

For Immediate Release

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Coastal Banking Company Reports Second Quarter 2011 Results

BEAUFORT, S.C., Aug. 12, 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., today reported a quarterly net loss of \$181,316, or a loss of \$0.13 per diluted common share, for the quarter ended June 30, 2011. This compares to a net loss of \$558,660, or a loss of \$0.27 per diluted common share, in the second quarter of 2010.

Key highlights from the second quarter of 2011 include:

- Despite a decline in average earning assets of 10.9 percent from \$406.5 million in the second quarter of 2010 to \$362.1 million in the second quarter of 2011, net interest income in the current quarter of \$2,927,000 was only 3 percent lower than same quarter in 2010.
- Interest expense declined by \$598,000 or 31.1 percent from the second quarter of 2010.
- Net interest margin expanded by 30 basis points from the prior year.
- Noninterest income increased 64 percent from a year ago on the strength of improved Small Business Administration (“SBA”) lending and mortgage banking activity.
- The company’s recently formed national retail mortgage group generated more than \$18.4 million in loan production during the quarter.
- Net loan charge-offs of \$685,000 or 0.26 percent of total loans declined by \$178,000 from the same quarter in 2010.
- CBC National Bank had a total risk-based capital ratio of 16.10 percent and a Tier 1 risk-based capital ratio of 14.83 percent.

“Our core banking operations continued to perform well in a difficult environment, as we posted a second consecutive quarterly increase in net interest income and a significant rise in noninterest income,” said Michael G. Sanchez, chief executive officer. “This reflects the success of our actions to boost income, especially our SBA and retail mortgage banking efforts. We continued to feel the effects of a struggling economy, however, as seen in the rise in our nonaccrual loans, which negatively impacted our net income and earnings for the quarter. This increase in nonaccruals, though, primarily was due to two specific loans and was not indicative of the health of our overall loan portfolio.”

Net interest income before the provision for loan losses totaled \$2.9 million in the second quarter of 2011, compared to \$2.9 million earned in the first quarter of 2011 and \$3.0 million earned in the second quarter of 2010. Noninterest income increased to \$3.0 million at June 30, 2011, from \$2.5 million in the first quarter of 2011 and \$1.8 million in the second quarter of 2010, largely as a result of a \$1.0 million increase in mortgage banking income compared to the same period in 2010. Income from SBA loans totaled \$974,000 in the second quarter of 2011, compared to \$850,000 in the previous quarter and \$100,764 in the second quarter of 2010.

Interest expense totaled \$1.3 million in the second quarter of 2011, compared to \$1.4 million in the previous quarter and \$1.9 million in the same period a year ago. Noninterest expense for the second quarter of 2011 totaled \$5.7 million, compared to \$4.8 million in the previous quarter and \$4.7 million in second quarter of 2010. The increase in noninterest expense largely is due to higher compensation expense from staffing additions at the retail mortgage banking branches, as well as increased commission and incentive costs from residential mortgage banking and SBA lending activities.

The company recognized an income tax benefit of (\$74,000) with an effective tax rate of 29 percent in the second quarter of 2011, compared to an income tax expense of \$39,000 with an effective tax rate of (7 percent) for the second quarter of 2010. This fluctuation in effective tax rates was due to permanent book-to-tax differences in both years, including 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 2011 was 3.24 percent, an increase of 10 basis points from 3.14 percent at March 31, 2011, and an increase of 30 basis points from 2.94 percent for the quarter ended June 30, 2010. This improvement is a reflection of the company's successful efforts to reduce deposit and other borrowing costs.

Total assets at June 30, 2011, were \$403.1 million, compared to \$427.1 million at Dec. 31, 2010. Total shareholders' equity was \$32.8 million at June 30, 2011, compared to \$33.0 million at Dec. 31, 2010.

Total deposits were \$324.2 million at June 30, 2011, compared to \$324.1 million at March 31, 2011, and \$346.1 million at Dec. 31, 2010. Total portfolio loans were \$259.6 million at the end of the second quarter of 2011, compared to \$263.6 million at the end of the first quarter of 2011, and \$267.6 million at Dec. 31, 2010.

The company's wholesale mortgage banking division originated approximately \$188 million in loans available for sale in the secondary market during the second quarter of 2011. This compares to \$182 million in loans originated for sale in the secondary market during the second quarter of 2010. The SBA lending division originated approximately \$10 million in loans in the second quarter of 2011, compared to \$1 million originated during the same period in 2010.

The company's Internet leads-based retail mortgage operations, which started in April 2010, generated \$22 million in loan production in the second quarter of 2011, resulting in \$47,000 in net income, as compared to \$6 million in loan production and \$24,000 in net loss in the second quarter of 2010. Overall, the Internet leads-based retail mortgage operation has generated a total of \$97 million in loan production and \$303,000 in net income since its inception.

"Our Internet leads-based retail mortgage operation continued to perform well, and has added an important incremental revenue stream to our operations during the past year," said Sanchez.

"Through this Internet leads-based approach we have leveraged the Internet to identify serious loan and refinancing prospects. As a follow on to the success of this effort, during the current quarter we have expanded the retail mortgage lending platform further to include a traditional

branch presence with the opening of nine new lending offices throughout California, New York, Ohio, Michigan, Maryland and Kansas.”

Net charge-offs for the second quarter of 2011 totaled \$685,000, or 0.26 percent of average loans, compared to \$407,000, or 0.15 percent of total loans, in the first quarter of 2011, and \$863,000, or 0.30 percent of total loans, at June 30, 2010.

Nonaccrual loans as a percentage of total loans at the end of the second quarter of 2011 were 9.79 percent, compared to 7.84 percent at the end of the previous quarter and 5.83 percent at June 30, 2010. Loans past due greater than 30 days and still accruing interest totaled \$2.0 million at June 30, 2011, compared to \$2.1 million in the previous quarter and \$4.9 million at June 30, 2010. Other real estate owned (OREO) at June 30, 2011, totaled \$12.4 million, compared to \$14.3 million at March 31, 2011, and \$16.6 million at June 30, 2010.

“Overall, our classified assets have trended down this year, giving us the impression that new credit problems are moderating,” said Sanchez. “The increase in nonaccrual loans in the second quarter is largely due to two large credit relationships, totaling \$6.3 million, which went into nonaccrual status. As such, the increase does not reflect the health of our broader portfolio, which is relatively stable. As I have stated in the past, however, the potential for weakening in our loan quality remains a major concern, and as a result, we will continue to aggressively manage any past due loans.”

The company’s provision for loan losses totaled \$496,527 for the second quarter of 2011, which was \$188,000 less than net charge-offs, compared to a loan-loss provision of \$515,000 for the first quarter of 2011, \$108,000 in excess of net charge-offs, and a provision of \$685,413, or \$178,000 less than net charge-offs, at June 30, 2010. The company’s allowance for loan losses totaled \$5.9 million, or 2.28 percent of loans outstanding at June 30, 2011, compared to \$6.1 million, or 2.32 percent of loans outstanding, at March 31, 2011, and \$6.5 million, or 2.28 percent of loans outstanding, at June 30, 2010.

At June 30, 2011, CBC National Bank had a total risk-based capital ratio of 16.10 percent and a Tier 1 risk-based capital ratio of 14.83 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 \$85.6 million in excess funding available from multiple sources at June 30, 2011.

Net loss for the six months ended June 30, 2011, was \$166,084, compared to a net loss of \$1.0 million for the same period in 2010. Diluted loss per common share for the first six months of 2011 was \$0.17, compared to a diluted loss per common share of \$0.51 in the same period a year ago.

Net interest income for the first six months of 2011 was \$5.9 million, compared to \$6.0 million in the first six months of 2010. Noninterest income was \$5.4 million for the first six months of 2011, compared to \$3.2 million in the same period of 2010. Noninterest expense was \$10.5 million for the first half of 2011, compared to \$8.8 million for the same period in 2010.

The company recognized an income tax (benefit) of \$(33,000) in the first six months of 2011, compared to income tax expense of \$386,000 for the first half of 2010. As a result, the company’s effective tax rate in the first half of 2011 was 17 percent in 2011 and (60) percent in the same period in 2010.

“We continue to take the steps we believe are necessary to return our company to long-term profitability,” said Sanchez. “Signs of our success are evident, and we will carry forward with great effort to overcome a struggling economy and volatile market that continue to pose challenges to all banks large and small.”

About Coastal Banking Company Inc.

Coastal Banking Company Inc., based in Beaufort, S.C., is the \$403.1 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 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
Consolidated Balance Sheets
June 30, 2011 and December 31, 2010

	June 30, 2011 <u>(unaudited)</u>	December 31, 2010 <u>(audited)</u>
Assets		
Cash and due from banks	\$ 2,426,183	\$ 1,823,132
Interest-bearing deposits in banks	4,051,965	406,700
Federal funds sold	421,857	185,258
Securities available for sale, at fair value	30,637,227	37,720,495
Securities held to maturity, at cost	2,000,000	2,000,000
Restricted equity securities, at cost	3,964,500	4,472,500
Loans held for sale	31,310,607	55,336,007
Loans, net of unearned income	259,561,046	267,600,402
Less allowance for loan losses	5,927,507	6,007,690
Loans, net	<u>253,633,539</u>	<u>261,592,712</u>
Premises and equipment, net	7,347,630	7,380,238
Cash surrender value of life insurance	1,934,830	1,894,971
Intangible assets	39,442	62,452
Other real estate owned	12,439,118	14,452,043
Loan sales receivable	44,878,094	31,505,783
Other assets	8,011,057	8,244,448
Total assets	<u>\$ 403,096,049</u>	<u>\$ 427,076,739</u>
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing	\$ 20,772,855	\$ 18,948,135
Interest-bearing	303,415,139	327,102,144
Total deposits	<u>324,187,994</u>	<u>346,050,279</u>
Other borrowings	35,000,000	37,000,000
Junior subordinated debentures	7,217,000	7,217,000
Other liabilities	3,894,625	3,774,705
Total liabilities	<u>370,299,619</u>	<u>394,041,984</u>
Commitments and contingencies		
Shareholders' Equity:		
Preferred stock, par value \$.01; 10,000,000 shares authorized; 9,950 shares issued and outstanding in 2011 and 2010	9,616,152	9,581,703
Common stock, par value \$.01; 10,000,000 shares authorized; 2,588,707 shares issued and outstanding in 2011 and 2010	25,887	25,887
Additional paid-in capital	41,321,200	41,247,995
Accumulated deficit	(18,749,739)	(18,300,457)
Accumulated other comprehensive income	582,930	479,627
Total shareholders' equity	<u>32,796,430</u>	<u>33,034,755</u>
Total liabilities and shareholders' equity	<u>\$ 403,096,049</u>	<u>\$ 427,076,739</u>

Coastal Banking Company
Consolidated Statements of Operations
For the Three Months and Six Months Ended June 30, 2011 and 2010 (Unaudited)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Interest income:				
Interest and fees on loans	\$ 3,889,464	\$ 4,343,870	\$ 7,852,538	\$ 8,752,353
Interest on taxable securities	307,096	530,966	650,481	1,128,060
Interest on nontaxable securities	50,949	59,029	101,857	125,472
Interest on deposits in other banks	2,792	842	9,337	4,439
Interest on federal funds sold	1,269	3,974	1,703	3,890
Total interest income	<u>4,251,570</u>	<u>4,938,681</u>	<u>8,615,916</u>	<u>10,014,214</u>
Interest expense:				
Interest on deposits	950,724	1,510,807	1,982,202	3,231,285
Interest on junior subordinated debentures	100,126	98,690	197,750	195,999
Interest on other borrowings	273,807	312,990	584,152	636,500
Total interest expense	<u>1,324,657</u>	<u>1,922,487</u>	<u>2,764,104</u>	<u>4,063,784</u>
Net interest income	2,926,913	3,016,194	5,851,812	5,950,430
Provision for loan losses	496,527	685,413	1,011,527	1,085,413
Net interest income after provision for loan losses	<u>2,430,386</u>	<u>2,330,781</u>	<u>4,840,285</u>	<u>4,865,017</u>
Non-interest income:				
Service charges on deposit accounts	99,579	107,431	210,317	237,795
Other service charges, commissions and fees	79,579	64,204	152,356	128,582
SBA loan income	973,713	100,764	1,823,567	142,199
Mortgage banking income	1,756,177	737,646	3,124,671	1,740,936
Gain on sale of securities available for sale	16,823	805,834	16,823	939,385
Income from investment in life insurance contracts	19,665	—	39,859	33,134
Other income	30,247	4,683	58,513	22,423
Total other income	<u>2,975,783</u>	<u>1,820,562</u>	<u>5,426,106</u>	<u>3,244,454</u>
Non-interest expenses:				
Salaries and employee benefits	2,962,244	1,554,051	5,127,212	3,366,355
Occupancy and equipment expense	388,397	337,239	727,712	660,752
Advertising fees	25,141	28,681	74,801	81,485
Amortization of intangible assets	11,505	20,841	23,010	41,682
Audit fees	105,948	93,650	205,595	196,009
Data processing fees	273,472	224,619	524,503	464,533
Director fees	22,500	35,350	74,200	92,150
FDIC insurance expense	118,611	208,501	334,180	417,417
Legal and other professional fees	246,897	163,617	491,722	290,028
OCC examination fees	43,758	45,916	87,516	91,833
Other real estate expenses	779,725	1,332,545	1,437,210	2,118,912
Other operating	683,334	626,390	1,357,730	932,247
Total other expenses	<u>5,661,532</u>	<u>4,671,400</u>	<u>10,465,391</u>	<u>8,753,403</u>
Loss before income tax (benefits)	(255,363)	(520,057)	(199,000)	(643,932)
Income tax expense (benefit)	(74,047)	38,603	(32,916)	386,003
Net loss	<u>\$ (181,316)</u>	<u>\$ (558,660)</u>	<u>\$ (166,084)</u>	<u>\$ (1,029,935)</u>
Preferred stock dividends	141,725	140,738	283,198	281,238
Net loss available to common shareholders	<u>\$ (323,041)</u>	<u>\$ (699,398)</u>	<u>\$ (449,282)</u>	<u>\$ (1,311,173)</u>
Basic and diluted loss per common share	<u>\$ (.13)</u>	<u>\$ (.27)</u>	<u>\$ (.17)</u>	<u>\$ (.51)</u>