

For Immediate Release

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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

	<u>December 31</u> <u>2010</u>	<u>December 31</u> <u>2009</u>
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	<u>261,592,712</u>	<u>283,272,547</u>
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	<u>\$ 427,076,739</u>	<u>\$ 463,097,398</u>
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing	\$ 18,948,135	\$ 17,775,762
Interest-bearing	327,102,144	351,104,768
Total deposits	<u>346,050,279</u>	<u>368,880,530</u>
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	<u>394,041,984</u>	<u>425,194,972</u>
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	<u>33,034,755</u>	<u>37,902,426</u>
Total liabilities and shareholders' equity	<u>\$ 427,076,739</u>	<u>\$ 463,097,398</u>

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

	For the three months ended December 31		For the twelve months ended December 31	
	2010	2009	2010	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	<u>4,485,032</u>	<u>5,329,904</u>	<u>19,391,857</u>	<u>21,756,246</u>
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	<u>1,646,210</u>	<u>2,411,958</u>	<u>7,445,932</u>	<u>10,811,859</u>
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	<u>2,588,822</u>	<u>792,946</u>	<u>9,249,995</u>	<u>3,173,387</u>
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	<u>4,329,002</u>	<u>1,543,598</u>	<u>10,792,922</u>	<u>7,653,228</u>
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	<u>7,697,687</u>	<u>15,341,529</u>	<u>22,301,418</u>	<u>27,586,363</u>
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	<u>\$ (2,280,149)</u>	<u>\$ (11,931,725)</u>	<u>\$ (3,806,573)</u>	<u>\$ (14,536,388)</u>
Preferred stock dividends	141,224	140,265	563,441	559,685
Net loss available to common shareholders	<u>\$ (2,421,373)</u>	<u>\$ (12,071,990)</u>	<u>\$ (4,370,014)</u>	<u>\$ (15,096,073)</u>
Basic and diluted loss per common share	<u>\$ (0.94)</u>	<u>\$ (4.70)</u>	<u>\$ (1.70)</u>	<u>\$ (5.88)</u>