

BALANCE SHEET

June 30, 2009
(Unaudited)

ASSETS

Cash & Due From	\$4,840,733
Fed Funds Sold	198,741
Investment Securities	39,469,046
Loans, Net of Allowance (\$2,291,694)	168,217,082
Premise & Equipment, Net	3,409,106
Other Assets	5,187,742
TOTAL ASSETS	\$221,322,449

LIABILITIES & SHAREHOLDERS' EQUITY

Deposits	
Non-Interest Bearing	\$11,001,809
Interest Bearing	164,371,788
TOTAL DEPOSITS	175,373,598
Borrowings	29,511,000
Other Liabilities	549,985
TOTAL LIABILITIES	205,434,583
SHAREHOLDERS' EQUITY	15,887,867
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$221,322,449

OUR LOCATIONS

Franklin

120 Siler Road, Franklin, NC 28734

Tel: 828-369-2265

Toll Free: 866-754-2265

Hayesville

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

Visit Us Online at:

www.NantahalaBank.com

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



Nantahala
BANK & TRUST COMPANY

Better Banking Begins Here.



2009 2nd Quarter Report

BOARD OF DIRECTORS

James VanderWoude, *Chairman & CEO*

Russell Gale, *President*

Tim Hubbs, *Vice Chairman*

Mark West, *Secretary*

Robert Siler

Neil Van Hoogen

Kathryn Wilde

Merinda Woody

INCOME STATEMENT

For the Three Months Ended

June 30, 2009
(Unaudited)

INTEREST & FEE INCOME	
Loans & Fees on Loans	\$2,604,620
Investment Securities	293,314
Fed Funds, CD's & Other Investments	227
TOTAL INTEREST INCOME	2,898,161
INTEREST EXPENSE	
Interest Bearing Deposits	1,234,319
FHLB, Fed Funds, & Other Borrowings	168,303
TOTAL INTEREST EXPENSE	1,402,623
NET INTEREST INCOME	1,495,539
Provisions for Loan Losses	198,067
NET INTEREST INCOME AFTER PROVISION	1,297,472
OTHER OPERATING INCOME	
Mortgage Origination Fees	81,593
Deposit Service Charges	93,511
Other Income	182,366
TOTAL OTHER OPERATING INCOME	357,470
OTHER OPERATING EXPENSES	
Salaries & Employee Benefits	760,971
Occupancy	209,085
Furniture, Fixtures & Equipment	110,435
Other Expenses	655,583
TOTAL OTHER OPERATING EXPENSES	1,736,074
PRETAX NET INCOME	(81,132)
Income Taxes	-
NET INCOME	\$(81,132)

INCOME STATEMENT

For the Six Months Ended

June 30, 2009
(Unaudited)

INTEREST & FEE INCOME	
Loans & Fees on Loans	\$5,233,566
Investment Securities	495,985
Fed Funds, CD's & Other Investments	596
TOTAL INTEREST INCOME	5,730,147
INTEREST EXPENSE	
Interest Bearing Deposits	2,573,566
FHLB, Fed Funds, & Other Borrowings	194,226
TOTAL INTEREST EXPENSE	2,767,792
NET INTEREST INCOME	2,962,355
Provisions for Loan Losses	748,794
NET INTEREST INCOME AFTER PROVISION	2,213,562
OTHER OPERATING INCOME	
Mortgage Origination Fees	157,493
Deposit Service Charges	182,634
Other Income	197,662
TOTAL OTHER OPERATING INCOME	537,789
OTHER OPERATING EXPENSES	
Salaries & Employee Benefits	1,508,476
Occupancy	423,596
Furniture, Fixtures & Equipment	221,055
Other Expenses	1,148,862
TOTAL OTHER OPERATING EXPENSES	3,301,789
PRETAX NET INCOME	(550,438)
Income Taxes	(550,586)
NET INCOME	\$148

To Our Shareholders & Friends,

It's hard to believe we are over halfway through 2009. Summer time is wonderful in our mountains and a great time to enjoy the outdoors.

While these economic times are challenging for all of us, we are happy to say that Nantahala Bank & Trust is weathering the storm. We have just successfully completed our state and FDIC regulatory exams.

Even though our people are working harder than ever, it is difficult to make a profit in today's environment. Year to date (June 30, 2009) we made a whopping \$148.00 profit. We acknowledge that it isn't much, but it sure beats the losses many of our competitors are experiencing.

The primary challenge we face is the price correction in the real estate market. Properties that we financed a few years ago are now worth substantially less in some cases. When owners walk away from properties on which they can no longer afford the payments, we have no choice but to foreclose on the real estate. In today's economic environment, we often cannot sell the property for the full amount of the loan balance. This is the case even though we may have only loaned 65% or 75% of the appraised value at the time the loan was made.

Our loss for the second quarter was \$81,132 compared to net income of \$55,752 for the same period last year. Although that situation is not good, it is far worse in other parts of the country, like South Florida and Metro Atlanta. We believe we have identified our problem loans, although we may continue to experience some additional losses. You should know that we also seek to recover any loan deficiencies from problem borrowers by all legal remedies.

For any of you who may be interested in purchasing any of the properties on which we have foreclosed, please see our special website at www.NBTProperties.com. Feel free to share that website with your friends. There are some great deals available.

Loans grew \$165,000 or .1% in second quarter of 2009 from the end of March, 2009. While we are not seeing as many loan requests that meet our increased lending standards, we continue to make loans every day. Although many of our competitors have stopped making loans, we remain committed to serving the needs of our customers.

Non-interest income was \$357,470 for second quarter, compared to \$206,515 for the same period in 2008, a 73.1% increase. Non-interest income increased by \$177,151, or 98.2%, from first quarter. Record low mortgage rates continue to encourage homeowners to refinance and the fees on these refinanced mortgages have never been more important to your bank than they are now. Second quarter's non-interest income was bolstered by \$167,800 in realized gains on the sale of investment securities.

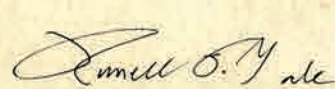
Deposits decreased by \$.6 million, or .4%, to \$175.4 million from \$176.0 million at the end of March, 2009. The decrease in deposits (primarily certificates of deposit) was intentional on our part, as our focus on core deposits is paying off, allowing us to reduce our overall funding costs.

Non-performing assets as a percentage of total assets ended the quarter at 2.7% compared to 2.3% at the end of March, 2009.

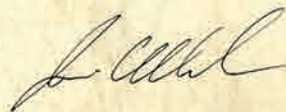
We are pleased to announce that we can now offer full brokerage services through Nantahala Financial Services. Mrs. Carmen Lance is heading up that department for us. As a native of Cherokee County, with knowledge of our markets, she has hit the ground running. Please give Carmen the opportunity to assist you with your investment advisory needs. We believe you will be pleased.

In conclusion, yes, these are trying times for the banking industry and the stresses may continue for some time. You should know that your management team is working on these challenges and is committed to successfully navigating through the economic environment in which we find ourselves today. We feel very positive about the opportunities and the future for our bank.

Sincerely,



Russell F. Gale
President



James A. VanderWoude
Chairman & CEO

TOTAL LOANS



TOTAL DEPOSITS



QUARTERLY EARNINGS (LOSSES)



Announcing...
Nantahala
FINANCIAL SERVICES