Coastal Banking Company, Inc.®

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Coastal Banking Company Reports Second Quarter 2010 Results

BEAUFORT, S.C., Aug. 12, 2010 (GLOBE NEWSWIRE) -- Coastal Banking Company, Inc. (OTCBB:CBCO), the holding company of CBC National Bank, which operates divisions including Lowcountry National Bank in Beaufort, S.C., and First National Bank of Nassau County in Fernandina Beach, Fla., today reported a net loss of $558,660, or a loss of $0.27 per diluted common share, for the quarter ended June 30, 2010. This compares to a net loss of $244,632, or a loss of $0.15 per diluted common share, in the second quarter of 2009.

Key highlights from the second quarter of 2010 include:

- Net interest income increased $355,000 compared to the second quarter of 2009.
- The company's provision for loan losses declined by $764,587 compared to the second quarter of 2009.
- Net interest margin expanded by 56 basis points from the second quarter of 2009 and 3 basis points from the previous quarter.
- As a percentage of total loans, net loan charge-offs increased by 0.15 percent from the second quarter of 2009, and increased by 0.26 percent from the prior quarter.
- Mortgage banking income declined by $1.1 million from the second quarter of 2009, which included a record number of refinancings.
- SBA revenue increased $60,354 over the second quarter of 2009.

"We continued to hold steady in an uneven economic environment during the second quarter of 2010, growing our core operating income on both a linked-quarter and year-over-year basis, while expanding our net interest margin," said Michael G. Sanchez, chief executive officer. "Our net income and earnings were impacted negatively primarily by higher expenses associated with other real estate, and we saw a small increase in our nonperforming loans as our markets continue to search for a firm bottom in real estate and other collateral values. Also, mortgage activity leveled off in the second quarter, as we expected, and contributed less to our bottom line.

"On a positive note, we are beginning to see the success of our strategy to restore our Small Business Administration ("SBA") lending efforts, which we curtailed with the collapse of the small business lending market in 2008," Sanchez said. "Earlier this year, when the federal government temporarily waived SBA loan fees and raised the guaranty of these loans from 75 percent to 90 percent, we began to increase our SBA loan staffing levels to service the growing SBA loan demand. Having been an SBA preferred lender for many years, we historically have enjoyed a steady source of noninterest income from selling the guaranteed portion of SBA loans. We believe that increased SBA lending activity will provide us with an opportunity to increase our noninterest income with the lower risk exposure, and lower reserve levels from government insured lending programs."

Net interest income before the provision for loan losses totaled $3.0 million in the second quarter of 2010, an increase from $2.9 million earned in the first quarter of 2010 and $2.7 million earned in the second quarter of 2009. Noninterest income was $1.8 million at June 30, 2010, an increase from $1.4 million in the first quarter of 2010 and down from $2.3 million in the second quarter of 2009. Income from SBA loans totaled $100,764 in the second quarter of 2010, compared to $41,435 in the previous quarter and $40,410 in the second quarter of 2009.

The year-over-year decline in noninterest income is due primarily to the comparison with the first half of 2009, when attractive mortgage rates caused an atypical surge in mortgage loan refinancing. Noninterest expense for the second quarter of 2010 totaled $4.7 million, compared to $4.1 million in the previous quarter and $3.9 million in second quarter of 2009. The increase is due to significantly higher other real estate expenses, which totaled $1.3 million for the second quarter of 2010, compared to $149,149 for the second quarter of 2009.

"We likely will continue to see elevated expenses associated with other real estate owned as we maintain our aggressive approach in moving non-accrual loans to OREO and then liquidating the assets," said Sanchez. "We continue to believe that aggressively driving down our level of nonperforming assets is in the best long-term interest of the company, especially with the sluggish economic recovery and weak real estate market, which continues to put pressure on many customers' ability to stay current on their loans."

The company recognized an income tax expense of $38,603 with an effective tax rate of (7 percent) in the second quarter of 2010, compared to an income tax benefit of $151,823 with an effective tax rate of 38 percent for the second quarter of 2009. This was due to the nonrecurring impact of the early redemption of several bank-owned life insurance policies in 2010, which generated taxable income, but did not result in GAAP income. As such, the company recognized a substantial tax expense on the taxable gain without any corresponding book income.

The company's net interest margin for the second quarter of 2010 was 2.94 percent, an increase of 3 basis points from 2.91 percent at March 31, 2010, and an increase of 56 basis points from 2.38 percent at June 30, 2009. This improvement is largely a reflection of the company's successful efforts to reduce deposit and other borrowing costs over the past year.

Total assets at June 30, 2010, were $435.8 million, compared to $463.1 million at Dec. 31, 2009. Total shareholders' equity was $36.3 million at June 30, 2010, compared to $37.9 million at Dec. 31, 2009.

Total deposits were $359.6 million at June 30, 2010, compared to $359.5 million at March 31, 2010, and $368.9 million at Dec. 31, 2009. Total portfolio loans were $284.6 million at the end of the second quarter of 2010, compared to $286.0 million at the end of the first quarter of 2010, and $289.7 million at Dec. 31, 2009.

The company's wholesale mortgage banking division originated approximately $182 million in loans available for sale in the secondary market during the second quarter of 2010. This compares to $251 million in loans originated for sale in the secondary market during the second quarter of 2009.

At June 30, 2010, CBC National Bank had a total risk-based capital ratio of 13.83 percent and a Tier 1 risk-based capital ratio of 12.56 percent, which exceed the 10 percent and 6 percent respective thresholds for being classified as "well capitalized" by federal regulators. The company also continued to have ample liquidity, with $106 million in excess funding available from multiple sources at June 30, 2010.

Net charge-offs for the second quarter of 2010 totaled $863,000, or 0.30 percent of average loans, compared to $123,000, or 0.04 percent of total loans, in the first quarter of 2010, and $2.1 million, or 0.72 percent at Dec. 31, 2009.

Nonaccrual loans as a percentage of total loans at the end of the second quarter of 2010 were 5.83 percent, compared to 4.54 percent at the end of the previous quarter and 4.75 percent at Dec. 31, 2009. Though nonaccrual loans had declined in the three previous consecutive quarters, they rose in the second quarter of 2010 due primarily to management's decision to place two credit relationships on nonaccrual status, totaling $4.2 million, as a result of recent declines in collateral values. Both credit relationships have been, and continue to be, current under restructured terms. Excluding the impact of these two loans, loans on nonaccrual status would have declined during the second quarter.

Other real estate owned at June 30, 2010, totaled $16.6 million, compared to $17.0 million at March 31, 2010, and $18.2 million at Dec. 31, 2009.

"As we have commented in the past, given the uneven nature of the economic recovery, we are monitoring our loans closely and will remain conservative in our assessments," said Sanchez. "As such, we could see periodic increases in nonaccrual loans in future quarters."

The company's provision for loan losses totaled $685,413 for the second quarter of 2010, which was $178,000 less than net charge-offs, compared to a loan-loss provision of $400,000 for the first quarter of 2010, $277,000 in excess of net charge-offs, and a provision of $2.1 million, or $53,000 in excess of net charge-offs, at Dec. 31, 2009. The company's allowance for loan losses totaled $6.5 million, or 2.28 percent of loans outstanding at June 30, 2010, compared to $6.7 million, or 2.33 percent of loans outstanding, at March 31, 2010, and $6.4 million, or 2.20 percent of loans outstanding, at Dec. 31, 2009.

Net loss for the six months ended June 30, 2010, was $1.0 million, compared to a net loss of $2.2 million for the same period in 2009. Diluted loss per common share for the first six months of 2010 was $0.51, compared to a diluted loss per common share of $0.96 in the same period a year ago.

Net interest income for the first six months of 2010 was $6.0 million, compared to $5.1 million in the first six months of 2009. Noninterest income was $3.2 million for the first six months of 2010, compared to $4.4 million in the same period of 2009. Noninterest expense was $8.8 million for the first half of 2010, compared to $8.2 million for the same period in 2009.

For the first half of 2010, the company recognized income tax expense of $386,000, compared to an income tax benefit of $853,000 for the first six months of 2009. The company's effective tax rate was 60 percent in 2010 and 28 percent in 2009.

"Over the past several quarters, we have worked diligently to better position ourselves by reducing nonperforming assets, adding additional revenue streams, reducing interest expense and improving our margins," said Sanchez. "The current economic recovery remains an uncertainty, as does the potential impact from the recent passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Final rules are yet to be written for many parts of the Act, and as such, the potential costs for compliance are unclear. We will keep a close eye on developments as they unfold and will make any adjustments necessary to our strategy or operations to keep in full compliance with the new laws."

About Coastal Banking Company, Inc.

Coastal Banking Company, Inc., based in Beaufort, S.C., is the $435.8 million-asset bank holding company of CBC National Bank, which operates as Lowcountry National Bank in Beaufort, S.C., First National Bank of Nassau County in Fernandina Beach, Fla., and The Georgia Bank in Meigs, Ga. CBC National Bank, which is headquartered in Fernandina Beach, provides a full range of consumer and business banking services through full-service banking offices in Beaufort, Fernandina Beach, Meigs, Hilton Head, S.C., and Port Royal, S.C. The company also operates a residential mortgage banking division based in Atlanta and commercial loan production offices in Jacksonville, Fla., and Savannah, Ga. The company's common stock is publicly traded on the OTC Bulletin Board under the symbol CBCO. For more information, please visit the company's Web site, www.coastalbanking.com.

FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISK FACTORS

This release contains forward-looking statements including statements relating to present or future trends or factors generally affecting the banking industry and specifically affecting Coastal's operations, markets and products. Without limiting the foregoing, the words "believes," "anticipates," "intends," "expects," or similar expressions are intended to identify forward-looking statements. These forward-looking statements involve risks and uncertainties. Actual results could differ materially from those projected for many reasons, including, without limitation, changing events and trends that have influenced Coastal's assumptions, but that are beyond Coastal's control. These trends and events include (i) changes in the interest rate environment which may reduce margins, (ii) not achieving expected growth, (iii) less favorable than anticipated changes in the national and local business environments and securities markets, (iv) adverse changes in the regulatory requirements affecting Coastal, (v) greater competitive pressures among financial institutions in Coastal's markets, (vi) greater loan losses than historic levels, and (vii) difficulties in expanding our banking operations into a new geographic market. Additional information and other factors that could affect future financial results are included in Coastal's filings with the Securities and Exchange Commission.

All written or oral forward-looking statements are expressly qualified in their entirety by these cautionary statements. Please also read the additional risks and factors described from time to time in reports and registration statements filed with the Securities and Exchange Commission. Coastal Banking Company, Inc. undertakes no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date on which such statements were made.

COASTAL BANKING COMPANY, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	June 30 2010	December 31 2009
Assets		
Cash and due from banks	$ 3,545,244	$ 2,679,003
Interest-bearing deposits in banks	6,850,685	707,593
Federal funds sold	578,969	539,326

Securities available for sale, at fair value	41,427,145	60,515,592
Securities held to maturity, at cost	2,000,000	2,000,000
Restricted equity securities, at cost	4,926,150	4,996,250
Loans held for sale , at fair value	36,454,109	50,005,901
Loans, net of unearned income	284,604,208	289,658,956
Less allowance for loan losses	6,485,199	6,386,409
Loans, net	278,119,009	283,272,547
Premises and equipment, net	7,409,058	7,599,170
Cash surrender value of life insurance	2,015,176	7,394,114
Intangible assets	94,798	136,480
Other real estate owned	16,603,875	18,176,169
Loan sales receivable	26,502,635	14,849,299
Other assets	9,254,855	10,225,954
Total assets	$ 435,781,708	$ 463,097,398
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing	$ 21,952,235	$ 17,775,762
Interest-bearing	337,677,234	351,104,768
Total deposits	359,629,469	368,880,530
Other borrowings	28,500,000	45,237,158
Junior subordinated debentures	7,217,000	7,217,000
Other liabilities	4,159,855	3,860,284
Total liabilities	399,506,324	425,194,972
Shareholders' Equity:		
Preferred stock, par value $.01; 10,000,000 shares authorized;		
9,950 shares issued and outstanding in 2010 and 2009	9,548,248	9,515,758
Common stock, par value $.01; 10,000,000 shares authorized;		
2,588,707 shares issued and outstanding in 2010		
2,568,707 shares issued and outstanding in 2009	25,887	25,687
Additional paid-in capital	41,164,594	41,121,636
Accumulated deficit	(15,241,616)	(13,930,443)
Accumulated other comprehensive income	778,271	1,169,788
Total shareholders' equity	36,275,384	37,902,426
Total liabilities and shareholders' equity	$ 435,781,708	$ 463,097,398

COASTAL BANKING COMPANY, INC. AND SUBSIDIARIES

Consolidated Statement of Operations

	For the three months ended June 30		**For the six months ended June 30**	
	2010	**2009**	**2010**	**2009**
Interest income:				
Interest and fees on loans	$ 4,343,870	$ 4,522,375	$ 8,752,353	$ 8,972,514
Interest on taxable securities	530,966	778,762	1,128,060	1,620,069
Interest on nontaxable securities	59,029	155,404	125,472	314,946
Interest on deposits in other banks	737	56	1,626	187

Interest on federal funds sold	4,079	427	6,703	521
Total interest income	4,938,681	5,457,024	10,014,214	10,908,237
Interest expense:				
Interest on deposits	1,510,807	2,355,472	3,231,285	4,907,984
Interest on junior subordinated debentures	98,690	104,196	195,999	213,559
Interest on other borrowings	312,990	336,168	636,500	691,272
Total interest expense	1,922,487	2,795,836	4,063,784	5,812,815
Net interest income	3,016,194	2,661,188	5,950,430	5,095,422
Provision for loan losses	685,413	1,450,000	1,085,413	4,380,000
Net interest income after provision for loan losses	2,330,781	1,211,188	4,865,017	715,422
Non-interest income:				
Service charges on deposit accounts	107,431	130,492	237,795	288,741
Other service charges, commissions and fees	64,204	79,010	128,582	154,127
SBA loan income	100,764	40,410	142,199	83,745
Mortgage banking income	737,646	1,819,971	1,740,936	4,124,632
Gain on sale of securities available for sale	805,834	--	939,385	--
Gain on tender of securities held to maturity	--	98,996	--	98,996
Loss on Silverton Financial Services stock	--	--	--	(507,366)
Income from investment in life insurance contracts	--	74,040	33,134	149,071
Other income	4,683	8,436	22,423	15,775
Total other income	1,820,562	2,251,355	3,244,454	4,407,721
Non-interest expenses:				
Salaries and employee benefits	1,554,051	1,927,952	3,366,355	4,300,598
Occupancy and equipment expense	337,239	292,392	660,752	581,283
Advertising fees	28,681	31,157	81,485	53,828
Amortization of intangible assets	20,841	34,440	41,682	68,880
Audit fees	93,650	97,603	196,009	160,171
Data processing fees	224,619	241,833	464,533	465,105
Director fees	35,350	44,900	92,150	85,300
FDIC insurance premiums	208,501	207,373	417,417	586,082
Legal and other professional fees	163,617	163,879	290,028	354,325
OCC examination fees	45,916	30,846	91,833	61,692
Other real estate expenses	1,332,545	149,149	2,118,912	206,559
Other operating expense	626,390	637,474	932,247	1,232,132
Total other expenses	4,671,400	3,858,998	8,753,403	8,155,955
Loss before income taxes (benefit)	(520,057)	(396,455)	(643,932)	(3,032,812)
Income tax expense (benefit)	38,603	(151,823)	386,003	(853,400)
Net loss	$ (558,660)	$ (244,632)	$ (1,029,935)	$ (2,179,412)
Preferred stock dividends	140,738	139,806	281,238	279,387
Net loss available to common shareholders	$ (699,398)	$ (384,438)	$ (1,311,173)	$ (2,458,799)
Basic and diluted loss per common share	$ (0.27)	$ (0.15)	$ (0.51)	$ (0.96)

CONTACT: Coastal Banking Company, Inc.
Michael G. Sanchez, Chief Executive Officer
904-321-0400

Marsh Communications LLC
Andy Mus, Senior Vice President
404-327-7662

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For Immediate Release

For More Information:
Michael G. Sanchez
Chief Executive Officer
Coastal Banking Company Inc.
904-321-0400

Andy Mus
Senior Vice President
Marsh Communications LLC
404-327-7662

Coastal Banking Company Reports Third Quarter 2010 Results

BEAUFORT, S.C., Nov. 12, 2010 – Coastal Banking Company Inc. (OTCBB:CBCO), the holding company of CBC National Bank, which operates divisions including Lowcountry National Bank in Beaufort, S.C., and First National Bank of Nassau County in Fernandina Beach, Fla., reported a net loss of $496,489, or a loss of $0.25 per diluted share, for the quarter ended Sept. 30, 2010. This compares to a net loss of $425,251, or a loss of $0.22 per diluted share, in the third quarter of 2009.

Key highlights from the third quarter of 2010 include:

- Net interest income rose 7.7 percent from the same period a year ago.
- Noninterest income grew 89.2 percent from last year, due to a large increase in mortgage banking income spurred by low mortgage rates.
- Net interest margin expanded by 52 basis points from the third quarter of 2009.
- Net charge-offs of $1.6 million increased compared to the second quarter of 2010 and were slightly above the $1.5 million of net charge-offs in the third quarter of 2009.
- Other real estate owned of $14.4 million continued to decrease, down by 20.6 percent from $18.2 million at the end of 2009.
- Provision for loan losses of $1.36 million increased compared to the second quarter of 2010 and was slightly higher than the $1.27 million provision in the third quarter of 2009.
- Capital ratios remained strong with a total risk based capital ratio of 14.21 percent and a Tier 1 leverage ratio of 9.12 percent at Sept. 30, 2010.

"Our company continued to work hard to manage the challenges of a poor economy in the third quarter," said Michael G. Sanchez, chief executive officer. "Despite the lack of loan demand, we grew our interest and noninterest income from a year ago and expanded our net interest margin, yet higher expenses associated with other real estate continued to suppress our net income and earnings. Nonperforming assets also rose in the third quarter, which, as we have stated in the past, may periodically happen due to the uneven nature of the current economy. Overall, we remain positive that we are taking the right steps to return our company to profitability."

Net interest income in the third quarter of 2010 totaled $3.2 million, an increase of 7.7 percent from $2.9 million for the same period in 2009. Noninterest income for the third quarter was $3.2 million, an 89.2 percent increase from $1.7 million for the quarter ended Sept. 30, 2009. The increase in noninterest income is due primarily to an increase of $1.6 million in mortgage banking income, which totaled $3.0 million for the quarter ended Sept. 30, 2010, compared to $1.4 million for the same period of 2009.

Noninterest expense was $5.9 million for the third quarter of 2010, compared to $4.1 million for the third quarter of 2009. The comparative increase was due mainly to significantly higher other real estate expenses, which grew $715,000 from the same period last year, and a $627,000 rise in compensation expenses incurred by the company's wholesale mortgage banking division on increased lending levels.

Net interest margin for the quarter ended Sept. 30, 2010, increased to 3.09 percent from 2.94 percent in the previous quarter and 2.57 percent for the quarter ended Sept. 30, 2009.

Total assets at Sept. 30, 2010, were $433.0 million, compared to $463.1 million at Dec. 31, 2009. Total shareholders' equity was $35.7 million at Sept. 30, 2010, compared to $37.9 million at Dec. 31, 2009.

Total deposits were $356.7 million at the end of the third quarter, compared to $368.9 million at Dec. 31, 2009. Total portfolio loans at the end of the third quarter were $277.6 million, compared to $289.7 million at Dec. 31, 2009.

The company's residential mortgage banking division originated approximately $252.6 million in loans available for sale in the secondary market during the third quarter of 2010. This compares to $208.1 million in loans originated for sale in the secondary market during the third quarter of 2009. Since the mortgage banking division began operations in September 2007, the division has originated over $2 billion in residential mortgage loans.

Net charge-offs in the third quarter of 2010 totaled $1.6 million, or 0.56 percent of total loans, compared to $863,000, or 0.30 percent, in the previous quarter, and $1.5 million or 0.50 percent in the third quarter of 2009. Nonaccrual loans as a percentage of total loans at the end of the third quarter of 2010 were 7.20 percent, compared to 5.83 percent at the end of the previous quarter and 7.99 percent at Sept. 30, 2009. Loans past due greater than 30 days and still accruing interest totaled $6.1 million at the end of the third quarter of 2010, compared to $4.9 million at the end of the previous quarter and $2.0 million at Dec. 31, 2009.

Other real estate owned at Sept. 30, 2010, totaled $14.4 million, compared to $16.6 million at June 30, 2010, and $18.2 million at Dec. 31, 2009.

The company’s provision for loan losses totaled $1.4 million for the third quarter of 2010, which was $192,000 less than net charge-offs, compared to $685,413 for the second quarter of 2010, which was $178,000 less than net charge-offs, and a provision of $2.1 million, or $53,000 in excess of net charge-offs, at Dec. 31, 2009. The company’s allowance for loan losses totaled $6.3 million, or 2.27 percent of loans outstanding, at Sept. 30, 2010, compared to $6.5 million, or 2.28 percent of loans outstanding, at the end of the previous quarter, and $6.4 million, or 2.20 percent of loans outstanding, at Dec. 31, 2009.

“We elevated our provision for loan losses in response to the ongoing uncertainty in future loan charge-off levels,” said Sanchez. “Volatility in the economy, especially as it impacts our borrowers’ ability to repay and the relative value of collateral securing some of our loans, will likely keep us in a conservative posture with regards to this provision.”

At Sept. 30, 2010, CBC National Bank had a total risk-based capital ratio of 13.58 percent and a Tier 1 risk-based capital ratio of 12.31 percent. The threshold for being classified as “well capitalized” by federal regulators is 10 percent and 6 percent, respectively, for total and Tier 1 risk-based capital.

The company had $113.2 million in funding available from multiple sources at the end of the third quarter of 2010, down slightly from the $118.1 million available at the end of the previous quarter and $114.3 million available at Dec. 31, 2009.

For the nine months ended Sept. 30, 2010, the company had a net loss of $1.5 million, or a loss of $0.76 per diluted share, compared to a net loss of $2.6 million, or a loss of $1.18 per diluted share, in the same period a year ago.

Net interest income for the first nine months of 2010 was $9.1 million, compared to $8.0 million in the first nine months of 2009. Noninterest income was $6.5 million for the first nine months of 2010, compared to $6.1 million in the same period of 2009. Income from Small Business Administration (SBA) loans totaled $183,000 in the first three quarters of 2010, compared to $135,000 in the same period in 2009. Noninterest expense was $14.6 million for the first nine months of 2010, compared to $12.2 million for the same period in 2009.

For the first nine months of 2010, the company recognized income tax expense of $48,000 with an effective tax rate of (3 percent) compared to an income tax benefit of $1.2 million with an effective tax rate of 31 percent for first nine months of 2009. This was due to the nonrecurring impact of the early redemption of several bank-owned life insurance policies in 2010, which generated taxable income but did not result in GAAP income. As such, the company recognized a substantial tax expense on the taxable gain without any corresponding book income.

About Coastal Banking Company Inc.

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COASTAL BANKING COMPANY, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

	September 30 2010	December 31 2009
Assets		
Cash and due from banks	$ 3,049,574	$ 2,679,003
Interest-bearing deposits in banks	3,744,918	707,593
Federal funds sold	375,820	539,326
Securities available for sale, at fair value	42,930,617	60,515,592
Securities held to maturity, at cost	2,000,000	2,000,000
Restricted equity securities, at cost	4,652,250	4,996,250
Loans held for sale , at fair value	32,718,890	50,005,901
Loans, net of unearned income	277,610,538	289,658,956
Less allowance for loan losses	6,292,832	6,386,409
Loans, net	271,317,706	283,272,547
Premises and equipment, net	7,339,604	7,599,170
Cash surrender value of life insurance	1,862,137	7,394,114
Intangible assets	73,957	136,480
Other real estate owned	14,426,307	18,176,169
Loan sales receivable	39,416,200	14,849,299
Other assets	9,111,673	10,225,954
Total assets	$ 433,019,653	$ 463,097,398
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing	$ 20,506,493	$ 17,775,762
Interest-bearing	336,180,602	351,104,768
Total deposits	356,687,095	368,880,530
Other borrowings	31,000,000	45,237,158
Junior subordinated debentures	7,217,000	7,217,000
Other liabilities	2,379,216	3,860,284
Total liabilities	397,283,311	425,194,972
Shareholders' Equity:		
Preferred stock, par value $.01; 10,000,000 shares authorized; 9,950 shares issued and outstanding in 2010 and 2009	9,564,853	9,515,758
Common stock, par value $.01; 10,000,000 shares authorized; 2,588,707 shares issued and outstanding in 2010 2,568,707 shares issued and outstanding in 2009	25,887	25,687
Additional paid-in capital	41,216,355	41,121,636
Accumulated deficit	(15,879,084)	(13,930,443)

Accumulated other comprehensive income	808,331	1,169,788
Total shareholders' equity	35,736,342	37,902,426
Total liabilities and shareholders' equity	$ 433,019,653	$ 463,097,398

COASTAL BANKING COMPANY, INC. AND SUBSIDIARIES
Consolidated Statement of Operations

	For the three months ended September 30		For the nine months ended September 30	
	2010	2009	2010	2009
Interest income:				
Interest and fees on loans	$ 4,423,017	$ 4,637,700	$ 13,175,370	$ 13,610,214
Interest on taxable securities	413,321	735,690	1,541,381	2,355,759
Interest on nontaxable securities	53,957	141,101	179,429	456,047
Interest on deposits in other banks	739	1,889	2,365	2,076
Interest on federal funds sold	1,577	1,725	8,280	2,246
Total interest income	4,892,611	5,518,105	14,906,825	16,426,342
Interest expense:				
Interest on deposits	1,312,345	2,153,622	4,543,630	7,061,606
Interest on junior subordinated debentures	101,048	103,408	297,047	316,967
Interest on other borrowings	322,545	330,056	959,045	1,021,328
Total interest expense	1,735,938	2,587,086	5,799,722	8,399,901
Net interest income	3,156,673	2,931,019	9,107,103	8,026,441
Provision for loan losses	1,360,517	1,266,000	2,445,930	5,646,000
Net interest income after provision for loan losses	1,796,156	1,665,019	6,661,173	2,380,441
Non-interest income:				
Service charges on deposit accounts	114,245	135,314	352,040	424,055
Other service charges, commissions and fees	69,379	72,600	197,961	226,727
SBA loan income	40,762	51,018	182,961	134,763
Mortgage banking income	2,978,591	1,356,074	4,719,527	5,480,706
Gain on sale of securities available for sale	—	1065	939,385	1065
Gain on tender of securities held to maturity	—	—	—	98,996
Loss on Silverton Financial Services stock	—	—	—	(507,366)
Income from investment in life insurance contracts	16184	66,928	49,318	215,999
Other income	305	18,910	22,728	34,685
Total other income	3,219,466	1,701,909	6,463,920	6,109,630
Non-interest expenses:				
Salaries and employee benefits	2,611,922	1,984,986	5,978,277	6,285,584
Occupancy and equipment expense	392,840	316,233	1,053,592	897,516
Advertising fees	15,246	39,048	96,731	92,876
Amortization of intangible assets	20,841	34,440	62,523	103,320
Audit fees	96,434	127,644	292,443	287,815
Data processing fees	269,650	225,457	734,183	690,562
Director fees	36,200	38,550	128,350	123,850
FDIC insurance premiums	204,028	249,822	621,445	835,904
Legal and other professional fees	194,528	205,725	484,556	560,050
OCC examination fees	43,846	31,400	135,679	93,092
Other real estate expenses	1,112,010	397,247	3,230,922	603,806

Other operating expense	852,783	438,327	1,785,030	1,670,459
Total other expenses	5,850,328	4,088,879	14,603,731	12,244,834
Loss before income taxes (benefit)	(834,706)	(721,951)	(1,478,638)	(3,754,763)
Income tax expense (benefit)	(338,217)	(296,700)	47,786	(1,150,100)
Net loss	$ (496,489)	$ (425,251)	$ (1,526,424)	$ (2,604,663)
Preferred stock dividends	140,979	140,033	422,217	419,420
Net loss available to common shareholders	$ (637,468)	$ (565,284)	$ (1,948,641)	$ (3,024,083)
Basic and diluted loss per common share	$ (0.25)	$ (0.22)	$ (0.76)	$ (1.18)

COASTAL BANKING
Company, Inc.®

Q4

For Immediate Release

For More Information:
Michael G. Sanchez
Chief Executive Officer
Coastal Banking Company Inc.
904-321-0400

Andy Mus
Senior Vice President
Marsh Communications LLC
404-327-7662

Coastal Banking Company Reports Fourth Quarter and Full Year 2010 Results

BEAUFORT, S.C., March 17, 2011 – Coastal Banking Company Inc. (OTCBB:CBCO), the holding company of CBC National Bank, which operates divisions including Lowcountry National Bank in Beaufort, S.C., and First National Bank of Nassau County in Fernandina Beach, Fla., reported a net loss of $2.3 million, or a loss of $0.94 per diluted share, for the quarter ended Dec. 31, 2010, which included a $1.8 million deferred tax asset valuation allowance. Excluding the allowance, the company recorded a net loss of $0.5 million, or a loss of $0.23 per diluted share, for the fourth quarter of 2010.

This compares to a net loss of $11.9 million, or a loss of $4.70 per diluted share, in the fourth quarter of 2009, which included a one-time, $10.4 million impairment on goodwill. Excluding the impairment, the company recorded a net loss of $1.5 million, or a loss of $0.65 per diluted share, in the fourth quarter of 2009.

Key highlights from the fourth quarter of 2010 include:

- Net interest income remained steady compared the same period a year ago.
- Noninterest income grew 180.4 percent from last year, due to a large increase in mortgage banking income and SBA lending.
- Net interest margin expanded by 15 basis points from the fourth quarter of 2009.
- Total assets decreased by $36.0 million from 2009.
- Net charge-offs decreased by approximately $1 million from the third quarter of 2010.
- Provision for loan losses decreased to $250,000 from $1.4 million in the previous quarter and $2.1 million in the fourth quarter of 2009.
- Capital ratios at CBC National Bank remained strong with a total risk based capital ratio of 14.50 percent and a Tier 1 risk-based capital ratio of 13.24 percent.

“While we are disappointed with the net loss in the fourth quarter and the full year, we continue to be heartened by the growth in our core earnings, which have attained levels last achieved in 2006,” said Michael G. Sanchez, chief executive officer. “We are especially pleased with the performance and production of our mortgage banking and SBA lending teams. The decrease in our provision for loan losses in the fourth quarter also gives us reason for optimism as it reflects the successful transfer of numerous problem loans to other real estate owned, as well as a slowing in new problem loans. The potential for weakening in our loan quality remains a significant concern, however, and as a result, we will continue to aggressively manage any past due loans.”

Net interest income in the fourth quarter of 2010 totaled $2.8 million, compared to $2.9 million earned in the same period in 2009. Noninterest income in the fourth quarter was $4.3 million, a 180.4 percent increase from $1.5 million in the fourth quarter of 2009, due mostly to a $2.3 million, or 192.1 percent, increase in mortgage banking income, and a $551,379 increase in income from SBA lending, up from $29,029 in the same period a year ago.

Noninterest expense was $7.7 million for the fourth quarter of 2010, compared to $4.9 million for the fourth quarter of 2009, excluding the $10.4 million goodwill impairment charge. The increase was due primarily to higher expenses incurred by the company’s wholesale mortgage banking division resulting from increased lending volumes, and to a lesser extent by costs associated with other real estate owned.

Net interest margin for the fourth quarter of 2010 was 2.90 percent, compared to 3.09 percent for the previous quarter and 2.75 percent for the quarter ended Dec. 31, 2009. For the full year 2010, net interest margin was 2.95 percent, compared to 2.53 percent in 2009.

Total assets at Dec. 31, 2010, were $427.1 million, compared to $463.1 million at Dec. 31, 2009.

“We made the decision to contract the size of the bank in order to maintain strong capital ratios,” said Sanchez. “We reduced the bank by $36.0 million in 2010, and we expect to shed approximately $25 million in assets when we close our Moss Creek branch in Bluffton, S.C., in 2011."

At Dec. 31, 2010, CBC National Bank had a total risk-based capital ratio of 14.50 percent and a Tier 1 risk-based capital ratio of 13.24 percent. The threshold for being classified as "well capitalized" by federal regulators is 10 percent and 6 percent, respectively, for total and Tier 1 risk-based capital.

Total portfolio loans at the end of the fourth quarter 2010 were $267.6 million, compared to $289.7 million at the end of 2009. Total deposits were $346.1 million at the end of the fourth quarter 2010, compared to $368.9 million at the end of the fourth quarter of 2009. Total shareholders' equity was $33.0 million at Dec. 31, 2010, compared to $37.9 million at Dec. 31, 2009.

The company's residential mortgage banking division originated approximately $333.0 million in loans available for sale in the secondary market during the fourth quarter of 2010. This compares to $222.6 million in loans originated for sale in the secondary market during the fourth quarter of 2009. Since the mortgage banking division began operations in September 2007, the division has originated more than $2 billion in residential mortgage loans.

Net charge-offs in the fourth quarter of 2010 totaled $535,000, or 0.20 percent of total loans, compared to $1.6 million, or 0.56 percent, in the previous quarter, and $2.1 million or 0.72 percent in the fourth quarter of 2009. Nonaccrual loans as a percentage of total loans at the end of the fourth quarter of 2010 were 8.33 percent, compared to 7.20 percent at the end of the third quarter 2010 and 4.75 percent at Dec. 31, 2009. Loans past due greater than 30 days and still accruing interest totaled $2.1 million at Dec. 31, 2010, down from $6.1 million in the previous quarter and compared to $2.0 million at Dec. 31, 2009.

Other real estate owned (OREO) at the end of the fourth quarter totaled $14.5 million, compared to $14.4 million at the end of the previous quarter and $18.2 million at Dec. 31, 2009.

"We anticipate expenses related to the loss on sale of OREO and OREO holding expense, which increased $2.8 million for the full year, to continue into 2011, and as such we will remain cautious with regard to our allowance for loan losses moving forward," said Sanchez.

The company's provision for loan losses totaled $250,000 for the fourth quarter of 2010, which was $285,000 less than net charge-offs, compared to $1.4 million for the third quarter of 2010, which was $192,000 less than net charge-offs, and $2.1 million for the fourth quarter of 2009, which was $53,000 in excess of net charge-offs. For the full year, provision for loan losses totaled $2.7 million, a significant decrease from $7.8 million in 2009. The company's allowance for loan losses totaled $6.0 million, or 2.25 percent of loans outstanding, at Dec. 31, 2010, compared to $6.3 million, or 2.27 percent of loans outstanding, at Sept. 30, 2010, and $6.4 million, or 2.20 percent of loans outstanding, at Dec. 31, 2009.

The company had $105.3 million in funding available from multiple sources at the end of the fourth quarter of 2010, compared to $113.2 million available at the end of the previous quarter and $114.3 million available at Dec. 31, 2009.

For the full year 2010, the company reported a net loss of $3.8 million, or a loss of $1.70 per diluted share, compared to a net loss of $14.5 million, or a loss of $5.88 per diluted share, in 2009. Excluding charges of $1.8 million for deferred tax asset valuation allowance in 2010 and the $10.4 million in Goodwill impairment in 2009, the company incurred a net loss of $2.0 million, or $0.99 per diluted share, for the year ended Dec. 31, 2010, compared to a net loss of $4.1 million, or $1.83 per diluted share, for the year ended Dec. 31, 2009.

Net interest income for the full year 2010 totaled $19.4 million, compared to $21.8 million in 2009. Noninterest income was $10.8 million in 2010, compared to $7.7 million in 2009. Noninterest expense was $22.3 million in 2010, compared to $27.6 million in 2009.

The company recognized income tax expense of $1.5 million with an effective tax rate of (69 percent) in 2010 compared to an income tax benefit of $2.2 million with an effective tax rate of 13 percent in 2009. This was due to the nonrecurring impact of the early redemption of several bank-owned life insurance policies in 2010, which generated taxable income but did not result in

GAAP income. As such, the company recognized a substantial tax expense on the taxable gain without any corresponding book income.

“We are confident that we are taking the right steps to return our company to profitability, though we likely will continue to experience the highs and lows that come with a slow, bumpy economic recovery,” said Sanchez. “Our expectations for the long-term success of our company remain bright, and we continue to work hard every day to make that belief a reality.”

About Coastal Banking Company Inc.

Coastal Banking Company Inc., based in Beaufort, S.C., is the $427.1 million-asset bank holding company of CBC National Bank, which operates as Lowcountry National Bank in Beaufort, S.C., First National Bank of Nassau County in Fernandina Beach, Fla., and The Georgia Bank in Meigs, Ga. CBC National Bank, which is headquartered in Fernandina Beach, provides a full range of consumer and business banking services through full-service banking offices in Beaufort, Fernandina Beach, Meigs, Hilton Head, S.C., and Port Royal, S.C. The company also operates a residential mortgage banking division based in Atlanta and commercial loan production offices in Jacksonville, Fla., and Savannah, Ga. The company's common stock is publicly traded on the OTC Bulletin Board under the symbol CBCO. For more information, please visit the company's Web site, www.coastalbanking.com.

FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISK FACTORS

This release contains forward-looking statements including statements relating to present or future trends or factors generally affecting the banking industry and specifically affecting Coastal's operations, markets and products. Without limiting the foregoing, the words "believes," "anticipates," "intends," "expects," or similar expressions are intended to identify forward-looking statements. These forward-looking statements involve risks and uncertainties. Actual results could differ materially from those projected for many reasons, including, without limitation, changing events and trends that have influenced Coastal's assumptions, but that are beyond Coastal's control. These trends and events include (i) changes in the interest rate environment which may reduce margins, (ii) not achieving expected growth, (iii) less favorable than anticipated changes in the national and local business environments and securities markets, (iv) adverse changes in the regulatory requirements affecting Coastal, (v) greater competitive pressures among financial institutions in Coastal's markets, (vi) greater loan losses than historic levels, and (vii) difficulties in expanding our banking operations into a new geographic market. Additional information and other factors that could affect future financial results are included in Coastal's filings with the Securities and Exchange Commission.

All written or oral forward-looking statements are expressly qualified in their entirety by these cautionary statements. Please also read the additional risks and factors described from time to time in reports and registration statements filed with the Securities and Exchange Commission. Coastal Banking Company, Inc. undertakes no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date on which such statements were made.

- Financials To Follow -

COASTAL BANKING COMPANY, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

	December 31 2010	December 31 2009
Assets		
Cash and due from banks	$ 1,823,132	$ 2,679,003
Interest-bearing deposits in banks	406,700	707,593
Federal funds sold	185,258	539,326
Securities available for sale, at fair value	37,720,495	60,515,592
Securities held to maturity, at cost	2,000,000	2,000,000
Restricted equity securities, at cost	4,472,500	4,996,250
Loans held for sale, at fair value	55,336,007	50,005,901
Loans, net of unearned income	267,600,402	289,658,956
Less allowance for loan losses	6,007,690	6,386,409
Loans, net	261,592,712	283,272,547
Premises and equipment, net	7,380,238	7,599,170
Cash surrender value of life insurance	1,894,971	7,394,114
Intangible assets	62,452	136,480
Other real estate owned	14,452,043	18,176,169
Loan sales receivable	31,505,783	14,849,299
Other assets	8,244,448	10,225,954
Total assets	$ 427,076,739	$ 463,097,398
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing	$ 18,948,135	$ 17,775,762
Interest-bearing	327,102,144	351,104,768
Total deposits	346,050,279	368,880,530
Other borrowings	37,000,000	45,237,158
Junior subordinated debentures	7,217,000	7,217,000
Other liabilities	3,774,705	3,860,284
Total liabilities	394,041,984	425,194,972
Shareholders' Equity:		
Preferred stock, par value $.01; 10,000,000 shares authorized; 9,950 shares issued and outstanding in 2010 and 2009	9,581,703	9,515,758
Common stock, par value $.01; 10,000,000 shares authorized; 2,588,707 shares issued and outstanding in 2010 2,568,707 shares issued and outstanding in 2009	25,887	25,687
Additional paid-in capital	41,247,995	41,121,636
Accumulated deficit	(18,300,457)	(13,930,443)
Accumulated other comprehensive income	479,627	1,169,788
Total shareholders' equity	33,034,755	37,902,426
Total liabilities and shareholders' equity	$ 427,076,739	$ 463,097,398

COASTAL BANKING COMPANY, INC. AND SUBSIDIARIES
Consolidated Statement of Operations

	For the three months ended December 31 2010	For the three months ended December 31 2009	For the twelve months ended December 31 2010	For the twelve months ended December 31 2009
Interest income:				
Interest and fees on loans	$ 4,085,004	$ 4,581,519	$ 17,260,374	$ 18,191,733
Interest on taxable securities	340,950	650,248	1,882,331	3,006,007
Interest on nontaxable securities	52,584	95,766	232,013	551,813
Interest on deposits in other banks	735	627	3,100	2,703
Interest on federal funds sold	5,759	1,744	14,039	3,990
Total interest income	4,485,032	5,329,904	19,391,857	21,756,246
Interest expense:				
Interest on deposits	1,229,096	1,978,199	5,772,726	9,039,805
Interest on junior subordinated debentures	100,176	100,104	397,223	417,071
Interest on other borrowings	316,938	333,655	1,275,983	1,354,983
Total interest expense	1,646,210	2,411,958	7,445,932	10,811,859
Net interest income	2,838,822	2,917,946	11,945,925	10,944,387
Provision for loan losses	250,000	2,125,000	2,695,930	7,771,000
Net interest income after provision for loan losses	2,588,822	792,946	9,249,995	3,173,387
Non-interest income:				
Service charges on deposit accounts	109,698	141,803	461,738	565,858
Other service charges, commissions and fees	75,722	79,332	273,683	306,059
SBA loan income	580,408	29,029	763,369	163,792
Mortgage banking income	3,510,474	1,201,959	8,230,001	6,682,665
Gain on sale of securities available for sale	—	—	939,385	1,065
Gain on tender of securities held to maturity	—	—	—	98,996
Loss on Silverton Financial Services stock	—	—	—	(507,366)
Income from investment in life insurance contracts	32,834	72,715	82,152	288,714
Other income	19,866	18,760	42,594	53,445
Total other income	4,329,002	1,543,598	10,792,922	7,653,228
Non-interest expenses:				
Salaries and employee benefits	3,533,600	1,716,117	9,511,877	8,001,701
Occupancy and equipment expense	350,194	312,517	1,403,786	1,210,033
Advertising fees	42,923	47,594	139,654	140,470
Amortization of intangible assets	11,505	20,841	74,028	124,161
Audit fees	171,037	102,716	463,480	390,531
Data processing fees	272,725	231,331	1,006,908	921,893
Director fees	36,800	35,350	165,150	159,200
FDIC insurance premiums	214,800	181,474	836,245	1,017,378
Goodwill impairment	—	10,411,914	—	10,411,914
Legal and other professional fees	202,085	168,400	686,641	728,450
OCC examination fees	43,847	31,400	179,526	124,492
Other real estate expenses	1,507,837	1,315,184	4,738,759	1,918,990
Other operating expense	1,310,334	766,691	3,095,364	2,437,150
Total other expenses	7,697,687	15,341,529	22,301,418	27,586,363
Loss before income taxes (benefit)	(779,863)	(13,004,985)	(2,258,501)	(16,759,748)
Income tax expense (benefit)	1,500,286	(1,073,260)	1,548,072	(2,223,360)
Net loss	$ (2,280,149)	$ (11,931,725)	$ (3,806,573)	$ (14,536,388)
Preferred stock dividends	141,224	140,265	563,441	559,685
Net loss available to common shareholders	$ (2,421,373)	$ (12,071,990)	$ (4,370,014)	$ (15,096,073)
Basic and diluted loss per common share	$ (0.94)	$ (4.70)	$ (1.70)	$ (5.88)