

Nantahala Bank & Trust Company  
120 Siler Road  
Franklin, NC 28734

*1st Quarter Report*  
*2006*



**Board of Directors**

James A. VanderWoude  
*Chairman*

Russell F. Gale  
*President & CEO*

Mark B. West  
*Secretary*

Timothy S. Hubbs

Robert F. Siler

Kathryn L. Wilde

**Bank Officers**

Russell F. Gale  
*President & CEO*

J. Reid Moore  
*Chief Financial Officer*

William Harvey  
*Senior Vice President*  
*Chief Credit Officer*

Patti Batyske  
*Senior Vice President*  
*Operations*

Clara Reffit  
*Senior Vice President*

Barbara Heinly  
*Vice President*

June York  
*Vice President*

John Snow  
*Assistant Vice President*

## To Our Shareholders and Friends:

First quarter has been very busy for Nantahala Bank. Total assets have grown to more than \$85 million. Total deposits exceed \$75 million and loans are almost \$61 million. We believe you would agree that the growth indicates that our communities support your bank and find that doing business with Nantahala is relationship banking at its best. Our employees tell us that they barely have had time to breathe these past three months, and our season doesn't really begin until April.



We held the grand opening of our Hayesville office on March 10, 2006. Nearly 1,000 customers and friends stopped by for the festivities and BBQ. Our Hayesville staff is still opening accounts for the many folks who want the benefits of banking with a true community bank.

Our Murphy Loan Production Office has exceeded our expectations and has proven to be an excellent decision. The Murphy community is pleased that Nantahala Bank is in their market and could not be more supportive. Our team of bankers has hit the ground running and has already booked over \$5 million in loans during their first quarter of operations.

We are excited by the opportunities we see for the summer. New folks are moving into our communities every day and we are confident that we are getting more than our share of their business. Folks tell us that our offices look perfect in the markets we serve, and they compliment our staff daily.

First quarter reflects the beginning of what we believe will be a great year!

Thank you for your support and referrals.

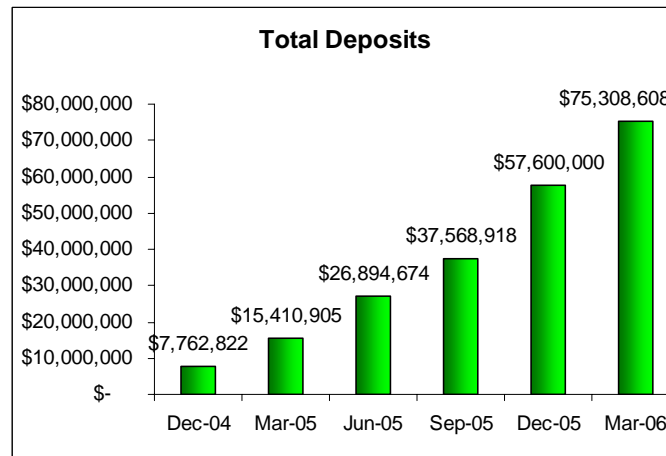
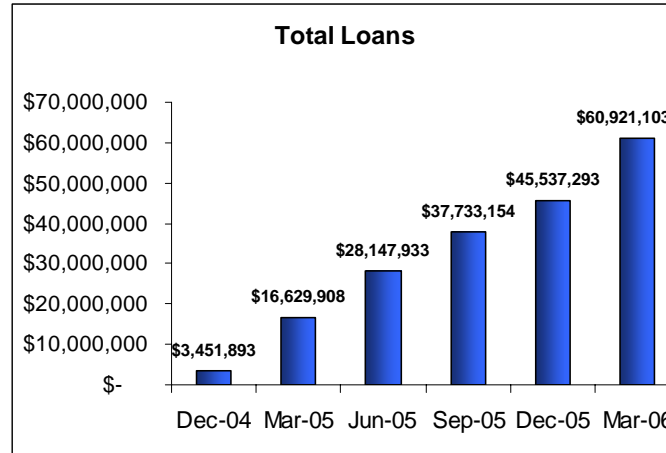



Russell F. Gale  
President & CEO

James A. VanderWoude  
Chairman of the Board

## Selected Financial Data

### March 31, 2006



### March 31, 2006

(unaudited)

#### Assets

Cash & Due From Banks	\$ 2,936,848
Investments	5,182,687
Federal Funds Sold	14,740,000
Loans	60,921,103
Allowance for Loan Loss	(766,338)
Net Loans	<u>60,154,765</u>
Premises & Equipment	1,657,556
Other Assets	353,379
<b>Total Assets</b>	<b><u>\$ 85,025,235</u></b>

#### Liabilities & Shareholders' Equity

Deposits	
Non-interest Bearing	8,612,583
Interest Bearing	<u>66,696,025</u>
Total Deposits	<u>75,308,608</u>
Other liabilities	<u>1,545,312</u>
<b>Total liabilities</b>	<b><u>76,853,920</u></b>

<b>Shareholders' Equity</b>	<b><u>8,171,315</u></b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b><u>\$ 85,025,235</u></b>

#### Offices

##### Franklin

120 Siler Road  
Franklin, NC 28734  
(828) 369-2265  
(828) 349-9559 fax  
Toll Free (866) 754-2265

##### Hayesville

P. O. Box 28  
102 Highway 64 East  
Hayesville, NC 28904  
(828) 389-0700  
(828) 389-0711 fax  
Toll Free (866) 583-2265

##### Murphy LPO

139 Peachtree Street  
Murphy, NC 28906  
(828) 837-1402  
(828) 837-1407 fax  
Toll Free (866) 658-2265

<http://www.nantahalabank.com>