2019 Annual Report

We Want to Know You.

UnionBank

Union Bank
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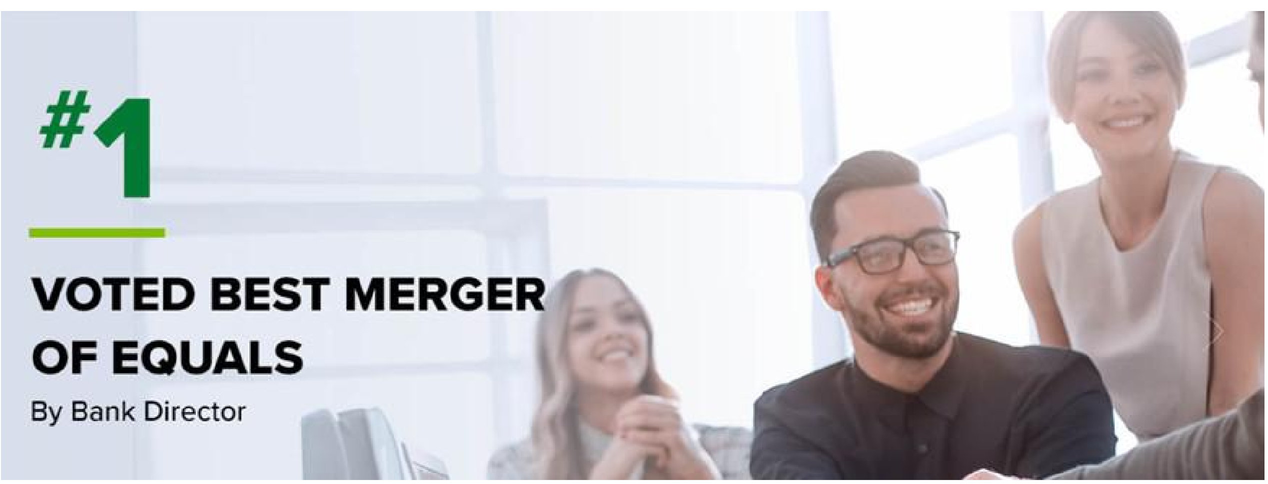
Financial Information

A complete 2019 Audited Financial Statement may be obtained by contacting Union Bank. Please request by contacting Scott C. McLean by mail at Union Bank, 1011 Red Banks Road, Greenville, NC 27858, or via our website at: *www.unionbanknc.com.*

Please remember to provide your return address information.

Annual Shareholders Meeting

The annual meeting of shareholders of Union Bank will be held on April 29, 2020 at 10:00 a.m. in the Bank's Corporate Board Room, 1020 Red Banks Road, Suite 202, Greenville, NC 27858.



Dear Union Bank Shareholders,

The **Union Bank** ("Bank") Board of Directors and management are pleased to report 2019 results and an eighth consecutive year of record earnings. With the acquisition and integration of Union Banc Corp complete, the Bank is strong and poised for continued success.

During 2019 we experienced extremely strong loan and deposit growth. Overall in 2019, we were able to grow our balance sheet by $76.1 million or 10.2% to end the year with $821.3 million in total assets, led by growth in our loan portfolio. Given the positive economic climate during 2019 in our footprint, we were able to grow total loans by $68.1 million or 13.4% in 2019 and finished the year with $576.7 million in total loans outstanding. Our focus has been on generating new customer relationships, not just lending. This allowed us to fund loan production primarily through strong growth in the Bank's retail deposit base, particularly noninterest bearing deposits. Total deposits grew $51.0 million or 8.1% during 2019 to end the year at $678.2 million. Our noninterest bearing deposit balances grew $23.1 million, or 12.1%, over this same twelve-month period to end 2019 at $214.3 million. We believe that the ability to attract local deposits is critical to our franchise and as such, will continue to be a focus for Union Bank.

Net income for 2019 was $7.2 million, an increase of $422,000 or 6.26% compared to the $6.7 million earned in 2018. The Bank's 2019 net income represented a 0.92% return on average assets, an 8.67% return on average equity, and a 10.52% return on average tangible equity. Balance sheet growth during the year resulted in a larger earning asset base benefitting 2019 revenues. This benefit was muted by the impacts of interest rate volatility over this same window. Recall that the Federal Reserve increased it's Federal Funds rate in December of 2018, marking their ninth rate increase dating back to December of 2015. Subsequent to this rate hike, longer term yields began to decrease and the yield curve began to experience inversion (short-term yields are higher than longer term yields). The result of these events is lower interest rate margins for the banking industry as a whole. Union Bank is not immune to these external actions. We experienced margin compression as our cost of funds increased (with the Federal Reserve's rate hike at the end of 2018), which could not be offset with incremental increases in earning asset yields given the inversion of the yield curve. The Federal Reserve reacted to this rate environment by lowering its Federal Funds rate three times between August and October of 2019. While this reduction in short-term interest rates has helped begin the process of bringing down funding costs, the interest rate environment continues to be extremely challenging. We expect further margin compression until interest rates stabilize and return to a more traditional yield curve. Our goal is to continue to focus on building sound banking relationships with quality customers that will provide a solid foundation to our Bank, allowing us to grow our franchise and deliver quality earnings for our shareholders into the future.

Our solid earnings and capital position allowed us to increase our cash dividend to our shareholders by 5.3% in 2019 to $0.1975 per share from $0.1875 per share in 2018. In addition, the Bank maintained its repurchase program, buying back 84,829 shares of common stock during 2019.

Overall, Union Bank is positioned extremely well for today and tomorrow. Our balance sheet, asset quality, capital and liquidity positions are all strong. We focus on being competitive and gaining high quality customers. While the interest rate environment will continue to pose challenges, we believe that our asset quality will allow us to successfully weather future economic challenges.

On behalf of the Board of Directors, management, and the staff of Union Bank, we would like to again thank you for your continued confidence and support. We look forward to serving you and your banking needs into the future.

Respectfully,

Robert Lee Burrows, Jr.	Vincent R. Jones
Chairman of the Board	President & Chief Executive Officer

Personalized banking shaped around the way you live.

At Union Bank, we provide you with the tools you need to manage your accounts in a digital world. In addition to mobile banking and remote deposit services, we offer products that protect your accounts and allow you to monitor your debit card activity. No matter your needs, we have a way to save you time and money and make banking easier and more efficient.

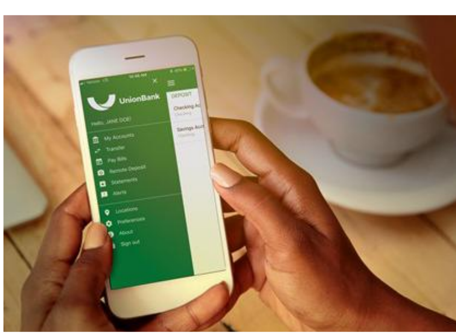
We are committed to providing you with local account officers who listen to your needs, get to know your business and provide guidance and advice for all of your personal and business financial matters.

Local decision-making has been critical to our success, as has our ability to offer a full array of banking products, providing everything from complicated commercial lending transactions to basic mortgage financing for primary and secondary homes.

Convenience ***Local Decisions*** ***Personal Service***

Union Bank
FINANCIAL HIGHLIGHTS
Years Ended December 31, 2019, 2018 and 2017
(Dollars in thousands, except per share data)

	2019	2018	2017
Earnings Summary:			
Net Income	$ 7,159	$ 6,737	$ 2,653
Per Common Share:			
Net income basic	$ 1.20	$ 1.12	$ 0.56
Net income diluted	$ 1.19	$ 1.12	$ 0.55
Book value per common share (tangible)	$ 11.98	$ 10.56	$ 9.92
Selected Year-End Balances:			
Loans, net of unearned income	$ 576,739	$ 508,628	$ 508,542
Other interest earning assets	180,907	174,328	132,105
Total Assets	821,321	745,186	702,528
Deposits	678,190	627,171	593,726
Stockholders' equity	85,445	78,194	73,169
Intangible assets	14,140	14,848	13,805
Tangible stockholders' equity	71,305	63,346	59,364
Selected Performance Ratios:			
Return on average assets	0.92%	0.94%	0.49%
Return on average equity	8.67%	9.01%	4.77%
Efficiency Ratio	67.59%	68.26%	72.38%
Asset Quality Ratios:			
Allowance for loan losses to period-end loans	0.86%	0.80%	0.69%
Allowance for loan losses plus unaccreted discounts to period-end loans	1.43%	1.79%	1.74%
Net loan charge-offs to average loans	0.00%	0.05%	0.13%
Capital Ratios:			
Total risk-based capital	13.48%	14.17%	12.28%
Tier 1 risk-based capital	11.66%	12.25%	11.60%
Common equity Tier 1 to risk-based capital	11.66%	12.25%	11.60%
Tier 1 leverage ratio	8.91%	8.77%	8.66%
Equity to assets	10.40%	10.49%	10.42%
Number of Common Shares Outstanding	5,950,533	5,998,618	5,987,017



Union Bank
BALANCE SHEETS
December 31, 2019 and 2018
(Dollars in thousands)

ASSETS		2019	2018
Cash and due from banks		$ 9,359	$ 9,355
Interest-earning deposits with banks		10,192	23,297
Federal funds sold		6,675	2,456
Investment securities available for sale		164,040	148,575
Loans		576,739	508,628
Allowance for loan losses		(4,988)	(4,046)
	NET LOANS	571,751	504,582
Accrued interest receivable		1,982	2,103
Federal Home Loan Bank stock		2,668	1,992
Bank premises and equipment, net		16,329	16,794
Right-of-use operating lease asset		2,490	-
Bank-owned life insurance		16,897	16,450
Goodwill		12,897	12,897
Core deposit intangible		1,243	1,951
Other real estate owned		-	327
Other assets		4,798	4,407
	TOTAL ASSETS	$ 821,321	$ 745,186

LIABILITIES AND STOCKHOLDERS' EQUITY			
Deposits:			
Demand		$ 214,279	$ 191,213
Savings		21,681	21,299
Money market and NOW		202,024	185,975
Time		240,206	228,684
	TOTAL DEPOSITS	678,190	627,171
Federal Home Loan Bank advances		47,000	32,000
Subordinated debt		6,000	6,000
Right-of-use operating lease liability		2,490	-
Accrued interest payable		703	512
Accrued expenses and other liabilities		1,493	1,309
	TOTAL LIABILITIES	735,876	666,992
Stockholders' Equity:			
Common stock, no par value, 24,000,000 shares authorized		70,928	71,879
Retained earnings		13,623	7,629
Accumulated other comprehensive income / (loss)		894	(1,314)
	TOTAL STOCKHOLDERS' EQUITY	85,445	78,194
	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 821,321	$ 745,186

Union Bank
STATEMENTS OF OPERATIONS
Years Ended December 31, 2019, 2018 and 2017
(Dollars in thousands, except per share data)

	2019	2018	2017
INTEREST INCOME			
Loans	$ 29,497	$ 27,465	$ 19,278
Investment securities	3,948	2,931	1,938
Federal funds sold	128	62	29
Interest-bearing deposits with banks	546	583	277
TOTAL INTEREST INCOME	34,119	31,041	21,522
INTEREST EXPENSE			
Money market, NOW and savings deposits	1,150	1,037	526
Time deposits	4,532	2,922	1,329
Advances from the Federal Home Loan Bank	920	658	315
Subordinated debt	360	225	-
TOTAL INTEREST EXPENSE	6,962	4,842	2,170
NET INTEREST INCOME	27,157	26,199	19,352
PROVISION FOR LOAN LOSSES	941	779	460
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	26,216	25,420	18,892
NONINTEREST INCOME			
Service charges and fees on deposit accounts	963	1,046	737
Fees from presold mortgages	417	599	424
Other	1,936	1,256	907
TOTAL NONINTEREST INCOME	3,316	2,901	2,068
NONINTEREST EXPENSE			
Salaries and employee benefits	13,275	12,243	8,723
Occupancy	2,234	2,144	1,468
Data processing	1,632	1,531	1,644
Marketing	173	147	222
Other	3,282	3,798	3,447
TOTAL NONINTEREST EXPENSE	20,596	19,863	15,504
INCOME BEFORE INCOME TAXES	8,936	8,458	5,456
INCOME TAXES	1,777	1,721	2,803
NET INCOME	$ 7,159	$ 6,737	$ 2,653
NET INCOME PER COMMON SHARE			
Basic	$ 1.20	$ 1.12	$ 0.56
Diluted	$ 1.19	$ 1.12	$ 0.55
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic	5,982,776	6,002,014	4,747,490
Diluted	6,021,042	6,041,004	4,780,617

NOTES TO SUMMARY FINANCIAL STATEMENTS

Organization and Nature of Operations

Union Bank ("Bank"), formerly known as the little bank, Inc., was originally incorporated as a North Carolina chartered savings bank on September 16, 1998 and began operations on November 9, 1998. On July 7, 2017, the little bank, Inc. acquired Union Banc Corp. ("UBC"), a North Carolina-based holding company with a single wholly-owned banking subsidiary, Union Bank & Trust Company. Effective with the merger, the little bank, Inc. changed its name to Union Bank, established its headquarters in Greenville, North Carolina, and became a North Carolina chartered commercial bank. The merger expanded the Bank's North Carolina presence, adding eight branches located in Oxford, Youngsville, Henderson, Louisburg, Roxboro, Cary, Raleigh and Creedmoor. Union Bank has as its principal market area Craven, Franklin, Granville, Lenoir, New Hanover, Onslow, Person, Pitt, Vance, Wake and Wayne Counties. The Bank is engaged in general commercial and retail banking in Central and Eastern North Carolina and operates under the banking laws of North Carolina and the rules and regulations of the Federal Deposit Insurance Corporation and the North Carolina Banking Commission. The Bank undergoes periodic examinations by those regulatory authorities.

Use of Estimates

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

Business Combinations

Business combinations are accounted for under the acquisition method of accounting in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 805, *"Business Combinations."* Under the acquisition method, the acquiring entity in a business combination recognizes all of the acquired assets and assumed liabilities at their estimated fair values as of the date of acquisition. Any excess of the purchase price over the fair value of net assets and other identifiable intangible assets acquired is recorded as goodwill. To the extent the fair value of net assets acquired, including identified intangible assets, exceeds the purchase price, a bargain purchase gain is recognized. Management makes significant estimates and exercises significant judgment in accounting for business combinations.

Assets acquired and liabilities assumed from contingencies must also be recognized at fair value if the fair value can be determined during the measurement period. Results of operations of an acquired business are included in the statement of earnings from the date of acquisition. Acquisition-related costs, including conversion and restructuring charges, are expensed as incurred.

Investment Securities

Available-for-sale securities are reported at fair value and consist of bonds and notes not classified as trading securities nor as held-to-maturity securities. Unrealized holding gains and losses on available-for-sale securities are reported as a net amount in other comprehensive income, net of income taxes. Gains and losses on the sale of available-for-sale securities are recorded on the trade date and determined using the specific-identification method. Declines in the fair value of individual available-for-sale securities below their cost that are other than temporary would result in write-downs of the individual securities to their fair value. Such write-downs would be included in earnings as realized losses. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

Other Real Estate Owned

Real estate acquired through, or in lieu of, loan foreclosure is initially recorded at fair value, less estimated selling costs, at the date of foreclosure establishing a new cost basis. After foreclosure, valuations of the property are periodically performed by management and the real estate is carried at fair value minus the estimated cost to sell the property. Revenues and expenses from operations and changes in the valuation allowance are charged to operations.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity are reported at their outstanding principal balance adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment to the yield over the lives of the related loans. The recognition of interest income is discontinued when, in management's opinion, the collection of all or a portion of interest becomes doubtful or the loan becomes ninety days delinquent. Loans are returned to accrual status when the factors indicating doubtful collectability cease to exist and the loan has performed in accordance with its terms for a demonstrated period of time. The past due status of loans is based on the contractual payment terms.

A loan is considered impaired when, based on current information or events, it is probable that a borrower will be unable to pay all amounts due according to the contractual terms of the loan agreement. For loans determined to be impaired, the allowance is based on discounted cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain collateral dependent loans. When the ultimate collectability of the impaired loan's principal is doubtful, all cash receipts are applied to principal. Once the recorded principal balance has been reduced to zero, future cash receipts are first recorded as recoveries of any amounts previously charged-off and are then applied to interest income, to the extent that any interest has been foregone.

Loans, including impaired loans, are generally classified as nonaccrual if they are past due as to maturity or payment of principal or interest for a period of more than 90 days, unless such loans are well secured and in the process of collection. Loans that are current or past due less than 90 days may also be classified as nonaccrual if repayment in full of principal and/or interest is in doubt (as determined by the contractual terms of the note). Loans may be returned to accrual status when all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within an acceptable period of time, and there is a sustained period of repayment performance (generally a minimum of six months) by the borrower, in accordance with the contractual terms.

While a loan (including an impaired loan) is classified as nonaccrual and the future collectability of the recorded loan balance is doubtful, collections of interest and principal are generally applied as a reduction to the principal outstanding. When the future collectability of the recorded loan balance is not in doubt, interest income may be recognized on a cash basis. In the case where a nonaccrual loan had been partially charged-off, recognition of interest on a cash basis is limited to that which would have been recognized on the recorded loan balance at the contractual interest rate. Receipts in excess of that amount are recorded as recoveries to the allowance for loan losses until prior charge-offs have been fully recovered.

Acquired loans are segregated between those considered to be performing ("acquired performing") and those with evidence of credit deterioration based on such factors as past due status, nonaccrual status and credit risk ratings.

In determining the acquisition date fair value of purchased credit-impaired ("PCI") loans, and in subsequent accounting, the Bank generally aggregates purchased loans into pools of loans with common risk characteristics. Expected cash flows at the acquisition date in excess of the fair value of loans are referred to as the "accretable yield" and recorded as interest income over the life of the loans using a level yield method if the timing and amount of the future cash flows of the pool is reasonably estimable. Subsequent to the acquisition date, significant increases in cash flows over those expected at the acquisition date are recognized as interest income prospectively. Accordingly, such loans are not classified as nonaccrual and they are considered to be accruing because their interest income relates to the accretable yield recognized under accounting for PCI loans and not to contractual interest payments. The difference between the contractually required payments and the cash flows expected to be collected at acquisition, considering the impact of prepayments, is referred to as the nonaccretable difference.

The difference between the fair value of an acquired performing loan pool and the contractual amounts due at the acquisition date (the "fair value discount") is accreted into income over the estimated life of the pool. The Bank's policy for determining when to continue accruing interest on acquired performing loans and the subsequent accounting for such loans is essentially the same as the policy for originated loans.

NOTES TO SUMMARY FINANCIAL STATEMENTS (continued)

Allowance for Loan Losses

The provision for loan losses is based upon management's estimate of the amount needed to maintain the allowance for loan losses at an adequate level. In making the evaluation of the adequacy of the allowance for loan losses, management gives consideration to current and anticipated economic conditions, statutory examinations of the loan portfolio by regulatory agencies, delinquency information and management's internal review of the loan portfolio. Loans are considered impaired when it is probable that all amounts due under the contractual terms of the loan will not be collected. The measurement of impaired loans is generally based on the present value of expected future cash flows discounted at the historical effective interest rate, or upon the fair value of the collateral if the loss is collateral dependent. If the recorded investment in the loan exceeds the measure of fair value, a valuation allowance is established as a component of the allowance for loan losses. While management uses the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the assumptions previously used in making the evaluations. In addition, regulatory examiners may require the Bank to recognize changes to the allowance for loan losses based on their judgments about information available to them at the time of their examination. Historical loss calculations are based on a twelve quarter rolling average loss ratio calculation with the most recent year's loss history included in the model. The impact is to more quickly recognize and apply the most relevant loss history for the loan portfolio.

Decreases in expected cash flows of PCI loans with an accompanying decrease in the present value of the expected cash flows after the acquisition date are recognized by recording an allowance for credit loss. In pools where impairment has already been recognized, an increase in present values will result in a reversal of prior impairment. Management analyzes these acquired loan pools using various assessments of risk to determine and calculate an expected loss. In addition, the relationship between the change in the unpaid principal balance and change in the fair value mark is assessed to correlate the directional consistency of the expected loss for each pool.

Earnings Per Common Share

Basic and diluted earnings per common share have been computed by dividing net income available to common stockholders for each period by the weighted average number of shares of common stock outstanding during each period. Diluted earnings per common share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Bank relate solely to outstanding stock options. Diluted earnings per common share is computed by dividing net income available to common stockholders by the weighted average number of common stock equivalents and other potentially dilutive securities using the treasury stock method.

Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. As of December 31, 2019, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

Union Bank Leadership

Executive Officers

Vincent R. Jones
President
Chief Executive Officer

Susan W. Barrett
Executive Vice President
Chief Operations Officer

John E. Burns
Executive Vice President
Chief Banking Officer

Anne R. Corey
Executive Vice President
Chief Credit Officer

David C. Morgan
Executive Vice President
Area Executive

Scott C. McLean
Executive Vice President
Chief Financial Officer

Amy F. Watts
Executive Vice President
Senior Credit Officer

Board of Directors

Robert Lee Burrows, Jr.
Chairman of the Board,
Union Bank

Vincent R. Jones
President and Chief Executive Officer,
Union Bank

Dr. Raymond C. Ball, Jr.
Coastal Carolina Orthodontics

Joseph E. Blizzard
President and Owner,
Contract Flooring & Design

Chandler T. Currin, Jr.
Farmer

Lawrence Davenport
President,
J.P. Davenport & Son, Inc.

F. Wills Hancock, IV.
Owner,
Century 21 Hancock Properties, Inc.

James T. Hill, Jr.
President and Co-Manager,
Tull Hill Farms, Inc.

C. Dwight Howard
President, Carolina Greenhouses, Carolina Soil Company, Howard Development, Inc., East Coast Modular, How Corp, LLC, and Eastern Warehouses, LLC

Crawford A. Knott
Partner,
Holden Moss Knott Clark & Copley, P.A.,
Certified Public Accountants

Cameron McRae
President, Tands Inc.—Bojangles Franchisee, President, McRae & Associates, Inc.—Management Company for the Franchisees

Conrad B. Sturges, III
Attorney/Partner,
Davis, Sturges & Tomlinson, PLLC

T. Gray Yancey
Vice President,
Yancey Properties, Inc.

Stephen K. Zaytoun
Owner,
Zaytoun & Associates, Inc.
Employee Benefit Insurance Firm

Stock Transfer Agent

Broadridge Corporate Issuer Solutions, Inc.
P.O. Box 1342
Brentwood, NY 11717

Market for Common Stock

Union Bank's common stock is traded on the OTCQX under the symbol "UBNC."

Independent Auditors

Dixon Hughes Goodman LLP
1003 Red Banks Road
Greenville, NC 27858

UnionBank
We Want to Know You.

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Member FDIC