

CPP ANNUAL USE OF CAPITAL SURVEY - 2010

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Coastal Banking Company/CBC National Bank

Person to be contacted regarding this report:	Michael G. Sanchez	RSSD: (For Bank Holding Companies)	2855905
UST Sequence Number:	90	Holding Company Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	9,950,000	FDIC Certificate Number: (For Depository Institutions)	35309
CPP/CDCI Funds Repaid to Date:	0	Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	December 5, 2008	City:	Fernandina Beach
Date Repaid ¹ :	N/A	State:	Florida

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

<input checked="" type="checkbox"/>	Increase lending or reduce lending less than otherwise would have occurred.	Residential mortgage lending remained robust. Otherwise, the balance sheet contracted: investment securities decreased 37%; lack of demand caused portfolio loans to decrease 7%; total balance sheet contracted 8%. Mortgage loans held for sale grew to 20% of total assets at Dec 31, 2010.
<input checked="" type="checkbox"/>	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	In 2010 we made 4,382 residential mortgage loans in the amount of \$920 million. This is in relation to the Bank's average asset size of approximately \$444 million. The Bank started SBA lending the second half of 2010 to meet small business loan demand, generating \$10.6 million in new loans.
<input type="checkbox"/>	Increase securities purchased (ABS, MBS, etc.).	

<input type="checkbox"/>	Make other investments	
<input checked="" type="checkbox"/>	Increase reserves for non-performing assets	Provision expense was \$2.7 million, which was \$5.1 million less than 2009. However, costs related to valuation, maintenance and disposition of OREO was \$2.8 million greater than 2009. The LLR at Dec 31, 2010 was 5% less than the level of reserves at Dec 31, 2009, or 2.25% of portfolio loans.
<input checked="" type="checkbox"/>	Reduce borrowings	As the balance sheet contracted, Time Deposits at Dec 31, 2010 decreased 16% from prior year as the Bank relied less on jumbo retail and brokered time deposits. Other Borrowed funds (FHLB borrowings, Repurchase Agreements and FF Purchased) decreased 18%.
<input checked="" type="checkbox"/>	Increase charge-offs	The Bank charged off \$3.7 million, recovered \$653 thousand and had Provision expense of \$2.7 million. Charge-offs exceeded Recoveries and Provision by approximately \$381,000. Credit quality costs shifted to OREO, which were \$2.8 million greater than the previous year.
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	
<input type="checkbox"/>	Held as non-leveraged increase to total capital	

What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

We track pro forma capital net of the CPP Investment. At Dec 31, 2010 pro forma capital was 7.12% Tier 1 and 12.11% Total RBC, compared to actual capital of 8.57% Tier 1 and 14.50% Total RBC, respectively. Clearly, the CPP investment to the holding company, subsequently down-streamed to the Bank, allowed the Bank to remain sufficiently capitalized. It is doubtful without the CPP investment the Bank would have been able to support the high level of MLHFS in 2010. The two areas that should help lead to economic recovery, home purchases and small business expansion, were two important pieces of our business model supported by the CPP investment.

What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

The CPP investment allowed the Bank to continue the expansion of its wholesale mortgage division and new retail mortgage division. Clearly, the enhanced capital allowed the Bank to support a higher MLHFS and expand SBA lending.

Additionally, CPP funding supported the continued adequate provision to the Bank's Loan Loss reserve, ending the year at 2.25% of portfolio loans outstanding. This cushion provides for future loan problems, charge-offs, OREO valuation expenses and other credit related expenses. The Bank was able to continue business as usual, providing loans for the refinancing and acquisition for home ownership; originating and renewing portfolio loans for credit-worthy borrowers; and providing credit for new and expanding small businesses through the SBA program. Absent the CPP investment, the Bank would have contracted further and would have been unable to extend credit into the communities it serves.

Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1505-0222. The time required to complete this information collection is estimated to average 80 hours per response.