

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

Third Quarter Report *2005*



Board of Directors

James 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
Chief Credit Officer

Patti A. Batyske
Vice President – Operations

Barbara Heinly
Vice President

Clara Reffit
Vice President

To Our Shareholders and Friends:

This month marks the celebration of two significant milestones for your Bank. On October 4, 2005, we completed our first full year of operations. Since opening our doors, we have steadily grown to \$46.1 million in assets, with loans exceeding \$37.7million. In addition, the citizens in the communities we serve have shown their confidence in the success of your bank by placing over \$37.5 million in deposits under our stewardship.

By the time you receive this letter, we will be completing the final preparations for our move into our beautiful new Franklin office, located at 120 Siler Road at the intersection of Highway 64 and 441 South. I urge you to stop by during the week of October 17th and tour our new facility. I believe you will agree – it has been worth the wait! We are making plans for our grand opening celebrations, with attractive deposit rates and the chance to register for wonderful prizes.

You really should take a look at the interior photographs of your new bank that were just posted to the website. Visit our website at www.nantahalabank.com and click on the “Under Construction” link.

Who would have believed that just one year ago we were opening our doors, and this month we will occupy our new main office? Before the end of the year, we will move into our newly constructed Hayesville office. The Hayesville branch has a similar look and feel to it – you can tell immediately that it’s Nantahala Bank.

When the leaves begin to change color we know that the holidays are just around the corner. I know it might seem a bit early, but your

Directors, officers and employees of Nantahala Bank & Trust wish you a joyous holiday season and invite you to stop by one of our offices and experience community banking at its best!

Thank you for your continued support.



Russell F. Gale
President & CEO

**Statement of Condition
(Unaudited)**

September 30, 2005

Assets

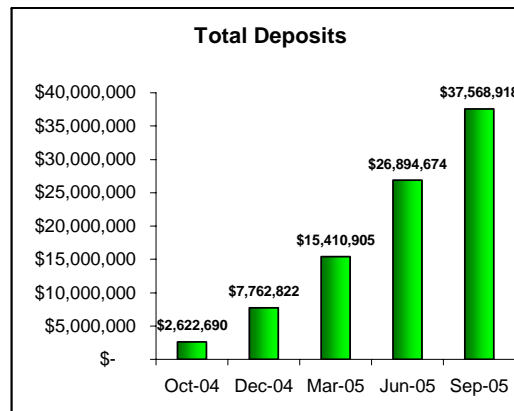
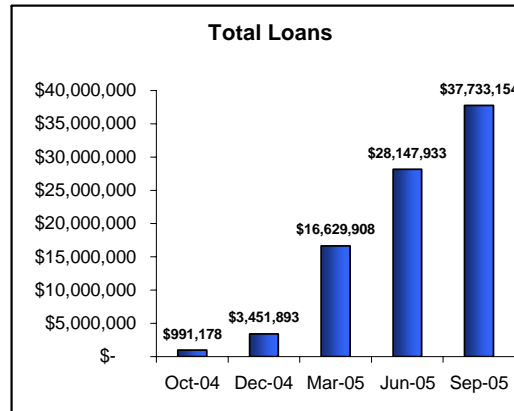
Cash & Due From Banks	\$	365,168
Investments		776,459
Federal Funds Sold		6,577,989
Loans		37,733,154
Allowance for Loan Loss		<u>(471,676)</u>
Loans net		<u>37,261,478</u>
Premises & Equipment		946,727
Other Assets		190,333
Total Assets	\$	<u>46,118,154</u>

Liabilities & Shareholders’ Equity

Deposits	
Non-interest Bearing	5,114,018
Interest Bearing	<u>32,454,900</u>
Total Deposits	<u>37,568,918</u>
Other liabilities	<u>69,166</u>
Total liabilities	<u>37,638,084</u>

Shareholders’ Equity	<u>8,480,070</u>
Total Liabilities & Shareholders’ Equity	<u>\$ 46,118,154</u>

Selected Financial Data



Offices

Franklin	Hayesville
120 Siler Road	964 Hwy. 69, Suite 5
Franklin, NC 28734	Hayesville, NC 28904
(828) 369-2265	(828) 389-0700
(828) 349-9559 fax	(828) 389-0711

Toll Free (866) 754-2265

<http://www.nantahalabank.com>