

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

Year End Report *2005*



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
Manager, Murphy LPO

To Our Shareholders and Friends:

We are pleased to present the 2005 year end report for Nantahala Bank & Trust Company. Your Bank has had an exciting fourth quarter. We completed the move into our new Main Office, opened a new Loan Production Office in Murphy, NC, and put the finishing touches on our permanent Hayesville location.

During December, we held our official grand opening celebration for the Main Office in Franklin. Over 1,000 stockholders, friends and customers joined us and deposited over \$6 million in your bank.

As we write this letter, assets have grown to over \$71 million, with \$50.5 million in loans. Deposits have grown steadily since year-end and now exceed \$62.8 million. This growth is further evidence that folks in our communities are realizing the benefits of banking the “Nantahala Way” – personal, professional service delivered by knowledgeable, friendly bankers.

We have just completed the move into our new Hayesville office and will hold their official grand opening in March. We encourage you to stop by one of our offices, enjoy a cup of coffee and meet our dedicated team of experienced bankers.

As we begin 2006, we are excited about the prospects for the new year and invite you to visit our offices and experience community banking at its best!

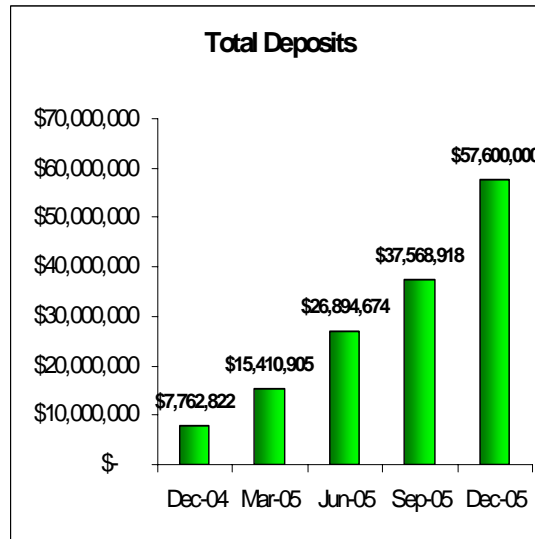
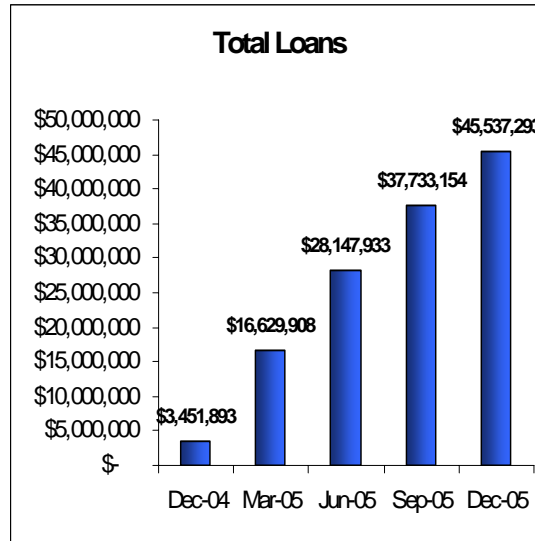
Thank you for your continued support.



Russell F. Gale
President & CEO

James A. VanderWoude
Chairman of the Board

Selected Financial Data



(Unaudited)

December 31, 2005

Assets

Cash & Due From Banks	\$ 394,616
Investments	2,711,653
Federal Funds Sold	16,435,423
Loans	45,537,293
Allowance for Loan Loss	<u>(569,216)</u>
Loans net	44,968,077
Premises & Equipment	1,260,132
Other Assets	293,156
Total Assets	<u>\$ 66,063,057</u>

Liabilities & Shareholders' Equity

Deposits	
Non-interest Bearing	5,284,872
Interest Bearing	<u>52,315,128</u>
Total Deposits	57,600,000
Other liabilities	<u>116,510</u>
Total liabilities	57,716,510

Shareholders' Equity	8,346,547
Total Liabilities & Shareholders' Equity	<u>\$ 66,063,057</u>

Offices

Franklin	Hayesville
120 Siler Road	P. O. Box 28
Franklin, NC 28734	102 Highway 64 East
(828) 369-2265	Hayesville, NC 28904
(828) 349-9559 fax	(828) 389-0700
Toll Free (866) 754-2265	(828) 389-0711 fax
	Toll Free (866) 583-2265

Murphy LPO
139 Peachtree Street
Murphy, NC 28906
(828) 837-1402
(828) 837-1407

<http://www.nantahalabank.com>