

**Income Statement**  
**For the Three Months Ended**  
**March 31, 2008**  
*(unaudited)*

|  |                    |
|--|--------------------|
| <b>Interest &amp; Fee Income</b>           |                    |
| Loans & Fees on Loans                      | \$ 2,616,711       |
| Investment Securities                      | 221,993            |
| Fed Funds, CD's and Other Investments      | 9,987              |
| <b>Total Interest Income</b>               | <u>2,848,691</u>   |
| <b>Interest Expense</b>                    |                    |
| Interest Bearing Deposits                  | 1,367,865          |
| FHLB & Fed Funds                           | 79,068             |
| <b>Total Interest Expense</b>              | <u>1,446,933</u>   |
| <b>Net Interest Income</b>                 | 1,401,758          |
| Provision for Loan Losses                  | 164,610            |
| <b>Net Interest Income After Provision</b> | <u>1,237,148</u>   |
| <b>Other Operating Income</b>              |                    |
| Mortgage Origination Fees                  | 66,292             |
| Deposit Service Charges                    | 104,735            |
| Other Income                               | 7,436              |
| <b>Total Other Operating Income</b>        | <u>178,463</u>     |
| <b>Other Operating Expenses</b>            |                    |
| Salaries & Employee Benefits               | 698,429            |
| Occupancy                                  | 206,620            |
| Furniture, Fixtures & Equipment            | 93,160             |
| Other Expenses                             | 468,322            |
| <b>Total Other Operating Expenses</b>      | <u>1,466,531</u>   |
| <b>Pretax Net Income</b>                   | (50,920)           |
| Income Taxes                               | -                  |
| <b>Net Income</b>                          | <u>\$ (50,920)</u> |

**Balance Sheet**  
**March 31, 2008**  
*(unaudited)*

|   |                       |
|---|-----------------------|
| <b>Assets</b>                                       |                       |
| Cash & Due From Banks                               | \$ 2,499,218          |
| Fed Funds Sold                                      | 1,656,078             |
| Investments   | 19,584,305            |
| Loans, Net of Allowance (1,821,744)                 | 143,971,962           |
| Premise & Equipment                                 | 2,246,871             |
| Other Assets  | 1,931,838             |
| <b>Total Assets</b>                                 | <u>\$ 171,890,272</u> |
| <b>Liabilities &amp; Shareholders' Equity</b>       |                       |
| <b>Deposits</b>                                     |                       |
| Non-Interest Bearing                                | \$ 11,532,496         |
| Interest Bearing                                    | 132,341,632           |
| <b>Total Deposits</b>                               | <u>143,874,128</u>    |
| Other Liabilities                                   | 11,971,842            |
| <b>Total Liabilities</b>                            | <u>155,845,970</u>    |
| <b>Shareholders' Equity</b>                         | 16,044,302            |
| <b>Total Liabilities &amp; Shareholders' Equity</b> | <u>\$ 171,890,272</u> |

*To Our Shareholders & Friends:*

It is spring here in the mountains and it is absolutely beautiful. We know that our seasonal residents and visitors will soon be here and look forward to welcoming them back.

Nantahala Bank & Trust has completed the first quarter of 2008 and we are pleased to report that your bank continues to grow assets and deposits on a quarterly and year to date basis. Total assets were \$171.9 million as of March 31, 2008, compared to \$156.6 million at year end 2007, an increase of \$15.3 million or 9.8%. Total gross loans ended the quarter at \$145.8 million compared to \$133.1 million at December 31, 2007, an increase of \$12.7 million or 9.5%. Total deposits ended the quarter at \$143.8 million, compared to \$134.9 million at December 31, 2007, an increase of \$8.9 million or 6.6% from year end 2007. For the first quarter ended March 31, 2008, the Bank reported a net loss of \$51,000 compared to a profit of \$130,000 during the fourth quarter 2007. The loss in first quarter was in line with our 2008 budget.

As we stated in our letter to shareholders in the annual report, our greatest challenge today is a reduction in the bank's net interest margin. (Net interest margin is the interest the bank earns on loans and investments minus all interest paid on deposits.) The banking industry has experienced unprecedented decreases in the Prime rate of interest within a very short period of time and, while we are repricing our deposits as quickly as they mature, it will take much of this year to fully reprice deposits used to fund loans. The operating loss incurred in first quarter is a direct result of the reduced margin. We know that we will work our way through this temporary challenge – it is just going to take some months. We anticipate returning to profitability in the second half of the year.

We are fortunate to have experienced continued loan growth in first quarter, knowing that these loans will generate increased interest income for the bank. We are aware, too, that many banks in areas of the country are not growing their earning assets which makes us even more pleased by our growth. We are, at the same time, maintaining our high credit standards! Our Blairsville, Georgia Loan Production Office (LPO), opened in March, is off to a great start and we couldn't be more pleased. These Blairsville bankers are recognized as market leaders and have really hit the ground running.

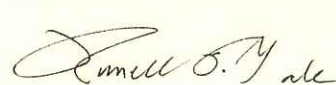
Total Other Operating Income was \$178,000 in first quarter 2008, compared to \$162,000 for fourth quarter 2007. We are pleased that mortgage origination fees have held up pretty well considering the slower real estate markets here and in parts of Florida and Georgia. Many of the new mortgages originated in Western North Carolina come from residents of these two states. We have hired a mortgage originator for our LPO and are excited by the mortgage pipeline from that market. Mortgages provide substantial fee income for the bank and are one of our focus products. Deposit service charges are increasing each quarter and were \$105,000 in first quarter compared to \$ 55,000 in fourth quarter, a 90.9% increase.

At a time when financial institutions are incurring larger than anticipated losses as a result of the mortgage meltdown mess and other credit problems, we are pleased to report that Nantahala Bank did not charge off a single loan in first quarter. We understand, however, that making loans means taking reasonable risks and at some point credit losses are to be expected.

Nantahala Bank & Trust is proud to announce that we are "Going Green"! (See insert) We are offering "green" shopping bags with all new accounts, and comments have been very positive. You also might be interested to know that virtually all paper and cardboard used by the bank is shredded and recycled. We live here, too, and want to do our share to protect the environment.

We are excited about the remainder of 2008! When so many financial institutions are focused on problems, we are focusing on the many opportunities that exist in our markets.

Sincerely,



Russell F. Gale  
 President & CEO



James A. VanderWoude  
 Chairman of the Board

# GO GREEN AND GROW GREEN

OUR GIFT TO YOU!



Getting the financial help you need from a bank you trust can help you grow a lot of "green." At Nantahala Bank, that means offering sound, basic advice and simple, effective deposit products.

And right now, when you open any of our checking, savings, or money market accounts, we'll give you A FREE PAIR OF ECO-FRIENDLY GROCERY BAGS to help you "Go Green As You Grow Green."\*

At Nantahala Bank, we believe that simple banking is better banking. And Better Banking Begins Here. Come see for yourself.

\*Offer good while supplies last. Applies to new accounts only.

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



## Nantahala

BANK & TRUST COMPANY

2008 1st Quarter Report



Better Banking Begins Here.

### Franklin

120 Siler Road, Franklin, NC 28734  
Tel: (828) 369-2265  
Toll Free: (866) 754-2265

### Hayesville

PO Box 28  
102 Highway 64 East, Hayesville, NC 28904  
Tel: (828) 389-0700  
Toll Free: (866) 583-2265

### Murphy

86 Hiwassee Street, Murphy, NC 28906  
Tel: (828) 837-1402  
Toll Free: (866) 658-2265

### Blairsville

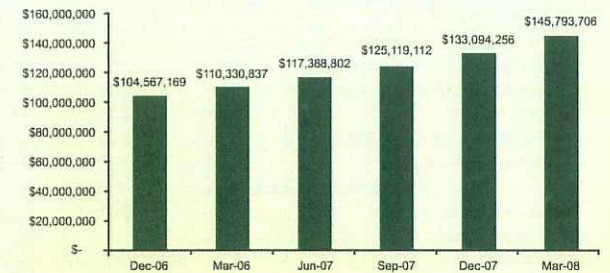
Loan Production Office  
10 Town Square, Blairsville, GA 30512  
Tel: (706) 781-1080

[www.NantahalaBank.com](http://www.NantahalaBank.com)

### BOARD OF DIRECTORS

**James VanderWoude**, Chairman  
**Russell Gale**, President & CEO  
**Tim Hubbs**, Vice Chairman  
**Mark West**, Secretary  
**Robert Siler**  
**Neil Van Hoogen**  
**Kathryn Wilde**  
**Merinda Woody**

### Total Loans



### Total Deposits



### Quarterly Earnings (Losses)

