

What the Financial Crisis Means to You

Perhaps the most vexing question in the midst of all the news about the financial crisis is, What does all of this mean to me in regards to my banking relationships? The best way to try to understand the impact of the ongoing turmoil is to break it into smaller pieces and look at each individually.

Bank Deposits & Investments

One of the biggest concerns most of us have is for the safety of our money. As explained in the article opposite this one, the FDIC insures bank deposits across a number of different types of accounts. In reaction to the crisis, and to further reassure bank customers of the safety of their deposits, the FDIC temporarily raised its insurance coverage up to \$250,000 per account owner for certain types of accounts. Others, including investment accounts like IRAs, were already covered up to \$250,000. See the accompanying article for details.

Mortgages

At the heart of the financial crisis is the crash of the real estate market, and the increasing default rates on mortgages. At the end of June, more than 4 million homeowners were behind on their payments or in foreclosure, according to the Mortgage Bankers Association. That figure seems likely to have increased since then.

Programs to help those who can't afford to pay their mortgage continue to evolve. Effective Dec. 15, the Federal Housing Finance Agency (FHFA), which took over Fannie Mae and Freddie Mac in September, will launch a new relief effort for delinquent borrowers. Qualified borrowers may be able to extend the term of their loans, reduce the interest rate, or have some of their loan's interest forgiven – all of which would result in a lower monthly payment.

Many of the nation's largest mortgage lenders and servicers (those companies that collect and distribute mortgage payments) are making their own efforts to help distressed borrowers, through many of the same mechanisms the FHFA will use. If you have fallen behind on your mortgage, a good first step would be to call the company that owns your loan (the one to which you send your monthly payment) and discuss ways they may be able to work with you.

Interest Rates & Other Loans

The financial crisis is a mixed bag for bank customers when it comes to interest rates and other loans. The Prime rate, as of Nov. 12, was 4.0 percent, down from 7.5 percent just a year ago. If you have a loan indexed to the Prime rate – such as a home equity loan or line of credit – that reduction is saving you money on the interest you owe. Credit cards and some other types of loans are often indexed to the Prime as well.

The flip side is that banks in general are being much more selective and conservative about lending nowadays. Borrowers now must prove their creditworthiness and will likely find terms more demanding than in the recent past.

If you have any questions about any of your accounts with us, please feel free to ask a customer service representative at your branch.

FDIC Insurance Update

There have been many changes in the financial system since passage of the recent legislation designed to help shore up troubled banks and other financial institutions. Among those changes has been an expansion of coverage of insured deposits. Following is a primer on deposit insurance, including an update on the recent changes.

A Quick Backgrounder

Our bank is insured by the Federal Deposit Insurance Corporation (FDIC), an independent agency of the U.S. government. The FDIC insures all deposits, including checking, NOW, savings and money market accounts, as well as CDs, for up to \$250,000 per depositor*, and up to \$250,000 per depositor for certain retirement accounts, including traditional IRAs, Roth IRAs, SEP and SIMPLE IRAs, among other retirement accounts. **(*As part of the financial rescue legislation passed October 3, this coverage increased from \$100,000 per depositor to \$250,000 per depositor through December 31, 2009.)**

You may even qualify for additional deposit insurance coverage if you own deposit accounts in different ownership categories. The FDIC provides separate insurance coverage for deposits held in single accounts and the retirement accounts mentioned above, as well as joint accounts and revocable trust accounts, including living trusts and payable-on-death (POD) accounts.

Since the FDIC's founding in 1933, no depositor has ever lost a penny of insured deposits. FDIC-insured deposits have proven to be completely safe.

What the FDIC does not insure are investments in stocks, bonds, mutual funds, life insurance policies, annuities, or municipal securities, even if these products were purchased from an FDIC-insured bank.

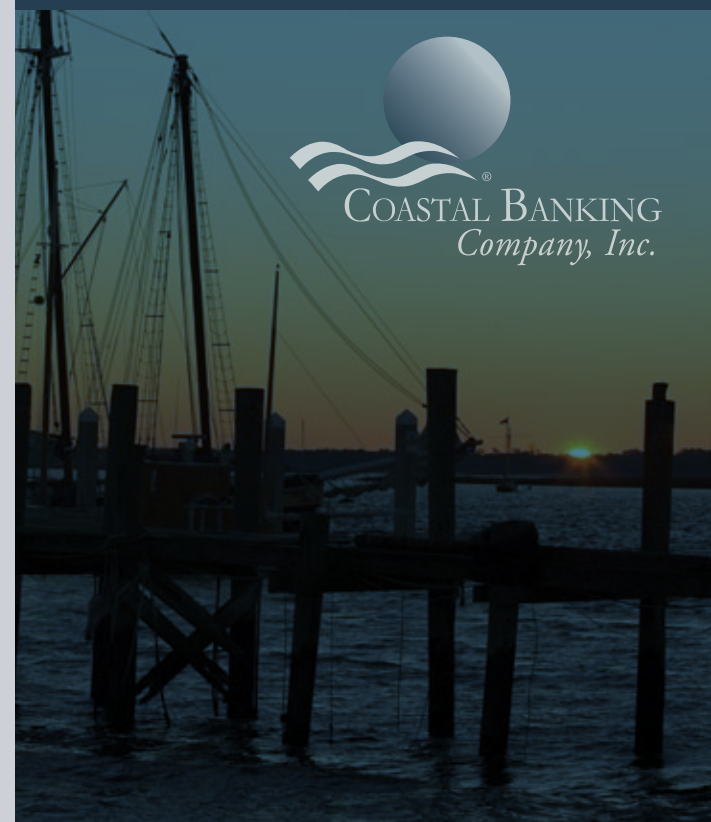
Basic FDIC Deposit Insurance Coverage Limits**

Single Accounts (owned by one person)	\$250,000 per owner
Joint Accounts (two or more persons)	\$250,000 per co-owner
IRAs and certain other retirement accounts	\$250,000 per owner
Trust Accounts	\$250,000 per owner per beneficiary subject to specific limitations and requirements
Corporation, Partnership and Unincorporated Association Accounts	\$250,000 per corporation, partnership or unincorporated association
Employee Benefit Plan Accounts	\$250,000 for the non-contingent, ascertainable interest of each participant
Government Accounts	\$250,000 per official custodian
Non-interest Bearing Transaction Accounts	Unlimited coverage. CBC National Bank – which includes Lowcountry National Bank, First National Bank of Nassau County and The Georgia Bank – are participating in this program. ***

** On January 1, 2010, the standard coverage limit will return to \$100,000 for all deposit categories except IRAs and certain retirement accounts, which will continue to be insured up to \$250,000 per owner.

*** Unlimited deposit insurance coverage is available through December 31, 2009, for non-interest bearing transaction accounts at institutions participating in FDIC's Temporary Liquidity Guarantee Program.

If you have questions about FDIC coverage limits and requirements, visit www.myFDICinsurance.gov, call toll-free 1-877-ASK-FDIC or ask a customer service representative at your branch.



Dear Shareholders and Friends,

These are unprecedented times in our country. The depth of the financial turmoil we experienced in the third quarter has not been seen in generations, and it is doubtful that conditions will improve any time soon.

Understandably, the state of the banking market and overall economy has caused a great deal of concern and anxiety. That is why it is important for you to know that our company – as a bank and as an investment – is safe and stable.

Coastal Banking Company, and our banking subsidiary, CBC National Bank – which includes Lowcountry National Bank, First National Bank of Nassau County and The Georgia Bank – remain financially sound and well-capitalized.

Most analysts today measure a bank's health by capital ratios – the percentage of a bank's capital to its risk-weighted assets. The higher the ratio, the more capital a bank has to weather the current financial storm.

Federal regulators deem banks to be "well-capitalized" when they have a Tier 1 risk-based capital ratio of 6% or higher, and a total risk-based capital ratio of at least 10%. At the end of the third quarter, our consolidated Tier 1 risk-based capital ratio was 12.9%, and our total risk-based capital ratio was 14.2% - both well in excess of Federal thresholds.

Additionally, we ended the third quarter with \$81.5 million in funding available from multiple sources, which is a significant increase from the \$63.4 million available to us at the beginning of the year. This is more than enough liquidity to meet our current needs.

Though our financial health is solid, we still face many challenges. The stagnant economy is causing hardships for even our strongest customers, putting a strain on their ability to meet their loan obligations on time.

This, in turn, caused the amount of our nonperforming assets to increase considerably in the third quarter. We are working hard to manage and resolve each problem loan, but we don't expect our asset quality to return to normal levels until the overall economy improves.



Fortunately, our conservative "bread and butter" approach to community banking has kept us from falling victim to subprime lending and other risky financial practices that have severely hurt other banks. As such, our asset quality still compares favorably to many of our peer banks.

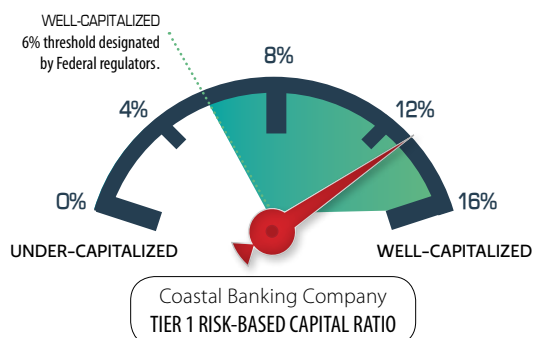
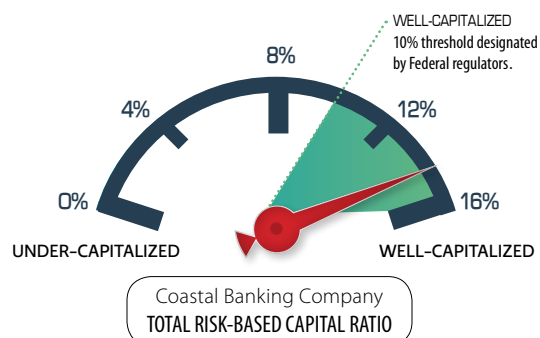
We also continued to make progress in the quarter on our strategy to reduce risk in our lending portfolio by limiting the concentration of construction lending and increasing the percentage of permanent financing lending, which tends to perform better in the current economic climate.

Another note of good news is that our wholesale mortgage division continues to perform well, contributing to our positive earnings in the third quarter. And the consolidation of our formerly separate banking subsidiaries is proceeding smoothly, resulting in a sizeable increase in the efficiency of our operations.

These positive achievements, along with our sound banking strategy and our resilient markets, gives us the capacity to serve our customers well into the future, and positions us to take advantage of the eventual recovery of the financial system and economy.

Thank you for your ongoing support.

Michael G. Sanchez
Chief Executive Officer



Bank News

- Coastal Banking Company named William Gary Horn as market president for its Lowcountry National Bank operations in Beaufort, S.C. He assumes the Beaufort market management duties of Randolph C. Kohn, who retired at the end of April.
- The company hired Susan R. Gottesmann-Jarzyna as Senior Vice President and director of Human Resources. Susan will also be responsible for legal matters involving employment issues.
- The company also hired Leya Neizvest as Vice President for Corporate Compliance.
- Lowcountry National Bank promoted Everette Kuhn to Senior Vice President in charge of Branch Administration for its South Carolina operations.
- First National Bank of Nassau County promoted Beth Boles to Banking Officer. Beth is one of the bank's first employees, having joined in 1998.
- The company selected John Richter & Co. to design, bid, and deliver a new employee health benefits package and provide customer service support for employees.