Coastal Banking Company, Inc.

2010 ANNUAL REPORT

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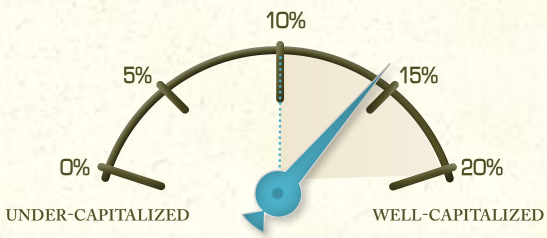
2010 was another difficult year in banking, and our results during the year mirrored the ups and downs of the market. We continued to follow our long-term strategy that has been in place since 2008: promptly resolving credit issues, taking advantage of opportunities to boost revenue, and maintaining strong capital ratios. While the weak economic climate remains a challenge for all banks, we are confident that we are taking the right steps towards profitability. – Michael G. Sanchez, CEO

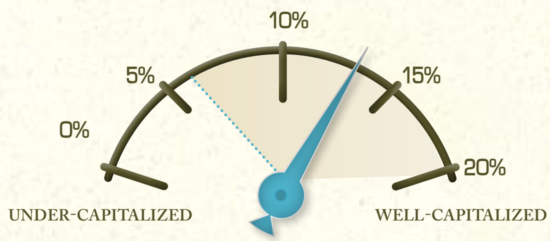
CAPITAL RATIOS

WELL-CAPITALIZED - 10% threshold designated by Federal regulators.



Coastal Banking Company
TOTAL RISK-BASED
CAPITAL RATIO 14.50%

WELL-CAPITALIZED - 6% threshold designated by Federal regulators.

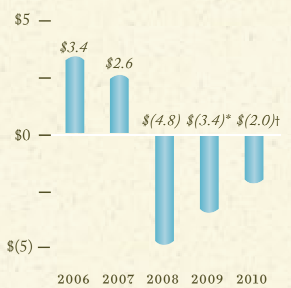


Coastal Banking Company
TIER 1 RISK-BASED
CAPITAL RATIO 13.24%

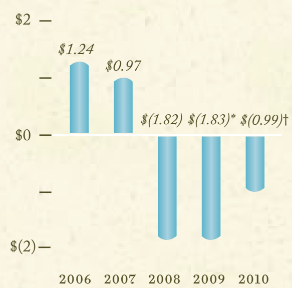
The higher the ratio of capital to risk-weighted assets, the more resources banks have to weather a struggling economy. We ended 2010 well-capitalized and with ample liquidity to meet our needs.

2010 FINANCIAL HIGHLIGHTS

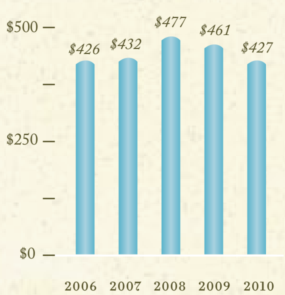
Net Income (Loss)
(millions)
*Excluding goodwill impairment
†Excluding deferred tax asset valuation allowance



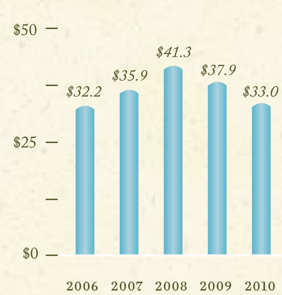
Diluted Earnings (Loss) Per Share
*Excluding goodwill impairment
†Excluding deferred tax asset valuation allowance



Total Assets
(millions)



Total Shareholders' Equity
(millions)



To Our Shareholders

Dear Shareholders,

2010 was another difficult year in banking. We, like most other community banks, experienced the highs and lows that come with a slow, bumpy economic recovery. At times we were pleased with our progress; at times we struggled under the weight of the sluggish economy.

While our results during the year mirrored the ups and downs of the market, our overall strategy has remained consistent since 2008. This includes:

- closely managing credit quality by promptly resolving credit issues and controlling past due loans;
- taking advantage of opportunities to boost revenue; and
- maintaining strong capital ratios at both the bank and the holding company.

Though we have not yet achieved a return to profitability, we have made solid progress towards meeting our goals of stabilizing nonperforming assets, growing operating income and maintaining strong capital and liquidity reserves.

This strategy has been our guiding philosophy as we managed through the swings in the economy. And it will continue to guide us until a more solid recovery takes hold.

2010 Financial Highlights

We began 2010 with positive momentum and cautious optimism, having experienced a significant slowing in the number of new loans being added to non-accrual status in the closing months of 2009. As such, we continued our aggressive efforts to move non-accrual loans to other real estate owned (OREO) and subsequently liquidate the assets. Though this came at the expense of earnings, we believe our strategy was and is in the best long-term interest of the company and our shareholders.

As we reduced our non-accrual loans, we made the decision to contract the size of the bank in order to maintain strong capital ratios. At its peak, in August 2009, we had total assets of approximately $500 million. By year-end 2010, we stood at $427 million, and we expect to shed approximately another $25 million when we close our Moss Creek branch in Bluffton, S.C., on March 31, 2011, which is located in an overbanked area where banks are paying well above the market rate for deposits.

As 2010 progressed, however, the prolonged stagnation in the economy continued to wear down some borrowers' ability to repay loans, as well as the underlying value of collateral securing some loans. As a result, we began to see renewed deterioration in our credit quality at a time when loan demand remained stagnant in our markets and elsewhere in the Southeast. This was not surprising, as we expected to see periodic increases in nonaccrual loans given the volatile nature of the current economy.

Despite this challenging environment, we continued to persevere, posting consecutive quarters of year-over-year interest and noninterest income growth thanks to gains in our mortgage banking division and SBA lending efforts, as well as our ability to reduce interest expense. In fact, in 2010 our net interest income improved by $1 million over 2009.

Higher costs associated with reducing non-accrual loans, however, kept these revenue gains from translating into net income and earnings. Our net loss for 2010 was $2.0 million, excluding the $1.8 million charge for the deferred tax asset valuation allowance. While this is very disappointing, it is a substantial improvement over 2008 and 2009.

As 2010 came to a close, improving conditions allowed us to decrease our provision expense, which declined from $7.8 million in 2009 to $2.7 million in 2010. That said, we anticipate expenses related to the loss on sale of OREO and OREO holding expense will continue to run at an elevated level into 2011.

Taking Advantage of Opportunities

While the current economic climate has produced its share of challenges, it also has provided several areas

We have made good progress towards meeting our goals, especially in stabilizing nonperforming assets, growing operating income and maintaining strong capital and liquidity reserves.

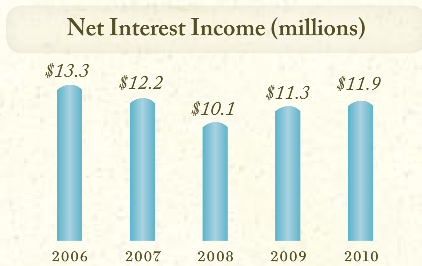
Letter To Shareholders

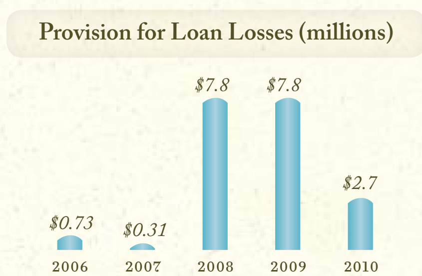
of opportunity. As I noted earlier, capitalizing on opportunities to generate additional sources of revenue is one of our key strategies, and it is the focus of the following sections in this annual report.

One of these opportunities appeared in early 2010 when the federal government temporarily waived Small Business Administration (SBA) 7(a) loan fees and raised the guaranty of these loans from 75 percent to 90 percent. This incentive to small businesses drove loan demand, and in response, we quickly ramped up our SBA lending efforts, generating $763,369 in premium income by December.

Another opportunity we took advantage of in 2010 was adding a retail component to our existing wholesale mortgage operations. Knowing that there was likely to be a slowing in refinancing activity in our wholesale business, we analyzed the market and identified a resourceful way to add incremental retail mortgage income without incurring high startup costs. We effectively began operations in April and by the end of the year we generated more than $63 million in retail loan production, resulting in nearly $275,000 in net income.

Finally, the protracted low interest rate environment led to a steep decline in our cost of funds, which has had a positive impact on our core earnings. Our cost of funds declined from 3.14 percent in January 2009 to 1.64 percent in December 2010. As a result, our net interest spread rose from 1.69 percent to 2.94 percent during that same time period, which was a major factor behind the strong increase in our net interest income.





Looking Ahead

Overall, we are confident that we are taking the right steps to return our company to profitability. We likely will continue to experience highs and lows as we move forward, as a consequence of the slow economic recovery, though we do have higher expectations for 2011.

The Dodd-Frank Wall Street Reform and Consumer Protection Act will add another layer of uncertainty to the banking industry, as many of the Act's details have yet to be written, and 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.

We greatly appreciate the trust and loyalty our shareholders have kept in our company through these trying times. Our hope and sincere belief is for a much better road ahead, and we will continue to do the hard work necessary to make that optimism a reality.

Sincerely,

Michael G. Sanchez
Chief Executive Officer

Overall, we are confident that we are taking the right steps to return our company to profitability.

Taking Advantage of Opportunities

While the challenges of operating in the recent banking environment are many, there also are opportunities. For the past several years, we have consistently mined the market for new sources of revenue and ways to enhance our franchise.

In 2010, we added a retail mortgage component to our existing wholesale mortgage division, we renewed our emphasis on our Small Business Administration (SBA) lending program and we took steps to improve our Special Assets Group that has proven to be a valuable asset as we work to reduce our nonperforming assets.

New Retail Mortgage Operations

Anticipating that our wholesale mortgage volume would level off with an expected slowing of refinancing activity in 2010, we added a retail component to our existing operations. We did not take the traditional approach, however, of hiring a stable of loan officers backed by a variety of third party processors and underwriters, all of which requires considerable startup costs and represents a higher risk-reward proposition.

Instead, we took a leaner, leads-based approach that leverages the Internet to identify serious loan and refinancing prospects across our coastal footprint as well as in neighboring states. Our retail operation acts as the "face" to the customer, and our wholesale business functions as the "factory" providing the backend support for the loans.

By utilizing this approach, we have been able to generate incremental revenue over and above our existing wholesale operations. From April to the end of the year we generated more than $63 million in loan production, resulting in nearly $275,000 in net income.

These results are promising and we are looking for additional results in 2011.

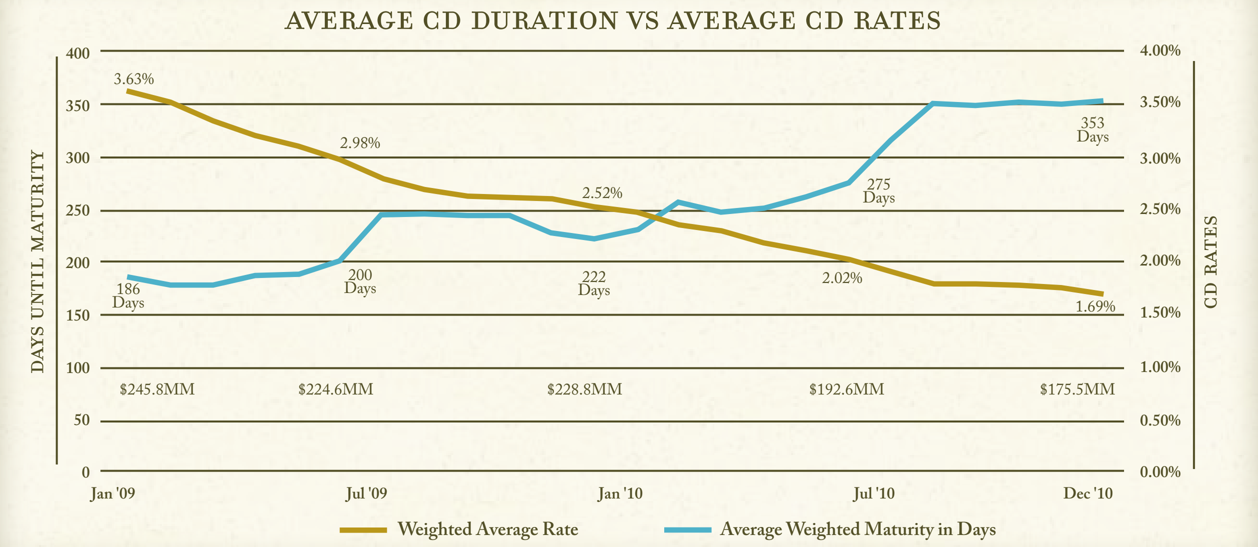
Renewed SBA Lending

As part of the American Recovery and Reinvestment Act of 2009, the federal government temporarily waived SBA 7(a) loan fees for borrowers and raised the guaranty of these loans for lenders from 75 percent to 90 percent through the end of 2010 or until funds set aside for the program were exhausted.

The waiving of loan fees spurred demand by small business borrowers. Having been an SBA preferred lender for many years, we took advantage of the opportunity to re-enter a market that had collapsed in 2008.

Historically, we have generated a steady source of noninterest income from selling the guaranteed portion of SBA loans. The new 90 percent guaranty level offered us the ability to generate additional loans without taking on any appreciable risk. As such, we restored our SBA lending efforts to their pre-2008 levels and capitalized on the revitalized demand for SBA loans, extending our reach into Jacksonville, Vero Beach, Atlanta and Winston-Salem in addition to our traditional markets.

As a result, we increased our noninterest income in 2010 without adding to our risk exposure.



DECLINING COST OF FUNDS

Due to the historic lows in interest rates over the past several years, rates for CDs have declined sharply – from 3.63 percent in January 2009 to 1.69 percent in December 2010.

During the same time, the average maturity dates for our CDs rose significantly – from 186 days in January 2009 to 353 days in December 2010.

As a result, the duration of our CD terms have extended more than five months, while the costs associated with these CDs have decreased by 194 basis points, which expanded our net interest spread by 1.25 percent.

Improved Special Assets Group

In 2008, we tasked a Special Assets Group with reducing our total nonperforming assets. The group has done a remarkable job over the past two years of moving problem loans from nonaccrual status to Other Real Estate Owned (OREO), which allows us to sell troubled holdings more quickly, turning them into earning assets.

Between June 30, 2009 and March 31, 2010, we cut nonaccrual loans in half, from $25.9 million to $12.9 million. During that time, we experienced a stabilization in our asset quality.

Given the uneven nature of the economy, however, we kept a vigilant watch on our nonperforming loans. As we began to see an uptick in nonaccrual loans in the second and third quarters of 2010, we took steps to enhance our Special Assets Group, adding depth and breadth of experience to the team.

The success of our Special Assets Group is based on our approach of managing each troubled loan individually in order to maximize our return on the sale of the underlying asset. Given the in-depth knowledge and experience this requires, we have taken care to ensure that we have the best qualified people leading our efforts.

BOARD OF DIRECTORS

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Partner, Shenandoah Group, LLP

Michael G. Sanchez
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President & CEO of CBC National Bank

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Owner, Director of Holly Hall Animal Hospital

Suellen Rodeffer Garner, Chairman
Orthodontist; Co-Owner Suellen Rodeffer
and David Garner D.D.S., P.A.

Ladson F. Howell, Vice Chairman
Retired Attorney, Howell, Gibson & Hughes, P.A.

Edward E. Wilson
Licensed Insurance Agent

Robert B. Pinkerton
President & CEO, Athena Corporation

Christina H. Bryan
Co-Owner of various businesses

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Managing Member, Celadon, LLC

Marshall E. Wood
Attorney, Marshall E. Wood, P.A.

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Christina H. Bryan
James C. Key
Edward E. Wilson
Marshall E. Wood

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Dennis O. Green, CPA
Ladson F. Howell
James C. Key

Executive Compensation and Management Resources

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Christina H. Bryan
Mark Heles
Robert B. Pinkerton

Listings for year ended December 31, 2010. Mr. Dennis O. Green resigned from the Board March 3, 2011.

Coastal Banking

Company, Inc.