

For Immediate Release

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## **Coastal Banking Company Reports Third Quarter 2011 Results**

**BEAUFORT, S.C., Nov. 14, 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 \$368,903, or a loss of \$0.20 per diluted share, for the quarter ended Sept. 30, 2011. This compares to a net loss of \$496,489, or a loss of \$0.25 per diluted share, in the third quarter of 2010.

Key highlights from the third quarter of 2011 include:

- Net interest income of \$3.2 million grew from the previous quarter and was slightly above the same period a year ago.
- Noninterest income grew 77.6 percent from last year, due to large increases in mortgage banking and Small Business Administration (SBA) lending income.
- The mortgage banking division crossed the \$3 billion threshold in residential mortgage loans originated since its inception in September 2007.
- The company's recently formed national retail mortgage group generated approximately \$109 million in loan production during the quarter.
- Net interest margin expanded by 22 basis points from the third quarter of 2010.
- Net charge-offs of \$846,000 decreased \$707,000 compared to the same period in 2010.
- Provision for loan losses of \$703,512 decreased \$657,005 compared to the third quarter of 2010.
- Capital ratios remained strong at CBC National Bank with a total risk based capital ratio of 15.86 percent and a Tier 1 leverage ratio of 9.21 percent at Sept. 30, 2011.

“We continued to take positive steps in the third quarter, growing both interest and noninterest income while maintaining a stable credit quality,” said Michael G. Sanchez, chief executive

officer. “We are having success in finding new opportunities for revenue generation, as evidenced by the growth in our mortgage banking division, which crossed the \$3 billion threshold in residential mortgage loans originated since its inception four years ago and our SBA lending division that continues to achieve strong, stable loan production levels. Further, the new National Retail Group within the mortgage banking division that was added in the second quarter of 2011 has recently grown to represent more than one-third of all residential mortgage loans originated by the division. Increased revenues generated from residential mortgage banking and SBA lending has allowed us to more aggressively address credit issues.”

Net interest income in the third quarter of 2011 totaled \$3.2 million, compared to \$2.9 million in the second quarter of 2011, and \$3.2 million in the same period in 2010. Noninterest income for the third quarter was \$5.7 million, a 92.2 percent increase from \$3.0 million at June 30, 2011, and a 77.6 percent increase from \$3.2 million for the quarter ended Sept. 30, 2010. The increase in noninterest income from a year ago resulted primarily from an increase of \$1.6 million in mortgage banking income, which totaled \$4.6 million for the third quarter of 2011, and an increase of \$866,000 in SBA loan income, which totaled \$907,000 for the third quarter of 2011.

Interest expense totaled \$1.3 million in the third quarter of 2011, compared to \$1.3 million in the previous quarter and \$1.7 million in the same period a year ago. Noninterest expense was \$8.3 million for the third quarter of 2011, compared to \$5.7 million in the previous quarter and \$5.9 million for the third quarter of 2010. The increase in noninterest expense from a year ago was due mainly to salaries and benefits, which increased \$1.4 million compared to prior year from a combination of staffing additions at the company’s national retail mortgage banking branches as well as increased commission and incentive costs from residential mortgage banking and SBA lending activity. In addition, advertising expenses increased \$626,000 compared to the same period in 2010 as a result of higher marketing costs for new loan leads purchased for the 10 retail mortgage offices that opened during the second and third quarters of 2011.

Net interest margin for the quarter ended Sept. 30, 2011, increased to 3.31 percent from 3.24 percent in the previous quarter and 3.09 percent for the quarter ended Sept. 30, 2010.

Total assets at Sept. 30, 2011, were \$441.1 million, compared to \$427.1 million at Dec. 31, 2010. Total shareholders' equity was \$32.4 million at Sept. 30, 2011, compared to \$33.0 million at Dec. 31, 2010.

Total deposits were \$340.9 million at the end of the third quarter of 2011, compared to \$324.2 million at June 30, 2011, and \$346.1 million at Dec. 31, 2010. Total portfolio loans at the end of the third quarter of 2011 were \$260.8 million, compared to \$259.6 million at the end of the second quarter of 2011, and \$267.6 million at Dec. 31, 2010.

The company's wholesale mortgage banking division originated approximately \$270.1 million in loans available for sale in the secondary market during the third quarter of 2011. This compares to \$252.6 million in loans originated for sale in the secondary market during the third quarter of 2010. As of the end of the third quarter 2011, the mortgage banking division had originated more than \$3 billion in residential mortgage loans since its inception in September 2007.

The SBA lending division originated approximately \$5.76 million in loans in the third quarter of 2011, compared to \$5.96 million originated during the same period in 2010. The company's Internet leads-based retail mortgage operations generated \$34.7 million in loan production in the third quarter of 2011, resulting in \$231,000 in net income, as compared to \$26.8 million in loan production and \$162,000 in net income in the third quarter of 2010. Overall, the Internet leads-based retail mortgage operation has generated a total of \$131.6 million in loan production and \$746,000 in net income since its inception in April 2010.

"We are quite pleased with the production from our SBA lending and wholesale and retail mortgage efforts," said Sanchez. "We expect these divisions to continue to make a positive contribution in future quarters."

Net charge-offs in the third quarter of 2011 totaled \$846,000, or 0.32 percent of total loans, compared to \$685,000, or 0.26 percent, in the previous quarter, and \$1.6 million or 0.56 percent in the third quarter of 2010. Nonaccrual loans as a percentage of total loans at the end of the third quarter of 2011 were 8.57 percent, compared to 9.79 percent at the end of the previous quarter

and 7.20 percent at Sept. 30, 2010. Loans past due greater than 30 days and still accruing interest totaled \$844,000 at the end of the third quarter of 2011, compared to \$2.0 million at the end of the previous quarter and \$6.1 million at Sept. 30, 2010. Other real estate owned at Sept. 30, 2011, totaled \$14.3 million, compared to \$12.4 million at June 30, 2011, and \$14.5 million at Dec. 31, 2010.

“The overall health of our loan portfolio has been stable and is improving, as can be seen in the decrease in loans past due greater than 30 days and still accruing interest, which has declined over the past four consecutive quarters,” said Sanchez. “Also, our nonaccrual loans have remained relatively steady since the beginning of the year. That said, the struggling economy continues to put pressure on borrowers’ ability to repay loans. As such, we will continue to monitor and aggressively manage past due loans, and maintain a conservative stance with our loan loss provision.”

The company’s provision for loan losses totaled \$703,512 for the third quarter of 2011, which was \$143,000 less than net charge-offs, compared to \$496,527 for the second quarter of 2011, which was \$188,000 less than net charge-offs, and a provision of \$1.4 million, or \$192,000 less than net charge-offs, for the quarter ending Sept. 30, 2010. The company’s allowance for loan losses totaled \$5.8 million, or 2.22 percent of loans outstanding, at Sept. 30, 2011, compared to \$5.9 million, or 2.28 percent of loans outstanding, at the end of the previous quarter, and \$6.1 million, or 2.25 percent of loans outstanding, at Dec. 31, 2010.

At Sept. 30, 2011, CBC National Bank had a total risk-based capital ratio of 15.86 percent and a Tier 1 capital ratio of 9.21 percent. The threshold for being classified as “well capitalized” by federal regulators is 10 percent and 5 percent, respectively, for total risk-based and Tier 1 capital. The company also continued to have ample liquidity, with \$66.3 million in funding available from multiple sources at the end of the third quarter of 2011.

The company recognized an income tax expense of \$291,000 with an effective tax rate of (372 percent) for the three months ended Sept. 30, 2011, compared to income tax (benefit) of (\$338,000) and an effective tax rate of 41 percent for the third quarter of 2010. The fluctuation in

effective tax rates reflects the impact of permanent book-to-tax differences in both years, including the impact of the early redemption of several bank owned life insurance (“BOLI”) policies during 2010. The BOLI policy redemptions generated taxable income, but did not result in GAAP income upon redemption, which resulted in recognition of a substantial tax expense on the taxable gain, but no corresponding GAAP income.

For the nine months ended Sept. 30, 2011, the company had a net loss of \$534,987, or a loss of \$0.37 per diluted share, compared to a net loss of \$1.5 million, or a loss of \$0.76 per diluted share, in the same period a year ago.

Net interest income for the first nine months of 2011 was \$9.0 million, compared to \$9.1 million in the first nine months of 2010. Noninterest income was \$11.1 million for the first nine months of 2011, compared to \$6.5 million in the same period of 2010. Income from SBA loans totaled \$2.7 million in the first three quarters of 2011, compared to \$183,000 in the same period in 2010. Noninterest expense was \$18.7 million for the first nine months of 2011, compared to \$14.6 million for the same period in 2010.

For the first nine months of 2011, the company recognized income tax expense of \$258,000 with an effective tax rate of (93 percent) compared to an income tax expense of \$48,000 with an effective tax rate of (3 percent) for first nine months of 2010.

“Given the lackluster economy in our markets and surrounding areas, our focus has been to execute on the basics of banking and high-quality customer service, while exploring new avenues to grow revenue,” said Sanchez. “Our performance over the past several quarters in the midst of these circumstances gives us reason for optimism about the prospects for our company in the coming quarters.”

#### **About Coastal Banking Company Inc.**

Coastal Banking Company Inc., based in Beaufort, S.C., is the \$441.1 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 headquartered in Atlanta with ten lending offices in California, Connecticut, Kansas, Maryland, Michigan, New York and Ohio, as well as commercial loan production offices in Jacksonville, Fla., and Savannah, Ga. The company's Small Business Administration lending division originates SBA loans primarily in Jacksonville and Vero Beach, Fla., Atlanta, Charlotte, N.C., and Beaufort. 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](http://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**  
**September 30, 2011 and December 31, 2010**

	September 30, 2011	December 31, 2010
	(unaudited)	(audited)
<b>Assets</b>		
Cash and due from banks	\$ 2,971,024	\$ 1,823,132
Interest-bearing deposits in banks	401,903	406,700
Federal funds sold	125,317	185,258
Securities available for sale, at fair value	29,810,135	37,720,495
Securities held to maturity, at cost	—	2,000,000
Restricted equity securities, at cost	4,242,200	4,472,500
Loans held for sale, at fair value	66,523,424	55,336,007
Loans, net of unearned income	260,789,176	267,600,402
Less allowance for loan losses	5,785,218	6,007,690
Loans, net	255,003,958	261,592,712
Premises and equipment, net	7,298,090	7,380,238
Cash surrender value of life insurance	1,954,434	1,894,971
Intangible assets	27,937	62,452
Other real estate owned	14,336,412	14,452,043
Loan sales receivable	50,409,855	31,505,783
Other assets	8,042,557	8,244,448
Total assets	\$ 441,147,246	\$ 427,076,739
<b>Liabilities and Shareholders' Equity</b>		
Deposits:		
Noninterest-bearing	\$ 23,227,265	\$ 18,948,135
Interest-bearing	317,702,115	327,102,144
Total deposits	340,929,380	346,050,279
Federal funds purchased	3,487,000	—
Other borrowings	51,500,000	37,000,000
Junior subordinated debentures	7,217,000	7,217,000
Other liabilities	5,609,903	3,774,705
Total liabilities	408,743,283	394,041,984
Commitments and contingencies		
Shareholders' Equity:		
Preferred stock, par value \$.01; 10,000,000 shares authorized; 9,950 shares issued and outstanding at September 30, 2011 and December 31, 2010	9,633,759	9,581,703
Common stock, par value \$.01; 10,000,000 shares authorized; 2,595,207 shares issued and outstanding at September 30, 2011; 2,588,707 shares issued and outstanding at December 31, 2010	25,952	25,887
Additional paid-in capital	41,359,009	41,247,995
Accumulated deficit	(19,260,622)	(18,300,457)
Accumulated other comprehensive income	645,865	479,627
Total shareholders' equity	32,403,963	33,034,755
Total liabilities and shareholders' equity	\$ 441,147,246	\$ 427,076,739

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Interest income:				
Interest and fees on loans	\$ 4,091,437	\$ 4,423,017	\$ 11,943,975	\$ 13,175,370
Interest on taxable securities	276,542	413,321	927,023	1,541,381
Interest on nontaxable securities	50,879	53,957	152,736	179,429
Interest on deposits in other banks	1,451	1,844	10,788	6,283
Interest on federal funds sold	471	472	2,174	4,362
Total interest income	<u>4,420,780</u>	<u>4,892,611</u>	<u>13,036,696</u>	<u>14,906,825</u>
Interest expense:				
Interest on deposits	919,529	1,312,345	2,901,731	4,543,630
Interest on junior subordinated debentures	102,600	101,048	300,350	297,047
Interest on other borrowings	234,972	322,545	819,124	959,045
Total interest expense	<u>1,257,101</u>	<u>1,735,938</u>	<u>4,021,205</u>	<u>5,799,722</u>
Net interest income	3,163,679	3,156,673	9,015,491	9,107,103
Provision for loan losses	703,512	1,360,517	1,715,039	2,445,930
Net interest income after provision for loan losses	<u>2,460,167</u>	<u>1,796,156</u>	<u>7,300,452</u>	<u>6,661,173</u>
Non-interest income:				
Service charges on deposit accounts	92,373	114,245	302,690	352,040
Other service charges, commissions and fees	75,976	69,379	228,332	197,961
SBA loan income	907,324	40,762	2,730,891	182,961
Mortgage banking income	4,580,706	2,978,591	7,705,377	4,719,527
Gain on sale of securities available for sale	—	—	16,823	939,385
Income from investment in life insurance contracts	19,604	16,184	59,463	49,318
Other income	42,442	305	100,955	22,728
Total other income	<u>5,718,425</u>	<u>3,219,466</u>	<u>11,144,531</u>	<u>6,463,920</u>
Non-interest expenses:				
Salaries and employee benefits	3,963,246	2,611,922	9,090,458	5,978,277
Occupancy and equipment expense	488,413	392,840	1,216,125	1,053,592
Advertising fees	640,751	15,246	715,552	96,731
Amortization of intangible assets	11,505	20,841	34,515	62,523
Audit fees	94,403	96,434	299,998	292,443
Data processing fees	291,412	269,650	815,915	734,183
Director fees	30,300	36,200	104,500	128,350
FDIC insurance expense	147,578	204,028	481,758	621,445
Legal and other professional fees	192,833	194,528	684,555	484,556
OCC examination fees	41,964	43,846	129,480	135,679
Other real estate expenses	1,254,073	1,112,010	2,691,283	3,230,922
Other operating	1,100,211	852,783	2,457,941	1,785,030
Total other expenses	<u>8,256,689</u>	<u>5,850,328</u>	<u>18,722,080</u>	<u>14,603,731</u>
Loss before income tax (benefits)	(78,097)	(834,706)	(277,097)	(1,478,638)
Income tax expense (benefit)	290,806	(338,217)	257,890	47,786
Net loss	<u>\$ (368,903)</u>	<u>\$ (496,489)</u>	<u>\$ (534,987)</u>	<u>\$ (1,526,424)</u>

Preferred stock dividends	<u>141,980</u>	<u>140,979</u>	<u>425,178</u>	<u>422,217</u>
Net loss available to common shareholders	<u>\$ (510,883)</u>	<u>\$ (637,468)</u>	<u>\$ (960,165)</u>	<u>\$ (1,948,641)</u>
Basic and diluted loss per common share	<u>\$ (.20)</u>	<u>\$ (.25)</u>	<u>\$ (.37)</u>	<u>\$ (.76)</u>

See accompanying notes to unaudited consolidated financial statements.