

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

1st Quarter Report 2007



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
Clara Reffit - Executive Vice President,
Hayesville/Murphy City Executive
William Harvey - Senior Vice President,
Chief Credit Officer
Jared Spencer - Senior Vice President,
Chief Financial Officer
Debbie Frady - Vice President, Operations
June York - Vice President, Mortgage
Operations
John Snow - Assistant Vice President,
Manager Murphy LPO
Mark West - Assistant Vice President,
Franklin City Executive

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 oll Free (866) 658-2265

<http://www.nantahalabank.com>

To Our Shareholders and Friends:

We have just ended our first quarter and what a big quarter it was! Our earnings for the quarter were \$160,386. Your bank has now been profitable since the third quarter 2006, and we are very proud of that fact. The bank's earnings are highlighted in the graph titled "Quarterly Earnings". We believe that 2007 is off to a very good start.

Total assets reached \$129.3 million at quarter end, an increase of 9.3% from year end. Total loans and total deposits reached record levels and ended the quarter at \$110.3 million and \$113.8 million, respectively. We continue to be pleased by the growth in our markets. This growth demonstrates how fortunate we are to be in very desirable markets with outstanding bankers - clearly, a winning combination that provides our customers with the very best banking experience.

Construction of the Murphy branch is going extremely well, and we expect to move in sometime this summer. The Murphy Loan Production Office has greatly exceeded our expectations and we can't wait to give the Cherokee County market their own full service bank and begin to take deposits.

We held our third annual shareholder's meeting on April 26, 2007 and approximately 85 people were in attendance. We are very appreciative that so many of our shareholders are interested in the happenings of their bank. We have been told that the number of shareholders who attend our annual meetings as a percentage of the total number of shareholders is remarkable when compared to other companies. That does make us proud.

Thank you for your continued support and referrals.

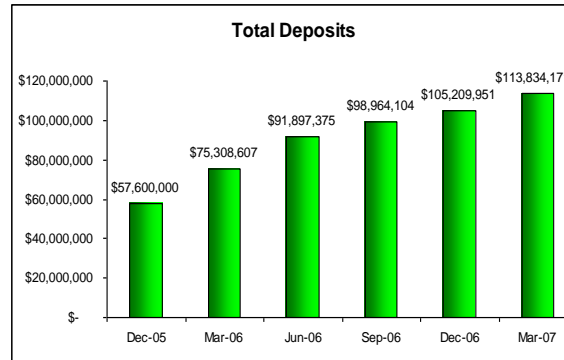
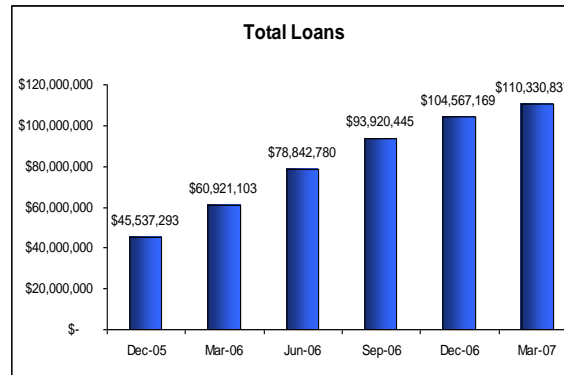


Russell F. Gale
President & CEO

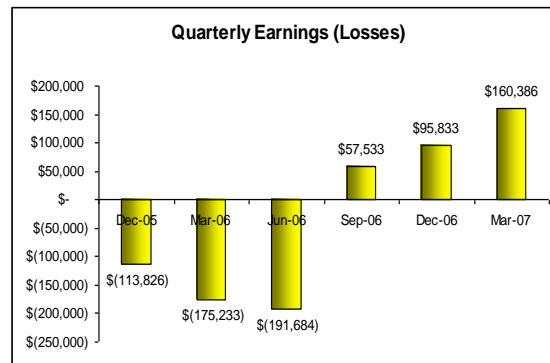


James A. VanderWoude
Chairman of the Board

Selected Financial Data March 31, 2007 (unaudited)



Earnings (Losses) For the quarters ended (unaudited)



Balance Sheet March 31, 2007 (unaudited)

Assets

Cash & Due From Banks	\$ 3,390,088
Investments	10,259,107
Federal Funds Sold	4,208,513
Loans	110,330,837
Allowance for Loan Loss	<u>(1,375,718)</u>
Net Loans	<u>108,955,119</u>
Premises & Equipment	1,754,243
Other Assets	778,096
Total Assets	<u>\$ 129,345,166</u>

Liabilities & Shareholders' Equity

Deposits	
Non-interest Bearing	\$ 11,779,840
Interest Bearing	<u>102,054,331</u>
Total Deposits	<u>113,834,171</u>
Other liabilities	<u>2,285,729</u>
Total liabilities	<u>116,119,900</u>

Shareholders' Equity

Total Liabilities & Shareholders' Equity	<u>\$ 129,345,166</u>
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Income Statement For the Quarter Ended March 31, 2007 (unaudited)

Interest Income

Loans & fees on loans	\$ 2,190,182
Investments & Due From	<u>147,676</u>

Interest Expense

Deposits	1,188,004
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Provision for loan loss

	<u>68,533</u>
Net interest income after provision for loan losses	<u>1,081,321</u>

Non Interest Income

Service charges on deposit accts	48,094
Mortgage loan & other fees	<u>86,843</u>

Non interest Expense

Salaries and employee benefits	501,929
Occupancy	234,217
Other noninterest expenses	<u>319,726</u>

Income before taxes	<u>160,386</u>
Net income	<u>160,386</u>