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REGISTRANT TRANSMISSION AUTHORIZATION

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Submission Type: **10-Q**

Company Name: **Coastal Banking, Inc.**

Job #: **57516**

Proof Date / Time: **5/12/2008 10:19 AM ET**

Authorized Signature: _____

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: **March 31, 2008**
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from: _____ to _____

COASTAL BANKING COMPANY, INC.

(Exact name of registrant as specified in its charter)

South Carolina
(State or Other Jurisdiction
of Incorporation)

000-28333
(Commission
File Number)

58-2455445
(I.R.S. Employer
Identification No.)

36 Sea Island Parkway Beaufort, SC 29907
(Address of Principal Executive Office) (Zip Code)

(843) 522-1228
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

2,575,560 shares of common stock, \$.01 par value, were issued and outstanding on May 1, 2008.

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PART 1. FINANCIAL INFORMATION**Item 1. Financial Statements (Unaudited)**

Consolidated Balance Sheets
March 31, 2008 and December 31, 2007

	March 31, 2008	December 31, 2007
	(unaudited)	(audited)
<u>Assets</u>		
Cash and due from banks	\$ 4,974,197	\$ 4,997,928
Interest-bearing deposits in banks	703,320	2,063,813
Federal funds sold	2,079,212	4,710,397
Securities available for sale, at fair value	80,922,173	87,171,416
Restricted equity securities, at cost	3,834,516	3,983,416
Loans held for sale, at fair value	30,060,125	20,553,409
Loans, net of unearned income	296,496,753	281,290,645
Less allowance for loan losses	3,605,522	3,653,017
Loans, net	292,891,231	277,637,628
Premises and equipment, net	8,103,945	8,176,488
Cash surrender value of life insurance	6,899,828	6,830,388
Intangible assets	404,457	459,144
Goodwill	10,411,914	10,411,914
Other assets	4,277,532	4,878,469
	\$ 445,562,450	\$ 431,574,410
<u>Liabilities and Shareholders' Equity</u>		
Deposits:		
Non interest-bearing	\$ 25,762,800	\$ 25,147,412
Interest-bearing	327,775,052	320,699,704
Total deposits	353,537,852	345,847,116
Federal funds purchased and securities sold under agreements to repurchase	5,103,991	2,000,000
Other borrowings	30,372,741	26,772,798
Junior subordinated debentures	7,217,000	7,217,000
Other liabilities	2,613,251	2,990,744
Total liabilities	398,844,835	384,827,658
Shareholders' equity:		
Preferred stock, \$.01 par value; 10,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, \$.01 par value; 10,000,000 shares authorized; 2,525,396 and 2,570,560 shares issued and outstanding in 2008 and 2007, respectively	25,254	25,708
Additional paid-in capital	40,045,188	40,280,395
Retained earnings	6,421,758	6,463,087
Accumulated other comprehensive income (loss)	(208,967)	(22,438)
Total shareholders' equity	46,717,615	46,746,752
	\$ 445,562,450	\$ 431,574,410

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statements of Income

For the Three Months Ended March 31, 2008 and 2007
(Unaudited)

	2008	2007
Interest income:		
Interest and fees on loans	\$ 5,408,393	\$ 6,020,397
Interest on taxable securities	904,252	866,357
Interest on nontaxable securities	163,097	138,783
Interest on deposits in other banks	13,278	21,027
Interest on federal funds sold	77,320	249,235
	<u>6,566,340</u>	<u>7,295,799</u>
Interest expense:		
Interest on deposits	3,508,329	3,563,631
Interest on other borrowings	415,289	497,109
	<u>3,923,618</u>	<u>4,060,740</u>
Net interest income	2,642,722	3,235,059
Provision for loan losses	122,500	15,000
Net interest income after provision for loan losses	<u>2,520,222</u>	<u>3,220,059</u>
Non-interest income:		
Service charges on deposit accounts	170,450	107,289
Other service charges, commissions and fees	59,808	49,689
Gain on sale of SBA loans	135,856	251,540
Gain on sale of mortgage loans	739,959	91,110
Gain on sale of securities	206,811	-
Income from investment in life insurance contracts	72,111	71,383
Other income	34,594	225
	<u>1,419,589</u>	<u>571,236</u>
Non-interest expense:		
Salaries and employee benefits	1,961,703	1,452,852
Net occupancy and equipment expense	297,193	239,812
Amortization of intangible assets	54,687	75,414
Other operating expense	1,027,830	787,191
	<u>3,341,413</u>	<u>2,555,269</u>
Income before income taxes	598,398	1,236,026
Income tax expense	210,625	430,940
Net income	<u>\$ 387,773</u>	<u>\$ 805,086</u>
Basic earnings per share	<u>\$.15</u>	<u>\$.32</u>
Diluted earnings per share	<u>\$.14</u>	<u>\$.29</u>

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statements of Comprehensive Income
For the Three Months Ended March 31, 2008 and 2007
(Unaudited)

	<u>2008</u>	<u>2007</u>
Net income	\$ 387,773	\$ 805,086
Other comprehensive income, net of tax:		
Net unrealized holding gains arising during period net of tax of \$48,891 and \$71,949	94,910	(139,663)
Reclassification adjustment for gains included in net income net of tax of \$70,316	136,495	-
Total other comprehensive income	<u>231,405</u>	<u>(139,663)</u>
Comprehensive income	<u>\$ 619,178</u>	<u>\$ 944,749</u>

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2008 and 2007
(Unaudited)

	2008	2007
Operating activities:		
Net income	\$ 387,773	\$ 805,086
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Provision for loan losses	122,500	15,000
Depreciation, amortization and accretion	117,559	95,935
Amortization of intangible assets	54,687	75,414
Originations of mortgage loans held for sale	(122,473,180)	(6,487,033)
Proceeds from sales of mortgage loans held for sale	112,966,464	6,313,020
Increase in cash value of life insurance	(72,111)	(71,383)
Gain on sale of securities, available for sale	(206,811)	-
Gain on sale of SBA loans	(135,856)	(251,540)
Gain on sale of mortgage loans	(739,959)	(91,110)
Stock based compensation expense	43,954	4,173
Net other operating activities	922,114	(101,352)
Net cash provided (used) by operating activities	(9,012,866)	306,210
Investing activities:		
Net decrease in interest-bearing deposits in banks	1,360,493	632,956
Proceeds from sale of securities available for sale	12,638,188	
Proceeds from maturities of securities available for sale	7,371,279	1,645,701
Purchases of securities available for sale	(13,202,800)	(6,833,082)
Proceeds from maturities of securities held to maturity	-	473,401
Purchases of securities held to maturity	-	(5,001,034)
Net change in restricted equity securities	(151,100)	171,000
Net (increase) decrease in loans	(15,315,495)	14,939,810
Net (increase) decrease in federal funds sold	2,631,185	(9,078,242)
Purchase of premises and equipment	(45,073)	(873,065)
Net cash used by investing activities	(4,713,323)	(3,922,555)
Financing activities:		
Net increase in deposits	7,690,736	18,210,664
Proceeds from other borrowings	3,600,000	-
Repayment of other borrowings	-	(5,000,000)
Net increase (decrease) in federal funds purchased and securities sold under agreement to repurchase	3,103,991	(2,000,000)
Purchase of treasury shares to be retired	(692,269)	-
Net cash provided by financing activities	13,702,458	11,210,664
Net increase (decrease) in cash and due from banks	(23,731)	7,594,319
Cash and due from banks at beginning of period	4,997,928	4,774,561
Cash and due from banks at end of period	<u>\$ 4,974,197</u>	<u>\$ 12,368,880</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 3,873,365	\$ 4,043,813
Cash paid during the year for income taxes	\$ 340,809	\$ 637,701

See accompanying notes to unaudited consolidated financial statements.

Notes to Consolidated Financial Statements
(Unaudited)

Note 1 - Basis of Presentation

Coastal Banking Company, Inc. (the "Company") is organized under the laws of the State of South Carolina for the purpose of operating as a bank holding company for Lowcountry National Bank and First National Bank of Nassau County (the "Banks"). Lowcountry National Bank commenced business on May 10, 2000. First National Bank of Nassau County began operations in 1999 and was acquired through merger on October 1, 2005. On October 27, 2006, the Company acquired the Meigs, Georgia office of a bank in Thomas County, Georgia. The Banks provide full commercial banking services to customers throughout Beaufort County, South Carolina; Nassau County, Florida; and Thomas County, Georgia and are subject to regulation by the Office of the Comptroller of the Currency (the "OCC") and the Federal Deposit Insurance Corporation. The Banks also have loan production offices in Savannah, Georgia; Charleston, South Carolina and Jacksonville, Florida, as well as a wholesale mortgage office in Atlanta, Georgia. The Company is subject to regulation by the Federal Reserve Board of Governors. The Company also has an investment in Coastal Banking Company Statutory Trust I ("Trust I") and Coastal Banking Company Trust II ("Trust II"). Both trusts are special-purpose subsidiaries organized for the sole purpose of issuing trust preferred securities.

The consolidated financial statements include the accounts of the Company and the Banks. All intercompany accounts and transactions have been eliminated in consolidation.

The accompanying financial statements have been prepared in accordance with the requirements for interim financial statements and, accordingly, they omit disclosures which would substantially duplicate those contained in the most recent annual report to shareholders on Form 10-K. The financial statements as of March 31, 2008 and for the interim periods ended March 31, 2008 and 2007 are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation. The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. The financial information as of December 31, 2007 has been derived from the audited financial statements as of that date. For further information, refer to the financial statements and the notes included in the Company's 2007 Form 10-K as filed with the Securities and Exchange Commission.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates that affect the amounts of assets and liabilities and changes therein. Actual results could differ from those estimates.

Note 2 – Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share for the three months ended March 31.

<u>For the three months ended March 31, 2008</u>	<u>Net income (Numerator)</u>	<u>Common Share (Denominator)</u>	<u>Per Share Amount</u>
Basic earnings per share	\$ 387,773	2,565,728	\$.15
Effect of dilutive securities—stock options and warrants	—	123,953	(.01)
Diluted earnings per share	\$ 387,773	2,689,681	\$.14

<u>For the three months ended March 31, 2007</u>	<u>Net income (Numerator)</u>	<u>Common Share (Denominator)</u>	<u>Per Share Amount</u>
Basic earnings per share	\$ 805,086	2,522,724	\$.32
Effect of dilutive securities—stock options and warrants	—	234,472	(.03)
Diluted earnings per share	\$ 805,086	2,757,196	\$.29

Note 3 — Stock-Based Compensation

In connection with the Company's initial public stock offering, the directors received warrants to purchase 222,705 shares of the Company's common stock at a price of \$8.65 per share of which 184,595 shares are still outstanding. The warrants vested equally over a three-year period beginning December 2, 1999 and expire on December 2, 2009 or 120 days after the warrant holder ceased to serve as a member of the board of directors. As of March 31, 2008, all of the warrants are exercisable.

The Company adopted a Stock Incentive Plan in 2000 which currently authorizes 386,334 shares of the Company's common stock for issuance under the Plan. The Plan provides for the total number of shares authorized for issuance under the Plan to be increased upon the issuance of new shares by the Company by an amount equal to the difference between 15% of the total outstanding shares after the issuance of the new shares and the number of shares authorized for issuance prior to the issuance of the new shares. The Plan is administered by the Board of Directors and provides for the granting of options to purchase shares of common stock to officers, directors, employees or consultants of the Company and Banks. The exercise price of each option granted under the Plan will not be less than the fair market value of the shares of common stock subject to the option on the date of grant as determined by the Board of Directors. Options are exercisable in whole or in part upon such terms as may be determined by the Board of Directors, and are exercisable no later than ten years after the date of grant. Options granted under the Plan generally vest over a five-year vesting period. As of March 31, 2008, 175,376 shares were available for grant under this Plan.

Additionally, the Company assumed the outstanding options under the 1999 First Capital Bank Holding Corporation Stock Option Plan (the "First Capital Plan") in connection with the merger of First Capital Bank Holding Company with and into the Company on October 1, 2005. As a result of the merger, each outstanding option under the First Capital Plan was converted into an option to purchase Coastal Banking Company, Inc. common stock. Coastal assumed and maintains the First Capital Plan solely to administer the options that were outstanding as of the effective time of the merger. As of the effective time of the merger, the Company elected to discontinue the issuance of options under the First Capital Plan.

On March 21, 2008, the Company granted a restricted stock award to Gary Horn, Regional President of Lowcountry National Bank, for 5,000 shares of the Company's common stock. The restricted stock vests in five equal annual increments on the anniversary date of the grant date of the restricted stock. The restricted stock was granted to Mr. Horn as compensation for his service to the bank.

Note 4 — Fair Value Measurements

On January 1, 2008, the Company adopted Financial Accounting Standards Board Statement No. 157, *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Under this statement, fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Statement No. 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of input that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate fair value.

Investment Securities: The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges or matrix pricing, which is mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities.

Loans held for sale: The fair value of loans held for sale is determined, when possible, using quoted secondary market prices. If no such quoted price exists, the fair value is based on a discounted cash flow model to estimate fair value.

Derivatives: Our derivative instruments consist of interest rate lock commitments on residential real estate loan applications and best efforts forward commitments to sell residential real estate loans. The fair value of these derivatives is determined, when possible, using quoted secondary market prices as of the measurement date. If no such quoted prices are available, the fair value of the derivatives are determined using quoted prices for similar derivatives, adjusted for the specific attributes of our interest rate lock commitments and forward sale commitments.

Impaired Loans: Loan impairment is reported when full payment under the loan terms is not expected. Impaired loans are carried at the present value of estimated future cash flows using the loan's existing rate, or the fair value of collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to require increase, such increase is reported as a component of the provision for loan losses. Loan losses are charged against the allowance when Management believes the uncollectability of a loan is confirmed. During the first quarter of 2008, certain impaired loans were partially charged-off or re-evaluated for impairment resulting in a remaining balance for these loans, net of specific allowances, of \$1,330,014 as of March 31, 2008. This valuation would be considered Level 3, consisting of appraisals of underlying collateral and discounted cash flow analysis.

	Carrying Value	Fair Value Measurements at March 31, 2008 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Investment securities	\$80,922,173	\$ -	\$80,922,173	\$ -
Loans held for sale	30,060,125	-	28,391,034	1,669,091
Impaired loans	1,348,351	-	-	1,348,351
Derivative asset positions	341,254	-	341,254	-
Financial liabilities				
Derivative liability positions	299,839	-	299,839	-

Note 5 — Fair Value Option for Financial Assets

In February 2007 the Financial Accounting Standards Board issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115*. FASB Statement No. 159 allows companies to report selected financial assets and liabilities at fair value. The changes in fair value are recognized in earnings and the assets and liabilities measured under this methodology are required to be displayed separately in the balance sheet.

On January 1, 2008 the Company elected to apply Statement 159 to its portfolio of residential mortgage loans held for sale ("MHFS"), and to carry these assets at fair value. Fair value is based on independent quoted market prices, where available, or the prices of other mortgage whole loans with similar characteristics. Nearly all of the Company's MHFS are valued based on these Level 2 inputs. For a minor portion of our MHFS where market pricing data is not available, we use a discounted cash flow model to estimate fair value and, accordingly report these loans based on Level 3 inputs.

Note 6 – Subsequent Event

On April 30, 2008, Mr. Randolph C. Kohn, the CEO of Lowcountry National Bank and President of Coastal Banking Company announced his retirement. Mr. Kohn's retirement benefits are still in the process of being finalized, however we expect that these benefits will result in a pre-tax charge to current operations in May 2008 in the range of \$475,000 to \$500,000.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is our discussion and analysis of certain significant factors that have affected our financial position and operating results and those of our subsidiaries, Lowcountry National Bank and First National Bank of Nassau County, during the periods included in the accompanying financial statements. This commentary should be read in conjunction with the financial statements and the related notes and the other statistical information included in this report.

This report contains "forward-looking statements" relating to, without limitation, future economic performance, plans and objectives of management for future operations, and projections of revenues and other financial items that are based on the beliefs of management, as well as assumptions made by and information currently available to management. The words "may," "will," "anticipate," "should," "would," "believe," "contemplate," "expect," "estimate," "continue," and "intend," as well as other similar words and expressions of the future, are intended to identify forward-looking statements.

Our actual results may differ materially from the results discussed in the forward-looking statements, and our operating performance each quarter is subject to various risks and uncertainties that are discussed in detail in our filings with the Securities and Exchange Commission, including, without limitation:

- significant increases in competitive pressure in the banking and financial services industries;
- changes in the interest rate environment which could reduce anticipated or actual margins;
- changes in political conditions or the legislative or regulatory environment;
- general economic conditions, either nationally or regionally and especially in our primary service area, becoming less favorable than expected resulting in, among other things, a deterioration in credit quality;
- changes occurring in business conditions and inflation;
- changes in technology;
- the level of allowance for loan loss;
- the rate of delinquencies and amounts of charge-offs;
- the rates of loan growth;
- adverse changes in asset quality and resulting credit risk-related losses and expenses;
- changes in monetary and tax policies;
- loss of consumer confidence and economic disruptions resulting from terrorist activities;
- changes in the securities markets; and
- other risks and uncertainties detailed from time to time in our filings with the Securities and Exchange Commission.

Overview

The following discussion describes our results of operations for the quarter ended March 31, 2008 as compared to the quarter ended March 31, 2007 and also analyzes our financial condition as of March 31, 2008 as compared to December 31, 2007. Like most community banks, we derive most of our income from interest we receive on our loans and investments. Our primary source of funds for making these loans and investments is our deposits, on which we pay interest. Consequently, one of the key measures of our success is our amount of net interest income, or the difference between the income on our interest-earning assets, such as loans and investments, and the expense on our interest-bearing liabilities, such as deposits. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities.

Of course, there are risks inherent in all loans, so we maintain an allowance for loan losses to absorb possible losses on existing loans that may become uncollectible. We establish and maintain this allowance by charging a provision for loan losses against our operating income. In the following section we have included a detailed discussion of this process.

In addition to earning interest on our loans and investments, we earn income through fees and other expenses we charge to our customers. We describe the various components of this non-interest income, as well as our non-interest expense, in the following discussion.

The following discussion and analysis also identifies significant factors that have affected our financial position and operating results during the periods included in the accompanying financial statements. We encourage you to read this discussion and analysis in conjunction with the financial statements and the related notes and the other statistical information also included in this report.

Critical Accounting Policies

We have adopted various accounting policies which govern the application of accounting principles generally accepted in the United States of America in the preparation of our financial statements. Our significant accounting policies are described in the footnotes to the consolidated financial statements at December 31, 2007, as filed on our annual report on Form 10-K. Certain accounting policies involve significant judgments and assumptions by us which have a material impact on the carrying value of certain assets and liabilities. We consider these accounting policies to be critical accounting policies. The judgments and assumptions we use are based on historical experience and other factors, which we believe to be reasonable under the circumstances. Because of the nature of the judgments and assumptions we make, actual results could differ from these judgments and estimates which could have a material impact on our carrying values of assets and liabilities and our results of operations.

We believe the allowance for loan losses is a critical accounting policy that requires the most significant judgments and estimates used in preparation of our consolidated financial statements. Some of the more critical judgments supporting the amount of our allowance for loan losses include judgments about the credit worthiness of borrowers, the estimated value of the underlying collateral, the assumptions about cash flow, determination of loss factors for estimating credit losses, the impact of current events, and conditions, and other factors impacting the level of probable inherent losses. Under different conditions or using different assumptions, the actual amount of credit losses incurred by us may be different from management's estimates provided in our consolidated financial statements. Refer to the portion of this discussion that addresses our allowance for loan losses for a description of our processes and methodology for determining our allowance for loan losses.

Results of Operations

Net Interest Income

Our level of net interest income is determined by the level of our earning assets, primarily loans outstanding, and the management of our net interest margin. For the quarter ended March 31, 2008, net interest income totaled \$2,643,000 as compared to \$3,235,000 for the quarter ended March 31, 2007 for a decrease of \$592,000. Total interest income decreased by \$730,000, or 10%, to \$6,566,000 for the three months ended March 31, 2008 compared to \$7,296,000 for the three months ended March 31, 2007. Interest and fees on loans decreased by \$612,000, or 10%, to \$5,408,000 in the three months ended March 31, 2008 from \$6,020,000 in the three months ended March 31, 2007. Total interest expense decreased by \$137,000, or 3%, to \$3,924,000 for the three months ended March 31, 2008 compared to \$4,061,000 for the same period in 2007. The decrease in net interest income is due to an immediate decrease in the rate earned on a substantial portion of our interest-earning assets following interest rate cuts by the Federal Reserve during the first quarter of 2008, which was partially offset by a gradual decrease in the rate paid for interest-earning liabilities. The net interest margin realized on earning assets and the interest rate spread were 2.61% and 2.15%, respectively, for the three months ended March 31, 2008. The net interest margin and the interest rate spread were 3.32% and 2.77%, respectively, for the three months ended March 31, 2007.

Interest Rate Sensitivity and Asset Liability Management

Interest rate sensitivity measures the timing and magnitude of the repricing of assets compared with the repricing of liabilities and is an important part of asset/liability management of a financial institution. The objective of interest rate sensitivity management is to generate stable growth in net interest income, and to control the risks associated with interest rate movements. Management constantly reviews interest rate risk exposure and the expected interest rate environment so that adjustments in interest rate sensitivity can be timely made. Since the assets and liabilities of the company are primarily monetary in nature (payable in fixed, determinable amounts), the performance of the company is affected more by changes in interest rates than by inflation. Interest rates generally increase as the rate of inflation increases, but the magnitude of the change in rates may not be the same.

Net interest income is the primary component of net income for financial institutions. Net interest income is affected by the timing and magnitude of repricing of as well as the mix of interest sensitive and noninterest sensitive assets and liabilities. "Gap" is a static measurement of the difference between the contractual maturities or repricing dates of interest sensitive assets and interest sensitive liabilities within the following twelve months.

Gap is an attempt to predict the behavior of the company's net interest income in general terms during periods of movement in interest rates. In general, if the company is asset sensitive, more of its interest sensitive assets are expected to reprice within twelve months than its interest sensitive liabilities over the same period. In a rising interest rate environment, assets repricing more quickly are expected to enhance net interest income.

Alternatively, decreasing interest rates would be expected to have the opposite effect on net interest income since assets would theoretically be repricing at lower interest rates more quickly than interest sensitive liabilities. Although it can be used as a general predictor, gap as a predictor of movements in net interest income has limitations due to the static nature of its definition and due to its inherent assumption that all assets will reprice immediately and fully at the contractually designated time. At March 31, 2008, the Company, as measured by gap, and adjusted for its expectations of changes in interest bearing categories that might not move completely in tandem with changing interest rates, is liability sensitive when measured at three months and also liability sensitive when cumulatively measured at one year. Management has several tools available to it to evaluate and affect interest rate risk, including deposit pricing policies and changes in the mix of various types of assets and liabilities. The company also forecasts its sensitivity to interest rate changes using modeling software. For more information on asset-liability management, see the annual report on Form 10-K filed with the Securities and Exchange Commission.

Provision and Allowance for Loan Losses

The provision for loan losses is the charge to operating income that management believes is necessary to maintain the allowance for possible loan losses at an adequate level. The provision charged to expense was \$122,500 for the three months ended March 31, 2008, as compared to \$15,000 for the three months ended March 31, 2007. The increase in the provision for the year is related to the increase in the loan portfolio and by management's assessment of problem loans in the portfolio. The loan portfolio, net of loan losses, increased by \$15,254,000 during the three months ended March 31, 2008 from \$277,638,000 at December 31, 2007. The allowance for loan losses totaled \$3,606,000, or 1.22% of gross loans outstanding at March 31, 2008, as compared to \$3,653,000, or 1.30% of gross loans outstanding at December 31, 2007. The decrease in the allowance as a percent of gross loans outstanding is due to a combination of a \$170,000 charge off against the reserve and the impact of additions to the reserve for portfolio loan growth at a rate of 0.80% of the balance of loans added to the portfolio. The majority of the loans added to the portfolio during the three months ended March 31, 2008 were residential real estate loans, which have a lower risk profile than other loan types. This lower risk profile of loans added to the portfolio along with other qualitative factors were involved in management's assessment of risk in the loan portfolio as the basis to determine an appropriate level of additional loss provision for portfolio growth.

There are risks inherent in making all loans, including risks with respect to the period of time over which loans may be repaid, risks resulting from changes in economic and industry conditions, risks inherent in dealing with individual borrowers, and, in the case of a collateralized loan, risks resulting from uncertainties about the future value of the collateral. We maintain an allowance for loan losses based on, among other things, historical experience, an evaluation of economic conditions, and regular reviews of delinquencies and loan portfolio quality. Our judgment about the adequacy of the allowance is based upon a number of assumptions about future events which we believe to be reasonable, but which may not prove to be accurate.

Noninterest Income

Noninterest income for the three months ended March 31, 2008 totaled \$1,420,000, as compared to \$571,000 for the three months ended March 31, 2007. The largest increase was in gains on mortgage loans sold, which increased \$649,000 to \$740,000 for the quarter ended March 31, 2008 compared to \$91,000 for the same period of 2007. Also, during the first quarter of 2008 sales of securities available for sale contributed a non-recurring gain of \$207,000.

This dramatic increase to gains on mortgage loans sold reflects the success of the Company's wholesale mortgage lending division which started operations in September 2007. During the three months ended March 31, 2008, the division funded \$115.3 million and sold \$107.1 million of residential real estate mortgage loans. As of March 31, 2008 the division had a total of \$40.6 million of loans in process with interest rate lock commitments. Typically we expect between 60% and 70% of these loans to be approved and funded in the next 30 days. We have entered into best efforts forward sales commitments for all these loans in process in order to eliminate any interest rate risk. For more information on wholesale mortgage banking, see the annual report on Form 10-K filed with the Securities and Exchange Commission.

Noninterest Expense

Total noninterest expense for the three months ended March 31, 2008 was \$3,341,000, as compared to \$2,555,000 for the same period in 2007, primarily as a result of the addition of the wholesale mortgage division in Atlanta. Salary and benefits expense increased \$524,000 due to salary expenses related to our new branch in Atlanta and higher health insurance costs during the period. Other operating expenses were \$1,028,000 for the three months ended March 31, 2008, as compared to \$787,000 for the three months ended March 31, 2007.

Income Taxes

The income tax expense for the three months ended March 31, 2008 was \$211,000 compared to an income tax expense of \$431,000 for the same period in 2007. The effective tax rate was 35% for the three months ended March 31, 2008 and 35% for the three month period of 2007.

Net Income

The combination of the above factors resulted in net income of \$388,000 for the three months ended March 31, 2008, compared to net income for the three months ended March 31, 2007 of \$805,000. Basic earnings per share were \$.15 for the three months ended March 31, 2008, compared to \$.32 for the three months ended March 31, 2007. In 2008, diluted earnings per share totaled \$.14 for the three months ended March 31, 2008, compared to \$.29 per share for the three month period ended March 31, 2007.

Financial Condition

During the first three months of 2008, total assets increased \$13,988,000, or 3.24%, when compared to December 31, 2007. The primary source of growth in assets was in the loan portfolio, which increased \$15,206,000, or 5.41%, during the first three months of 2008. Loans held for sale also increased \$9,507,000, or 46.25%, during the first quarter of 2008. During the first three months of 2008, total liabilities increased \$14,017,000, or 3.64%, when compared to December 31, 2007. The primary source of growth in liabilities was total deposits, which increased \$7,691,000, or 2.22%, from the December 31, 2007 amount of \$345,847,000.

Investment Securities

Investment securities available for sale decreased to \$80,922,000 at March 31, 2008 from \$87,171,000 at December 31, 2007. The decrease in investment securities was due to sales, calls and maturities during the first quarter.

Premises and Equipment

Premises and equipment, net of depreciation, totaled \$8,104,000 at March 31, 2008. The decrease of \$73,000 from the December 31, 2007 amount of \$8,176,000 was due to depreciation.

Loans

Gross loans totaled \$296,497,000 at March 31, 2008, an increase of \$15,206,000, or 5.41%, since December 31, 2007. The largest increase in loans was in real estate-mortgage residential loans, which increased \$8,621,000, or 12.54%, to \$77,393,000 at March 31, 2008. Balances within the major loans receivable categories as of March 31, 2008 and December 31, 2007 were as follows:

	March 31, 2008	December 31, 2007
Commercial and financial	\$ 10,868,000	\$ 10,235,000
Agricultural	176,000	519,000
Real estate – construction	133,382,000	129,607,000
Real estate – mortgage, farmland	94,000	94,000
Real estate – mortgage, residential	77,393,000	68,772,000
Real estate – mortgage, commercial	69,345,000	68,281,000
Consumer installment loans	4,647,000	2,626,000
Other	592,000	1,157,000
Gross loans	<u>\$ 296,497,000</u>	<u>\$ 281,291,000</u>

Risk Elements in the Loan Portfolio

The following is a summary of risk elements in the loan portfolio:

	<u>March 31, 2008</u>	<u>December 31, 2007</u>
Loans: Nonaccrual loans	\$ 1,929,000	\$ 2,018,000
Accruing loans more than 90 days past due	\$ 4,000	\$ 69,000
Other real estate and repossessions	\$ 171,000	\$ 319,000
Other loans identified by internal review mechanism Impaired	\$ 1,633,000	\$ 1,561,000

Activity in the Allowance for Loan Losses is as follows:

	<u>March 31,</u>	
	<u>2008</u>	<u>2007</u>
Balance, January 1,	\$ 3,653,017	3,474,640
Provision for loan losses for the period	122,500	15,000
Net loans (charged off) recovered for the period	(169,995)	(31,444)
Balance, end of period	<u>\$ 3,605,522</u>	<u>\$ 3,458,196</u>
Gross loans outstanding, end of period	<u>\$ 296,891,231</u>	<u>\$ 276,848,692</u>
Allowance for loan losses to gross loans outstanding	<u>1.22%</u>	<u>1.25%</u>

Deposits

At March 31, 2008, total deposits increased by \$7,691,000, or 2.22%, from December 31, 2007. Noninterest-bearing demand deposits increased \$615,000, or 2.45%, and interest-bearing deposits increased \$7,075,000, or 2.21%. Of the \$127,984,000 in certificates of deposit \$100,000 and over at March 31, 2008, \$19,339,000 were brokered deposits. Of the \$91,458,000 of other time deposits outstanding at March 31, 2008, \$2,822,000 were brokered deposits. These are issued in individual's names and in the names of trustees with balances participated out to others.

Balances within the major deposit categories as of March 31, 2008 and December 31, 2007 were as follows:

	<u>March 31, 2008</u>	<u>December 31, 2007</u>
Noninterest-bearing demand deposits	\$ 25,763,000	\$ 25,147,000
Interest-bearing demand deposits	105,304,000	102,674,000
Savings deposits	3,029,000	2,952,000
Certificates of deposit \$100,000 and over	127,984,000	124,595,000
Other time deposits	91,458,000	90,479,000
	<u>\$ 353,538,000</u>	<u>\$ 345,847,000</u>

FHLB Advances

At March 31, 2008, the Company had advances outstanding from the FHLB in the amount of \$30,372,741. Advances outstanding are shown in the following table:

Type Advance	FHLB Advances Outstanding			
	Balance	Interest Rate	Maturity Date	Convertible Date
Fixed rate	\$ 1,000,000	5.02%	February 17, 2009	
Fixed rate	5,000,000	5.65%	June 1, 2011	
Convertible fixed rate advance	1,500,000	4.05%	September 7, 2012	September 8, 2008
Convertible fixed rate advance	10,000,000	4.25%	May 21, 2014	May 21, 2009
Convertible fixed rate advance	5,000,000	3.71%	June 24, 2015	June 24, 2010
Convertible fixed rate advance	2,000,000	3.69%	September 7, 2017	June 7, 2008
Variable rate	5,900,000	3.00%		
Less purchase accounting adjustments	(27,259)			
Total	\$ 30,372,741	4.13%		

Junior Subordinated Debentures

In May 2004, Coastal Banking Company Statutory Trust I issued \$3.0 million of trust preferred securities with a maturity of July 23, 2034. In accordance with FASB Interpretation Number ("FIN") 46(R), the Trust has not been consolidated in the Company's financial statements. The proceeds from the issuance of the trust preferred securities were used by the Trust to purchase \$3,093,000 of the Company's junior subordinated debentures, which pay interest at a floating rate equal to 3 month LIBOR plus 275 basis points. The Company used the proceeds from the sale of the junior subordinated debentures for general purposes, primarily to provide capital to Lowcountry National Bank. The debentures represent the sole asset of the Trust.

In June 2006, Coastal Banking Company Statutory Trust II issued \$4.0 million of trust preferred securities with a maturity of September 30, 2036. In accordance with FASB Interpretation Number ("FIN") 46(R), the Trust has not been consolidated in the Company's financial statements. The proceeds from the issuance of the trust preferred securities were used by the Trust to purchase \$4,124,000 of the Company's junior subordinated debentures, which pay interest at a fixed rate of 7.18% until September 30, 2011 and a variable rate thereafter equal to 3 month LIBOR plus 160 basis points. The Company used the proceeds from the sale of the junior subordinated debentures for general purposes, primarily to provide capital to the Banks. The debentures represent the sole asset of the Trust.

For more information, see our 10-K for the year ended December 31, 2007.

Liquidity and Capital Resources

Liquidity

Liquidity represents the ability of a company to convert assets into cash or cash equivalents without significant loss, and the ability to raise additional funds by increasing liabilities. Liquidity management involves monitoring our sources and uses of funds in order to meet our day-to-day cash flow requirements while maximizing profits. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities of our investment portfolio is fairly predictable and subject to a high degree of control at the time investment decisions are made. However, net deposit inflows and outflows are far less predictable and are not subject to the same degree of control. Our liquidity needs include items such as the funding of loans and purchases of operating assets. We meet our liquidity needs through scheduled maturities of loans and investments on the asset side and through pricing policies on the liability side for interest-bearing deposit accounts. The level of liquidity is measured by the loan-to-total deposit ratio which was 84% at March 31, 2006 and 81% at December 31, 2007.

Off-Balance Sheet Arrangements

The Banks are parties to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and loans sold with representations and warranties. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets. The contractual amounts of those instruments reflect the extent of involvement the Banks have in particular classes of financial instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Banks evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. The Banks' loans are primarily collateralized by residential and other real properties, automobiles, savings deposits, accounts receivable, inventory and equipment.

Standby letters of credit are written conditional commitments issued by the Banks to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. Most letters of credit extend for less than one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Loans on one-to-four family residential mortgages originated by us are sold to various other financial institutions with representations and warranties that are usual and customary for the industry. These representations and warranties give the purchaser of the loan the right to require that we repurchase a loan if the borrower fails to make any one of the first four loan payments within 30 days of the due date, which is termed an Early Payment Default ("EPD"). Our maximum exposure to credit loss in the event of an EPD claim would be the unpaid principal balance of the loan to be repurchased along with any premium paid by the investor when the loan was purchased and other minor collection cost reimbursements. The Bank's have never had to repurchase a loan as the result of an EPD claim by an investor and do not anticipate any material credit risk related to future potential EPD claims on loans that have been previously sold and are no longer on the Banks' balance sheets.

In addition to EPD claims, the representations and warranties in our loan sale agreements also provide that we will indemnify the investors for losses or costs on loans we sell under certain limited conditions. Some of these conditions include underwriting errors or omissions, fraud or material misstatements by the borrower in the loan application or invalid market value on the collateral property due to deficiencies in the appraisal. In connection with the start up of the wholesale lending division, the Banks have established a reserve for costs related to potential indemnification costs and EPD claims. The balance in this indemnification reserve was \$67,000 at March 31, 2008 and there have been no claims or charges against this reserve since it was established in September 2007, accordingly management does not anticipate any material exposure in connection with loan sale indemnification or EPD claims.

The Banks' exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit, standby letters of credit and loans sold with representations and warranties is represented by the contractual amount of those instruments. The Banks use the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. In most cases, the Banks require collateral to support financial instruments with credit risk.

The following table summarizes our off-balance-sheet financial instruments whose contract amounts represent credit risk as of March 31, 2008:

Commitments to extend credit	\$ 48,759,000
Loans sold with representations and warranties	\$ 133,527,000
Standby letters of credit	\$ 588,000

Contractual Obligations

Summarized below are our contractual obligations as of March 31, 2008.

Contractual Obligations	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Federal Home Loan Bank of Atlanta Advances	\$ 30,372,741	\$ 5,900,000	\$ 1,000,000	\$ 6,500,000	\$ 16,972,741
Operating Lease Obligations	566,205	227,640	280,012	58,553	-
Junior Subordinated Debentures	7,217,000	-	-	-	7,217,000
	<u>\$ 38,155,946</u>	<u>\$ 6,127,640</u>	<u>\$ 1,280,012</u>	<u>\$ 6,558,553</u>	<u>\$ 24,189,741</u>

Capital Resources

The Federal Reserve Board and bank regulatory agencies require bank holding companies and financial institutions to maintain capital at adequate levels based on a percentage of assets and off-balance sheet exposures, adjusted for risk weights ranging from 0% to 100%. Under the capital adequacy guidelines, regulatory capital is classified into two tiers. These guidelines require an institution to maintain a certain level of Tier 1 and Tier 2 capital to risk-weighted assets. Tier 1 capital consists of common shareholders' equity, excluding the unrealized gain or loss on securities available for sale, plus a limited amount of trust preferred securities and minus certain intangible assets. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100% based on the risks believed to be inherent in the type of asset. Tier 2 capital consists of Tier 1 capital plus the general reserve for loan losses, subject to certain limitations. We are also required to maintain capital at a minimum level based on total average assets, which is known as the Tier 1 leverage ratio. At both the holding company and bank level, we are subject to various regulatory capital requirements administered by the federal banking agencies. To be considered "well-capitalized," we must maintain total risk-based capital of at least 10%, Tier 1 capital of at least 6%, and a leverage ratio of at least 5%.

At March 31, 2008, total shareholders' equity was \$46.7 million at the holding company, \$18.0 million at Lowcountry National Bank, and \$33.5 million at First National Bank of Nassau County. At March 31, 2008, Tier 1 risk-based capital ratio was 13.20% consolidated, 12.37% at Lowcountry National Bank, and 12.61% at First National Bank of Nassau County. Total risk-based capital ratio was 14.33% consolidated, 13.53% at Lowcountry National Bank, and 13.73% at First National Bank of Nassau County. Tier 1 leverage ratio was 10.07% consolidated, 9.50% at Lowcountry National Bank, and 9.54% at First National Bank of Nassau County. The Banks were considered "well capitalized" and the holding company met or exceeded its applicable regulatory capital requirements.

Regulatory Matters

From time to time, various bills are introduced in the United States Congress with respect to the regulation of financial institutions. Certain of these proposals, if adopted, could significantly change the regulation of banks and the financial services industry. We cannot predict whether any of these proposals will be adopted or, if adopted, how these proposals would affect us.

Item 4. Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our current disclosure controls and procedures are effective as of March 31, 2008. There have been no significant changes in our internal controls over financial reporting during the fiscal quarter ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

You should carefully consider the factors discussed in Part I, "Item 1. Description of Business" under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2007, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On March 21, 2008, the Company granted a restricted stock award to Gary Horn, Regional President of Lowcountry National Bank, for 5,000 shares of the Company's common stock. The restricted stock vests in five equal annual increments on the anniversary date of the grant date of the restricted stock. The restricted stock was granted to Mr. Horn as compensation for his service to the bank.

The following table sets forth information regarding repurchases of the Company's common stock during the quarter ended March 31, 2008.

<u>Month</u>	<u>Total Number or Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased under a Publicly Announced Program</u>	<u>Maximum Number of Shares that May Yet Be Purchased under the Program</u>
March 2008	50,164	13.80	50,164	78,364

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

- [10.1](#) Executive Supplemental Retirement Income Agreement for Michael Sanchez dated October 20, 2004.
- [10.2](#) Restricted Stock Award between Coastal Banking Company, Inc and Gary Horn dated March 21, 2008.
- [31.1](#) Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- [31.2](#) Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- [32.1](#) Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- [32.2](#) Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COASTAL BANKING COMPANY, INC.

Date: May 9, 2008

By: /s/ MICHAEL G. SANCHEZ

Michael G. Sanchez
Chief Executive Officer

Date: May 9, 2008

By: /s/ PAUL R. GARRIGUES

Paul R. Garrigues
Chief Financial Officer

INDEX TO EXHIBITS

<u>Exhibit Number</u>	<u>Description</u>
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**EXECUTIVE SUPPLEMENTAL RETIREMENT
INCOME AGREEMENT
FOR MICHAEL SANCHEZ**

**FIRST NATIONAL BANK OF NASSAU COUNTY
Fernandina Beach, Florida**

October 20, 2004

**Financial Institution Consulting Corporation
700 Colonial Road, Suite 102
Memphis, Tennessee 38117
WATS: 1-800-873-0089
FAX: (901) 684-7414
(901) 684-7400
EXECUTIVE SUPPLEMENTAL RETIREMENT**

INCOME AGREEMENT FOR MICHAEL SANCHEZ

This Executive Supplemental Retirement Income Agreement (the "Agreement"), effective as of the 20th day of October, 2004, formalizes the understanding by and between FIRST NATIONAL BANK OF NASSAU COUNTY (the "Bank"), a federally-chartered commercial bank having its principal place of business in Florida, and MICHAEL SANCHEZ (hereinafter referred to as "Executive").

WITNESSETH:

WHEREAS, the Executive is employed by the Bank; and

WHEREAS, the Bank recognizes the valuable services heretofore performed by the Executive and wishes to encourage his continued employment; and

WHEREAS, the Executive wishes to be assured that he will be entitled to a certain amount of additional compensation for some definite period of time from and after retirement from active service with the Bank or other termination of employment and wishes to provide his beneficiary with benefits from and after death; and

WHEREAS, the Bank and the Executive wish to provide the terms and conditions upon which the Bank shall pay such additional compensation to the Executive after retirement or other termination of employment and/or death benefits to his beneficiary after death; and

WHEREAS, the Bank has adopted this Executive Supplemental Retirement Income Agreement which controls all issues relating to benefits as described herein;

NOW, THEREFORE, in consideration of the premises and of the mutual promises herein contained, the Bank and the Executive agree as follows:

SECTION I
DEFINITIONS

When used herein, the following words and phrases shall have the meanings below unless the context clearly indicates otherwise:

- 1.1 "Accrued Benefit Account" shall be represented by the bookkeeping entries required to record the Executive's (i) Phantom Contributions plus (ii) accrued interest, equal to the Interest Factor, earned to-date on such amounts. However, neither the existence of such bookkeeping entries nor the Accrued Benefit Account itself shall be deemed to create either a trust of any kind, or a fiduciary relationship between the Bank and the Executive or any Beneficiary.
- 1.2 "Act" means the Employee Retirement Income Security Act of 1974, as amended from time to time.
- 1.3 "Administrator" means the Bank.
- 1.4 "Bank" means FIRST NATIONAL BANK OF NASSAU COUNTY and any successor thereto.
- 1.5 "Beneficiary" means the person or persons (and their heirs) designated as Beneficiary in Exhibit B of this Agreement to whom the deceased Executive's benefits are payable. If no Beneficiary is so designated, then the Executive's Spouse, if living, will be deemed the Beneficiary. If the Executive's Spouse is not living, then the Children of the Executive will be deemed the Beneficiaries and will take on a per stirpes basis. If there are no Children, then the Estate of the Executive will be deemed the Beneficiary.
- 1.6 "Benefit Age" means the Executive's sixty-fifth (65th) birthday.
- 1.7 "Benefit Eligibility Date" means the date on which the Executive is entitled to receive any benefit(s) pursuant to Section(s) III or V of this Agreement. It shall be the first day of the month following the month in which the Executive attains his Benefit Age.
- 1.8 "Board of Directors" means the board of directors of the Bank.
- 1.9 "Cause" means personal dishonesty, willful or grossly negligent misconduct, willful or grossly negligent malfeasance, breach of fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule, regulation (other than traffic violations or similar offenses), or final cease-and-desist order, material breach of any provision of this Agreement, or gross negligence in matters of material importance to the Bank.
- 1.10 "Change in Control" means each of the events set forth in any one of the following paragraphs:
- (a) any "Person" (as such term is used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934 ("Exchange Act") as in effect as of the date of this Plan) other than (i) the Holding Company, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Holding Company, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by the shareholders of the Holding Company in substantially the same proportions as their ownership of shares of the Holding Company (any such person is hereinafter referred to as "Person"), is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act),

directly or indirectly, of securities of the Holding Company representing more than 20% of the combined voting power of the Holding Company's then outstanding securities (not including the securities beneficially owned by such Person any securities acquired directly from the Holding Company);

- (b) there is consummated a merger or consolidation of the Holding Company with or into any other corporation, other than a merger or consolidation which would result in the holders of the voting securities of the Holding Company outstanding immediately prior thereto holding securities which represent, in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Holding Company, immediately after such merger or consolidation, more than 60% of the combines voting power of the voting securities of either the Holding Company or the other entity which survives such merger or consolidation or the parent of the entity which survives such merger or consolidation;
- (c) the shareholders of the Holding Company approve any plan or proposal for the liquidation or dissolution of the Holding Company or an agreement for the sale or disposition by the Holding Company of all or substantially all the Holding Company's assets; or
- (d) during any period of two consecutive years (not including any period prior to the date of the Agreement) individuals who at the beginning of such period constitute the Board of Directors and any new director (other than a director designated by a person who has entered into an agreement with the Holding Company to effect a transaction described in (a), (b), or (c) above) whose election by the Board or nomination for election by the Holding Company's shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof.
- (e) a notice of an application is filed with the Florida Board of Financial Institutions or the Federal Reserve Board or any other bank or thrift regulatory approval (or notice of disapproval) is granted by the Federal Reserve, Florida Board of Financial Institutions, the OCC, the Federal Deposit Insurance Corporation, or any other regulatory authority for permission to acquire control of the Company or any of its banking subsidiaries; provided tht if the application is filed in connection with a transaction which has been approved by the Board, then the Change in Control shall not be deemed to occur until consummation of the transaction.

For purposes of this Plan, where a change in control of the Holding Company results from a series of related transactions, the change in control of the Holding Company shall be deemed to have occurred on the date of the consummation of the first such transaction.

For purposes of paragraph (a) above, the shareholders of another corporation (other than the Bank or a corporation described in clause (iv) of paragraph (a)) shall be deemed to constitute a Person. Further, it is understood by the parties that the sale, transfer, or other disposition of a subsidiary of the Holding Company, other than First National Bank of Nassau County or its successor, shall not constitute a change in control of the giving rise to payments or benefits under this Plan.

- 1.11 "Children" means all natural or adopted children of the Executive and issue of any predeceased child or children.
- 1.12 "Code" means the Internal Revenue Code of 1986, as amended from time to time.
- 1.13 "Contribution(s)" means those annual contributions which the Bank is required to make to the Retirement Income Trust Fund on behalf of the Executive in accordance with Subsection 2.1(a) and in the amounts set forth in Exhibit A of the Agreement.
- 1.14 (a) "Disability Benefit" means the benefit payable to the Executive following a determination, in accordance with Subsection 6.1 (a), that he is no longer able, properly and satisfactorily, to perform his duties at the Bank.
- (b) "Disability Benefit-Supplemental" (if applicable) means the benefit payable to the Executive's Beneficiary upon the Executive's death in accordance with Subsection 6.1(b).
- 1.15 "Effective Date" of this restated Agreement shall be October 20, 2004.
- 1.16 "Estate" means the estate of the Executive.
- 1.17 "Interest Factor" means monthly compounding, discounting or annuitizing, as applicable, at a rate set forth in Exhibit A.
- 1.18 "Payout Period" means the time frame during which certain benefits payable hereunder shall be distributed. Payments shall be made in monthly installments commencing on the first day of the month following the occurrence of the event which triggers distribution and continuing for one hundred eighty (180) months. Should the Executive make a Timely Election to receive a lump sum benefit payment, the Executive's Payout Period shall be deemed to be one (1) month.
- 1.19 "Phantom Contributions" means those annual Contributions set forth in Exhibit A of the Agreement which the Bank is required to record to the Accrued Benefit Account once the Executive has exercised the withdrawal rights provided for in Subsection 2.2.
- 1.20 "Plan Year" shall mean the twelve (12) month period commencing January 1 and ending December 31.
- 1.21 "Retirement Income Trust Fund" means the trust fund account established by the Executive and into which annual Contributions will be made by the Bank on behalf of the Executive pursuant to Subsection 2.1. The contractual rights of the Bank and the Executive with respect to the Retirement Income Trust Fund shall be outlined in a separate writing to be known as the Michael Sanchez Grantor Trust agreement.
- 1.22 "Spouse" means the individual to whom the Executive is legally married at the time of the Executive's death, provided, however, that the term "Spouse" shall not refer to an individual to whom the Executive is legally married at the time of death if the Executive and such individual have entered into a formal separation agreement or initiated divorce proceedings.
- 1.23 "Supplemental Retirement Income Benefit" means an annual amount (before taking into account federal and state income taxes), payable in monthly installments throughout the Payout Period. Such benefit is projected pursuant to the Agreement for the purpose of determining the Contributions to be

made to the Retirement Income Trust Fund (or Phantom Contributions to be recorded in the Accrued Benefit Account). The annual Contributions and Phantom Contributions have been actuarially determined, using the assumptions set forth in Exhibit A, in order to fund for the projected Supplemental Retirement Income Benefit. The Supplemental Retirement Income Benefit for which Contributions (or Phantom Contributions) are being made (or recorded) is set forth in Exhibit A.

- 1.24 "Timely Election" means the Executive has made an election to change the form of his benefit payment(s) by filing with the Administrator a Notice of Election to Change Form of Payment (Exhibit C of this Agreement). In the case of benefits payable from the Accrued Benefit Account, such election shall have been made at least twelve (12) months prior to both (i) the event which triggers distribution and (ii) the Executive's Benefit Eligibility Date existing at the time of such election. In the case of benefits payable from the Retirement Income Trust Fund, such election may be made at any time.

SECTION II

BENEFITS – GENERALLY

- 2.1 (a) Retirement Income Trust Fund and Accrued Benefit Account. The Executive shall establish the Michael Sanchez Grantor Trust into which the Bank shall be required to make annual Contributions on the Executive's behalf, pursuant to Exhibit A and this Section II of the Agreement. A trustee shall be selected by the Executive. The trustee shall maintain an account, separate and distinct from the Executive's personal contributions, which account shall constitute the Retirement Income Trust Fund. The trustee shall be charged with the responsibility of investing all contributed funds. Distributions from the Retirement Income Trust Fund of the Michael Sanchez Grantor Trust may be made by the trustee to the Executive, for purposes of payment of any income or employment taxes due and owing on Contributions by the Bank to the Retirement Income Trust Fund, if any, and on any taxable earnings associated with such Contributions which the Executive shall be required to pay from year to year, under applicable law, prior to actual receipt of any benefit payments from the Retirement Income Trust Fund. If the Executive exercises his withdrawal rights pursuant to Subsection 2.2, the Bank's obligation to make Contributions to the Retirement Income Trust Fund shall cease and the Bank's obligation to record Phantom Contributions in the Accrued Benefit Account shall immediately commence pursuant to Exhibit A and this Section II of the Agreement. To the extent this Agreement is inconsistent with the Michael Sanchez Grantor Trust Agreement, the Michael Sanchez Grantor Trust Agreement shall supersede this Agreement.

The annual Contributions (or Phantom Contributions) required to be made by the Bank to the Retirement Income Trust Fund (or recorded by the Bank in the Accrued Benefit Account) have been actuarially determined and are set forth in Exhibit A which is attached hereto and incorporated herein by reference. Contributions shall be made by the Bank to the Retirement Income Trust Fund (i) within seventy-five (75) days of establishment of such trust, and (ii) within the first thirty (30) days of the beginning of each subsequent Plan Year, unless this Section expressly provides otherwise. Phantom Contributions, if any, shall be recorded in the Accrued Benefit Account within the first thirty (30) days of the beginning of each applicable Plan Year, unless this Section expressly provides otherwise. Phantom Contributions shall accrue interest at a rate equal to the Interest Factor, during the Payout Period, until the balance of the Accrued Benefit Account has been fully distributed. Interest on any Phantom Contribution shall not commence until such Payout Period commences.

The Administrator shall review the schedule of annual Contributions (or Phantom Contributions) provided for in Exhibit A (i) within thirty (30) days prior to the close of each Plan Year and (ii) if the

Executive is employed by the Bank until attaining Benefit Age, on or immediately before attainment of such Benefit Age. Such review shall consist of an evaluation of the accuracy of all assumptions used to establish the schedule of Contributions (or Phantom Contributions). Provided that (i) the Executive has not exercised his withdrawal rights pursuant to Subsection 2.2 and (ii) the investments contained in the Retirement Income Trust Fund have been deemed reasonable by the Bank, the Administrator shall prospectively amend or supplement the schedule of Contributions provided for in Exhibit A should the Administrator determine during any such review that an increase in or supplement to the schedule of Contributions is necessary in order to adequately fund the Retirement Income Trust Fund so as to provide an annual benefit (or to provide the lump sum equivalent of such benefit, as applicable) equal to the Supplemental Retirement Income Benefit, on an after-tax basis, commencing at Benefit Age and payable for the duration of the Payout Period.

(b) Withdrawal Rights Not Exercised.

(1) Contributions Made Annually

If the Executive does not exercise any withdrawal rights pursuant to Subsection 2.2, the annual Contributions to the Retirement Income Trust Fund shall continue each year, unless this Subsection 2.1(b) specifically states otherwise, until the earlier of (i) the last Plan Year that Contributions are required pursuant to Exhibit A, or (ii) the Plan Year of the Executive's termination of employment; provided, however, that in no event shall the total Contributions be less than an amount which is sufficient to provide the Executive with after-tax benefits (assuming a constant tax rate equal to the rate in effect as of the date of Executive's termination) beginning at his Benefit Age, equal in amount to that benefit which would have been payable to the Executive if no secular trust had been implemented and the benefit obligation had been accrued under APB Opinion No. 12, as amended by FAS 106.

(2) Termination Following a Change in Control

If the Executive does not exercise his withdrawal rights pursuant to Subsection 2.2 and a Change in Control occurs at the Bank, followed within thirty-six (36) months by either (i) the Executive's involuntary termination of employment, or (ii) Executive's voluntary termination of employment after: (A) a material change in the Executive's function, duties, or responsibilities, which change would cause the Executive's position to become one of lesser responsibility, importance, or scope from the position the Executive held at the time of the Change in Control, (B) a relocation of the Executive's principal place of employment by more than thirty (30) miles from its location prior to the Change in Control, or (C) a material reduction in the benefits and perquisites to the Executive from those being provided at the time of the Change in Control, the Contribution set forth on Schedule A shall continue to be required of the Bank. The Bank shall be required to make an immediate lump sum contribution to the Retirement Income Trust Fund equal to (i) the full Contribution required for the Plan Year in which such termination occurs, if not yet made, plus (ii) the present value (computed using a discount rate equal to the Interest Factor) of all remaining Contributions to the Retirement Income Trust Fund; provided, however, in no event shall the Contribution be less than an amount which is sufficient to provide the Executive with after-tax benefits (assuming a constant tax rate equal to the rate in effect as of the date of Executive's termination) beginning at his Benefit Age, equal in amount to that benefit which would have been payable to the Executive if no secular trust had been implemented and the benefit obligation had been accrued under APB Opinion No. 12, as amended by FAS 106.

(3) Termination For Cause

If the Executive does not exercise his withdrawal rights pursuant to Subsection 2.2, and is terminated for Cause pursuant to Subsection 5.2, no further Contribution(s) to the Retirement Income Trust Fund shall be required of the Bank, and if not yet made, no Contribution shall be required for the Plan Year in which such termination for Cause occurs.

(4) Involuntary Termination of Employment.

If the Executive does not exercise his withdrawal rights pursuant to Subsection 2.2, and the Executive's employment with the Bank is involuntarily terminated for any reason, including a termination due to disability of the Executive but excluding termination for Cause, or termination following a Change in Control within thirty-six (36) months of such Change in Control, within thirty (30) days of such involuntary termination of employment, the Bank shall be required to make an immediate lump sum Contribution to the Executive's Retirement Income Trust Fund in an amount equal to the: (i) the full Contribution required for the Plan Year in which such involuntary termination occurs, if not yet made, plus (ii) the present value (computed using a discount rate equal to the Interest Factor) of all remaining Contributions to the Retirement Income Trust Fund; provided however, that, if necessary, an amount shall be contributed to the Retirement Income Trust Fund which is sufficient to provide the Executive with after tax benefits (assuming a constant tax rate equal to the rate in effect as of the date of the Executive's termination) beginning at his Benefit Age, equal in amount to that benefit which would have been payable to the Executive if no secular trust had been implemented and the benefit obligation had been accrued under APB Opinion No. 12, as amended by FAS106.

(5) Death During Employment.

If the Executive does not exercise any withdrawal rights pursuant to Subsection 2.2, and dies while employed by the Bank, and if, following the Executive's death, the assets of the Retirement Income Trust Fund are insufficient to provide the Supplemental Retirement Income Benefit to which the Executive is entitled, the Bank shall be required to make a Contribution to the Retirement Income Trust Fund that, when annuitized (using the Interest Factor) is sufficient to provide a death benefit to the Executive's beneficiaries equal to the Supplemental Retirement Income Benefit reduced by the annuitized value (using the Interest Factor) of any proceeds received under any life insurance policies that may have been obtained on Executive's life by the Retirement Income Trust Fund; provided, however, that such Contribution shall not be in excess of the sum of the remaining Contributions set forth in Exhibit A. Such final contribution shall be payable in a lump sum to the Retirement Income Trust Fund within thirty (30) days of the Executive's death.

(6) Voluntary Termination of Employment

If the Executive does not exercise his withdrawal rights pursuant to Subsection 2.2 and voluntarily terminates his employment for any reason excluding disability or following a Change in Control within thirty-six (36) months of such Change in Control, no further Contribution(s) to the Retirement Income Trust Fund shall be required of the Bank and, if not yet made, no Contribution shall be required for the Plan Year in which such voluntary termination occurs; provided however, that, if necessary, an amount shall be contributed to the Retirement Income Trust Fund which is sufficient to provide the Executive with after tax benefits (assuming a constant tax rate equal to the rate in effect as of the date of the Executive's termination) beginning at his Benefit Age, equal in amount to that

benefit which would have been payable to the Executive if no secular trust had been implemented and the benefit obligation had been accrued under APB Opinion No. 12, as amended by FAS 106.

(c) Withdrawal Rights Exercised.

(1) Phantom Contributions Made Annually.

If the Executive exercises his withdrawal rights pursuant to Subsection 2.2, no further Contributions to the Retirement Income Trust Fund shall be required of the Bank. Thereafter, Phantom Contributions shall be recorded annually in the Executive's Accrued Benefit Account within thirty (30) days of the beginning of each Plan Year, commencing with the first Plan Year following the Plan Year in which the Executive exercises his withdrawal rights. Such Phantom Contributions shall continue to be recorded annually, unless this Subsection 2.1(c) specifically states otherwise, until the earlier of (i) the last Plan Year that Phantom Contributions are required pursuant to Exhibit A, or (ii) the Plan Year of the Executive's termination of employment.

(2) Termination Following a Change in Control

If the Executive exercises his withdrawal rights pursuant to Subsection 2.2, Phantom Contributions shall commence in the Plan Year following the Plan Year in which the Executive first exercises his withdrawal rights. If a Change in Control occurs at the Bank, and within thirty-six (36) months of such Change in Control, the Executive's employment is either (i) involuntarily terminated, or (ii) voluntarily terminated by the Executive after: (A) a material change in the Executive's function, duties, or responsibilities, which change would cause the Executive's position to become one of lesser responsibility, importance, or scope from the position the Executive held at the time of the Change in Control, (B) a relocation of the Executive's principal place of employment by more than thirty (30) miles from its location prior to the Change in Control, or (C) a material reduction in the benefits and perquisites to the Executive from those being provided at the time of the Change in Control, the Phantom Contribution set forth below shall be required of the Bank. The Bank shall be required to record a lump sum Phantom Contribution in the Accrued Benefit Account within ten (10) days of the Executive's termination of employment. The amount of such final Phantom Contribution shall be actuarially determined based on the Phantom Contribution required, at such time, in order to provide a benefit via this Agreement equivalent to the Supplemental Retirement Income Benefit, on an after-tax basis, commencing on the Executive's Benefit Eligibility Date and continuing for the duration of the Payout Period. (Such actuarial determination shall reflect the fact that amounts shall be payable from both the Accrued Benefit Account as well as the Retirement Income Trust Fund and shall also reflect the amount and timing of any withdrawal(s) made by the Executive from the Retirement Income Trust Fund pursuant to Subsection 2.2.)

(3) Termination For Cause

If the Executive is terminated for Cause pursuant to Subsection 5.2, the entire balance of the Executive's Accrued Benefit Account at the time of such termination, which shall include any Phantom Contributions which have been recorded plus interest accrued on such Phantom Contributions, shall be forfeited.

(4) Involuntary Termination of Employment.

If the Executive exercises his withdrawal rights pursuant to Subsection 2.2, and the Executive's employment with the Bank is involuntarily terminated for any reason including termination due to disability of the Executive, but excluding termination for Cause, or termination following a Change in Control, within thirty (30) days of such involuntary termination of employment, the Bank shall be required to record a final Phantom Contribution in an amount equal to: (i) the full Phantom Contribution required for the Plan Year in which such involuntary termination occurs, if not yet made, plus (ii) the present value (computed using a discount rate equal to the Interest Factor) of all remaining Phantom Contributions.

(5) Death During Employment.

If the Executive exercises his withdrawal rights pursuant to Subsection 2.2, and dies while employed by the Bank, Phantom Contributions included on Exhibit A shall be required of the Bank. Such Phantom Contributions shall commence in the Plan Year following the Plan Year in which the Executive exercises his withdrawal rights and shall continue through the Plan Year in which the Executive dies. The Bank shall also be required to record a final Phantom Contribution within thirty (30) days of the Executive's death. The amount of such final Phantom Contribution shall be actuarially determined based on the Phantom Contribution required at such time (if any), in order to provide a benefit via this Agreement equivalent to the Supplemental Retirement Income Benefit commencing within thirty (30) days of the date the Administrator receives notice of the Executive's death and continuing for the duration of the Payout Period. (Such actuarial determination shall reflect the fact that amounts shall be payable from the Accrued Benefit Account as well as the Retirement Income Trust Fund, shall be reduced by the annuitized value (using the Interest Factor) of any proceeds received under any life insurance policies that may have been obtained on the Executives' life by the Retirement Income Trust Fund, and shall also reflect the amount and timing of any withdrawal(s) made by the Executive pursuant to Subsection 2.2.)

(6) Voluntary Termination of Employment

If the Executive exercises his withdrawal rights pursuant to Subsection 2.2 and thereafter voluntarily terminates his employment for any reason excluding death, disability, or following a Change in Control, no further Phantom Contributions to the Accrued Benefit Account shall be required of the Bank and, if not yet made, no Phantom Contribution shall be required for the Plan Year in which such voluntary termination occurs.

2.2 Withdrawals From Retirement Income Trust Fund.

Exercise of withdrawal rights by the Executive pursuant to the Michael Sanchez Grantor Trust agreement shall terminate the Bank's obligation to make any further Contributions to the Retirement Income Trust Fund, and the Bank's obligation to record Phantom Contributions pursuant to Subsection 2.1(c) shall commence. For purposes of this Subsection 2.2, "exercise of withdrawal rights" shall mean those withdrawal rights to which the Executive is entitled under Article III of the Michael Sanchez Grantor Trust agreement and shall exclude any distributions made by the trustee of the Retirement Income Trust Fund to the Executive for purposes of payment of income taxes in accordance with Subsection 2.1 of this Agreement and the tax reimbursement formula contained in the trust document, or other trust expenses properly payable from the Michael Sanchez Grantor Trust pursuant to the provisions of the trust document.

2.3 Benefits Payable From Retirement Income Trust Fund

Notwithstanding anything else to the contrary in this Agreement, in the event that the trustee of the Retirement Income Trust Fund purchases a life insurance policy with the Contributions to and, if applicable, earnings of the Trust, and such life insurance policy is intended to continue in force beyond the Payout Period for the disability or retirement benefits payable from the Retirement Income Trust Fund pursuant to this Agreement, then the trustee shall have discretion to determine the portion of the cash value of such policy available for purposes of annuitizing the Retirement Income Trust Fund (it being understood that for purposes of this Section 2.3, "annuitizing" does not mean surrender of such policy and annuitizing of the cash value received upon such surrender) to provide the disability or retirement benefits payable under this Agreement, after taking into consideration the amounts reasonably believed to be required in order to maintain the cash value of such policy to continue such policy in effect until the death of the Executive and payment of death benefits thereunder.

SECTION III RETIREMENT BENEFIT

3.1 (a) Normal form of payment.

If (i) the Executive is employed with the Bank until reaching his Benefit Age, and (ii) the Executive has not made a Timely Election to receive a lump sum benefit, this Subsection 3.1(a) shall be controlling with respect to retirement benefits.

The Retirement Income Trust Fund, measured as of the Executive's Benefit Age, shall be annuitized (using the Interest Factor) into monthly installments and shall be payable for the Payout Period. Such benefit payments shall commence on the Executive's Benefit Eligibility Date. Should Retirement Income Trust Fund assets actually earn a rate of return, following the date such balance is annuitized, which is less than the rate of return used to annuitize the Retirement Income Trust Fund, no additional contributions to the Retirement Income Trust Fund shall be required by the Bank in order to fund the final benefit payment(s) and make up for any shortage attributable to the less-than-expected rate of return. Should Retirement Income Trust Fund assets actually earn a rate of return, following the date such balance is annuitized, which is greater than the rate of return used to annuitize the Retirement Income Trust Fund, the final benefit payment to the Executive (or his Beneficiary) shall distribute the excess amounts attributable to the greater-than-expected rate of return. The Executive may at anytime during the Payout Period request to receive the unpaid balance of his Retirement Income Trust Fund in a lump sum payment. If such a lump sum payment is requested by the Executive, payment of the balance of the Retirement Income Trust Fund in such lump sum form shall be made only if the Executive gives notice to both the Administrator and trustee in writing. Such lump sum payment shall be payable within thirty (30) days of such notice. In the event the Executive dies at any time after attaining his Benefit Age, but prior to commencement or completion of all monthly payments due and owing hereunder, (i) the trustee of the Retirement Income Trust Fund shall pay to the Executive's Beneficiary the monthly installments (or a continuation of such monthly installments if they have already commenced) for the balance of months remaining in the Payout Period, or (ii) the Executive's Beneficiary may request to receive the unpaid balance of the Executive's Retirement Income Trust Fund in a lump sum payment. If a lump sum payment is requested by the Beneficiary, payment of the balance of the Retirement Income Trust Fund in such lump sum form shall be made only if the Executive's Beneficiary notifies both the Administrator and trustee in writing of such election within

ninety (90) days of the Executive's death. Such lump sum payment shall be payable within thirty (30) days of such notice.

The Executive's Accrued Benefit Account (if applicable), measured as of the Executive's Benefit Age, shall be annuitized (using the Interest Factor) into monthly installments and shall be payable for the Payout Period. Such benefit payments shall commence on the Executive's Benefit Eligibility Date. In the event the Executive dies at any time after attaining his Benefit Age, but prior to commencement or completion of all the payments due and owing hereunder, (i) the Bank shall pay to the Executive's Beneficiary the same monthly installments (or a continuation of such monthly installments if they have already commenced) for the balance of months remaining in the Payout Period, or (ii) the Executive's Beneficiary may request to receive the remainder of any unpaid benefit payments in a lump sum payment. If a lump sum payment is requested by the Beneficiary, the amount of such lump sum payment shall be equal to the unpaid balance of the Executive's Accrued Benefit Account. Payment in such lump sum form shall be made only if the Executive's Beneficiary (i) obtains Board of Director approval, and (ii) notifies the Administrator in writing of such election within ninety (90) days of the Executive's death. Such lump sum payment, if approved by the Board of Directors, shall be made within thirty (30) days of such Board of Director approval.

(b) Alternative payout option.

If (i) the Executive is employed with the Bank until reaching his Benefit Age, and (ii) the Executive has made a Timely Election to receive a lump sum benefit, this Subsection 3.1(b) shall be controlling with respect to retirement benefits.

The balance of the Retirement Income Trust Fund, measured as of the Executive's Benefit Age, shall be paid to the Executive in a lump sum on his Benefit Eligibility Date. In the event the Executive dies after becoming eligible for such payment (upon attainment of his Benefit Age), but before the actual payment is made, his Beneficiary shall be entitled to receive the lump sum benefit in accordance with this Subsection 3.1(b) within thirty (30) days of the date the Administrator receives notice of the Executive's death.

The balance of the Executive's Accrued Benefit Account (if applicable), measured as of the Executive's Benefit Age, shall be paid to the Executive in a lump sum on his Benefit Eligibility Date. In the event the Executive dies after becoming eligible for such payment (upon attainment of his Benefit Age), but before the actual payment is made, his Beneficiary shall be entitled to receive the lump sum benefit in accordance with this Subsection 3.1(b) within thirty (30) days of the date the Administrator receives notice of the Executive's death.

SECTION IV
PRE-RETIREMENT DEATH BENEFIT

4.1 (a) Normal form of payment.

If (i) the Executive dies while employed by the Bank, and (ii) the Executive has not made a Timely Election to receive a lump sum benefit, this Subsection 4.1(a) shall be controlling with respect to pre-retirement death benefits.

The balance of the Executive's Retirement Income Trust Fund, measured as of the later of (i) the Executive's death, or (ii) the date any final lump sum Contribution is made pursuant to Subsection 2.1(b), shall be annuitized (using the Interest Factor) into monthly installments and shall be payable for the Payout Period. Such benefits shall commence within thirty (30) days of the date the Administrator receives notice of the Executive's death. Should Retirement Income Trust Fund assets actually earn a rate of return, following the date such balance is annuitized, which is less than the rate of return used to annuitize the Retirement Income Trust Fund, no additional contributions to the Retirement Income Trust Fund shall be required by the Bank in order to fund the final benefit payment(s) and make up for any shortage attributable to the less-than-expected rate of return. Should Retirement Income Trust Fund assets actually earn a rate of return, following the date such balance is annuitized, which is greater than the rate of return used to annuitize the Retirement Income Trust Fund, the final benefit payment to the Executive's Beneficiary shall distribute the excess amounts attributable to the greater-than-expected rate of return. The Executive's Beneficiary may request to receive the unpaid balance of the Executive's Retirement Income Trust Fund in a lump sum payment. If a lump sum payment is requested by the Beneficiary, payment of the balance of the Retirement Income Trust Fund in such lump sum form shall be made only if the Executive's Beneficiary notifies both the Administrator and trustee in writing of such election within ninety (90) days of the Executive's death. Such lump sum payment shall be made within thirty (30) days of such notice.

The Executive's Accrued Benefit Account (if applicable), measured as of the later of (i) the Executive's death or (ii) the date any final lump sum Phantom Contribution is recorded in the Accrued Benefit Account pursuant to Subsection 2.1(c), shall be annuitized (using the Interest Factor) into monthly installments and shall be payable to the Executive's Beneficiary for the Payout Period. Such benefit payments shall commence within thirty (30) days of the date the Administrator receives notice of the Executive's death, or if later, within thirty (30) days after any final lump sum Phantom Contribution is recorded in the Accrued Benefit Account in accordance with Subsection 2.1(c). The Executive's Beneficiary may request to receive the remainder of any unpaid monthly benefit payments due from the Accrued Benefit Account in a lump sum payment. If a lump sum payment is requested by the Beneficiary, the amount of such lump sum payment shall be equal to the balance of the Executive's Accrued Benefit Account. Payment in such lump sum form shall be made only if the Executive's Beneficiary (i) obtains Board of Director approval, and (ii) notifies the Administrator in writing of such election within ninety (90) days of the Executive's death. Such lump sum payment, if approved by the Board of Directors, shall be payable within thirty (30) days of such Board of Director approval.

(b) Alternative payout option.

If (i) the Executive dies while employed by the Bank, and (ii) the Executive has made a Timely Election to receive a lump sum benefit, this Subsection 4.1(b) shall be controlling with respect to pre-retirement death benefits.

The balance of the Executive's Retirement Income Trust Fund, measured as of the later of (i) the Executive's death, or (ii) the date any final lump sum Contribution is made pursuant to Subsection 2.1(b), shall be paid to the Executive's Beneficiary in a lump sum within thirty (30) days of the date the Administrator receives notice of the Executive's death.

The balance of the Executive's Accrued Benefit Account (if applicable), measured as of the later of (i) the Executive's death, or (ii) the date any final Phantom Contribution is recorded pursuant to Subsection 2.1(c), shall be paid to the Executive's Beneficiary in a lump sum within thirty (30) days of the date the Administrator receives notice of the Executive's death.

SECTION V
BENEFIT(S) IN THE EVENT OF TERMINATION OF SERVICE
PRIOR TO BENEFIT AGE

- 5.1 Voluntary or Involuntary Termination of Service Other Than for Cause. In the event the Executive's service with the Bank is voluntarily or involuntarily terminated prior to Benefit Age, for any reason including a Change in Control, but excluding (i) any disability related termination for which the Board of Directors has approved early payment of benefits pursuant to Subsection 6.1, (ii) the Executive's pre-retirement death, which shall be covered in Section IV, or (iii) termination for Cause, which shall be covered in Subsection 5.2, the Executive (or his Beneficiary) shall be entitled to receive benefits in accordance with this Subsection 5.1. Payments of benefits pursuant to this Subsection 5.1 shall be made in accordance with Subsection 5.1 (a) or 5.1 (b) below, as applicable.

(a) Normal form of payment.

(1) Executive Lives Until Benefit Age

If (i) after such termination, the Executive lives until attaining his Benefit Age, and (ii) the Executive has not made a Timely Election to receive a lump sum benefit, this Subsection 5.1(a)(1) shall be controlling with respect to retirement benefits.

The Retirement Income Trust Fund, measured as of the Executive's Benefit Age, shall be annuitized (using the Interest Factor) into monthly installments and shall be payable for the Payout Period. Such payments shall commence on the Executive's Benefit Eligibility Date. Should Retirement Income Trust Fund assets actually earn a rate of return, following the date such balance is annuitized, which is less than the rate of return used to annuitize the Retirement Income Trust Fund, no additional contributions to the Retirement Income Trust Fund shall be required by the Bank in order to fund the final benefit payment(s) and make up for any shortage attributable to the less-than-expected rate of return. Should Retirement Income Trust Fund assets actually earn a

rate of return, following the date such balance is annuitized, which is greater than the rate of return used to annuitize the Retirement Income Trust Fund, the final benefit payment to the Executive (or his Beneficiary) shall distribute the excess amounts attributable to the greater-than-expected rate of return. The Executive may at anytime during the Payout Period request to receive the unpaid balance of his Retirement Income Trust Fund in a lump sum payment. If such a lump sum payment is requested by the Executive, payment of the balance of the Retirement Income Trust Fund in such lump sum form shall be made only if the Executive gives notice to both the Administrator and trustee in writing. Such lump sum payment shall be payable within thirty (30) days of such notice. In the event the Executive dies at any time after attaining his Benefit Age, but prior to commencement or completion of all monthly payments due and owing hereunder, (i) the trustee of the Retirement Income Trust Fund shall pay to the Executive's Beneficiary the monthly installments (or a continuation of the monthly installments if they have already commenced) for the balance of months remaining in the Payout Period, or (ii) the Executive's Beneficiary may request to receive the unpaid balance of the Executive's Retirement Income Trust Fund in a lump sum payment. If a lump sum payment is requested by the Beneficiary, payment of the balance of the Retirement Income Trust Fund in such lump sum form shall be made only if the

Executive's Beneficiary notifies both the Administrator and trustee in writing of such election within ninety (90) days of the Executive's death. Such lump sum payment shall be made within thirty (30) days of such notice.

The Executive's Accrued Benefit Account (if applicable), measured as of the Executive's Benefit Age, shall be annuitized (using the Interest Factor) into monthly installments and shall be payable for the Payout Period. Such benefit payments shall commence on the Executive's Benefit Eligibility Date. In the event the Executive dies at any time after attaining his Benefit Age, but prior to commencement or completion of all the payments due and owing hereunder, (i) the Bank shall pay to the Executive's Beneficiary the same monthly installments (or a continuation of such monthly installments if they have already commenced) for the balance of months remaining in the Payout Period, or (ii) the Executive's Beneficiary may request to receive the remainder of any unpaid benefit payments in a lump sum payment. If a lump sum payment is requested by the Beneficiary, the amount of such lump sum payment shall be equal to the unpaid balance of the Executive's Accrued Benefit Account. Payment in such lump sum form shall be made only if the Executive's Beneficiary (i) obtains Board of Director approval, and (ii) notifies the Administrator in writing of such election within ninety (90) days of the Executive's death. Such lump sum payment, if approved by the Board of Directors, shall be made within thirty (30) days of such Board of Director approval.

(2) Executive Dies Prior to Benefit Age

If (i) after such termination, the Executive dies prior to attaining his Benefit Age, and (ii) the Executive has not made a Timely Election to receive a lump sum benefit, this Subsection 5.1(a)(2) shall be controlling with respect to retirement benefits.

The Retirement Income Trust Fund, measured as of the date of the Executive's death, shall be annuitized (using the Interest Factor) into monthly installments and shall be payable for the Payout Period. Such payments shall commence within thirty (30) days of the date the Administrator receives notice of the Executive's death. Should Retirement Income Trust Fund assets actually earn a rate of return, following the date such balance is annuitized, which is less than the rate of return used to annuitize the Retirement Income Trust Fund, no additional contributions to the Retirement Income Trust Fund shall be required by the Bank in order to fund the final benefit payment(s) and make up for any shortage attributable to the less-than-expected rate of return.

Should Retirement Income Trust Fund assets actually earn a rate of return, following the date such balance is annuitized, which is greater than the rate of return used to annuitize the Retirement Income Trust Fund, the final benefit payment to the Executive's Beneficiary shall distribute the excess amounts attributable to the greater-than-expected rate of return. The Executive's Beneficiary may request to receive the unpaid balance of the Executive's Retirement Income Trust Fund in the form of a lump sum payment. If a lump sum payment is requested by the Beneficiary, payment of the balance of the Retirement Income Trust Fund in such lump sum form shall be made only if the Executive's Beneficiary notifies both the Administrator and trustee in writing of such election within ninety (90) days of the Executive's death. Such lump sum payment shall be made within thirty (30) days of such notice.

The Executive's Accrued Benefit Account (if applicable), measured as of the date of the Executive's death, shall be annuitized (using the Interest Factor) into monthly installments and shall be payable for the Payout Period. Such payments shall commence within thirty (30) days of the date the Administrator receives notice of the Executive's death. The Executive's Beneficiary may request to receive the unpaid balance of the Executive's Accrued Benefit Account in the form of a lump sum payment. If a lump sum payment is requested by the Beneficiary, payment of the balance of the

Accrued Benefit Account in such lump sum form shall be made only if the Executive's Beneficiary (i) obtains Board of Director approval, and (ii) notifies the Administrator in writing of such election within ninety (90) days of the Executive's death. Such lump sum payment, if approved by the Board of Directors, shall be made within thirty (30) days of such Board of Director approval.

(b) Alternative Payout Option.

(1) Executive Lives Until Benefit Age

If (i) after such termination, the Executive lives until attaining his Benefit Age, and (ii) the Executive has made a Timely Election to receive a lump sum benefit, this Subsection 5.1(b)(1) shall be controlling with respect to retirement benefits.

The balance of the Retirement Income Trust Fund, measured as of the Executive's Benefit Age, shall be paid to the Executive in a lump sum on his Benefit Eligibility Date. In the event the Executive dies after becoming eligible for such payment (upon attainment of his Benefit Age), but before the actual payment is made, his Beneficiary shall be entitled to receive the lump sum benefit in accordance with this Subsection 5.1(b)(1) within thirty (30) days of the date the Administrator receives notice of the Executive's death.

The balance of the Executive's Accrued Benefit Account (if applicable), measured as of the Executive's Benefit Age, shall be paid to the Executive in a lump sum on his Benefit Eligibility Date. In the event the Executive dies after becoming eligible for such payment (upon attainment of his Benefit Age), but before the actual payment is made, his Beneficiary shall be entitled to receive the lump sum benefit in accordance with this Subsection 5.1(b)(1) within thirty (30) days of the date the Administrator receives notice of the Executive's death.

(2) Executive Dies Prior to Benefit Age

If (i) after such termination, the Executive dies prior to attaining his Benefit Age, and (ii) the Executive has made a Timely Election to receive a lump sum benefit, this Subsection 5.1(b)(2) shall be controlling with respect to pre-retirement death benefits.

The balance of the Retirement Income Trust Fund, measured as of the date of the Executive's death, shall be paid to the Executive's Beneficiary within thirty (30) days of the date the Administrator receives notice of the Executive's death.

The balance of the Executive's Accrued Benefit Account (if applicable), measured as of the date of the Executive's death, shall be paid to the Executive's Beneficiary within thirty (30) days of the date the Administrator receives notice of the Executive's death.

5.2 Termination For Cause.

If the Executive is terminated for Cause, all benefits under this Agreement, other than those which can be paid from previous Contributions to the Retirement Income Trust Fund (and earnings on such Contributions), shall be forfeited. Furthermore, no further Contributions (or Phantom Contributions, as applicable) shall be required of the Bank for the year in which such termination for Cause occurs (if not yet made). The Executive shall be entitled to receive a benefit in accordance with this Subsection 5.2.

The balance of the Executive's Retirement Income Trust Fund shall be paid to the Executive in a lump sum on his Benefit Eligibility Date. In the event the Executive dies prior to his Benefit Eligibility Date, his Beneficiary shall be entitled to receive the balance of the Executive's Retirement Income Trust Fund in a lump sum within thirty (30) days of the date the Administrator receives notice of the Executive's death.

SECTION VI
OTHER BENEFITS

6.1 (a) Disability Benefit.

If the Executive's service is terminated prior to Benefit Age due to a disability which meets the criteria set forth below, the Executive may request to receive the Disability Benefit in lieu of the retirement benefit(s) available pursuant to Section 5.1 (which is (are) not available prior to the Executive's Benefit Eligibility Date).

In any instance in which: (i) it is determined by a duly licensed, independent physician selected by the Bank, that the Executive is no longer able, properly and satisfactorily, to perform his regular duties as an officer, because of ill health, accident, disability or general inability due to age, (ii) the Executive requests payment under this Subsection in lieu of Subsection 5.1, and (iii) Board of Director approval is obtained to allow payment under this Subsection, in lieu of Subsection 5.1, the Executive shall be entitled to the following lump sum benefit(s). The lump sum benefit(s) to which the Executive is entitled shall include: (i) the balance of the Retirement Income Trust Fund, plus (ii) the balance of the Accrued Benefit Account (if applicable). The benefit(s) shall be paid within thirty (30) days following the date of the Executive's request for such benefit is approved by the Board of Directors.

In the event the Executive dies after becoming eligible for such payment(s) but before the actual payment(s) is (are) made, his Beneficiary shall be entitled to receive the benefit(s) provided for in this Subsection 6.1(a) within thirty (30) days of the date the Administrator receives notice of the Executive's death.

(b) Disability Benefit - Supplemental.

Furthermore, if Board of Director approval is obtained within thirty (30) days of the Executive's death, the Bank shall make a direct, lump sum payment to the Executive's Beneficiary in an amount equal to the sum of all remaining Contributions (or Phantom Contributions) set forth in Exhibit A, but not required pursuant to Subsection 2.1(b) (or 2.1(c)) due to the Executive's disability-related termination. Such lump sum payment, if approved by the Board of Directors, shall be payable to the Executive's Beneficiary within thirty (30) days of such Board of Director approval.

6.2 Additional Death Benefit - Burial Expense. In addition to the above-described benefits, upon the Executive's death, the Executive's Beneficiary shall be entitled to receive a one-time lump sum death benefit in the amount of Ten Thousand (\$10,000.00) Dollars. This benefit shall be provided specifically for the purpose of providing payment for burial and/or funeral expenses of the Executive. Such death benefit shall be payable within thirty (30) days of the Executive's death. The Executive's Beneficiary shall not be entitled to such benefit under this Plan (i) if the Executive is terminated for Cause prior to death or (ii) the Executive's Beneficiary receives a supplemental \$10,000 death benefit under any other non-qualified deferred compensation plan sponsored by the Bank.

SECTION VII
BENEFICIARY DESIGNATION

The Executive shall make an initial designation of primary and secondary Beneficiaries upon execution of this Agreement and shall have the right to change such designation, at any subsequent time, by submitting to (i) the Administrator, and (ii) the trustee of the Retirement Income Trust Fund, in substantially the form attached as Exhibit B to this Agreement, a written designation of primary and secondary Beneficiaries. Any Beneficiary designation made subsequent to execution of this Agreement shall become effective only when receipt thereof is acknowledged in writing by the Administrator.

SECTION VIII
NON-COMPETITION

8.1 Non-Competition During Employment.

In consideration of the agreements of the Bank contained herein and of the payments to be made by the Bank pursuant hereto, the Executive hereby agrees that, for as long as he remains employed by the Bank, he will devote substantially all of his time, skill, diligence and attention to the business of the Bank, and will not actively engage, either directly or indirectly, in any business or other activity which is, or may be deemed to be, in any way competitive with or adverse to the best interests of the business of the Bank, unless the Executive has the prior express written consent of the Bank.

8.2 Breach of Non-Competition Clause.

In the event of any material breach by the Executive of the agreements and covenants described in Subsection 8.1 occurs all further Contributions to the Retirement Income Trust Fund (or Phantom Contributions recorded in the Accrued Benefit Account) shall immediately cease, and all benefits under this Agreement, other than those which can be paid from previous Contributions to the Retirement Income Trust Fund (and earnings on such Contributions), shall be forfeited. The Executive (or his Beneficiary) shall be entitled to receive a benefit from the Retirement Income Trust Fund in accordance with this Subsection 8.2.

The balance of the Executive's Retirement Income Trust Fund shall be paid to the Executive in a lump sum on his Benefit Eligibility Date. In the event the Executive dies prior to his Benefit Eligibility Date, his Beneficiary shall be entitled to receive the balance of the Executive's Retirement Income Trust Fund in a lump sum within thirty (30) days of the date the Administrator receives notice of the Executive's death.

8.3 Non-Competition Following Employment.

Executive further understands and agrees that, following Executive's termination of employment, other than following a Change in Control, and continuing for a period of twelve (12) months thereafter, the Executive shall not, without the prior written consent of the Bank, engage in the financial institutions' business as a director, officer, employee or consultant for, or acquiring or maintaining more than a 1% passive investment in, any business or enterprise which competes with the principal business of the Bank or any of its subsidiaries which has one or more offices or branches located within a thirty-five (35) mile radius of the principal business location of the Bank's corporate offices. In the event of the Executive's breach of the covenants and agreements contained herein, the Bank's obligation, if any, to make payments to the Executive from the Accrued Benefit Account shall cease and the Executive's right to amounts credited to the Accrued Benefit Account shall be forfeited.

SECTION IX
EXECUTIVE'S RIGHT TO ASSETS

The rights of the Executive, any Beneficiary, or any other person claiming through the Executive under this Agreement, shall be solely those of an unsecured general creditor of the Bank. The Executive, the Beneficiary, or any other person claiming through the Executive, shall only have the right to receive from the Bank those payments or amounts so specified under this Agreement. The Executive agrees that he, his Beneficiary, or any other person claiming through him shall have no rights or interests whatsoever in any asset of the Bank, including any insurance policies or contracts which the Bank may possess or obtain to informally fund this Agreement.

Any asset used or acquired by the Bank in connection with the liabilities it has assumed under this Agreement shall not be deemed to be held under any trust for the benefit of the Executive or his Beneficiaries, unless such asset is contained in the rabbi trust described in Section XII of this Agreement. Any such asset shall be and remain a general, unpledged asset of the Bank in the event of the Bank's insolvency.

SECTION X
RESTRICTIONS UPON FUNDING

The Bank shall have no obligation to set aside, earmark or entrust any fund or money with which to pay its obligations under this Agreement, other than those Contributions required to be made to the Retirement Income Trust Fund. The Executive, his Beneficiaries or any successor in interest to him shall be and remain simply a general unsecured creditor of the Bank in the same manner as any other creditor having a general claim for matured and unpaid compensation. The Bank reserves the absolute right in its sole discretion to either purchase assets to meet its obligations undertaken by this Agreement or to refrain from the same and to determine the extent, nature, and method of such asset purchases. Should the Bank decide to purchase assets such as life insurance, mutual funds, disability policies or annuities, the Bank reserves the absolute right, in its sole discretion, to replace such assets from time to time or to terminate its investment in such assets at any time, in whole or in part. At no time shall the Executive be deemed to have any lien, right, title or interest in or to any specific investment or to any assets of the Bank. If the Bank elects to invest in a life insurance, disability or annuity policy upon the life of the Executive, then the Executive shall assist the Bank by freely submitting to a physical examination and by supplying such additional information necessary to obtain such insurance or annuities.

SECTION XI
ACT PROVISIONS

- 11.1 Named Fiduciary and Administrator. The Bank, as Administrator, shall be the Named Fiduciary of this Agreement. As Administrator, the Bank shall be responsible for the management, control and administration of the Agreement as established herein. The Administrator may delegate to others certain aspects of the management and operational responsibilities of the Agreement, including the employment of advisors and the delegation of ministerial duties to qualified individuals.
- 11.2 Claims Procedure and Arbitration. In the event that benefits under this Agreement are not paid to the Executive (or to his Beneficiary in the case of the Executive's death) and such claimants feel they are entitled to receive such benefits, then a written claim must be made to the Administrator within sixty (60) days from the date payments are refused. The Administrator shall review the written claim and, if the claim is denied, in whole or in part, it shall provide in writing, within ninety (90) days of receipt of such claim, its specific reasons for such denial, reference to the provisions of this Agreement upon which the denial is based, and any additional material or information necessary to perfect the claim.
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Such writing by the Administrator shall further indicate the additional steps which must be undertaken by claimants if an additional review of the claim denial is desired.

If claimants desire a second review, they shall notify the Administrator in writing within sixty (60) days of the first claim denial. Claimants may review this Agreement or any documents relating thereto and submit any issues and comments, in writing, they may feel appropriate. In its sole discretion, the Administrator shall then review the second claim and provide a written decision within sixty (60) days of receipt of such claim. This decision shall state the specific reasons for the decision and shall include reference to specific provisions of this Agreement upon which the decision is based.

If claimants continue to dispute the benefit denial based upon completed performance of this Plan and the Joinder Agreement or the meaning and effect of the terms and conditions thereof, then claimants may submit the dispute to mediation in the state of Florida, administered by the American Arbitration Association ("AAA") (or a mediator selected by the parties) in accordance with the AAA's Commercial Mediation Rules. If mediation is not successful in resolving the dispute, it shall be settled by arbitration administered by the AAA under its Commercial Arbitration Rules, and judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.

SECTION XII MISCELLANEOUS

- 12.1 No Effect on Employment Rights. Nothing contained herein will confer upon the Executive the right to be retained in the service of the Bank nor limit the right of the Bank to discharge or otherwise deal with the Executive without regard to the existence of the Agreement.
 - 12.2 State Law. The Agreement is established under, and will be construed according to, the laws of the state of Florida, to the extent such laws are not preempted by the Act and valid regulations published thereunder.
 - 12.3 Severability. In the event that any of the provisions of this Agreement or portion thereof, are held to be inoperative or invalid by any court of competent jurisdiction, then: (1) insofar as is reasonable, effect will be given to the intent manifested in the provisions held invalid or inoperative, and (2) the validity and enforceability of the remaining provisions will not be affected thereby.
 - 12.4 Incapacity of Recipient. In the event the Executive is declared incompetent and a conservator or other person legally charged with the care of his person or Estate is appointed, any benefits under the Agreement to which such Executive is entitled shall be paid to such conservator or other person legally charged with the care of his person or Estate.
 - 12.5 Unclaimed Benefit. The Executive shall keep the Bank informed of his current address and the current address of his Beneficiaries. The Bank shall not be obligated to search for the whereabouts of any person. If the location of the Executive is not made known to the Bank as of the date upon which any payment of any benefits from the Accrued Benefit Account may first be made, the Bank shall delay payment of the Executive's benefit payment(s) until the location of the Executive is made known to the Bank; however, the Bank shall only be obligated to hold such benefit payment(s) for the Executive until the expiration of thirty-six (36) months. Upon expiration of the thirty-six (36) month period, the Bank may discharge its obligation by payment to the Executive's Beneficiary. If the location of the Executive's Beneficiary is not made known to the Bank by the end of an additional two (2) month period following expiration of the thirty-six (36) month period, the Bank may discharge its obligation by payment to the Executive's Estate. If there is no Estate in existence at such time or if
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such fact cannot be determined by the Bank, the Executive and his Beneficiary(ies) shall thereupon forfeit any rights to the balance, if any, of the Executive's Accrued Benefit Account provided for such Executive and/or Beneficiary under this Agreement.

- 12.6 Limitations on Liability. Notwithstanding any of the preceding provisions of the Agreement, no individual acting as an employee or agent of the Bank, or as a member of the Board of Directors shall be personally liable to the Executive or any other person for any claim, loss, liability or expense incurred in connection with the Agreement.
- 12.7 Gender. Whenever in this Agreement words are used in the masculine or neuter gender, they shall be read and construed as in the masculine, feminine or neuter gender, whenever they should so apply.
- 12.8 Effect on Other Corporate Benefit Agreements. Nothing contained in this Agreement shall affect the right of the Executive to participate in or be covered by any qualified or non-qualified pension, profit sharing, group, bonus or other supplemental compensation or fringe benefit agreement constituting a part of the Bank's existing or future compensation structure.
- 12.9 Suicide. Notwithstanding anything to the contrary in this Agreement, if the Executive's death results from suicide, whether sane or insane, within twenty-four (24) months after execution of this Agreement, all further Contributions to the Retirement Income Trust Fund (or Phantom Contributions recorded in the Accrued Benefit Account) shall thereupon cease, and no Contribution (or Phantom Contribution) shall be made by the Bank to the Retirement Income Trust Fund (or recorded in the Accrued Benefit Account) in the year such death resulting from suicide occurs (if not yet made). All benefits other than those available from previous Contributions to the Retirement Income Trust Fund under this Agreement shall be forfeited, and this Agreement shall become null and void. The balance of the Retirement Income Trust Fund, measured as of the Executive's date of death, shall be paid to the Beneficiary within thirty (30) days of the date the Administrator receives notice of the Executive's death.
- 12.10 Inurement. This Agreement shall be binding upon and shall inure to the benefit of the Bank, its successors and assigns, and the Executive, his successors, heirs, executors, administrators, and Beneficiaries.
- 12.11 Headings. Headings and sub-headings in this Agreement are inserted for reference and convenience only and shall not be deemed a part of this Agreement.
- 12.12 Source of Payments. All payments provided in this Agreement shall be timely paid in cash or check from the general funds of the Bank or the assets of the rabbi trust, to the extent made from the Accrued Benefit Account.
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SECTION XIII
AMENDMENT/PLAN TERMINATION

- 13.1 Amendment or Plan Termination. The Bank intends this Agreement to be permanent, but reserves the right to amend or terminate the Agreement when, in the sole opinion of the Bank, such amendment or termination is advisable. However, any termination of the Agreement which is done in anticipation of or pursuant to a "Change in Control", as defined in Subsection 1.10, shall be deemed to trigger Subsection 2.1(b)(2) (or 2.1(c)(2), as applicable) of the Agreement notwithstanding the Executive's continued employment, and benefit(s) shall be paid from the Retirement Income Trust Fund (and Accrued Benefit Account, if applicable) in accordance with Subsection 13.2 below and with Subsections 2.1(b)(2) (or 2.1(c)(2), as applicable). Any amendment or termination of the Agreement by the Bank shall be made pursuant to a resolution of the Board of Directors of the Bank and shall be effective as of the date of such resolution. No amendment or termination of the Agreement by the Bank shall directly or indirectly deprive the Executive of all or any portion of the Executive's Retirement Income Trust Fund (and Accrued Benefit Account, if applicable) as of the effective date of the resolution amending or terminating the Agreement.

Notwithstanding the above, if the Executive does not exercise any withdrawal rights pursuant to Subsection 2.2, and if at any time after the final Contribution is made to the Retirement Income Trust Fund the Executive elects to terminate the Retirement Income Trust Fund and receive a distribution of the assets of the Retirement Income Trust Fund, then upon such distribution this Agreement shall terminate.

- 13.2 Executive's Right to Payment Following Plan Termination. In the event of a termination of the Agreement, the Executive shall be entitled to the balance, if any, of his Retirement Income Trust Fund (and Accrued Benefit Account, if applicable). However, if such termination is done in anticipation of or pursuant to a "Change in Control," such balance(s) shall include the final Contribution (or final Phantom Contribution) made (or recorded) pursuant to Subsection 2.1(b)(2) (or 2.1(c)(2)). Payment of the balance(s) of the Executive's Retirement Income Trust Fund (and Accrued Benefit Account, if applicable) shall not be dependent upon his continuation of employment with the Bank following the termination date of the Agreement. Payment of the balance(s) of the Executive's Retirement Income Trust Fund (and Accrued Benefit Account, if applicable) shall be made in a lump sum within thirty (30) days of the date of termination of the Agreement.

SECTION XIV
EXECUTION

- 14.1 This Agreement and the Michael Sanchez Grantor Trust Agreement set forth the entire understanding of the parties hereto with respect to the transactions contemplated hereby, and any previous agreements or understandings between the parties hereto regarding the subject matter hereof are merged into and superseded by this Agreement and the Michael Sanchez Grantor Trust Agreement.
- 14.2 This Agreement shall be executed in triplicate, each copy of which, when so executed and delivered, shall be an original, but all three copies shall together constitute one and the same instrument.
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IN WITNESS WHEREOF, the Bank and the Executive have caused this Agreement to be executed on the day and date first above written.

WITNESS:

FIRST NATIONAL BANK OF NASSAU COUNTY:

/s/ Bethany Kessel

By: /s/ Timothy S. Ayers

Title: SVP/CFO

WITNESS:

EXECUTIVE:

/s/ Debra J. Shriver

/s/ Michael G. Sanchez

**CONDITIONS, ASSUMPTIONS,
AND
SCHEDULE OF CONTRIBUTIONS AND PHANTOM CONTRIBUTIONS**

1. Interest Factor - for purposes of:
 - a. the Accrued Benefit Account - shall be six percent (6%) per annum, compounded monthly.
 - b. the Retirement Income Trust Fund - for purposes of annuitizing the balance of the Retirement Income Trust Fund over the Payout Period, the trustee of the Michael Sanchez Grantor Trust shall exercise discretion in selecting the appropriate rate given the nature of the investments contained in the Retirement Income Trust Fund and the expected return associated with the investments. For these purposes, if the trustee of the Retirement Income Trust Fund has purchased a life insurance policy, the trustee shall have the discretion to determine the portion of the cash value of such policy available for purposes of annuitizing the Retirement Income Trust Fund, in accordance with Section 2.3 of the Agreement.
2. The amount of the annual Contributions (or Phantom Contributions) to the Retirement Income Trust Fund (or Accrued Benefit Account) has been based on the annual incremental accounting accruals which would be required of the Bank through the earlier of the Executive's death or Benefit Age, (i) pursuant to APB Opinion No. 12, as amended by FAS 106 and (ii) assuming a discount rate equal to Six percent (6%) per annum, in order to provide the unfunded, non-qualified Supplemental Retirement Income Benefit.
3. Supplemental Retirement Income Benefit means an actuarially determined annual amount equal to Seventy-Five Thousand Dollars (\$75,000) at age 65 if paid entirely from the Accrued Benefit Account or Forty-Eight Thousand Dollars (\$48,000) at age 65 if paid from the Retirement Income Trust Fund.

The Supplemental Retirement Income Benefit:

- the definition of Supplemental Retirement Income Benefit has been incorporated into the Agreement for the sole purpose of actuarially establishing the amount of annual Contributions (or Phantom Contributions) to the Retirement Income Trust Fund (or Accrued Benefit Account). The amount of any actual retirement, pre-retirement or disability benefit payable pursuant to the Agreement will be a function of (i) the amount and timing of Contributions (or Phantom Contributions) to the Retirement Income Trust Fund (or Accrued Benefit Account) and (ii) the actual investment experience of such Contributions (or the monthly compounding rate of Phantom Contributions).
-

Exhibit A

4. Schedule of Annual Gross Contributions/Phantom Contributions

<u>Plan Year</u>	<u>Amount</u>
2004	34,597
2005	39,599
2006	45,143
2007	51,282
2008	58,073
2009	65,577
2010	73,863
2011	83,005
2012	93,082
2013	104,182
2014	75,070

Exhibit A - Cont'd.

EXECUTIVE SUPPLEMENTAL RETIREMENT

INCOME AGREEMENT

BENEFICIARY DESIGNATION

The Executive, under the terms of the Executive Supplemental Retirement Income Agreement executed by the Bank, dated the 20th day of October, 2004, hereby designates the following Beneficiary(ies) to receive any guaranteed payments or death benefits under such Agreement, following his death:

PRIMARY BENEFICIARY: _____

SECONDARY BENEFICIARY: _____

This Beneficiary Designation hereby revokes any prior Beneficiary Designation which may have been in effect.

Such Beneficiary Designation is revocable.

DATE: _____, 20

WITNESS

EXECUTIVE



Exhibit B
EXECUTIVE SUPPLEMENTAL RETIREMENT INCOME AGREEMENT
NOTICE OF ELECTION TO CHANGE FORM OF PAYMENT

TO: Bank
Attention:

I hereby give notice of my election to change the form of payment of my Supplemental Retirement Income Benefit, as specified below. **I understand that such notice, in order to be effective, must be submitted in accordance with the time requirements described in my Executive Supplemental Retirement Income Agreement.**

- I hereby elect to change the form of payment of my benefits from monthly installments throughout my Payout Period to a lump sum benefit payment.
- I hereby elect to change the form of payment of my benefits from a lump sum benefit payment to monthly installments throughout my Payout Period. Such election hereby revokes my previous notice of election to receive a lump sum form of benefit payments.

Executive

Date

Acknowledged By: _____

Title: _____

Date: _____

Exhibit C

**CONDITIONS, ASSUMPTIONS,
AND
SCHEDULE OF CONTRIBUTIONS AND PHANTOM CONTRIBUTIONS**

1. Interest Factor - for purposes of:
 - a. the Accrued Benefit Account - shall be six percent (6%) per annum, compounded monthly.
 - b. the Retirement Income Trust Fund - for purposes of annuitizing the balance of the Retirement Income Trust Fund over the Payout Period, the trustee of the Michael Sanchez Grantor Trust shall exercise discretion in selecting the appropriate rate given the nature of the investments contained in the Retirement Income Trust Fund and the expected return associated with the investments. For these purposes, if the trustee of the Retirement Income Trust Fund has purchased a life insurance policy, the trustee shall have the discretion to determine the portion of the cash value of such policy available for purposes of annuitizing the Retirement Income Trust Fund, in accordance with Section 2.3 of the Agreement.
2. The amount of the annual Contributions (or Phantom Contributions) to the Retirement Income Trust Fund (or Accrued Benefit Account) has been based on the annual incremental accounting accruals which would be required of the Bank through the earlier of the Executive's death or Benefit Age, (i) pursuant to APB Opinion No. 12, as amended by FAS 106 and (ii) assuming a discount rate equal to Six percent (6%) per annum, in order to provide the unfunded, non-qualified Supplemental Retirement Income Benefit.
3. Supplemental Retirement Income Benefit means an actuarially determined annual amount equal to Seventy-Five Thousand Dollars (\$75,000) at age 65 if paid entirely from the Accrued Benefit Account or Forty-Eight Thousand Dollars (\$48,000) at age 65 if paid from the Retirement Income Trust Fund.

The Supplemental Retirement Income Benefit:

- the definition of Supplemental Retirement Income Benefit has been incorporated into the Agreement for the sole purpose of actuarially establishing the amount of annual Contributions (or Phantom Contributions) to the Retirement Income Trust Fund (or Accrued Benefit Account). The amount of any actual retirement, pre-retirement or disability benefit payable pursuant to the Agreement will be a function of (i) the amount and timing of Contributions (or Phantom Contributions) to the Retirement Income Trust Fund (or Accrued Benefit Account) and (ii) the actual investment experience of such Contributions (or the monthly compounding rate of Phantom Contributions).
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Exhibit A – Revised 11-05

4. Schedule of Annual Gross Contributions/Phantom Contributions

Plan Year	Amount
10/1/2006 – 9/1/2007	74,564
10/1/2007 – 9/1/2008	74,564
10/1/2008 – 9/1/2009	74,564
10/1/2009 – 9/1/2010	74,564
10/1/2010 – 9/1/2011	74,564
10/1/2011 – 9/1/2012	74,564
10/1/2012 – 9/1/2013	74,564
10/1/2013 – 9/1/2014	74,564
10/1/2014	6,214

Exhibit A – Revised 11-05 - Cont=

**MICHAEL SANCHEZ
GRANTOR TRUST AGREEMENT**

**FIRST NATIONAL BANK OF NASSAU COUNTY
Fernandina Beach, Florida**

October 1, 2004

**Financial Institution Consulting Corporation
700 Colonial Road, Suite 102
Memphis, Tennessee 38117
WATS: 1-800-873-0089
FAX: (901) 684-7414
(901) 684-7400
MICHAEL SANCHEZ
GRANTOR TRUST AGREEMENT**

This Trust Agreement ("Trust") made effective the 1st day of October, 2004, by and among MICHAEL SANCHEZ (hereinafter referred to as "Grantor"), FIRST NATIONAL BANK OF NASSAU COUNTY, a federally-chartered commercial bank having its principal place of business in Florida, or any successor corporation (hereinafter referred to as the "Bank"), and SECURITY FEDERAL SAVINGS BANK, a federally-chartered savings association with its principal place of business in the State of Indiana (hereinafter referred to as the "Trustee").

WITNESSETH:

WHEREAS, it is the desire of Grantor to provide funds for the benefit of certain designated beneficiaries in the event of his death, reserving unto himself the right to receive payments during his lifetime, and to contribute or cause to be contributed such funds or property as Grantor may currently possess or that Grantor may become entitled to in the future by virtue of his employment relationship or otherwise;

WHEREAS, the Bank has entered into a certain Executive Supplemental Retirement Income Plan, effective as of the 1st day of October, 2004 (hereinafter referred to as "Agreement") with Grantor, a copy of which is attached hereto as Exhibit A; and

WHEREAS, the Bank has agreed to pay retirement benefits to Grantor, to pay disability benefits to Grantor and to pay pre-retirement death benefits to the designated Beneficiary of Grantor (collectively the "Benefit" or "Benefits") in accordance with the terms and provisions of the Agreement, furthermore the Bank has agreed to assure that the future payments of such amounts will not be improperly withheld, and finally the Bank has agreed to establish a Retirement Income Trust Fund which shall be maintained hereunder as a separate account (hereinafter referred to as "Account"); and

WHEREAS, Grantor wishes to establish a trust for the purpose of benefiting certain designated Beneficiaries in the event of Grantor's death and Grantor wishes to establish a trust to accumulate assets to assist the Bank in fulfilling certain obligations under the Agreement, to which trust the Bank shall make contributions (AContributions@) in such amounts and at such times as shall be determined in accordance with the terms of the Agreement and this Trust; and

WHEREAS, the Bank desires to deposit with Trustee for the benefit of Grantor such cash or other assets on an annual basis sufficient to discharge certain obligations of the Bank under the Agreement as such obligations become due and payable under the Agreement;

WHEREAS, Grantor and the Bank desire the Trustee to hold all funds contributed by the Bank, and the Trustee is willing to hold and administer such funds, pursuant to the terms of the Agreement and this Trust; and

WHEREAS, said Trustee herein above named has agreed to accept such trusteeship and all interest in property which may come to it by this Trust, for the benefit and use of Grantor and Grantor's beneficiary, designated pursuant to the Agreement (ABeneficiary@), all in accordance with the provisions hereinafter set forth;

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained, Grantor, Bank and Trustee do hereby covenant and agree as follows:

**ARTICLE I
GRANT OF TRUST**

Grantor hereby establishes the Trust and does hereby grant, assign, set over, transfer and deliver to Trustee, its successors and assigns, the property listed on Exhibit A to the Agreement attached hereto for Grantor's benefit and the benefit of any Beneficiary named thereunder. Said property shall be held by Trustee, both as to interest, income and profit to be received therefrom, and from the investment or reinvestment of said principal, interest, income or profits, as follows: the Trustee shall hold the Trust property herein transferred, and such additional property as may be hereafter acquired by Trustee under the terms and conditions of this Trust.

The purpose of this Trust is the fulfillment of Grantor's desires, wishes and objectives by transfer of all title over property contributed and the interest, income and profits thereof, unto the said Trustee, its successors and assigns, for the following uses and subject to the terms, conditions, powers and agreements hereinafter specified.

**ARTICLE II
ACCEPTANCE OF TRUST**

The Trustee hereby accepts this Trust as evidenced by the Trustee's execution of this Trust Agreement. The Bank hereby represents and warrants that it has the full power, authority, and capacity to execute this Trust and perform its obligation hereunder. This Trust constitutes a legal, valid and binding obligation of the Grantor and the Bank, and is enforceable against the Bank in accordance with its terms.

**ARTICLE III
TRUST PROVISIONS**

The Trustee shall receive any property from the Grantor and Contributions paid to it in cash, or in other property acceptable to it, which shall from time to time be transferred to the Trust by the Bank. The Trustee shall also receive property contributed from any other source in cash, or in other property acceptable to Trustee. The Trustee shall be accountable for all property and Contributions received, but the Trustee shall have no duty to see that the Contributions received are sufficient to provide for the retirement, disability, death or other benefits provided under the Agreement, nor shall the Trustee be obligated or have any right to enforce or collect any Contribution from the Bank. All property and Contributions so received together with the income therefrom and any other increment thereon shall be held, managed and administered by the Trustee pursuant to the terms of this Trust.

The Trustee shall establish and maintain a separate account, the Account, for Grantor or Beneficiary, to which shall be credited all Contributions by the Bank, pursuant to the establishment of a Retirement Income Trust Fund under the Agreement by and on behalf of Grantor, and all earnings thereon, and from which there shall be deducted all distributions of Benefits, to or on behalf of the Grantor or Beneficiary and any expenses of administering the Trust that may be chargeable against the Account, as permitted herein.

The Trustee shall hold, administer and invest Contributions, earnings on such Contributions, and all other sums paid to the Trustee in accordance with the provisions of this Trust.

As of the end of each calendar year the Trustee shall determine the fair market value of the Trust investments, after adding any deposits made to the Trust and deducting distributions and any expenses of administration paid out of the Trust during such year. In determining such value, the Trustee shall use such generally accepted methods and basis as the Trustee, in its discretion, shall deem advisable; provided, however, that the Trustee shall be entitled to request, receive and rely conclusively on the value of any insurance policy as set forth in documents or schedules provided to the Trustee by the issuer or Benefits Determiner. All income of the Trust earned during each calendar year shall become principal as of the end of such year.

The Bank shall make Contributions to the Trust at the time and in the manner and amount specified in the Agreement.

The Bank shall notify Grantor, as soon as reasonably practicable, after each Contribution to the Trust on behalf of the Grantor. The form of such notice shall be by mutual agreement between the Grantor and the Bank.

Any and all Contributions, as well as earnings thereon, made on behalf of Grantor shall be deemed to be the sole and exclusive property of the Grantor. After satisfying all liabilities of the Trust, the Grantor may withdraw, either in whole or in part, any or all amounts contributed on behalf of the Grantor by the Bank, including earnings thereon, at any time and from time to time within thirty (30) days after the date of the most recent Contribution to the Trust, as determined in the sole and exclusive discretion of the Grantor. Withdrawal instructions shall be given to the Trustee in writing, and signed by the Grantor. Such withdrawal instructions must be delivered to the Trustee on or before midnight of the thirtieth (30th) day after the date of each Contribution. A copy of such withdrawal instructions shall be delivered by the Grantor to the Bank within five (5) days of delivery to the Trustee. All withdrawals shall be deducted from Contributions on a first in first out basis in the event of more than one Contribution within a thirty (30) day period. The lapse of or failure to properly execute the withdrawal right for each separate Contribution shall be final and conclusive with respect to that particular withdrawal right and such withdrawal right or rights shall not be cumulative and shall not be carried forward from year to year. No further claim or right of withdrawal exists in favor of Grantor or any person, except those claims as set forth and specified by the terms of the Agreement and this Trust relating to Benefits.

Exercise of such withdrawal rights shall terminate the Bank's obligation to make future Contributions to the Trust.

To the extent the Grantor does not exercise his withdrawal rights with respect to the Contributions, the Contributions, as well as earnings thereon, shall be used by the Trustee:

- (i) to provide the applicable portion of the retirement benefit or disability benefit payable to the Grantor pursuant to the Agreement and the Trust, as calculated by the Benefits Determiner, referred to in Article VII,
- (ii) to provide the applicable portion of the pre-retirement death benefit payable to the Beneficiary of the Grantor pursuant to the Agreement and the Trust, as calculated by the Benefits Determiner, referred to in Article VII,
- (iii) to provide the Grantor with sufficient funds to pay any income taxes owed by Grantor as certified by the Grantor to the Trustee in writing, as the result of Grantor=s interest in the Trust, to the extent such taxes have not been withheld and paid by the Bank,
- (iv) for the reasonable compensation of, and reasonable expenses incurred by, the Trustee in connection with the administration of the Trust, pursuant to the terms of the Trust, to the extent such compensation and expenses are not paid directly by the Bank. The Bank may, from time to time, make additional contributions to the Trust in such amount as shall be required to compensate the Trustee as well as any actuarial firm employed to provide actuarial services to the Bank and/or the Trustee; provided, however, that the Trustee shall have the authority to pay the reasonable compensation and expenses set forth in this subsection (iv) whether or not such additional contributions are made by the Bank; and provided further, that the Trustee shall not be required to pay any such actuarial expenses unless directed to do so by the Bank and/or the Grantor.

Grantor shall have the right to specifically direct the Trustee as to all Trust investments, including those funds segregated in the Account, as described below. Such investment direction and instruction shall be delivered to the Trustee in writing by the Grantor. In the absence of specific instruction, Trustee shall invest and reinvest the Trust estate pursuant to the terms hereunder.

All amounts contributed by the Bank on behalf of the Grantor are intended to be taxable compensation to Grantor. All earnings on the Contributions, to the extent Contributions are invested in taxable investments, are intended to be taxable to the Grantor in accordance with the grantor trust rules under the Internal Revenue Code of 1986, Sections 671-679. No part of the Trust corpus is intended at any time or under any circumstances to revert to the Bank.

The Trustee shall reimburse Grantor, as such reimbursement(s) is (are) needed by Grantor, for any additional taxes owed by Grantor, except for taxes withheld and paid by the Bank, by virtue of his being Grantor and a beneficiary of this Trust, as a result of the Bank Contributions to the Trust and annual investment earnings on the Bank Contributions to the Trust. The total amount to be reimbursed with respect to any particular tax year shall be determined by: (i) adding taxable Contributions (if any) and taxable earnings of the Trust attributable to the Retirement Income Trust Fund for a given tax year and (ii) multiplying by the Grantor=s combined marginal tax rate (which shall reflect all applicable income and employment taxes) for such tax year.

Any amendment or amendments that are or may be made to the Agreement shall not increase the Trustee=s duties hereunder without the express written consent of the Trustee.

ARTICLE IV PAYMENTS FROM THE TRUST FUND

Payment of the applicable portion of the retirement benefit, pre-retirement death benefit, or disability benefit shall be made from funds in the Account in the time and manner that payments of Benefits are provided for under the Agreement. Other payments authorized under Article III to be made by Trustee shall also be made from funds in the Account. Payment or distribution of amounts attributable to property separately contributed by the Grantor or any other person shall be made at such time and in such manner as directed by the Grantor.

Nothing in this Trust Agreement shall relieve the Bank of its obligation to pay the Benefits provided to Grantor or Beneficiary under the Agreement except to the extent such obligation is met by the application of assets in the Account or by any direct payments expressly required to be made by the Bank to the Grantor or Beneficiary pursuant to the terms of the Agreement. In all instances, to the extent the language in the Agreement conflicts with the language in this Trust, the Trust shall be controlling. Nothing in this Trust Agreement shall require the Trustee to enforce the payment of any Benefit under the Agreement that is not met by the application of assets in the Account.

ARTICLE V SPENDTHRIFT PROVISIONS

Except as otherwise required by law, no interest of Grantor or Beneficiary in, or right to receive distribution from, assets held in the Account shall be subject in any manner to sale, anticipation, transfer, assignment, pledge, mortgage, encumbrance, hypothecation, attachment, garnishment, discharge or other alienation or encumbrance of any kind, nor shall such interest or right to receive distributions be taken, either voluntarily or involuntarily, for the satisfaction of the debts of, or obligations or claims against, Grantor or Beneficiary, including claims in bankruptcy proceeds.

**ARTICLE VI
TRUSTEE'S POWERS**

The Trustee shall have the following powers and authority in the administration of the Trust, in addition to those vested in it elsewhere in this Trust Agreement or by law:

- (a) To invest and reinvest Trust assets, without distinction between principal and income, in any kind of property, real, personal or mixed, tangible or intangible, and in any kind of investment, security or obligation suitable for the investment of Trust assets, including federal, state and municipal tax-free obligations and other tax-free investment vehicles, insurance policies and annuity contracts, and any common trust fund, group trust, pooled fund, or other commingled investment fund maintained by the Trustee or any other bank or entity for Trust investment purposes in which the Trust is eligible to invest and the provisions governing such fund shall be part of the Trust Agreement as though fully restated herein; provided, however, that it is the intent of the Grantor, which shall be precatory and not binding, that the Trustee invest the Trust assets, in the absence of specific investment direction from the Grantor, to the extent possible, in tax-free or tax-deferred investment vehicles, such as life insurance or annuity products.
- (b) To purchase, and maintain as owner, a life insurance policy or policies with respect to Grantor; provided, however, the Trustee shall not be required to purchase or take any action under any life insurance policy or policies unless so directed by the Grantor, which shall designate the face amount of and terms of such policy and the insurance company;
- (c) To sell for cash or on credit, to grant options, convert, redeem, exchange for other securities or other property, or otherwise to dispose of, any security or other property at any time held except that the Trustee shall have no right or obligation to take any action with respect to any insurance contract or policy unless so directed by the Grantor;
- (d) To settle, compromise or submit to arbitration, any claims, debts or damages, due or owing to or from the Trust, to commence or defend suits or legal proceedings and to represent the Trust in all suits or legal proceedings; provided, however, the Trustee shall not be expected or required to undertake any of the foregoing unless there are sufficient assets in the Trust with which to do so, or the Trustee has received assurances by a party to this Trust, satisfactory to the Trustee, of the payment or reimbursement of the expenses connected therewith;
- (e) To exercise any conversion privilege (other than conversion privileges with respect to any insurance policy which shall be exercised only upon direction of the Bank) and/or subscription right available in connection with securities or other property at any time held, to oppose or to consent to the reorganization, consolidation, merger or

readjustment of the finances of any corporation, bank or association or to the sale, mortgage, pledge or lease of the property of any corporation, bank or association any of the securities of which may at any time be held and to do any act with reference thereto, including the exercise of options, the making of agreement or subscription, which may be deemed necessary or advisable in connection therewith, and to hold and retain any securities or other properties so acquired;

- (f) To hold cash uninvested for a reasonable period of time (not in excess of thirty (30) days without the express written consent of the Grantor) under the circumstances without liability for interest, pending investment thereof or the payment of expenses or making distributions therewith;
- (g) To form corporations and to create trusts to hold title to any securities or other property, all upon such terms and conditions as may be deemed advisable;
- (h) To employ suitable agents and counsel and to pay their reasonable expenses and compensation;
- (i) To register any securities held hereunder in the name of the Trustee or in the name of a nominee with or without the addition of words indicating that such securities are held in a fiduciary capacity and to hold any securities in bearer form and to combine certificates representing such securities with certificates of the same issue held by Trustee in other fiduciary or representative capacities, or to deposit securities in any qualified central depository where such securities may be held in bulk in the name of the nominee of such depository with securities deposited by other depositors, or deposit securities issued by the United States Government, or any agency or instrumentalities thereof, with a Federal Reserve Bank;
- (j) To make, execute and deliver, as Trustee, any and all conveyances, contracts, waivers, releases or other instruments in writing necessary or proper for the accomplishment of any of the foregoing powers; and
- (k) To have any and all other powers or authority, under the laws of the state in which the Trustee=s principal executive offices are located, relevant to performance in the capacity as Trustee.

When and if requested to do so by the Bank, significant and material actions taken by the Trustee in connection with the administration of the Trust shall be evidenced by a written instrument signed by the Trustee. The Bank shall be entitled to receive a copy of said written instrument, upon written request delivered to the Trustee.

ARTICLE VII
BENEFITS DETERMINER; CHANGE IN CONTROL

The Bank has appointed Financial Institution Consulting Corporation as the ABenefits Determiner@ to determine the manner and amount of payments to be made to Grantor and/or the Beneficiary under the Agreement. In the event that the Benefits Determiner fails to act or resigns, a successor benefits determiner shall be:

- (i) selected jointly by the Grantor and the Bank, if no Change in Control has occurred at the Bank, or,
- (ii) selected jointly by the Grantor and Trustee, if a Change in Control has occurred at the Bank.

For these purposes, a AChange in Control@ of the Bank shall mean:

(A) A reorganization, merger, merger conversion, consolidation, or sale of all or substantially all of the assets of the Bank to another entity which is not controlled by the Bank, or a similar transaction occurs in which the Bank is not the resulting entity; or

(B) That individuals who constitute the Board of Directors on the effective date hereof (the "Incumbent Board") cease for any reason to constitute at least a majority thereof, provided that any person becoming a Director subsequent to the date hereof whose election was approved by a vote of at least three-quarters of the Directors comprising the Incumbent Board shall not be considered a replacement Director for purposes of a change in control; or

(C) The acquisition of ownership or power to vote more than 25% of the votes eligible to be cast at a meeting of the members or stockholders, as applicable, of the Bank; or

(D) If the Bank is organized in stock form, the acquisition by any person or entity of Aconclusive control@ of the Bank within the meaning of 12 C.F.R. ' 574.4(a), or the acquisition by any person or entity of Arebuttable control@ within the meaning of 12 C.F.R. ' 574.4(b) that has not been rebutted in accordance with 12 C.F.R. ' 574.4(c). For purposes of this paragraph, the term Aperson@ refers to an individual or corporation, partnership, trust association or other organization.

Notwithstanding anything to the contrary herein, a conversion of the Bank to a stock savings bank on a stand-alone basis or as a subsidiary of a stock or mutual holding company shall not be deemed a Change in Control.

Trustee shall not be responsible for determining whether a Change in Control (as hereinafter defined) has occurred. Bank or Grantor shall be required to notify Trustee, in writing, of the occurrence of a Change in Control or imminent Change in Control (for these purposes, a Change in Control shall be imminent if it shall occur within sixty (60) days from the date of said notice) and the Trustee shall be entitled to rely conclusively upon such notification for all purposes of a Change in Control hereunder without any liability or further duty with respect thereto. The Trustee shall not be

charged with actual knowledge of a Change in Control until it has received notice, in writing, of such Change in Control or imminent Change in Control.

At the request of the Benefits Determiner, the Bank (or, if the Bank fails to do so within ten (10) days after the receipt of a written request from the Trustee, the Grantor or Beneficiary) shall provide the Benefits Determiner with sufficient information to determine the Benefits payable to Grantor and Beneficiary under the Agreement.

ARTICLE VIII PAYMENT OF TAXES AND EXPENSES

When so instructed by the Grantor, the Trustee shall pay out of the Trust, all taxes of any and all kinds levied or assessed under existing or future laws against the Grantor, with respect to the principal or earnings of the Trust, to the extent such taxes are not satisfied by withholding by the Bank, or against the Trustee, in its capacity as such, or against the Trust.

The Trustee shall be paid such reasonable compensation and expenses as shall from time to time be agreed upon by the Bank and the Trustee. The Bank shall pay directly to the Trustee, or contribute to the Trust, amounts, in excess of amounts required to be contributed under the Agreement, which are sufficient to pay the reasonable compensation and expenses of Trustee. In the event that the Bank fails to pay the Trustee=s reasonable compensation and expenses, such compensation and expenses incurred by the Trustee in connection with the administration of the Trust shall be withdrawn by the Trustee out of the Trust.

ARTICLE IX RECORDS AND ACCOUNTS OF TRUSTEE

The Trustee shall keep accurate and detailed accounts of all investments, receipts, disbursements and other transactions hereunder, and all accounts, books and records relating thereto shall be open to inspection and audit at all reasonable times by any person designated by the Bank or Grantor or Beneficiary.

Within thirty (30) days after the close of each fiscal year of the Trust (which fiscal year shall be the same as the tax year of the Grantor) or such date as may be agreed upon in writing between the Grantor, Bank and the Trustee, and within forty-five (45) days after the effective date of the resignation or removal of the Trustee as provided hereunder, the Trustee shall file with the Grantor (or in the event of the Grantor=s death, the Grantor=s Beneficiary) and the Bank a written accounting setting forth all investments, receipts, disbursements and other transactions effected by it during the year ending on such date (but not including any part of such year for which such an accounting has previously been filed) and certified as to the accuracy of the information set forth therein. In valuing any policy or contract issued by an insurance company, the Trustee may rely conclusively on any value placed thereon by the issuer thereof or the Benefits Determiner. Such accounting may incorporate by reference any and all schedules and other statements setting forth investments, receipts, disbursements and other transactions effected during the period for which such accounting is rendered that the Trustee has furnished to the Grantor and the Bank prior to the filing of such

accounting. Each accounting so filed (and copies of any schedules and statements incorporated therein by reference as aforesaid) shall be open to inspection during business hours by the Bank, Grantor or any person designated by Grantor and, after Grantor's death, by Beneficiary or any person designated by said Beneficiary, for a period of sixty (60) days immediately following the date on which the accounting is filed with the Grantor and the Bank. In the absence of written exceptions or objections to any such accounting filed by the Grantor (or if deceased, the Beneficiary) or the Bank within ninety (90) days, the Grantor (or Beneficiary, if applicable) and the Bank shall be deemed to have jointly approved such accounting; and in such case, or upon the written approval of the Grantor (or Beneficiary, if applicable) and the Bank of any such accounting, the Trustee shall be released, relieved and discharged with respect to all matters set forth in such accounting as though such accounting had been settled by the decree of a court of competent jurisdiction.

ARTICLE X PROTECTION OF THE TRUSTEE

The Trustee shall be fully protected by the Bank and the Grantor in relying upon a certification of the Grantor, or when appropriate, an authorized representative of the Bank with respect to any instruction, direction or approval of the Grantor, or when appropriate, the Bank required or permitted hereunder, and protected also in relying upon the certification until a subsequent certification is filed with the Trustee.

The Trustee shall be fully protected in acting upon any instrument, certificate, or paper believed by it to be genuine and to be signed or presented by the proper person or persons, and the Trustee shall be under no duty to make any investigation or inquiry as to any statement contained in any such writing, but may accept the same as conclusive evidence of the trust and accuracy contained therein.

Except for its gross negligence in selecting a successor benefits determiner, the Trustee shall not be liable for any action or failure to act of the Benefits Determiner, for following any direction or instruction of the Benefits Determiner, or for the proper application of any part of the Trust if distributions are made in accordance with information provided to it by, or the directions of, the Benefits Determiner.

The Trustee's obligations hereunder shall be determined solely by the terms of this Trust Agreement and the directions of the Benefits Determiner given to it pursuant to the terms of this Trust.

The Trustee shall not be liable hereunder for any loss or diminution of the Trust resulting from any reasonable action taken or omitted or any action taken by the Trustee in accordance with this Trust Agreement.

The Trustee shall be entitled to conclusively rely upon any written notice, direction, instruction, certificate or other communication believed by it to be genuine and to be signed by the proper person or persons.

Nothing contained in this Trust Agreement shall require the Trustee to risk or expend its own funds in the performance of its duties hereunder. In the acceptance and performance of its duties hereunder, the Trustee acts solely as trustee of the Trust and not in its individual capacity, and all persons, other than Bank, Grantor, or Beneficiary having any claim against the Trustee related to this Trust Agreement or the actions or agreements of the Trustee contemplated hereby shall look solely to the Trust for the payment or satisfaction thereof, except to the extent that the Trustee has engaged in willful misconduct or gross negligence, or the Trustee has willfully breached its obligation under this Trust Agreement.

ARTICLE XI RESIGNATION, REMOVAL AND SUCCESSION OF TRUSTEE

The Trustee acting hereunder may resign at any time by giving at least ninety (90) days written notice to the Grantor.

The Grantor and the Bank may jointly remove the Trustee at any time by giving at least ninety (90) days prior written notice to the Trustee. The Grantor and the Bank shall jointly appoint a successor trustee to fill any vacancy in the office of Trustee, howsoever caused, which successor trustee shall be a bank or trust company located in the continental United States. However, in the event of a Change in Control, the Grantor shall have the sole power to remove the Trustee and appoint a successor trustee pursuant to this Section.

Each successor trustee shall succeed to the title to the Trust vested in its predecessor, without the signing or filing of any further instrument, but any resigning or removed trustee shall execute all documents and do any acts reasonably necessary to vest such title of record in any successor trustee. Each successor trustee shall have and enjoy all powers, both discretionary and ministerial, of its predecessor. No successor trustee shall be personally liable for any act or failure to act of any predecessor trustee; and, with the joint approval of the Grantor and Bank (or if a Change in Control has occurred, with the approval of Grantor only), a successor trustee may accept the account rendered and the property delivered to it by its

predecessor trustee as a full and complete discharge of the predecessor trustee without incurring any liability or responsibility for so doing.

ARTICLE XII
TRUST IRREVOCABLE

There are no conditions or reservations of power in any person to revoke this Trust, in whole or in part. This Trust shall be irrevocable. There are no conditions or reservations of power in any person to free any or all of the property constituting the Account from the terms of the Trust, except the right of Grantor to make withdrawals of Bank Contributions from the Account within thirty (30) days after the date of such Contribution and the right of the Trustee to apply the assets of the Account to the payment of reasonable compensation, expenses, costs and taxes of the Account, associated with the administration of the Agreement, including taxes owed by the Grantor or the Trust related to the Contributions or earnings of the Trust. The Trust shall only be amended with the unanimous consent of the Trustee, the Bank, and Grantor (or if applicable, the Beneficiary).

**ARTICLE XIII
AMENDMENT OR TERMINATION OF TRUST**

This Trust Agreement may be amended by a written instrument executed by the parties hereto. Notwithstanding the foregoing, no such amendment shall conflict with the terms of the Agreement. Any amendment or amendments that are or may be made to the Agreement shall not increase the Trustee's duties hereunder without the express written consent of the Trustee.

Unless terminated earlier by the Grantor pursuant to this Article, the Trust shall continue throughout the life of the Grantor until retirement or disability benefits payable from the Account are paid, and if necessary, the Trust shall continue throughout the life of Beneficiary until the remaining retirement or disability benefits are paid or until any pre-retirement death benefits payable from the Account are paid. The Trust shall terminate only upon:

- (i) the complete satisfaction of all Benefit obligations of the Bank to Grantor or Beneficiary payable from the Account of the Trust pursuant to the Agreement, as certified by the Benefits Determiner, and
- (ii) the complete distribution of all of the assets of the Account pursuant to the terms of the Agreement.

Notwithstanding the above, at any time after the final Bank Contribution is made to the Trust in accordance with the schedule set forth at Exhibit A of the Agreement, the Grantor may elect to terminate the Trust and distribute the assets of the Trust to himself. Such election shall be made in writing and shall be delivered to the Bank and the Trustee. Such election shall acknowledge that the distribution pursuant to such election shall be made in lieu of any other benefits payable to Grantor and/or his Beneficiaries pursuant to the Agreement and that upon such distribution, no further liabilities exist under the Agreement.

Upon termination of the Trust, the Trustee shall continue to have such powers as are necessary or desirable to wind up the business of the Trust, including the preparation of the final accounting and filing of any tax returns and/or payment of any taxes due and owing in connection with the Trust. Upon termination of the Trust and following the satisfaction of all liabilities of the Trust, all assets remaining in the Trust, if any, shall be distributed to the Grantor or Beneficiary, as applicable.

**ARTICLE XIV
EXCLUSIVE BENEFIT**

The Account shall be held by the Trustee in accordance with the terms of this Trust and the Agreement for the exclusive benefit of Grantor and Beneficiary, and shall be applied to provide Benefits under the Agreement in accordance with the terms thereof, to pay taxes and compensation, costs and expenses of the Trustee to the extent not otherwise paid by the Bank and to make such other payments authorized under Article III.

**ARTICLE XV
FIDUCIARY RESPONSIBILITY AND LIABILITY**

In carrying out its responsibilities under the Trust, the Trustee and any other fiduciary hereunder shall act solely in the interest of the Grantor and Beneficiary and with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. Nothing contained herein shall be construed to narrow or limit the Trustee's right to rely on the certifications, instruments, or papers upon which it relies in good faith in carrying out its duties and responsibilities hereunder, as more fully set forth in Article X.

The Bank shall, to the extent permitted by law, indemnify the Trustee and hold it harmless from and against any claims or liabilities, losses, costs or expenses (including reasonable attorney's fees) of whatsoever kind and nature that may be asserted against or incurred by the Trustee by reason of its taking or refraining from taking action hereunder, except to the extent due to the Trustee's gross negligence or willful misconduct, as finally determined by a court of law or pursuant to binding arbitration.

**ARTICLE XVI
PAYMENTS TO MINORS**

In the event that any amounts due and owing hereunder are payable to any Beneficiary that is a minor, such amounts shall not be paid to such Beneficiary but shall be paid instead to such persons parent or legal guardian for the benefit of such Beneficiary, until such Beneficiary reaches the age of majority and the Trustee shall have no obligation to see to the proper application thereof.

ARTICLE XVII
RULE AGAINST PERPETUITIES

Notwithstanding any other provision of this Trust, unless sooner terminated in accordance with its provisions, this Trust shall cease and terminate within twenty-one (21) years (plus any required period of gestation) after the death of the last survivor of the following persons: (i) the Grantor, or (ii) any individual Beneficiary living at the date of the Grantor's death. If the designated Beneficiary hereunder is a trust, the persons who are beneficiaries of said trust shall be deemed to be the individual Beneficiaries hereunder. If on the day preceding the expiration of such period any property is still held in trust hereunder, such property shall immediately vest in and be distributed to the designated Beneficiary hereunder.

**ARTICLE XVIII
GOVERNING LAWS**

This Trust Agreement and the Trust created herein shall be constructed, regulated and administered under the laws of Indiana. All contributions to the Trust shall be deemed to take place in such state. The Trustee may at any time initiate an action or proceeding for the settlement of its accounts or for the determination of any question of construction that may arise or for instructions, and the only necessary parties defendant to such action shall be the Bank and Grantor, except that the Trustee may, if it so elects, bring in as parties defendant any other person or persons.

**ARTICLE XIX
COUNTERPARTS**

This Trust Agreement shall be executed in any number of counterparts, each one of which shall be deemed to be an original.

**ARTICLE XX
NOTICE**

Every direction, revocation or notice authorized or required hereunder shall be deemed delivered to the Bank, the Trustee or the Benefits Determiner as the case may be:

- (i) on the date it is personally delivered to the Bank, the Trustee or the Benefits Determiner at its respective principal executive offices, or
- (ii) three (3) business days after it is sent by registered or certified mail, postage prepaid, addressed to the Bank, the Trustee or the Benefits Determiner at such principal executive offices.

Every direction, revocation or notice authorized or required hereunder shall be deemed delivered to the Grantor or Beneficiary as the case may be:

- (i) on the date it is personally delivered to him or her, or
- (ii) three (3) business days after it is sent by registered or certified mail, postage prepaid, addressed to him or her at the last address shown for him or her on the records of the Bank.

Grantor shall keep the Bank and the Trustee informed of his current address and the current address of his Beneficiary. Neither the Bank nor the Trustee shall be obligated to search for the whereabouts of any person. If the location of Grantor is not made known to the Bank or the Trustee within one (1) year after the date on which distribution of retirement benefits from the Account is to first be made per the Agreement, distribution may be made as though Grantor had died at the end of the one (1) year period.

Communications under this Trust Agreement shall be in writing and, unless notification of a change of address is received by the appropriate parties, shall be sent to the following addresses:

Trustee: Security Federal Savings Bank
Attention: Suzanne Chilcott, SVP & Trust Officer
314 Fourth St.
Logansport, IN 46947
Telecopier: (574) 722-3760
Bank: First National Bank of Nassau County
1891 South 14th Street.
Fernandina Beach, FL 32034
Attention: Michael Sanchez, President & CEO
Telecopier: (904) 321-1511

This Trust Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which shall together constitute only one agreement.

**ARTICLE XXI
WAIVER OF NOTICE**

Any notice required hereunder may be waived by the person entitled thereto.

**ARTICLE XXII
GENDER AND NUMBER**

Where the context permits, words in the masculine gender shall include the feminine and neuter genders, the singular shall include the plural, and the plural shall include the singular.

**ARTICLE XXIII
HEADINGS**

The headings of Sections of this Trust Agreement are for convenience of reference only and shall have no substantive effect on the provisions of this Trust Agreement.

**ARTICLE XXIV
SEVERABILITY**

In the event any provision of this Trust Agreement shall be held illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining provisions of the Trust Agreement, and the Trust Agreement shall be construed and enforced as if such illegal or invalid provision had never been contained herein.

**ARTICLE XXV
MERGER OR CONSOLIDATION OR SALE OF ASSETS OF BANK**

In the event of the merger or consolidation of the Bank with or into any other corporation, or in the event substantially all of the assets of the Bank shall be transferred to another corporation, the successor corporation resulting from the merger or consolidation, or the transferee of such assets, as the case may be, shall, as a condition to the consummation of the merger, consolidation or sale, assume the obligations of the Bank hereunder and shall be substituted for the Bank hereunder.

**ARTICLE XXVI
AGREEMENT BINDING**

The Trustee by executing this Trust Agreement agrees to be bound by the terms hereof and agrees to hold any property acceptable to the Trustee added hereto in accordance with the terms and conditions hereof. This Trust Agreement shall extend to and be binding upon the successors of the parties hereto.

IN WITNESS WHEREOF, this instrument has been executed as of the day and year first above written.

WITNESS:

GRANTOR

/s/ Bethany Kessel

By: /s/ Michael Sanchez

WITNESS:

SECURITY FEDERAL SAVINGS BANK

/s/ Maureen S. Prentice

By: /s/ Michael G. Sanchez

Title: Vice President & Sr. Trust Officer

WITNESS:

FIRST NATIONAL BANK OF NASSAU COUNTY

/s/ Bethany Kessel

By: /s/ /s/ Timothy S. Ayers

Title: SVP/CFO

Exhibit 10.2

**COASTAL BANKING COMPANY, INC.
RESTRICTED STOCK AWARD**

This RESTRICTED STOCK AWARD (the "Award") is made and entered into as of the 21st day of March, 2008 by and between Coastal Banking Company, Inc. (the "Company"), a South Carolina corporation, and W. Gary Horn (the "Employee").

Upon and subject to the Additional Terms and Conditions attached hereto and incorporated herein by reference as part of this Award, the Company hereby awards as of the Grant Date to the Employee the Restricted Shares described below in consideration of the Employee's services to the Company (the "Restricted Stock Award").

- A. Grant Date: March 21, 2008.
- B. Restricted Shares: 5,000 shares of the Company's common stock ("Common Stock"), \$.01 par value per share.
- C. Vesting: The Restricted Shares shall become vested, as and to the extent indicated below, only if the Service Condition, as specified below, is satisfied.

<u>Years of Vesting Service</u>	<u>Percentage of Restricted Shares which are Vested Shares</u>
Less than 1	0%
1, but less than 2	20%
2, but less than 3	40%
3, but less than 4	60%
4, but less than 5	80%
5 or more	100%

The Employee shall receive one Year of Vesting Service for each full consecutive one-year period of continuous service during the period beginning with the Grant Date and ending on the date the Employee experiences a termination of employment with the Company and all of its affiliates, regardless of the reason.

Notwithstanding the foregoing, the Service Condition will be deemed satisfied as to all of the Restricted Shares if the Employee provides continuous services to the Company and/or any affiliate following the Grant Date through the date of any of the earlier events listed below:

- (a) in the event of (i) a termination of employment by the Company (or affiliate) without Cause; or (ii) a termination of employment from the Company and all affiliates due to either death or a Disability; or
- (b) the effective date of a Change in Control.

The Restricted Shares which have satisfied (or are deemed to have satisfied) the Service Condition are herein referred to as the "Vested Shares." Any portion of the Restricted Shares which have not become Vested Shares in accordance with this Paragraph C. before or at the time

of Employee's termination of employment with the Company and all of its affiliates shall be forfeited.

IN WITNESS WHEREOF, the Company and Employee have signed this Award as of the Grant Date set forth above.

Coastal Banking Company, Inc.

By: /s/ Michael G. Sanchez

/s/ W. Gary Horn
Employee

Title: CEO

**ADDITIONAL TERMS AND CONDITIONS OF
COASTAL BANKING COMPANY, INC.
RESTRICTED STOCK AWARD**

1. Condition to Delivery of Restricted Shares.

(a) Employee must deliver to the Company, within two (2) business days after the earlier of (i) the date (the "Vesting Date") on which any Restricted Shares become Vested Shares, or (ii) the date the Employee makes an election pursuant to Section 83(b) of the Internal Revenue Code as to all or any portion of the Restricted Shares, either cash or a certified check payable to the Company in the amount of all tax withholding obligations (whether federal, state or local) imposed on the Company by reason of the vesting of the Restricted Shares, or the making of an election pursuant to Section 83(b) of the Internal Revenue Code, as applicable, except as provided in Section 1(b).

(b) If the Employee does not make an election pursuant to Section 83(b) of the Internal Revenue Code, in lieu of paying the withholding tax obligations in cash or by certified check as required by Section 1(a), Employee may elect (the "Withholding Election") to have the actual number of shares of Common Stock that become Vested Shares reduced by the smallest number of whole shares of Common Stock which, when multiplied by the Fair Market Value of the Common Stock determined by the closing price for the Common Stock on the last business day immediately preceding the applicable Vesting Date, is sufficient to satisfy the amount of the tax withholding obligations imposed on the Company by reason of the vesting of the Restricted Shares on the applicable Vesting Date. Employee may make a Withholding Election only if all of the following conditions are met:

(i) the Withholding Election must be made on or prior to the Vesting Date by executing and delivering to the Company a properly completed Notice of Withholding Election, in substantially the form of Exhibit A attached hereto; and

(ii) any Withholding Election made will be irrevocable; however, the Executive Compensation and Management Resources Committee of the Board of Directors of the Company (the "Committee") may, in its sole discretion, disapprove and give no effect to any Withholding Election.

(c) Unless and until the Employee provides for the payment of the tax withholding obligations in accordance with the provisions of this Section 1, the Company shall have no obligation to deliver any of the Vested Shares and may take any other actions necessary to satisfy such obligations, including withholding of appropriate sums from other amounts payable to the Employee. If the shares of Common Stock are being traded by brokers and the Employee is not a "director" or "executive officer", within the meaning of Section 13(k) of the Securities Exchange Act of 1934 (Section 402 of the Sarbanes-Oxley Act of 2002), at the time tax withholding obligations become due, at the request of the Employee, the Committee may make, or authorize the making of, such arrangements with the Employee and a broker, dealer or other "creditor" (as defined by Regulation T issued by the Board of Governors of the Federal Reserve System) acting on behalf of the Employee for the receipt from such broker, dealer or other "creditor" of cash by the Company in an amount necessary to satisfy the Employee's tax withholding obligations in exchange for delivery of a number of Vested Shares directly to the broker, dealer or other "creditor" having a value equal to the cash delivered.

2. Issuance of Restricted Shares.

(a) The Company shall issue the Restricted Shares as of the Grant Date in either manner described below, as determined by the Committee in its sole discretion:

- (i) by the issuance of share certificate(s) evidencing Restricted Shares to the Secretary of the Company or such other agent of the Company as may be designated by the Committee or the Secretary (the "Share Custodian"); or
- (ii) by documenting the issuance in uncertificated or book entry form on the Company's stock records.

Evidence of the Restricted Shares either in the form of share certificate(s) or book entry, as the case may be, shall be held by the Company or Share Custodian, as applicable, until the Restricted Shares become Vested Shares in accordance with the Vesting Schedule.

(b) If the shares of Common Stock are registered under the Securities Act of 1933, as amended (the "Securities Act") and the Employee is determined by the Committee to be an "affiliate" of the Company, as such term is defined in Rule 144 ("Rule 144") under the Securities Act, the Restricted Shares (and the Vested Shares resulting therefrom) shall be evidenced only by physical share certificates.

(c) When the Restricted Shares become Vested Shares, the Company or the Share Custodian, as the case may be, shall deliver the Vested Shares to the Employee or, at the Company's election, to a broker designated by the Company (the "Designated Broker") by either physical delivery of the share certificate(s) or book entry transfer, as applicable, for the benefit of an account established in the name of the Employee, in either case, after, to the extent applicable, payment by the Employee of the tax withholding obligations pursuant to Section 1(a) and/or reduced by any Vested Shares withheld and returned to the Company pursuant to Section 1(b) above or delivered to a broker, dealer or other "creditor" as contemplated by Section 1(c) above (such reduced number of Vested Shares are referred to in this Section 2(c) as the "Net Vested Shares"). If the number of Vested Shares includes a fraction of a share, neither the Company nor the Share Custodian shall be required to deliver the fractional share to the Employee, and the Company shall pay the Employee the amount determined by the Company to be the estimated fair market value therefor. At any time after receipt by the Designated Broker, the Employee may require that the Designated Broker deliver the Net Vested Shares to the Employee pursuant to such arrangements or agreements as may exist between the Designated Broker and the Employee.

(d) In the event that the Employee forfeits any of the Restricted Shares, the Company shall cancel the issuance on its stock records and, if applicable, the Share Custodian shall promptly deliver the share certificate(s) representing the forfeited shares to the Company.

(e) Employee hereby irrevocably appoints the Share Custodian, and any successor thereto, as the true and lawful attorney-in-fact of Employee with full power and authority to execute any stock transfer power or other instrument necessary to transfer any Restricted Shares to the Company in accordance with this Award, in the name, place, and stead of the Employee. The term of such appointment shall commence on the Grant Date of this Award and shall continue until the last of the Restricted Shares are delivered to the Employee as Vested Shares or are returned to the Company as forfeited Restricted Shares or as Vested Shares withheld and returned to the Company pursuant to Section 1(b), as provided by the applicable terms of this Award.

(f) Until the Restricted Shares become Vested Shares, the Employee shall be entitled to all rights applicable to holders of shares of Common Stock including, without limitation, the right to vote

such shares and to receive dividends or other distributions thereon as provided by Section 3, except as expressly provided in this Award.

(g) In the event the number of shares of Common Stock is increased or reduced as a result of a subdivision or combination of shares of Common Stock or the payment of a stock dividend or any other increase or decrease in the number of shares of Common Stock or other transaction such as a merger, reorganization or other change in the capital structure of the Company, the Employee agrees that any certificate representing shares of Common Stock or other securities of the Company issued as a result of any of the foregoing shall be delivered to the Share Custodian or recorded in book entry form, as applicable, and shall be subject to all of the provisions of this Award as if initially granted hereunder.

3. Dividends. The Employee shall be entitled to dividends or other distributions paid or made on Restricted Shares but only as and when the Restricted Shares to which the dividends or other distributions are attributable become Vested Shares. Dividends paid on Restricted Shares will be held by the Company and transferred to the Employee, without interest, on such date as the Restricted Shares become Vested Shares. Dividends or other distributions paid on Restricted Shares that are forfeited shall be retained by the Company.

4. Restrictions on Transfer of Restricted Shares.

(a) General Restrictions. Except as provided by this Award, the Employee shall not have the right to make or permit to exist any transfer or hypothecation, whether outright or as security, with or without consideration, voluntary or involuntary, of all or any part of any right, title or interest in or to any Restricted Shares. Any such disposition not made in accordance with this Award shall be deemed null and void. The Company will not recognize, or have the duty to recognize, any disposition not made in accordance with this Award, and any Restricted Shares so transferred will continue to be bound by this Award. The Employee (and any subsequent holder of Restricted Shares) may not sell, pledge or otherwise directly or indirectly transfer (whether with or without consideration and whether voluntarily or involuntarily or by operation of law) any interest in or any beneficial interest in any Restricted Shares except pursuant to the provisions of this Award. Any sale, pledge or other transfer (or any attempt to effect the same) of any Restricted Shares in violation of any provision of this Award shall be void, and the Company shall not record such transfer, assignment, pledge or other disposition on its books or treat any purported transferee or pledgee of such Restricted Shares as the owner or pledgee of such Restricted Shares for any purpose.

(b) Certain Permitted Transfers. The restrictions contained in this Section 4 will not apply with respect to transfers of the Restricted Shares pursuant to applicable laws of descent and distribution; *provided* that the restrictions contained in this Section 4 will continue to be applicable to the Restricted Shares after any such transfer; and *provided further* that the transferee(s) of such Restricted Shares must agree in writing to be bound by the provisions of this Award.

5. Additional Restrictions on Transfer.

(a) In addition to any legends required under applicable securities laws, the certificates representing the Restricted Shares shall be endorsed with the following legend and the Employee shall not make any transfer of the Restricted Shares without first complying with the restrictions on transfer described in such legend:

TRANSFER IS RESTRICTED

THE SECURITIES EVIDENCED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON TRANSFER AND FORFEITURE PROVISIONS WHICH ALSO APPLY TO THE TRANSFEREE AS SET FORTH IN A RESTRICTED STOCK AWARD, DATED MARCH 21, 2008, A COPY OF WHICH IS AVAILABLE FROM THE COMPANY.

(b) Opinion of Counsel. No holder of Restricted Shares may sell, transfer, assign, pledge or otherwise dispose of (whether with or without consideration and whether voluntarily or involuntarily or by operation of law) any interest in or any beneficial interest in any Restricted Shares, except (i) pursuant to an effective registration statement under the Securities Act or (ii) in a transaction that fully complies with Rule 144, without first delivering to the Company an opinion of counsel (reasonably acceptable in form and substance to the Company) that neither registration nor qualification under the Securities Act and applicable state securities laws is required in connection with such transfer.

6. Change in Capitalization.

(a) The number and kind of Restricted Shares shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a subdivision or combination of shares or the payment of a stock dividend in shares of Common Stock to holders of outstanding shares of Common Stock or any other increase or decrease in the number of shares of Common Stock outstanding effected without receipt of consideration by the Company. No fractional shares shall be issued in making such adjustment. All adjustments made by the Committee under this Section shall be final, binding, and conclusive.

(b) In the event of a merger, consolidation, extraordinary dividend (including a spin-off), reorganization, recapitalization, sale of substantially all of the Company's assets, other change in the capital structure of the Company, tender offer for shares of Common Stock or a Change in Control, an appropriate adjustment may be made with respect to the Restricted Shares such that other securities, cash or other property may be substituted for the Common Stock held by Share Custodian or recorded in book entry form pursuant to this Award.

(c) The existence of the Restricted Stock Award shall not affect the right or power of the Company to make or authorize any adjustment, reclassification, reorganization or other change in its capital or business structure, any merger or consolidation of the Company, any issue of debt or equity securities having preferences or priorities as to the Common Stock or the rights thereof, the dissolution or liquidation of the Company, any sale or transfer of all or part of its business or assets, or any other corporate act or proceeding.

7. Governing Laws. This Award shall be construed, administered and enforced according to the laws of the State of South Carolina; provided, however, no Restricted Shares shall be issued except, in the reasonable judgment of the Committee, in compliance with exemptions under applicable state securities laws of the state in which the Employee resides, and/or any other applicable securities laws.

8. Successors. This Award shall be binding upon and inure to the benefit of the heirs, legal representatives, successors, and permitted assigns of the parties.

9. Notice. Except as otherwise specified herein, all notices and other communications under this Award shall be in writing and shall be deemed to have been given if personally delivered or if sent by registered or certified United States mail, return receipt requested, postage prepaid, addressed to the proposed recipient at the last known address of the recipient. Any party may designate any other address

to which notices shall be sent by giving notice of the address to the other parties in the same manner as provided herein. Notices sent to the Company shall be addressed to the attention of the Secretary of the Company.

10. Severability. In the event that any one or more of the provisions or portion thereof contained in this Award shall for any reason be held to be invalid, illegal, or unenforceable in any respect, the same shall not invalidate or otherwise affect any other provisions of this Award, and this Award shall be construed as if the invalid, illegal or unenforceable provision or portion thereof had never been contained herein.

11. Entire Agreement. This Award expresses the entire understanding and agreement of the parties with respect to the subject matter. This Award may be executed in two or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

12. Headings and Capitalized Terms. Paragraph headings used herein are for convenience of reference only and shall not be considered in construing this Award. Capitalized terms used, but not defined, in this Award shall be given the meaning ascribed to them in Section 15.

13. Specific Performance. In the event of any actual or threatened default in, or breach of, any of the terms, conditions and provisions of this Award, the party or parties who are thereby aggrieved shall have the right to specific performance and injunction in addition to any and all other rights and remedies at law or in equity, and all such rights and remedies shall be cumulative.

14. No Right to Continued Employment. The grant of the Restricted Stock Award made pursuant to this Award shall not be construed as giving Employee the right to any continued service relationship with the Company or any affiliate of the Company.

15. Special Definitions.

(a) For purposes of this Award, the term "Cause" has the same meaning as provided in the employment agreement between the Employee and the Company or, if applicable, any affiliate of the Company on the date of termination of employment, or if no such definition or employment agreement exists, "Cause" means:

(i) a material breach by the Employee of the terms of any agreement between the Company (or any affiliate) and the Employee;

(ii) Conduct by the Employee that amounts to fraud, dishonesty or willful misconduct in the performance of his duties and responsibilities as an employee of the Company or any affiliate;

(iii) Arrest for, charged in relation to (by criminal information, indictment or otherwise), or conviction of the Employee during his period of employment with the Company or any affiliate of a crime involving breach of trust or moral turpitude;

(iv) Conduct by the Employee that amounts to gross and willful insubordination or inattention to his duties and responsibilities during his period of employment with the Company or any affiliate; or

(v) Employee's removal and/or permanent prohibition from participating in the conduct of the affairs of the Company or any of its affiliates by an order issued under Section 8(e)(4) or 8(g)(1) of the Federal Deposit Insurance Act (12 U.S.C. 1818(e)(4) and (g)(1)).

(b) For purposes of this Award, the term "Change in Control" means any one of the following events that occurs after the Grant Date:

(i) the acquisition by any one person, or more than one person acting as a group (other than any person or more than one person acting as a group who is considered to own more than fifty percent (50%) of the total fair market value of the stock of the Company prior to such acquisition), of stock of the Company that, together with stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of the Company;

(ii) within any twelve-month period (beginning on or after the Grant Date) the date a majority of members of the Company's board of directors is replaced by directors whose appointment or election is not endorsed by a majority of the members of the Company's board of directors before the date of the appointment or election;

(iii) within any twelve-month period (beginning on or after the Grant Date) the acquisition by any one person, or more than one person acting as a group, of ownership of stock of the Company possessing thirty percent (30%) or more of the total voting power of the stock of the Company; or

(iv) within any twelve-month period (beginning on or after the Grant Date) the acquisition by any one person, or more than one person acting as a group, of the assets of the Company and its affiliates that have a total gross fair market value of eighty-five percent (85%) or more of the total gross fair market value of all of the assets of the Company and its affiliates immediately before such acquisition or acquisitions; provided, however, that transfers to the following entities or person(s) shall not be deemed to result in a Change in Control under this Subsection (iv):

(1) an entity that is controlled by the shareholders of the Company immediately after the transfer;

(2) a shareholder (determined immediately before the asset transfer) of the Company in exchange for or with respect to its stock;

(3) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the Company;

(4) a person, or more than one person acting as a group, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of the Company; or

(5) an entity, at least fifty percent (50%) of the total value or voting power of which is owned, directly or indirectly, by a person described in the above Subsection (b)(iv)(4).

For purposes of this Section 15(b), persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar

business transaction with the Company. Notwithstanding the foregoing, no Change in Control shall be deemed to have occurred for purposes of this Section 15(b) by reason of any actions or events in which the Employee participates in a capacity other than in the Employee's capacity as an employee or director of the Company or an affiliate or as a shareholder of the Company exercising the Employee's voting or tendering rights.

(c) For purposes of this Award, the term "Disability" has the same meaning as provided in the employment agreement between the Employee and the Company or, if applicable, any affiliate of the Company on the date of termination of employment, or if no such definition or employment agreement exists, "Disability" means that the Employee is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months.

(d) For purposes of this Award, the term "Fair Market Value" refers to the determination of the value of a share of Common Stock as of a date, determined as follows:

(i) if the shares of Common Stock are traded on any national securities exchange or through any nationally recognized quotation or market system (including, without limitation Nasdaq), Fair Market Value shall mean the closing price at which Common Stock shall have been sold on the trading day immediately preceding such date, as reported by any such exchange or system selected by the Committee on or through which the shares of Common Stock are then traded;

(ii) if the shares of Common Stock are not actively traded on any such exchange or through any such system, Fair Market Value shall mean the closing price for the Common Stock for the most recent trading day immediately preceding such date, as reported by such exchange or system; or

(iii) if the shares of Common Stock are not actively traded or reported on any exchange or through any such system and have not experienced a recent trading day, Fair Market Value shall mean the fair market value of a share of Common Stock as determined by the Committee taking into account such facts and circumstances deemed to be material by the Committee to the value of the Common Stock in the hands of the Employee.

Notwithstanding the foregoing, for purposes of Subsections (i), (ii), or (iii) above, the Committee may use the closing price as of the indicated date, the average price or value as of the indicated date or for a period certain ending on the indicated date, the price determined at the time the transaction is processed, the tender offer price for shares of Common Stock, or any other method which the Committee determines is reasonably indicative of fair market value.

EXHIBIT A**NOTICE OF WITHHOLDING ELECTION
COASTAL BANKING COMPANY, INC.
RESTRICTED STOCK AWARD**

TO: Coastal Banking Company, Inc.
FROM: W. Gary Horn
RE: Withholding Election

This election relates to the Restricted Stock Award identified in Paragraph 3 below. I hereby certify that:

- (1) My correct name and social security number and my current address are set forth at the end of this document.
(2) I am (check one, whichever is applicable).

- the original recipient of the Restricted Stock Award.
 the legal representative of the estate of the original recipient of the Restricted Stock Award.
 a legatee of the original recipient of the Restricted Stock Award.
 the legal guardian of the original recipient of the Restricted Stock Award.

(3) The Restricted Stock Award pursuant to which this election relates was issued in the name of _____ for a total of _____ shares of Common Stock. This election relates to _____ shares of Common Stock to be delivered upon the vesting of a portion of the Restricted Shares, provided that the numbers set forth above shall be deemed changed as appropriate to reflect stock splits and other adjustments contemplated by the applicable provisions of the Restricted Stock Award.

(4) I hereby elect to have certain of the Vested Shares withheld and returned to the Company, rather than delivered to me, for the purpose of having the value of such shares applied to pay minimum required federal, state and local, if any, tax withholding obligations arising from the vesting event.

The fair market value of the Vested Shares to be withheld and returned to the Company shall be equal to the minimum statutory tax withholding requirements under federal, state and local law in connection with the vesting event, reduced by the amount of any cash or certified check payment tendered by me to the Company in partial payment of such tax withholding obligations.

(5) I understand that this Withholding Election is made prior to the Vesting Date and is otherwise timely made pursuant to Section 1 of the Restricted Stock Award.

(6) I further understand that, if this Withholding Election is not disapproved by the Committee, the Company shall withhold from the Vested Shares a whole number of shares of Common Stock having the value specified in Paragraph 4 above.

(7) I have read and understand the provisions of the Restricted Stock Award and I have no reason to believe that any of the conditions therein to the making of this Withholding Election have not been met. Capitalized terms used in this Notice of Withholding Election without definition shall have the meanings given to them in the Restricted Stock Award.

Dated:

Signature:

Name (Printed)

Street Address

City, State, Zip Code

Social Security Number

CERTIFICATE OF CHIEF EXECUTIVE OFFICER

I, Michael G. Sanchez, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Coastal Banking Company, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrants most recent fiscal quarter (the Registrant’s first fiscal quarter in the case of this report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting;
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Dated this 9th day of May, 2008.

/s/ MICHAEL G. SANCHEZ

Michael G. Sanchez
Chief Executive Officer

Exhibit 31.2

CERTIFICATE OF CHIEF FINANCIAL OFFICER

I, Paul R. Garrigues, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Coastal Banking Company, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrants most recent fiscal quarter (the Registrant’s first fiscal quarter in the case of this report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting;
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Dated this 9th day of May, 2008.

/s/ PAUL R. GARRIGUES

Paul R. Garrigues
Chief Financial Officer

Exhibit 32.1

CERTIFICATE OF CHIEF EXECUTIVE OFFICER

This Certificate is being delivered pursuant to the requirements of Section 1350 of Chapter 63 (Mail Fraud) of Title 18 (Crimes and Criminal Procedures) of the United States Code and shall not be relied on by any person for any other purpose.

The undersigned, who is the Chief Executive Officer of Coastal Banking Company, Inc. (the "registrant"), hereby certifies as follows:

The Quarterly Report on Form 10-Q of the registrant (the "Report"), which accompanies this Certificate, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and all information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

Dated this 9th day of May, 2008.

/s/ MICHAEL G. SANCHEZ_

Michael G. Sanchez_

Chief Executive Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the registrant and will be retained by the registrant and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATE OF CHIEF FINANCIAL OFFICER

This Certificate is being delivered pursuant to the requirements of Section 1350 of Chapter 63 (Mail Fraud) of Title 18 (Crimes and Criminal Procedures) of the United States Code and shall not be relied on by any person for any other purpose.

The undersigned, who is the Chief Financial Officer of Coastal Banking Company, Inc. (the "registrant"), hereby certifies as follows:

The Quarterly Report on Form 10-Q of the registrant (the "Report"), which accompanies this Certificate, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and all information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

Dated this 9th day of May, 2008.

/s/ PAUL R. GARRIGUES

Paul R. Garrigues
Chief Financial Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the registrant and will be retained by the registrant and furnished to the Securities and Exchange Commission or its staff upon request.