction	27,966	55	254	—	28,275
Real estate 1-4 family construction	8,424	—	—	—	8,424
Real estate - residential	76,430	2,157	737	—	79,324
Home equity	50,672	298	33	—	51,003
Consumer loans	9,538	41	—	—	9,579
Other loans	5,496	—	—	—	5,496
Total	$ 408,945	$ 9,428	$ 2,406	$ —	$ 420,779

Note 4 - Allowance for Loan Losses (Continued)

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

Loans that are in non-accrual status or 90 days past due and still accruing are considered to be nonperforming. At both December 31, 2021 and 2020, there were no loans 90 days past due and still accruing. The following tables show the breakdown between performing and nonperforming loans by class as of December 31, 2021 and 2020:

December 31, 2021	Performing	Non-Performing	Total
	(dollars in thousands)		
Commercial	$ 72,725	$ 310	$ 73,035
SBA Paycheck Protection Program (PPP)	15,100	—	15,100
Real estate - commercial	150,251	292	150,543
Other real estate construction	28,275	—	28,275
Real estate 1-4 family construction	8,424	—	8,424
Real estate - residential	78,987	337	79,324
Home equity	50,970	33	51,003
Consumer loans	9,579	—	9,579
Other loans	5,496	—	5,496
Total	$ 419,807	$ 972	$ 420,779

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

Note 4 - Allowance for Loan Losses (Continued)

Loans are considered impaired when, based on current information and events it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement. If a loan is deemed impaired, a valuation analysis is performed and a specific reserve is allocated if necessary. The tables below summarize the loans deemed impaired and the amount of specific reserves allocated by class as of December 31, 2021, 2020, and 2019:

	As of December 31, 2021				Year Ended December 31, 2021	
(dollars in thousands)	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Related Allowance	Average Recorded Investment	Interest Income
Commercial	$ 960	$ —	$ 960	$ 31	$ 775	$ 47
SBA Paycheck Protection Program (PPP)	—	—	—	—	—	—
Real estate - commercial	1,613	—	1,613	71	3,122	97
Other real estate construction	—	—	—	—	208	—
Real estate 1-4 family construction	—	—	—	—	—	—
Real estate - residential	2,103	777	1,326	111	2,625	128
Home equity	32	2	30	1	157	9
Consumer loans	—	—	—	—	6	—
Total	$ 4,708	$ 779	$ 3,929	$ 214	$ 6,893	$ 281

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

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

Note 5 – Troubled Debt Restructures

A modification of a loan constitutes a troubled debt restructuring ("TDR") when a borrower is experiencing financial difficulty and the modification involves providing a concession to the existing loan contract. The Company offers various types of concessions when modifying loans to troubled borrowers, however, forgiveness of principal is rarely granted. Concessions offered are term extensions, capitalizing accrued interest, reducing interest rates to below current market rates or a combination of any of these. Combinations from time to time may include allowing a customer to be placed on interest-only payments. The presentations below in the "other" category are TDRs with a combination of concessions. At the time of a TDR, additional collateral or a guarantor may be requested.

Loans modified as TDRs are typically already on non-accrual status and in some cases, partial charge-offs may have already been taken against the outstanding loan balance. The Company classifies TDR loans as impaired loans and evaluates the need for an allowance for loan loss on a loan-by-loan basis. An allowance is based on either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the estimated fair value of the underlying collateral less any selling costs, if the loan is deemed to be collateral dependent.

At December 31, 2021, the Company had $3.8 million in TDRs outstanding, of which one with a balance totaling $39,000 was on a non-accruing basis. Comparatively, the Company had $4.4 million of outstanding TDRs, of which one with a balance of $46,000 was on a non-accruing basis, at December 31, 2020.

For the twelve months ended December 31, 2021, 2020 and 2019, the following table presents a breakdown of the types of concessions made by loan class:

	Year Ended December 31, 2021		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(dollars in thousands)	
Extend payment terms:			
Commercial	—	$ —	$ —
Real estate - commercial	—	—	—
Other real estate construction	—	—	—
Real estate 1-4 family construction	—	—	—
Real estate - residential	—	—	—
Home equity	—	—	—
Consumer loans	—	—	—
Other loans	—	—	—
	—	$ —	$ —
Other:			
Commercial	1	$ 648	$ 648
Real estate - commercial	2	1,223	1,223
Other real estate construction	—	—	—
Real estate 1-4 family construction	—	—	—
Real estate - residential	3	468	468
Home equity	—	—	—
Consumer loans	—	—	—
Other loans	—	—	—
	6	$ 2,339	$ 2,339
Total	6	$ 2,339	$ 2,339

Note 5 – Troubled Debt Restructures (Continued)

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

	Year Ended December 31, 2019		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(dollars in thousands)	
Extend payment terms:			
Commercial	—	$ —	$ —
Real estate - commercial	—	—	—
Other real estate construction	—	—	—
Real estate 1-4 family construction	—	—	—
Real estate - residential	—	—	—
Home equity	—	—	—
Consumer loans	—	—	—
Other loans	—	—	—
	—	$ —	$ —
Other:			
Commercial	1	$ 50	$ 4
Real estate - commercial	1	1,629	838
Other real estate construction	—	—	—
Real estate 1-4 family construction	—	—	—
Real estate - residential	3	261	219
Home equity	—	—	—
Consumer loans	—	—	—
Other loans	—	—	—
	5	$ 1,940	$ 1,061
Total	5	$ 1,940	$ 1,061

Note 5 – Troubled Debt Restructures (Continued)

During the twelve months ended December 31, 2021, there were no TDRs for which there was a payment default. There was one payment default in 2020 and one payment default on a TDR in 2019. A default on a troubled debt restructure is defined as being past due 90 days or being out of compliance with the modification agreement. The outstanding balance of TDRs at December 31, 2021 was $3.8 million of which $39,000 was in non-accrual status. Comparatively, the outstanding balance of TDRs at December 31, 2020 was $4.4 million of which $46,000 was not accruing interest.

As previously mentioned, the Company considers TDRs to be impaired loans and has $153,000 in the allowance for loan loss as of December 31, 2021, as a direct result of these TDRs. At December 31, 2020 and 2019 there was $137,000 and $117,000 in the allowance for loan loss related to TDRs, respectively.

The following table presents the status of the types of types of loans modified as TDRs within the previous twelve months as of December 31, 2021, 2020 and 2019:

	Paid In Full		Paying as restructured		Converted to nonaccrual		Foreclosure/ Default	
	Number of Loans	Recorded Investments	Number of Loans	Recorded Investments	Number of Loans	Recorded Investments	Number of Loans	Recorded Investments
	(dollars in thousands)							
December 31, 2021								
Below market interest rate	1	$ 218	—	$ —	—	$ —	—	$ —
Extended payment terms	—	—	—	—	—	—	—	—
Other	7	1,079	6	2,339	—	—	—	—
Total	8	$ 1,297	6	$ 2,339	—	$ —	—	$ —

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

	Paid In Full		Paying as restructured		Converted to nonaccrual		Foreclosure/ Default	
	Number of Loans	Recorded Investments	Number of Loans	Recorded Investments	Number of Loans	Recorded Investments	Number of Loans	Recorded Investments
	(dollars in thousands)							
December 31, 2019								
Below market interest rate	—	$ —	—	$ —	—	$ —	—	$ —
Extended payment terms	—	—	—	—	—	—	—	—
Other	1	37	5	1,940	—	—	—	—
Total	1	$ 37	5	$ 1,940	—	$ —	—	$ —

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

As of December 31, 2021, the Company had no current outstanding loans modified for COVID-19 related reasons. Additionally, 208 previously modified loans with outstanding balances totaling $52.9 million have come out of deferment. Of the loans removed from deferment, 56 with balances totaling $12.3 million were paid-off, 146 loans totaling $40.0 million were out of accommodation and current at December 31, 2021, 3 loans totaling $404,000 were out of accommodation and 30 days or more past due and 3 loans totaling $167,000 were removed due to noncompliance.

Note 6 – Loan Servicing Assets

The principal balance of loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage and other loans serviced for others were approximately $702.3 million and $599.3 million at December 31, 2021 and 2020, respectively. The carrying value of capitalized servicing rights, net of valuation allowances, is included in other assets. A summary of loan servicing rights follows:

	2021	2020	2019
	(dollars in thousands)		
Beginning of year servicing rights:	$ 3,957	$ 1,723	$ 1,850
Amounts capitalized	2,710	3,366	694
Amortization	(1,589)	(1,132)	(821)
Impairment	—	—	—
End of year	$ 5,078	$ 3,957	$ 1,723

Amortization expense is estimated as follows:

Year ending December 31, (dollars in thousands)	
2022	$ 1,199
2023	1,038
2024	877
2025	715
2026	554
Thereafter	695
Total	$ 5,078

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

The fair value of loan servicing rights was $5.5 million and $4.1 million at December 31, 2021 and 2020, respectively. The key assumptions used to value mortgage servicing rights were as follows:

	2021	2020
Weighted average remaining life	286 months	281 months
Weighted average discount rate	12%	12%
Weighted average coupon	3.29%	3.54%
Weighted average prepayment speed	206%	287%

Note 7 - Premises and Equipment

The major classes of premises and equipment and the total accumulated depreciation at December 31, 2021 and 2020 are listed below:

	2021	2020
	(dollars in thousands)	
Land	$ 3,090	$ 3,155
Building and improvements	13,986	14,303
ROU assets	2,101	2,437
Furniture and equipment	9,718	9,221
Total fixed assets	28,895	29,116
Less accumulated depreciation	12,908	12,134
Net fixed assets	$ 15,987	$ 16,982

Depreciation expense was $1.1 million for the years ended December 31, 2021, 2020 and 2019, and is included in net occupancy expense.

ROU assets are discussed further in Note 8 – Leases.

Note 8 – Leases

Our leases relate to three office locations, two of which are branch locations, with remaining terms of four to eight years. Certain lease arrangements contain extension options which range from five to ten years at the then fair market rental rates. As these extension options are not generally considered reasonably certain of exercise, they are not included in the lease term. As of December 31, 2021, operating lease ROU assets were $2.1 million and the lease liability was $2.2 million. Operating lease ROU assets were $2.4 million and the lease liability was $2.6 million at December 31, 2020. The table below depicts information related to the Company's leases:

	Twelve Months Ended December 31,	
	2021	2020
	(in thousands except percent and period data)	
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 390	$ 382
ROU assets obtained in exchange for new operating lease liabilities	2,101	2,437
Weighted-average remaining lease term - operating leases, in years	5.9	6.9
Weighted-average discount rate - operating leases	2.5%	2.4%

Total rental expense related to the operating leases was $390,292, $381,622, and $371,327 for the years ended December 31, 2021, 2020 and 2019, respectively, and is included in net occupancy expense. A table detailing the lease payments associated with the aforementioned properties is below.

	December 31, **(dollars in thousands)**
2022	$ 400
2023	408
2024	417
2025	428
2026	387
Thereafter	365
Total lease payments	2,405
Less: Interest	(178)
Present value of lease liabilities	$ 2,227

Note 9 - Deposits

The composition of deposits at December 31, 2021 and 2020 is as follows:

	2021		2020	
	Amount	Percentage of Total	Amount	Percentage of Total
	(dollars in thousands)			
Demand noninterest-bearing	$ 239,422	29%	$ 205,788	28%
Interest checking and money market	422,942	50%	381,502	51%
Savings	103,341	12%	74,792	10%
Time deposits $250,000 and over	23,720	3%	28,825	4%
Other time deposits	47,327	6%	52,289	7%
Total	$ 836,752	100%	$ 743,196	100%

The maturities of fixed-rate time deposits at December 31, 2021 are reflected in the table below:

Year ending December 31,	Time Deposits $250,000 and Over	Other Time Deposits
	(dollars in thousands)	
2022	22,364	33,104
2023	1,356	7,619
2024	—	1,538
2025	—	1,733
2026	—	3,333
Thereafter	—	—
Total	$ 23,720	$ 47,327

Note 10 - Short-Term Borrowed Funds

The following tables set forth certain information regarding the amounts, year-end weighted average rates, average balances, weighted average rate, and maximum month-end balances for short-term borrowed funds, at and during 2021 and 2020:

	2021		2020	
	Amount	Rate	Amount	Rate
	(dollars in thousands)			
At year-end				
Federal funds purchased	$ —	—	$ —	—
Master notes and other short-term borrowings	1,081	0.25%	710	0.22%
Notes payable	—	—	—	—
Short-term line of credit	—	—	—	—
Short-term advances from FHLB	—	—	—	—
	$ 1,081	0.25%	$ 710	0.22%

	2021		2020	
	Amount	Rate	Amount	Rate
	(dollars in thousands)			
Average for the year				
Federal funds purchased	$ 2	1.54%	$ 2	0.75%
Master notes and other short-term borrowings	1,041	0.24%	532	0.41%
Notes payable	—	—	—	—
Short-term line of credit	—	—	—	—
Short-term advances from FHLB	246	0.36%	—	—
	$ 1,289	0.27%	$ 534	0.42%

	2021	2020
	(dollars in thousands)	
Maximum month-end balance		
Federal funds purchased	$ —	$ —
Master notes and other short-term borrowings	1,338	710
Notes payable	—	—
Short-term line of credit	—	—
Short-term advances from FHLB	—	—

Master notes represent an overnight investment in commercial paper issued by the Company to customers of its subsidiary bank, where an agreement is in place.

The subsidiary bank has combined available lines of credit for federal funds and Federal Reserve discount window availability in the amount of $60.6 million at December 31, 2021.

Note 11 - Long-Term Debt

The Company has a line of credit with the Federal Home Loan Bank secured by qualifying first lien and second mortgage loans and commercial real estate loans with eligible collateral value of $93.8 million with the entire amount available at December 31, 2021. There were no long-term advances under this line at December 31, 2021 or at December 31, 2020. The Company also secured a $3.0 million line of credit with TIB The Independent BankersBank, N.A. during 2020. The line is secured with 100% of the outstanding common shares of the Company's subsidiary bank. As of December 31, 2021, there was no outstanding balance on the line of credit. This loan carries certain debt covenants, and as of December 31, 2021, the Company was in compliance with all of these covenants.

During the third quarter of 2019, the Company conducted a private placement offering of fixed rate junior subordinated debt securities at $1,000 per security with a required minimum investment of $50,000. The offering raised $10.0 million, of which the entire $10.0 million was outstanding at December 31, 2021. These securities have a final maturity date of September 30, 2029 and may be redeemed by the Company after September 30, 2024. The junior subordinated debt pays interest quarterly at an annual fixed rate of 5.25%. All proceeds of this private placement qualify and are included in the calculation of Tier 2 capital. Once the final maturity drops under five years, the Company must impose a twenty percent annual reduction per year of the amount of the proceeds from the sale of these securities that are eligible to be counted as Tier 2 capital. The Company will have a twenty percent reduction beginning at September 30, 2024.

During the third quarter of 2021, the Company issued $12.0 million and $8.0 million of 10-year and 15-year fixed-to-floating rate subordinated debt securities, respectively. The 10-year subordinated notes mature on September 3, 2031, though redeemable on or after September 3, 2026, and initially pay interest quarterly at an annual rate of 3.5%. From and including September 3, 2026 to but excluding September 3, 2031, or up to an early redemption date, the interest rate on the 10-year subordinated notes will reset quarterly to an annual rate equal to the then-current three-month SOFR plus 283 basis points payable quarterly in arrears. The 15-year subordinated notes mature on September 3, 2036, though redeemable on or after September 3, 2031, and initially pay interest quarterly at an annual rate of 4.0%. From and including September 3, 2031 to but excluding September 3, 2036, or up to an early redemption date, the interest rate on the 15-year subordinated notes will reset quarterly to an annual rate equal to the then-current three-month SOFR plus 292 basis points payable quarterly in arrears. The subordinated debt has been structured to qualify as and is included in the calculation of the Company's Tier 2 capital. Once the final maturity drops under five years, the Company must impose a twenty percent annual reduction per year of the amount of the proceeds from the sale of these securities that are eligible to be counted as Tier 2 capital. The Company will have a twenty percent reduction beginning at September 3, 2026 and September 3, 2031 for the 10-year and 15-year subordinated notes, respectively.

Debt is reported net of unamortized debt issuance costs of $462,000 at December 31, 2021. There were no unamortized debt issuance costs at December 31, 2020.

As of December 31, 2021, the scheduled maturities of these long-term borrowings are as follows:

	Year Ended December 31, 2021 (dollars in thousands)
2022	$ —
2023	—
2024	—
2025	—
2026	—
Thereafter	29,992
	29,992
Less: unamortized debt issuance costs	(462)
Total	$ 29,530

Note 12 - Income Tax Matters

The significant components of income tax expense for the years ended December 31, 2021, 2020 and 2019 are summarized as follows:

	2021	2020	2019
		(dollars in thousands)	
Current tax expense:			
Federal	$ 2,311	$ 2,203	$ 662
State	309	285	94
Total	2,620	2,488	756
Deferred tax expense (benefit):			
Federal	86	(122)	26
State	57	(29)	(11)
Total	143	(151)	15
Net provision for income taxes	$ 2,763	$ 2,337	$ 771

The difference between the provision for income taxes and the amounts computed by applying the statutory federal income tax rate of 21% to income before income taxes is summarized below:

	2021	2020	2019
		(dollars in thousands)	
Tax computed at the statutory federal rate	$ 2,698	$ 2,193	$ 810
Increases (decrease) resulting from:			
Tax exempt interest, net	(283)	(207)	(133)
State income taxes, net of federal benefit	289	202	65
Executive compensation limitation	44	161	—
Other	15	(12)	29
Provision for income taxes	$ 2,763	$ 2,337	$ 771

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, 2021, 2020 and 2019 are as follows:

	2021	2020	2019
		(dollars in thousands)	
Deferred tax assets relating to:			
Allowance for loan losses	$ 957	$ 1,036	$ 478
Deferred compensation	1,043	1,048	1,078
Other	106	88	89
Lease liability	512	588	462
Net unrealized loss on securities available for sale	343	—	—
Total deferred tax assets	2,961	2,760	2,107
Deferred tax liabilities relating to:			
Net unrealized gain on securities available for sale	—	(1,242)	(96)
Premises and equipment	(172)	(184)	(184)
Deferred loans fees and costs	(417)	(316)	(159)
Loan servicing	(285)	(220)	(92)
ROU asset	(483)	(560)	(447)
2016-01 unrealized gain	(28)	(104)	—
Total deferred tax liabilities	(1,385)	(2,626)	(978)
Net recorded deferred tax asset	$ 1,576	$ 134	$ 1,129

The net deferred tax asset is included in other assets on the accompanying consolidated balance sheets. The Company has no uncertain tax positions.

The Company is subject to U.S. federal income tax as well as income tax of North Carolina and South Carolina. The Company is no longer subject to examination by federal and state taxing authorities for years before 2018.

Note 13 - Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk

The subsidiary bank is party to financial instruments with off-balance sheet risks in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, lines of credit and standby letters of credit. These instruments involve elements of credit risk in excess of amounts recognized in the accompanying financial statements.

The subsidiary bank’s risk of loss with the unfunded loans and lines of credit or standby letters of credit is represented by the contractual amount of these instruments. The Bank uses the same credit policies in making commitments under such instruments as it does for on-balance sheet instruments. The amount of collateral obtained, if any, is based on management’s credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, inventory, real estate and time deposits with financial institutions. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Credit card commitments are unsecured.

As of December 31, 2021 and 2020, outstanding financial instruments whose contract amounts represent credit risk were as follows:

	2021	2020
	(dollars in thousands)	
Commitments to extend credit	$ 177,706	$ 127,986
Credit card commitments	19,763	12,821
Standby letters of credit	8,161	8,277
	$ 205,630	$ 149,084

Contingencies

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the consolidated financial statements.

Financial Instruments with Concentration of Credit Risk

The subsidiary bank makes commercial, agricultural, real estate mortgage, home equity and consumer loans primarily in Stanly, Anson, Cabarrus and Mecklenburg counties in North Carolina. A substantial portion of the Company’s customers’ ability to honor their contracts is dependent on the economy in these counties.

Although the Company’s composition of loans is diversified, there is some concentration of mortgage real estate loans, primarily 1-to-4 family residential mortgage loans and in commercial loans secured primarily by real estate, shopping center locations, commercial land development, commercial buildings and equipment in the total portfolio. The Bank’s policy is to abide by real estate loan-to-value margin limits corresponding to guidelines issued by the federal supervisory agencies on March 19, 1993. The Bank’s lending policy for all loans requires that they be supported by sufficient cash flows at the time of origination.

Note 14 - Related Party Transactions

The Company has granted loans to certain directors and executive officers and their related interests. Such loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other borrowers and, in management's opinion, do not involve more than the normal risk of collectability. All loans to directors and executive officers or their related interests are submitted to the Board of Directors for approval. A summary of loans to directors, executive officers and their related interests follows:

	2021	2020
	(dollars in thousands)	
Balance, at beginning of the year	$ 16,946	$ 10,295
Beginning balance adjustment	—	2,586
Disbursements during the year	3,726	7,708
Collections during the year	(6,899)	(3,643)
Balance, at end of the year	$ 13,773	$ 16,946

During 2020, the Company implemented new procedures to identify loans made to directors, executive officers and their related interests. In order to align the new identification process with the prior year method, a one-time adjustment to the December 31, 2020 beginning balance is reflected in the above table. At December 31, 2021, the Company had approved, but unused lines of credit, totaling $4.9 million to executive officers and directors, and their related interests, compared to $2.9 million at December 31, 2020. In addition, at December 31, 2021, the Company had $39.6 million of deposits for executive officers and directors, and their related interests compared to $30.5 million at December 31, 2020. Preferred stock issued to directors, executive officers and their related interests was $1.3 million at December 31, 2021 compared to $1.2 million at December 31, 2020. Additionally, certain directors have been issued the subordinated debt of the Company. The amount of related interest in the Company's subordinated debt in 2021 is $1.4 million compared to $1.3 million at December 31, 2020.

Note 15 – Shareholders' Equity and Regulatory Matters

The Company and its banking subsidiary are subject to certain requirements imposed by state and federal banking statutes and regulations. These requirements, among other things, establish minimum levels of capital, restrict the amount of dividends that may be distributed, and require that reserves on deposit liabilities be maintained in the form of vault cash or deposits with the Federal Reserve Bank.

For the reserve maintenance period in effect at December 31, 2021, there was no requirement of the Bank to maintain reserve balances in cash or on deposit with the Federal Reserve Bank as reserves on deposit liabilities.

The Company and its subsidiary bank are subject to federal regulatory risk-based capital guidelines for banks and bank holding companies. Each must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices which measure Total Capital, Tier 1 Capital and Common Equity Tier 1 Capital to risk-weighted assets and Tier 1 Capital to average assets. As of December 31, 2021, the Company and its subsidiary bank continue to exceed minimum capital standards and remain well-capitalized under the capital adequacy rules.

Note 15 – Shareholders' Equity and Regulatory Matters (Continued)

Quantitative measures established by regulation to ensure capital adequacy and the Company's consolidated capital ratios are set forth in the table below. The Company expects to meet or exceed these minimums without altering current operations or strategy.

	Actual		Minimum For Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
December 31, 2021						
Total Capital to Risk Weighted Assets:						
Consolidated	$ 95,493	16.3%	$ 46,748	8.0%		
Uwharrie Bank	90,688	15.6%	46,628	8.0%	58,285	10.0%
Tier 1 Capital to Risk Weighted Assets:						
Consolidated	61,937	10.6%	35,061	6.0%		
Uwharrie Bank	86,662	14.9%	34,971	6.0%	46,628	8.0%
Common Equity Tier 1 Capital to Risk Weighted Assets:						
Consolidated	51,282	8.8%	26,296	4.5%		
Uwharrie Bank	76,007	13.0%	26,228	4.5%	37,885	6.5%
Tier 1 Capital to Average Assets:						
Consolidated	61,937	6.7%	36,897	4.0%		
Uwharrie Bank	86,662	9.4%	36,763	4.0%	45,953	5.0%

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

As of December 31, 2021, the most recent notification from the Federal Deposit Insurance Corporation categorized the Company's subsidiary bank as being well capitalized under the regulatory framework for prompt corrective action. There have been no conditions or events since such notification that management believes would have changed the categorization.

Note 15 – Shareholders' Equity and Regulatory Matters (Continued)

In January 2013, the Company's subsidiary bank issued $7.9 million of Fixed Rate Noncumulative Perpetual Preferred Stock, Series B. The preferred stock qualifies as Tier 1 capital at the subsidiary bank and pays dividends at a rate of 5.30%. The offering raised $7.9 million less issuance costs of $113,000.

During 2013, the Company's subsidiary bank raised $2.8 million of Fixed Rate Noncumulative Perpetual Preferred Stock, Series C. The preferred stock qualifies as Tier 1 capital at the bank and pays dividends at an annual rate of 5.30%. The preferred stock has no voting rights. The offering raised $2.8 million in new capital less total issuance costs of $23,000.

The total net amount of capital raised from Fixed Rate Noncumulative Perpetual Preferred Stock, Series B and Series C issued at the subsidiary bank level is presented as noncontrolling interest in the consolidated balance sheets.

During the third quarter of 2019, the Company conducted a private placement offering of fixed rate junior subordinated debt securities at $1,000 per security with a required minimum investment of $50,000. The offering raised $10.0 million, of which the entire $10.0 million was outstanding at December 31, 2021. These securities have a final maturity date of September 30, 2029 and may be redeemed by the Company after September 30, 2024. The junior subordinated debt pays interest quarterly at an annual fixed rate of 5.25%. All proceeds of this private placement qualify and are included in the calculation of Tier 2 capital. Once the final maturity drops under five years, the Company must impose a twenty percent annual reduction per year of the amount of the proceeds from the sale of these securities that are eligible to be counted as Tier 2 capital. The Company will have a twenty percent reduction beginning at September 30, 2024.

During the third quarter of 2021, the Company issued $12.0 million and $8.0 million of 10-year and 15-year fixed-to-floating rate subordinated debt securities, respectively. The 10-year subordinated notes mature on September 3, 2031, though redeemable on or after September 3, 2026, and initially pay interest quarterly at an annual rate of 3.5%. From and including September 3, 2026 to but excluding September 3, 2031, or up to an early redemption date, the interest rate on the 10-year subordinated notes will reset quarterly to an annual rate equal to the then-current three-month SOFR plus 283 basis points payable quarterly in arrears. The 15-year subordinated notes mature on September 3, 2036, though redeemable on or after September 3, 2031, and initially pay interest quarterly at an annual rate of 4.0%. From and including September 3, 2031 to but excluding September 3, 2036, or up to an early redemption date, the interest rate on the 15-year subordinated notes will reset quarterly to an annual rate equal to the then-current three-month SOFR plus 292 basis points payable quarterly in arrears. The subordinated debt has been structured to qualify as and is included in the calculation of the Company's Tier 2 capital. Once the final maturity drops under five years, the Company must impose a twenty percent annual reduction per year of the amount of the proceeds from the sale of these securities that are eligible to be counted as Tier 2 capital. The Company will have a twenty percent reduction beginning at September 3, 2026 and September 3, 2031 for the 10-year and 15-year subordinated notes, respectively.

All of the Company's aforementioned investment in its subsidiary bank qualifies for Tier 1 capital treatment for the Bank and is included as such in its year end capital ratios.

Stock Repurchase Program

On February 21, 1995, the Company's Board of Directors authorized and approved a Stock Repurchase Program, to be reaffirmed annually, pursuant to which the Company may repurchase shares of the Company's common stock for the primary purpose of providing liquidity to its shareholders. During 2021, the Company repurchased 298,700 shares of outstanding common stock and repurchased 181,558 and 168,683 shares of outstanding common stock during 2020 and 2019, respectively.

Note 16 - Stock Based Compensation

During 2006, the Company adopted the 2006 Incentive Stock Option Plan ("SOP II") and the Employee Stock Purchase Plan ("SPP II"), under which options to purchase shares of the Company's common stock may be granted to officers and eligible employees. Options granted under the SOP II are exercisable in established increments according to vesting schedules, generally three to five years, and will expire if not exercised within ten years of the date of grant. Options granted under the SPP II are fully vested at the date of grant and expire if not exercised within two years of the grant date. At December 31, 2021, both the SOP II plan and the SPP II plan had expired with no options outstanding.

As of December 31, 2021, there was no unrecognized compensation cost related to non-vested share-based compensation arrangements granted under all of the Company's stock benefit plans. There were no options exercised in 2021, 2020 or 2019.

Note 17 - Employee and Director Benefit Plans

Employees' 401(k) Retirement Plan

The Company has established an associate tax deferred savings plan under Section 401(k) of the Internal Revenue Code of 1986. All associates are eligible to make elective deferrals on the first day of the calendar month coincident or next following the date the associate attains the age of 18 and completes thirty days of eligible service. Employees are 100% vested in the plan once they enroll.

The Company's annual contribution to the plan was $661,764 in 2021, $488,795 in 2020 and $446,228 in 2019, determined as follows:

- The Company will contribute a safe harbor matching contribution in an amount equal to 100% of the matched employee contributions that are not in excess of 5% of compensation.
- A discretionary contribution, subject to approval by the Board of Directors, limited to an amount not to exceed the maximum amount deductible for income tax purposes.

Supplemental Executive Retirement Plan

The Company has implemented a non-qualifying deferred compensation plan for certain executive officers. Certain of the plan benefits will accrue and vest during the period of employment and will be paid in fixed monthly benefit payments for up to ten years upon separation from service. The plan also provides for payment of death benefits and for payment of disability benefits in the event the officer becomes permanently disabled prior to separation from service.

Effective December 31, 2008, this plan was amended and restated to comply with Section 409A of the Internal Revenue Code. The participants' account liability balances as of December 31, 2008 could be transferred into a trust fund, where investments will be participant-directed.

The plan is structured as a defined contribution plan and the Company's expected annual funding contribution for the participants has been calculated through the participant's expected retirement date. Under terms of the agreement, the Company has reserved the absolute right, at its sole discretion, to either fund or refrain from funding the plan. The plans assets are maintained in a rabbi trust and are recorded at fair value with the corresponding liability adjusted to the same fair value.

During the year of 2021, $253,300 was expensed for benefits provided under the plans. Benefits provided under the plans were $238,300 and $336,800 for years 2020 and 2019, respectively. The liability accrued for deferred compensation under the plan amounted to $4.8 million and $5.3 million at December 31, 2021 and 2020, 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. During 2021, 2020, and 2019, the expense associated with these policies was $35,847, $26,173, and $13,107 respectively.

The liability associated with the split-dollar life insurance policies is $848,000 and $812,000 at December 31, 2021 and 2020, respectively.

Stock Grant Plan

During 2015, the Company adopted the 2015 Stock Grant Plan ("SGP"), under which the Company, at its discretion, may choose to make grants or awards of Uwharrie Capital Corp common stock (the "Common Stock") to employees, directors or independent contractors of the Company or its subsidiaries as an alternate form of compensation or as a performance bonus. Shares of Common Stock to be used for Stock Grants under this Plan will be outstanding shares purchased by a revocable trust formed by the Company (the "Trust"). Participants will be 100% vested in the shares purchased on their behalf as soon as the Trust's purchase is completed. The Company recognizes expense for the value of the shares at the time they are purchased by the Trust. During 2021 there were 17,676 shares granted at an expense of $120,000 compared to 23,256 shares granted at an expense of $124,000 in 2020 and 14,400 shares granted at an expense of $72,000 in 2019.

Note 18 - Fair Values of Financial Instruments and Interest Rate Risk

ASC 825, “Disclosures about Fair Value of Financial Instruments,” requires disclosure of the fair value of financial assets and financial liabilities, including those that are not measured and reported at fair value on a recurring basis or non-recurring basis.

The fair value estimates presented at December 31, 2021 and December 31, 2020, are based on relevant market information and information about the financial instruments. Fair value estimates are intended to represent the price an asset could be sold at or the price at which a liability could be settled. However, given there is no active market or observable market transactions for many of the Company’s financial instruments, the Company has made estimates of many of these fair values which are subjective in nature, involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimated values. The estimated fair values disclosed in the following table do not represent market values of all assets and liabilities of the Company and should not be interpreted to represent the underlying value of the Company. The following table reflects a comparison of carrying amounts and the estimated fair value of the financial instruments as of December 31, 2021 and December 31, 2020:

December 31, 2021	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
		(dollars in thousands)			
FINANCIAL ASSETS					
Cash and cash equivalents	$ 94,410	$ 94,357	$ 90,924	$ 3,433	$ —
Securities available for sale	330,337	330,337	—	330,337	—
Securities held to maturity	30,801	32,045	—	16,898	15,147
Equity securities	392	392	392	—	—
Loans held for investment, net	416,753	412,585	—	—	412,585
Loans held for sale	21,684	21,684	—	21,684	—
Restricted stock	921	921	921	—	—
Loan servicing assets	5,078	5,509	—	5,509	—
Mortgage banking derivatives	1,269	1,269	—	253	1,016
Accrued interest receivable	2,554	2,554	—	—	2,554
FINANCIAL LIABILITIES					
Deposits	$ 836,752	836,567	$ —	$ 836,567	$ —
Short-term borrowings	1,081	1,081	—	1,081	—
Long-term debt	29,530	30,039	—	—	30,039
Mortgage banking derivatives	50	50	—	50	—
Accrued interest payable	7	7	—	—	7

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

December 31, 2020	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
		(dollars in thousands)			
FINANCIAL ASSETS					
Cash and cash equivalents	$ 88,868	$ 88,879	$ 87,623	$ 1,256	$ —
Securities available for sale	191,513	191,513	—	191,513	—
Securities held to maturity	28,207	32,045	—	22,109	9,936
Equity securities	1,352	1,352	1,352	—	—
Loans held for investment, net	463,339	458,706	—	—	458,706
Loans held for sale	6,959	6,959	—	6,959	—
Restricted stock	1,166	1,166	1,166	—	—
Loan servicing assets	3,957	4,054	—	4,054	—
Mortgage banking derivatives	2,073	2,073	—	—	2,073
Accrued interest receivable	2,523	2,523	—	—	2,523
FINANCIAL LIABILITIES					
Deposits	$ 743,196	$ 743,378	$ —	$ 743,378	$ —
Short-term borrowings	710	710	—	710	—
Long-term debt	10,992	10,909	—	—	10,909
Mortgage banking derivatives	388	388	—	388	—
Accrued interest payable	21	21	—	—	21

At December 31, 2021, the subsidiary bank had outstanding standby letters of credit and commitments to extend credit. These off-balance sheet financial instruments are generally exercisable at the market rate prevailing at the date the underlying transaction will be completed. The fair value is not material. See Note 13.

The following table provides fair value information for assets and liabilities measured at fair value on a recurring basis as of December 31, 2021 and 2020:

	December 31, 2021 (dollars in thousands)			
	Total	Level 1	Level 2	Level 3
Securities available for sale:				
U.S. Treasury	$ 26,381	$ 26,381	$ —	$ —
U.S. Government agencies	39,812	—	39,812	—
GSE - Mortgage-backed securities and CMOs	120,448	—	120,448	—
Asset-backed securities	44,198	—	44,198	—
State and political subdivisions	89,477	—	89,477	—
Corporate bonds	10,021	—	10,021	—
Equity securities	392	392	—	—
Mortgage banking derivatives	1,269	—	253	1,016
Total assets at fair value	$ 331,998	$ 26,773	$ 304,209	$ 1,016
Mortgage banking derivatives	$ 50	$ —	$ 50	$ —
Total liabilities at fair value	$ 50	$ —	$ 50	$ —

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

	December 31, 2020 (dollars in thousands)			
	Total	Level 1	Level 2	Level 3
Securities available for sale:				
U.S. Government agencies	$ 37,389	$ —	$ 37,389	$ —
GSE - Mortgage-backed securities and CMOs	41,496	—	41,496	—
Asset-backed securities	39,281	—	39,281	—
State and political subdivisions	69,164	—	69,164	—
Corporate bonds	4,183	—	4,183	—
Equity securities	1,352	1,352	—	—
Mortgage banking derivatives	2,073	—	—	2,073
Total assets at fair value	$ 194,938	$ 1,352	$ 191,513	$ 2,073
Mortgage banking derivatives	$ 388	$ —	$ 388	$ —
Total liabilities at fair value	$ 388	$ —	$ 388	$ —

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

	December 31, 2021	
	Mortgage banking derivatives: Interest rate lock commitments	Total
	(dollars in thousands)	
Balance at December 31, 2019	$ —	$ —
Change in fair value:		
Included in income from mortgage banking	2,073	2,073
Balance at December 31, 2020	$ 2,073	$ 2,073
Change in fair value:		
Included in income from mortgage banking	(1,057)	(1,057)
Balance at December 31, 2021	$ 1,016	$ 1,016

The fair value of mortgage interest rate lock commitments at December 31, 2021 was calculated based on a notional amount of $28.9 million. Significant unobservable inputs are used to determine the fair value of these derivatives. For the twelve months ended December 31, 2021, such inputs included anticipated margins to be earned based on market movement from the original lock date and an overall projected pull-through rate of 82.47% determined by loan product, loan stage, and loan purpose. The fair value of mortgage interest rate lock commitments at December 31, 2020 was calculated based on a notional amount of $66.5 million. Significant unobservable inputs included estimated net margin to be earned from loan sales, anticipated remaining costs associated with origination of the loan of 0.83%, and a projected pull-through rate of 86.0% at December 31, 2020. Changes in interest rates and other assumptions could significantly change these estimated values.

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market value that were recognized at fair value less cost to sell at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below as of December 31, 2021 and December 31, 2020:

	December 31, 2021 (dollars in thousands)			
	Total	Level 1	Level 2	Level 3
Impaired loans	$ 3,715	$ —	$ —	$ 3,715
Total assets at fair value	$ 3,715	$ —	$ —	$ 3,715
Total liabilities at fair value	$ —	$ —	$ —	$ —

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

	December 31, 2020 (dollars in thousands)			
	Total	Level 1	Level 2	Level 3
Impaired loans	$ 3,461	$ —	$ —	$ 3,461
Total assets at fair value	$ 3,461	$ —	$ —	$ 3,461
Total liabilities at fair value	$ —	$ —	$ —	$ —

Quantitative Information about Level 3 Fair Value Measurements:

December 31, 2021	Valuation Technique	Unobservable Input	General Range
Nonrecurring measurements:			
Impaired loans	Discounted appraisals	Collateral discounts and Estimated costs to sell	0 – 25%
	Discounted cash flows	Discount rates	4%-8.75%

December 31, 2020	Valuation Technique	Unobservable Input	General Range
Nonrecurring measurements:			
Impaired loans	Discounted appraisals	Collateral discounts and Estimated costs to sell	0 – 25%
	Discounted cash flows	Discount rates	4%-8.75%

At December 31, 2021 and 2020, impaired loans were being evaluated with discounted expected cash flows for performing TDRs and discounted appraisals were being used on collateral dependent loans.

Note 19 - Parent Company Financial Data

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

Condensed Balance Sheets

	December 31, 2021	December 31, 2020
	(dollars in thousands)	
Assets		
Cash and demand deposits	$ 789	$ 61
Interest-earning deposits	3,764	1,832
Equity securities	392	1,352
Investments in:		
Bank subsidiaries	74,856	54,946
Nonbank subsidiaries	520	356
Other assets	940	3,073
Total assets	$ 81,261	$ 61,620
Liabilities and shareholders' equity		
Master notes	$ 1,081	$ 710
Long term debt	29,530	10,992
Other liabilities	518	1,336
Total liabilities	31,129	13,038
Shareholders' equity	50,132	48,582
Total liabilities and shareholders' equity	$ 81,261	$ 61,620

Condensed Statements of Income

	2021	2020	2019
		(dollars in thousands)	
Equity in undistributed earnings of subsidiaries	$ 10,949	$ 5,882	$ 1,206
Dividends received from subsidiaries	—	2,500	2,750
Interest income	25	56	15
Other income	211	545	41
Interest expense	(776)	(561)	(577)
Other operating expense	(558)	(388)	(578)
Income tax benefit	232	73	230
Net income	$ 10,083	$ 8,107	$ 3,087
Consolidated net income	$ 10,083	$ 8,107	$ 3,087
Less: Net income attributable to noncontrolling interest	(565)	(567)	(564)
Net income attributable to Uwharrie Capital Corp	9,518	7,540	2,523
Net income available to common shareholders	$ 9,518	$ 7,540	$ 2,523
Net income per common share			
Basic	$ 1.33	$ 1.03	$ 0.33
Diluted	$ 1.33	$ 1.03	$ 0.33
Weighted average shares outstanding			
Basic	7,179,402	7,344,695	7,563,545
Diluted	7,179,402	7,344,695	7,563,545

Note 19 - Parent Company Financial Data (Continued)

Condensed Statements of Cash Flows

	2021	2020	2019
		(dollars in thousands)	
Cash flows from operating activities			
Net income	$ 10,083	$ 8,107	$ 3,087
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Equity in undistributed (earnings) loss of subsidiaries	(10,949)	(5,882)	(1,206)
Realized/unrealized (gain) loss on equity securities	31	(451)	—
Amortization of debt issuance costs	19	—	—
(Increase) decrease in other assets	1,013	120	(435)
Increase (decrease) in other liabilities	(818)	(182)	528
Net cash provided (used) by operating activities	(621)	1,712	1,974
Cash flows from investing activities			
Proceeds from sale of equity securities	929	—	—
Purchase of equity securities	—	(901)	—
Proceeds from sale of investments in other assets	1,120	—	—
Purchase of investments in other assets	—	(1,120)	—
Net cash provided (used) by investing activities	2,049	(2,021)	—
Cash flows from financing activities			
Net increase (decrease) in master notes	371	84	(564)
Net increase (decrease) in long-term debt	(1,000)	1,000	(440)
Net increase in junior subordinated debentures	—	—	458
Proceeds from issuance of junior subordinated debentures	20,000	—	—
Debt issuance costs	(481)	—	—
Net increase in investment in subsidiaries	(15,000)	—	—
Repurchase of common stock, net	(2,644)	(991)	(850)
Cash paid for fractional shares	(13)	(7)	(7)
Other, net	(1)	1	1
Net cash provided (used) by financing activities	1,232	87	(1,402)
Net increase (decrease) in cash and cash equivalents	2,660	(222)	572
Cash and cash equivalents at beginning of year	1,893	2,115	1,543
Cash and cash equivalents at end of year	$ 4,553	$ 1,893	$ 2,115

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

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

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

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer and Principal Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. Management has made a comprehensive review, evaluation and assessment of the Company's internal control over financial reporting as of December 31, 2021. In making its assessment of internal control over financial reporting, management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission's ("COSO") *Internal Control Integrated Framework 2013*. In accordance with Section 404 of the Sarbanes-Oxley Act of 2002, management makes the following assertions:

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

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

Based on management's assessment pursuant to the COSO *Internal Control Integrated Framework 2013*, the Company believes that, as of December 31, 2021, the Company's internal control over financial reporting is effective.

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

Changes in Internal Control over Financial Reporting

Management of the Company has evaluated, with the participation of the Company's Chief Executive Officer and Principal Financial Officer, changes in the Company's internal controls over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the fourth quarter of 2021. In connection with such evaluation, the Company has determined that there have been no changes in internal control over financial reporting during the fourth quarter of 2021 that have materially affected or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information.

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Incorporated by reference to the Company's definitive proxy statement for the 2022 Annual Meeting of Shareholders.

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

Item 11. Executive Compensation.

Incorporated by reference to the Company's definitive proxy statement for the 2022 Annual Meeting of Shareholders.

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

Incorporated by reference to the Company's definitive proxy statement for the 2022 Annual Meeting of Shareholders.

The following table sets forth information with respect to certain equity compensation plans at December 31, 2021.

Equity Compensation Plan Information

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

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

Incorporated by reference to the Company's definitive proxy statement for the 2022 Annual Meeting of Shareholders.

Item 14. Principal Accountant Fees and Services.

Incorporated by reference to the Company's definitive proxy statement for the 2022 Annual Meeting of Shareholders.

The Independent Registered Public Accounting Firm is Dixon Hughes Goodman LLP (PCAOB Firm ID No. 57) located in Asheville, North Carolina.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

The following documents are filed as part of this report:

1. Financial statements from the Registrant's Annual Report to Shareholders for the fiscal year ended December 31, 2021, which are incorporated herein by reference:

   Report of Independent Registered Public Accounting Firm.

   Consolidated Balance Sheets as of December 31, 2021 and 2020.

   Consolidated Statements of Income for the years ended December 31, 2021, 2020 and 2019.

   Consolidated Statements of Comprehensive Income for the years ended December 31, 2021, 2020 and 2019.

   Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2021, 2020 and 2019.

   Consolidated Statements of Cash Flows for the years ended December 31, 2021, 2020 and 2019.

   Notes to Consolidated Financial Statements.

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

   None

3. Exhibits

UWHARRIE CAPITAL CORP

Exhibit Index

Exhibit Number	Description of Exhibit
3.1	Registrant's Articles of Incorporation (Incorporated by reference to Exhibit 3(a) of Registrant's Annual Report on Form 10-K filed with SEC on March 1, 2017)
3.2	Registrant's By-laws (Incorporated by reference to Exhibit 3(b) of Registrant's Annual Report on Form 10-K filed with SEC on March 1, 2017)
3.3	Articles of Amendment effective April 24, 1997 (Incorporated by reference to Exhibit 3.3 of Registrant's Annual Report on Form 10-K filed with SEC on March 4, 2020)
3.4	Articles of Amendment effective November 1, 1999 (Incorporated by reference to Exhibit 3(c) of Registrant's Annual Report on Form 10-K filed with SEC on March 1, 2017)
3.5	Articles of Amendment effective May 31, 2000 (Incorporated by reference to Exhibit 3(d) of Registrant's Annual Report on Form 10-K filed with SEC on March 1, 2017)
3.6	Articles of Amendment effective December 19, 2008 (Incorporated by reference to Exhibit 3.1 of Registrant's Current Report on Form 8-K filed with SEC on December 29, 2008)
4.1	Form of common stock certificate (Incorporated by reference to Exhibit 4(a) of Registrant's Annual Report on Form 10-K filed with SEC on March 1, 2017)
4.2	Description of Registrant's Securities Registered under Section 12 of the Exchange Act (Incorporated by reference to Exhibit 4.2 of Registrant's Annual Report on Form 10-K filed with SEC on March 4, 2020)
4.3	Form of 10-Year Subordinated Note (Incorporated by reference to Exhibit 4.1 of Registrant's Current Report on Form 8-K filed with SEC on September 8, 2021)
4.4	Form of 15-Year Subordinated Note (Incorporated by reference to Exhibit 4.2 of Registrant's Current Report on Form 8-K filed with SEC on September 8, 2021)
10.1	2006 Incentive Stock Option Plan, a compensatory plan (Incorporated by reference to Exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q filed with SEC on August 13, 2007)
10.2	2006 Employee Stock Purchase Plan, a compensatory plan (Incorporated by reference to Exhibit 10.2 of Registrant's Quarterly Report on Form 10-Q filed with SEC on August 13, 2007)
10.3	Nonqualified Deferred Compensation Plan and Executive Supplemental Retirement Plan Agreement between Uwharrie Capital Corp and Roger L. Dick, a compensatory plan (Incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K filed with SEC on December 31, 2008)
10.4	Nonqualified Deferred Compensation Plan and Executive Supplemental Retirement Plan Agreement between Uwharrie Capital Corp and R. David Beaver, III, a compensatory plan (Incorporated by reference to Exhibit 10(e) of Registrant's Annual Report on Form 10-K filed with SEC on March 1, 2017)
10.5	2015 Stock Grant Plan (Incorporated by reference to Exhibit 4.1 of Registrant's Form S-8 filed with SEC on October 27, 2015)
10.6	Form of 10-Year Subordinated Note Purchase Agreement (Incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K filed with SEC on September 8, 2021)

10.7	Form of 15-Year Subordinated Note Purchase Agreement (Incorporated by reference to Exhibit 10.2 of Registrant's Current Report on Form 8-K filed with SEC on September 8. 2021)
10.8	Uwharrie Capital Corp Employees 401(k) Retirement Plan – Adoption Agreement (Incorporated by reference to Exhibit 99.1 of Registrant's Form S-8 filed with SEC on December 23, 2021)
10.9	Uwharrie Capital Corp Employees 401(k) Retirement Plan – Plan Document (Incorporated by reference to Exhibit 99.2 of Registrant's Form S-8 filed with SEC on December 23, 2021)
10.10	Uwharrie Capital Corp Employees 401(k) Retirement Plan – Amendment for SECURE Act (Incorporated by reference to Exhibit 99.3 of Registrant's Form S-8 filed with SEC on December 23, 2021)
10.11	Uwharrie Capital Corp Employees 401(k) Retirement Plan – Amendment for CARES Act (Incorporated by reference to Exhibit 99.4 of Registrant's Form S-8 filed with SEC on December 23, 2021)
10.12	Uwharrie Capital Corp Employees 401(k) Retirement Plan – Amendment Number Three (Incorporated by reference to Exhibit 99.5 of Registrant's Form S-8 filed with SEC on December 23, 2021)
21	Subsidiaries of the Registrant (**filed herewith**)
23	Consent of Dixon Hughes Goodman LLP (**filed herewith**)
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 (**furnished herewith**)
101	Interactive data files providing financial information from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2021, in inline XBRL (eXtensible Business Reporting Language) (**filed herewith**)
104	Cover page interactive data file (formatted in inline XBRL and contained in Exhibit 101)

Item 16. Form 10-K Summary.

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

SIGNATURES

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

UWHARRIE CAPITAL CORP

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

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

/s/ Roger L. Dick Roger L. Dick, Chief Executive Officer	March 9, 2022
/s/ Heather H. Almond Heather H. Almond, Principal Financial Officer and Principal Accounting Officer	March 9, 2022
/s/ Merlin Amirtharaj Merlin Amirtharaj, Director	March 9, 2022
/s/ Dean M. Bowers Dean M. Bowers, Director	March 9, 2022
/s/ Joe S. Brooks Joe S. Brooks, Director	March 9, 2022
/s/ James O. Campbell James O. Campbell, Director	March 9, 2022
/s/ Tara G. Eudy Tara G. Eudy, Director	March 9, 2022
/s/ Deidre B. Foster Deidre B. Foster, Director	March 9, 2022
/s/ Allen K. Furr Allen K. Furr, Director	March 9, 2022
/s/ Thomas M. Hearne, Jr. Thomas M. Hearne, Jr., Director	March 9, 2022
/s/ Matthew R. Hudson Matthew R. Hudson, Director	March 9, 2022
/s/ Harvey H. Leavitt, III Harvey H. Leavitt, III, Director	March 9, 2022
/s/ W. Chester Lowder W. Chester Lowder, Director	March 9, 2022
/s/ Wesley A. Morgan Wesley A. Morgan, Director	March 9, 2022

/s/ Cynthia L. Mynatt Cynthia L. Mynatt, Director	March 9, 2022
/s/ James E. Nance James E. Nance, Director	March 9, 2022
/s/ Chris M. Poplin Chris M. Poplin, Director	March 9, 2022
/s/ Frank A. Rankin, III Frank A. Rankin, III, Director	March 9, 2022
/s/ Randy T. Russell Randy T. Russell, Director	March 9, 2022
/s/ Vernon A. Russell Vernon A. Russell, Director	March 9, 2022
/s/ Matthew A. Shaver Matthew A. Shaver, Director	March 9, 2022
/s/ S. Todd Swaringen S. Todd Swaringen, Director	March 9, 2022