



LOWCOUNTRY NATIONAL BANK  
FIRST NATIONAL BANK OF NASSAU COUNTY  
THE GEORGIA BANK  
A Division of First National Bank of Nassau County

March 5, 2009

Via Email (SIGTARP.response@do.treas.gov) (w/o supporting documentation) and FedEx

Special Inspector General - TARP  
1500 Pennsylvania Avenue, NW  
Suite 1064  
Washington, D. C. 20220

Attn: Neil M. Barofsky  
Special Inspector General

Re: SIGTARP Request for Information  
Coastal Banking Company, Inc.

Dear Mr. Barofsky:

Coastal Banking Company, Inc., a South Carolina corporation (the "Company"), is the parent of CBC National Bank (the "Bank"), a \$474.6 million asset financial institution, which operates as Lowcountry National Bank in Beaufort, South Carolina, First National Bank of Nassau County in Fernandina Beach, Florida and The Georgia Bank in Meigs, Georgia. CBC National Bank provides a full range of consumer and business banking services through full-service banking offices in Beaufort, Fernandina Beach, Meigs, Hilton Head, South Carolina, and Port Royal, South Carolina. The Company also operates a wholesale lending division based in Atlanta, Georgia and commercial loan production offices in Jacksonville, Florida, and Savannah, Georgia. On December 5, 2008, the Company received an investment of \$9.95 million under the Troubled Asset Relief Program (TARP) Capital Purchase Program.

We are responding to your letter, dated February 6, 2009, with respect to our use of TARP funds and compliance with the executive compensation requirements of the Emergency Economic Stabilization Act of 2008 ("EESA"). We have restated and responded to each of your requests below.

- (1) *A narrative response specifically outlining (a) your anticipated use of TARP funds; (b) whether the TARP funds were segregated from other institutional funds; (c) your actual use of TARP funds to date; and (d) your expected use of unspent TARP funds. In your response, please take into consideration your anticipated use of TARP funds at the time that you applied for such funds, or any actions that have taken that you would not have been able to take absent the infusion of TARP funds.*



**(1)(a)** Our anticipated use of TARP funds was to (i) to make loans to credit worthy customers, and (ii) to facilitate resolution of problem assets on our books.

**(1)(b)** TARP funds were not segregated from other funds. Initial use of TARP funds can be isolated from other funds as follows:

- The Company increased its investment in the Bank in the amount of \$6 million from proceeds of TARP funds.
- The remaining \$3.95 million were deposited in the Company's interest bearing account at the Bank, increasing the balance of the account from \$274,000 to \$4.22 million. Accordingly, the remaining TARP funds are comingled in the Company's cash balance retained at the Bank.
- As a result of the actions of the Company subsequent to receipt of TARP funds, the Bank's capitalization increased \$6 million and its deposit balances increased an additional \$3.95 million, resulting in \$9.95 million in increased liquidity.

**(1)(c)** Coastal Banking Company, Inc. received TARP funds on December 5, 2008. The TARP funds were initially placed in the Company's interest bearing deposit account with the Bank, providing liquidity to the Bank while preserving the Company's flexibility in how to best support the Bank, including the Bank's lending efforts.

On December 23, 2008 the Company contributed \$6.0 million to the Bank as paid in capital, increasing the Bank's capital level from 13.12% of total risk weighted assets to 13.88% of total risk weighted assets. Due to the Bank's capital policy guidelines, which recommend the Bank to maintain 8% Tier 1 capital, the Bank has been able to increase its net lending capacity by approximately \$34 million.

The Bank's improved capitalization substantially increased its capacity to increase residential mortgage loan originations. The Bank originated \$199.4 million residential mortgages available for sale in the three month period December, 2008 through February, 2009, compared to \$90.8 million in the same three month period the prior year, an increase of 120%. A chart and graph of residential mortgage originations are attached. The Bank also retains residential mortgage loans for its own portfolio, subject to interest rate risk and liquidity needs.

**(1)(d)** The Company is ready to contribute additional funds as capital to the Bank to support further increases in lending when and if loan demand increases. TARP funds have strengthened our capacity to respond to the legitimate credit needs of our customers and communities. We have advised our customers, employees and community of our commitment to support our communities' growth and of our receipt of TARP funds, which strengthens our ability to make loans. On February 13, 2009, we issued a press release to the local media regarding our desire and ability to make loans to creditworthy borrowers as a result of the TARP funds. A copy of this press release is attached.

TARP funds have not only provided us with additional funds to lend, but have also permitted us to strengthen our balance sheet by facilitating resolution of problem assets.

- (2) *Your specific plans, and the status of implementation of those plans, for addressing executive compensation requirements associated with the funding. Information provided regarding executive compensation should also include any assessments made of loan risks and their relationship to executive compensation; how limitations on executive compensation will be implemented in line with Department of Treasury guidelines; and whether any such limitations may be offset by other changes to other, longer-term or deferred forms of executive compensation.*

We will fully comply with the executive compensation requirements associated with the TARP funds.

We have amended our senior executive officers' compensation arrangements to comply with Section 111 of EESA. The senior executive officers were not otherwise compensated for these amendments and have not been awarded any other forms of executive compensation to offset the EESA limits.

We are currently in the process, with the assistance of counsel, of reviewing the American Recovery and Reinvestment Act of 2009 ("ARRA") to determine whether further modifications to our executive compensation arrangements or other actions will be required pending adoption of regulations by Treasury. In light of the provisions of ARRA, the Company's Compensation Committee, comprised entirely of independent directors, and the Board of Directors have adopted a TARP Capital Purchase Program Compliance Policy that addresses each of the requirements contained in EESA, as amended by ARRA. We have enclosed a copy of our TARP Compensation Compliance Policy.

Pursuant to the interim rules issued by the Treasury on January 16, 2009 and our policy, our Compensation Committee will review the incentive compensation arrangements of the senior executive officers to ensure that such arrangements do not encourage senior executive officers to take unnecessary or excessive risks that could threaten the value of the Company or the Bank. This review will be completed by March 25, 2009.


We have segregated and preserved all documents referring to our use or anticipated use of TARP funds, including any internal emails, budgets or memoranda.

As a duly authorized senior executive officer of the Company, I hereby certify, on behalf of the Company, and subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001, that all statements, representations and supporting information provided herein are true and complete to the best of my knowledge.

Office of the Special Inspector General  
Troubled Asset Relief Program  
March 5, 2009  
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Thank you for your consideration of our responses to your comments. If you have any questions, or if we can be of further assistance to you, please call me at (b) (6)

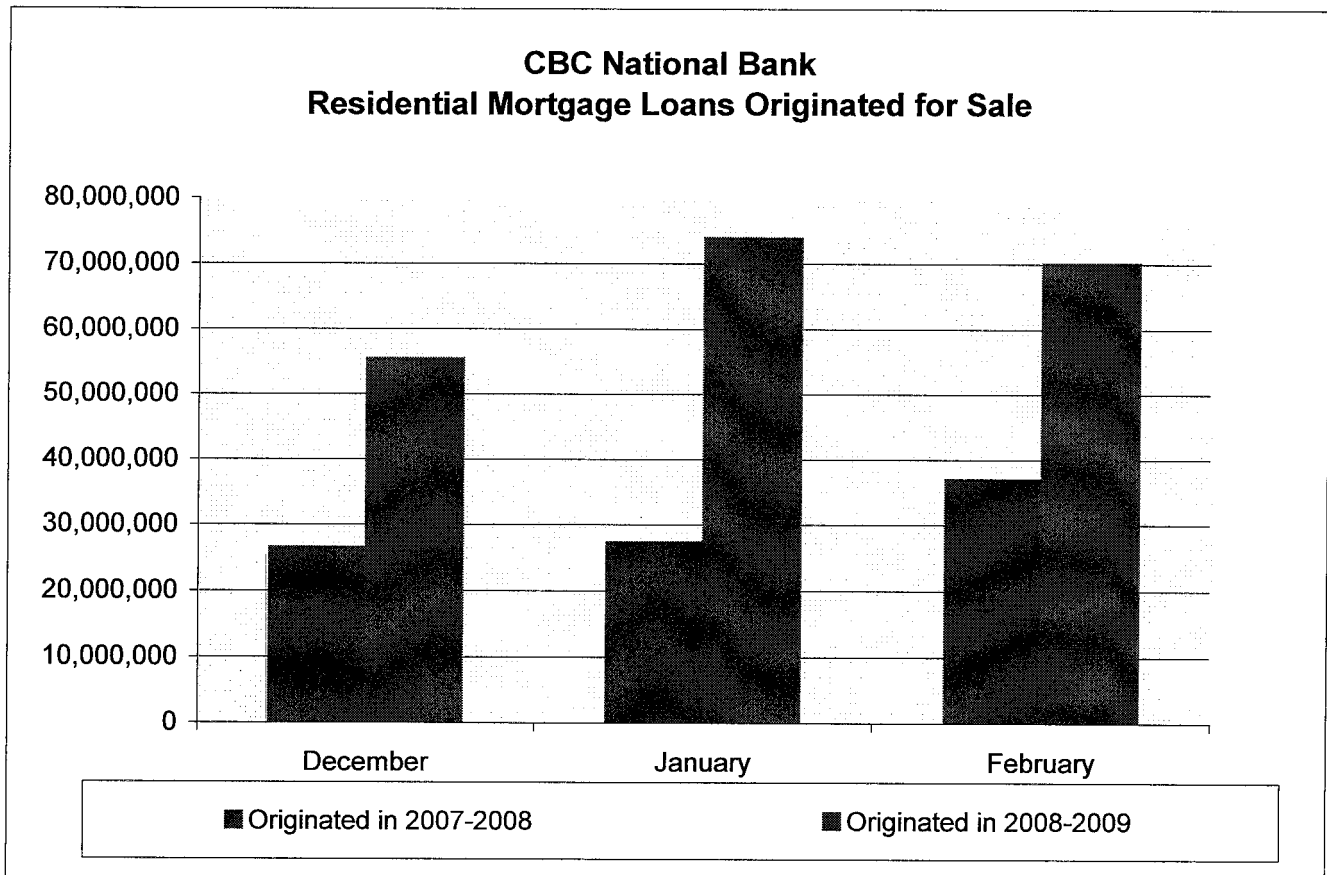
Very truly yours,

  
Michael G. Sanchez  
President and Chief Executive Officer

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CBC National Bank  
 1-4 Family Residential Mortgage Loans  
 Originated for Sale

	December	January	February
Originated in 2007-2008	26,500,466	27,320,754	36,930,376
Originated in 2008-2009	55,399,350	73,932,115	70,084,356
Increase in \$\$	28,898,884	46,611,361	33,153,980
% Increase	109.05%	170.61%	89.77%



For Immediate Release

For More Information:

Michael G. Sanchez  
Chief Executive Officer  
Coastal Banking Company Inc.  
904-321-0400

Andy Mus  
Senior Vice President  
Marsh Communications LLC  
404-327-7662

## **Coastal Banking Company Receives \$9.95 Million in TARP Funding**

**BEAUFORT, S.C., Dec. 5, 2008** – Coastal Banking Company Inc. (OTCBB: CBCO) today announced that it has received a \$9.95 million investment from the U.S. Treasury Department under the TARP Capital Purchase Program. The TARP is a voluntary program designed to assist financial institutions in increasing the flow of financing to U.S. businesses and consumers as a way of stimulating the U.S. economy.

Under the TARP Capital Purchase Program, Coastal Banking Company has issued 9,950 shares of Series A preferred stock with a \$1,000 per share liquidation value to the U.S. Treasury Department. The Series A preferred stock provides a 5 percent dividend for each of the first five years of the investment, and 9 percent thereafter until the shares are redeemed. Additionally, in conjunction with the purchase of Coastal Banking Company's Series A senior preferred stock, the Treasury received 10-year warrants on 205,579 shares of the company's common stock with an exercise price of \$7.26 per share. The exercise price was calculated based on the average of closing prices of Coastal Banking Company's common stock on the 20 trading days ending on the last trading day prior to the date of the Treasury's approval of the company's application under the program.

"Though we are already in a strong capital position, we believe that participating in the TARP program is in the best interest of the company, our shareholders and the communities we serve," said Michael G. Sanchez, chief executive officer. "It is an extremely low-cost source of funds that provides our company with insurance capital in a time of great uncertainty. As responsible managers of taxpayer capital, our plan is to use the additional funding to make prudent loans to creditworthy individuals and businesses in our local communities and markets, work with

troubled borrowers and support the bank's broader strategic growth and community service initiatives."

The \$9.95 million investment represents 3 percent of the company's total risk-weighted assets at Sept. 30, 2008. The proceeds from the sale of the Series A preferred stock will be contributed to Coastal Banking Company's wholly owned banking subsidiary, CBC National Bank.

The impact of this additional equity on CBC National Bank's already strong capital ratios is shown in the comparative chart below. Included are CBC National Bank's capital ratios as of Sept. 30, 2008, a pro forma comparison that reflects what these capital ratios would be when the \$9.95 million is added, and the threshold percentages that Federal regulators use to designate a "well-capitalized" bank.

CBC National Bank Capital Measurements	Pre-TARP capital ratios as of 9/30/08	Post-TARP capital ratios (pro-forma)	Threshold for "well-capitalized" designation by Federal regulators
Total risk-based capital ratio	13.50%	16.50%	10.0%
Tier 1 risk-based capital ratio	12.25%	15.25%	6.0%
Tier 1 leverage ratio	9.43%	11.47%	5.0%

**About Coastal Banking Company Inc.**

Coastal Banking Company Inc., based in Beaufort, S.C., is the \$441.3 million-asset bank holding company of CBC National Bank, which operates as Lowcountry National Bank in Beaufort, S.C., First National Bank of Nassau County in Fernandina Beach, Fla., and The Georgia Bank in Meigs, Ga. CBC National Bank, which is headquartered in Fernandina Beach, provides a full range of consumer and business banking services through full-service banking offices in Beaufort, Fernandina Beach, Meigs, Hilton Head, S.C., and Port Royal, S.C. The company also

operates a wholesale lending division based in Atlanta and commercial loan production offices in Jacksonville, Fla., and Savannah, Ga. The company's common stock is publicly traded on the OTC Bulletin Board under the symbol CBCO. For more information, please visit the company's Web site, [www.coastalbanking.com](http://www.coastalbanking.com).

#### FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISK FACTORS

*This release contains forward-looking statements including statements relating to present or future trends or factors generally affecting the banking industry and specifically affecting Coastal's operations, markets and products. Without limiting the foregoing, the words "believes," "anticipates," "intends," "expects," or similar expressions are intended to identify forward-looking statements. These forward-looking statements involve risks and uncertainties. Actual results could differ materially from those projected for many reasons, including, without limitation, changing events and trends that have influenced Coastal's assumptions, but that are beyond Coastal's control. These trends and events include (i) changes in the interest rate environment which may reduce margins, (ii) not achieving expected growth, (iii) less favorable than anticipated changes in the national and local business environments and securities markets, (iv) adverse changes in the regulatory requirements affecting Coastal, (v) greater competitive pressures among financial institutions in Coastal's markets, (vi) greater loan losses than historic levels, and (vii) difficulties in expanding our banking operations into a new geographic market. Additional information and other factors that could affect future financial results are included in Coastal's filings with the Securities and Exchange Commission.*

*All written or oral forward-looking statements are expressly qualified in their entirety by these cautionary statements. Please also read the additional risks and factors described from time to time in reports and registration statements filed with the Securities and Exchange Commission. Coastal Banking Company, Inc. undertakes no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date on which such statements were made.*

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For Immediate Release

For More Information:

Michael G. Sanchez  
Chief Executive Officer  
Coastal Banking Company Inc.  
904-321-0400

Andy Mus  
Senior Vice President  
Marsh Communications LLC  
404-327-7662

## **Coastal Banking Company Pays Cash Dividend To the U.S. Treasury on TARP Investment**

**BEAUFORT, S.C., Feb. 13, 2009** – Coastal Banking Company Inc. (OTCBB: CBCO), the holding company of CBC National Bank, which operates divisions including Lowcountry National Bank in Beaufort, S.C., and First National Bank of Nassau County in Fernandina Beach, Fla., declared a quarterly cash dividend of \$97,736.11 payable on Feb. 15, 2009, to the U.S. Department of the Treasury, the sole holder of record of 9,950 shares of Coastal Banking Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, issued on Dec. 5, 2008 under the TARP Capital Purchase Program. The company contributed a portion of the proceeds from the issuance of its Series A preferred stock to its wholly-owned subsidiary bank.

"The funding we received from the TARP Capital Purchase Program is an investment in our bank, and as responsible stewards of public financing we will strive to ensure that the US taxpayer receives an appropriate return on that investment" said Michael G. Sanchez, chief executive officer. "We have dramatically increased our level of residential mortgage lending since receipt of the TARP proceeds. Our belief is that this is the most effective use of the TARP capital, as improving the housing market is a key to the recovery of the overall economy."

"CBC National Bank funded more than \$130 million of new residential mortgage loans during December 2008 and January 2009 on the strength of the U.S. Treasury's investment in Coastal Banking Company," said Paul Garrigues, chief financial officer. "That represents more than 13 times the amount of preferred stock our company sold to the Treasury, and is an increase of more than 60 percent, or \$25 million, in average monthly loan originations as compared to the first eleven months of 2008."

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**RESOLUTIONS OF THE  
COMPENSATION COMMITTEE OF  
THE BOARD OF DIRECTORS OF  
COASTAL BANKING COMPANY, INC.**

**WHEREAS**, the Board of Directors authorized and the Company issued 9,950 shares of Fixed Rate Cumulative Preferred Stock, Series A (“TARP Preferred Stock”) to the United States Department of the Treasury (“Treasury”), pursuant to the Troubled Asset Relief Program (“TARP”) Capital Purchase Program;

**WHEREAS**, in connection with the Company’s participation in the TARP Capital Purchase Program it is required to comply with all applicable executive compensation requirements associated with the TARP Capital Purchase Program, including, but not limited to, the standards to be established by Treasury pursuant to the applicable provisions of the American Recovery and Reinvestment Act (“ARRA”), a copy of which is attached hereto as Exhibit A; and

**WHEREAS**, the Compensation Committee of the Board of Directors has reviewed the applicable provisions of the ARRA and the Company’s current compensation policies.

**NOW, THEREFORE, BE IT RESOLVED**, that, pursuant to its charter, the Compensation Committee of the Board of Director hereby approves, and recommends that the Board of Directors of the Company adopt, at a minimum, the compensation policy attached hereto as Exhibit B, to ensure that the Company is in compliance with the executive compensation requirements required by the TARP Capital Purchase Program.

**EXHIBIT A**

“(b) EXECUTIVE COMPENSATION AND CORPORATE GOVERNANCE.—

“(1) ESTABLISHMENT OF STANDARDS.—During the period in which any obligation arising from financial assistance provided under the TARP remains outstanding, each TARP recipient shall be subject to—

“(A) the standards established by the Secretary under this section; and

“(B) the provisions of section 162(m)(5) of the Internal Revenue Code of 1986, as applicable.

“(2) STANDARDS REQUIRED.—The Secretary shall require each TARP recipient to meet appropriate standards for executive compensation and corporate governance.

“(3) SPECIFIC REQUIREMENTS.—The standards established under paragraph (2) shall include the following:

“(A) Limits on compensation that exclude incentives for senior executive officers of the TARP recipient to take unnecessary and excessive risks that threaten the value of such recipient during the period in which any obligation arising from financial assistance provided under the TARP remains outstanding.

“(B) A provision for the recovery by such TARP recipient of any bonus, retention award, or incentive compensation paid to a senior executive officer and any of the next 20 most highly-compensated employees of the TARP recipient based on statements of earnings, revenues, gains, or other criteria that are later found to be materially inaccurate.

“(C) A prohibition on such TARP recipient making any golden parachute payment to a senior executive officer or any of the next 5 most highly-compensated employees of the TARP recipient during the period in which any obligation arising from financial assistance provided under the TARP remains outstanding.

“(D)(i) A prohibition on such TARP recipient paying or accruing any bonus, retention award, or incentive compensation during the period in which any obligation arising from financial assistance provided under the TARP remains outstanding, except that any prohibition developed under this paragraph shall not apply to the payment of long-term restricted stock by such TARP recipient, provided that such long-term restricted stock—

“(I) does not fully vest during the period in which any obligation arising from financial assistance provided to that TARP recipient remains outstanding;

“(II) has a value in an amount that is not greater than 1/5 of the total amount of annual compensation of the employee receiving the stock; and

“(III) is subject to such other terms and conditions as the Secretary may determine is in the public interest.

“(ii) The prohibition required under clause (i) shall apply as follows:

“(I) For any financial institution that received financial assistance provided under the TARP equal to less than \$25,000,000, the prohibition shall apply only to the most highly-compensated employee of the financial institution.

“(II) For any financial institution that received financial assistance provided under the TARP equal to at least \$25,000,000, but less than \$250,000,000, the prohibition shall apply to at least the 5 most highly-compensated employees of the financial institution, or such higher number as the Secretary may determine is in the public interest with respect to any TARP recipient.

“(III) For any financial institution that received financial assistance provided under the TARP equal to at least \$250,000,000, but less than \$500,000,000, the prohibition shall apply to the senior executive officers and at least the 10 next most highly-compensated employees, or such higher number as the Secretary may determine is in the public interest with respect to any TARP recipient.

“(IV) For any financial institution that received financial assistance provided under the

TARP equal to \$500,000,000 or more, the prohibition shall apply to the senior executive officers and at least the 20 next most highly-compensated employees, or such higher number as the Secretary may determine is in the public interest with respect to any TARP recipient.

“(iii) The prohibition required under clause (i) shall not be construed to prohibit any bonus payment required to be paid pursuant to a written employment contract executed on or before February 11, 2009, as such valid employment contracts are determined by the Secretary or the designee of the Secretary.

“(E) A prohibition on any compensation plan that would encourage manipulation of the reported earnings of such TARP recipient to enhance the compensation of any of its employees.

“(F) A requirement for the establishment of a Board Compensation Committee that meets the requirements of subsection (c).

“(4) CERTIFICATION OF COMPLIANCE.—The chief executive officer and chief financial officer (or the equivalents thereof) of each TARP recipient shall provide a written certification of compliance by the TARP recipient with the requirements of this section—

“(A) in the case of a TARP recipient, the securities of which are publicly traded, to the Securities and Exchange Commission, together with annual filings required under the securities laws; and

“(B) in the case of a TARP recipient that is not a publicly traded company, to the Secretary.

“(c) BOARD COMPENSATION COMMITTEE.—

“(1) ESTABLISHMENT OF BOARD REQUIRED.—Each TARP recipient shall establish a Board Compensation Committee, comprised entirely of independent directors, for the purpose of reviewing employee compensation plans.

“(2) MEETINGS.—The Board Compensation Committee of each TARP recipient shall meet at least semiannually to discuss and evaluate employee compensation plans in light of an assessment of any risk posed to the TARP recipient from such plans.

“(3) COMPLIANCE BY NON-SEC REGISTRANTS.—In the case of any TARP recipient, the common or preferred stock of which is not registered pursuant to the Securities Exchange Act of 1934, and that has received \$25,000,000 or less of TARP assistance, the duties of the Board Compensation Committee under this subsection shall be carried out by the board of directors of such TARP recipient.

“(d) LIMITATION ON LUXURY EXPENDITURES.—The board of directors of any TARP recipient shall have in place a company-wide policy regarding excessive or luxury expenditures, as identified by the Secretary, which may include excessive expenditures on—

“(1) entertainment or events;

“(2) office and facility renovations;

“(3) aviation or other transportation services;

or

“(4) other activities or events that are not reasonable expenditures for staff development, reasonable performance incentives, or other similar measures conducted in the normal course of the business operations of the TARP recipient.

“(e) SHAREHOLDER APPROVAL OF EXECUTIVE COMPENSATION.—

“(1) ANNUAL SHAREHOLDER APPROVAL OF EXECUTIVE COMPENSATION.—Any proxy or consent or authorization for an annual or other meeting of the shareholders of any TARP recipient during the period in which any obligation arising from financial assistance provided under the TARP remains outstanding shall permit a separate shareholder vote to approve the compensation of executives, as disclosed pursuant to the compensation disclosure rules of the Commission (which disclosure shall include the compensation discussion and analysis, the compensation tables, and any related material).

“(2) NONBINDING VOTE.—A shareholder vote described in paragraph (1) shall not be binding on the board of directors of a TARP recipient, and may not be construed as overruling a decision by such board, nor to create or imply any

## TITLE VII—LIMITS ON EXECUTIVE COMPENSATION

### SEC. 7000. TABLE OF CONTENTS.

The table of contents of this title is as follows:

## TITLE VII—LIMITS ON EXECUTIVE COMPENSATION

Sec. 7000. Table of contents.

Sec. 7001. Executive compensation and corporate governance.

Sec. 7002. Applicability with respect to loan modifications.

### SEC. 7001. EXECUTIVE COMPENSATION AND CORPORATE GOVERNANCE.

Section 111 of the Emergency Economic Stabilization Act of 2008 (12 U.S.C. 5221) is amended to read as follows:

#### “SEC. 111. EXECUTIVE COMPENSATION AND CORPORATE GOVERNANCE.

“(a) DEFINITIONS.—For purposes of this section, the following definitions shall apply:

“(1) SENIOR EXECUTIVE OFFICER.—The term ‘senior executive officer’ means an individual who is 1 of the top 5 most highly paid executives of a public company, whose compensation is required to be disclosed pursuant to the Securities Exchange Act of 1934, and any regulations issued thereunder, and non-public company counterparts.

“(2) GOLDEN PARACHUTE PAYMENT.—The term ‘golden parachute payment’ means any payment to a senior executive officer for departure from a company for any reason, except for payments for services performed or benefits accrued.

“(3) TARP RECIPIENT.—The term ‘TARP recipient’ means any entity that has received or will receive financial assistance under the financial assistance provided under the TARP.

“(4) COMMISSION.—The term ‘Commission’ means the Securities and Exchange Commission.

“(5) PERIOD IN WHICH OBLIGATION IS OUTSTANDING; RULE OF CONSTRUCTION.—For purposes of this section, the period in which any obligation arising from financial assistance provided under the TARP remains outstanding does not include any period during which the Federal Government only holds warrants to purchase common stock of the TARP recipient.

additional fiduciary duty by such board, nor shall such vote be construed to restrict or limit the ability of shareholders to make proposals for inclusion in proxy materials related to executive compensation.

"(3) DEADLINE FOR RULEMAKING.—Not later than 1 year after the date of enactment of the American Recovery and Reinvestment Act of 2009, the Commission shall issue any final rules and regulations required by this subsection.

"(C) REVIEW OF PRIOR PAYMENTS TO EXECUTIVES.—

"(1) IN GENERAL.—The Secretary shall review bonuses, retention awards, and other compensation paid to the senior executive officers and the next 20 most highly-compensated employees of each entity receiving TARP assistance before the date of enactment of the American Recovery and Reinvestment Act of 2009, to determine whether any such payments were inconsistent with the purposes of this section or the TARP or were otherwise contrary to the public interest.

"(2) NEGOTIATIONS FOR REIMBURSEMENT.—If the Secretary makes a determination described in paragraph (1), the Secretary shall seek to negotiate with the TARP recipient and the subject employee for appropriate reimbursements to the Federal Government with respect to compensation or bonuses.

"(g) NO IMPEDIMENT TO WITHDRAWAL BY TARP RECIPIENTS.—Subject to consultation with the appropriate Federal banking agency (as that term is defined in section 3 of the Federal Deposit Insurance Act), if any, the Secretary shall permit a TARP recipient to repay any assistance previously provided under the TARP to such financial institution, without regard to whether the financial institution has replaced such funds from any other source or to any waiting period, and when such assistance is repaid, the Secretary shall liquidate warrants associated with such assistance at the current market price.

"(h) REGULATIONS.—The Secretary shall promulgate regulations to implement this section."

SEC. 7002. APPLICABILITY WITH RESPECT TO LOAN MODIFICATIONS.

Section 109(a) of the Emergency Economic Stabilization Act of 2008 (12 U.S.C. 5219(a)) is amended—

(1) by striking "To the extent" and inserting the following:

"(1) IN GENERAL.—To the extent"; and

(2) by adding at the end the following:

"(2) WAIVER OF CERTAIN PROVISIONS IN CONNECTION WITH LOAN MODIFICATIONS.—The Secretary shall not be required to apply executive compensation restrictions under section 111, or to receive warrants or debt instruments under section 113, solely in connection with any loan modification under this section."

And the Senate agreed to the same.

DAVID OBEY,  
CHARLES RANGEL,  
HENRY WAXMAN,

Managers on the Part of the House.

DANIEL K. INOUE,  
MAX BAUCUS,  
HARRY REID,

Managers on the Part of the Senate.

#### JOINT EXPLANATORY STATEMENT OF THE COMMITTEE OF CONFERENCE

The managers on the part of the House and Senate at the conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H.R. 1), a bill making supplemental appropriations for job preservation and creation, infrastructure investment, energy efficiency and science, assistance to the unemployed, and State and local fiscal stabilization, for the fiscal year ending September 30, 2009, and for other purposes, submit the following joint statement to the House and Senate in explanation of the effect of the action agreed upon by the managers and recommended in the accompanying conference report.

## EXHIBIT B

### **COASTAL BANKING COMPANY, INC. TARP CAPITAL PURCHASE PROGRAM COMPENSATION POLICY**

The Compensation Committee has enacted the TARP Capital Purchase Program Compensation Policy (the "Policy") to ensure compliance with all applicable Troubled Asset Relief Program ("TARP") Capital Purchase Program executive compensation requirements, which are issued by the United States Department of the Treasury ("Treasury"). All compensation for employees of Coastal Banking Company, Inc. and CBC National Bank, its wholly-owned subsidiary (collectively, the "Company"), must be set subject to the Policy during the period in which an obligation arising from Treasury's investment in the Company remains outstanding.

The Compensation Committee shall enforce the Policy and resolve all questions of method, form and detail. Further, the Compensation Committee shall review the Policy from time to time and amend the Policy, as necessary, to reflect any interpretations or standards adopted by Treasury pursuant to the ARRA.

#### Executive Compensation and Corporate Governance

All bonus, retention award and incentive compensation payments paid to senior executive officers, or any of the next 20 most highly-compensated employees, are subject to recovery or "clawback" by the Company if such payments were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria.

The Company must limit compensation that provides incentives for senior executive officers to take unnecessary and excessive risks that will threaten the value of the Company.

Upon severance from employment, Golden Parachute Payments, as such term is defined in Section 111(a)(2) of the EESA, as amended, may not be paid to senior executive officers or any of the next five most highly-compensated employees.

The Company prohibits the payment or accrual of any bonus, retention award, or incentive compensation to its most highly-compensated employee. Such bonus, retention award, or incentive compensation prohibition, however, does not prohibit any bonus payment required to be paid pursuant to a written employment contract executed on or before February 11, 2009. Further, such prohibition does not apply to the payment of long-term restricted stock, provided that such long-term restricted stock adheres to the following:

- (i) the long-term restricted stock does not vest during the period in which an obligation arising from Treasury's investment in the Company remains outstanding;
- (ii) the long-term restricted stock has a value in an amount that is not greater than one-third of the employee's total annual compensation; and

- (iii) the long-term restricted stock is subject to other terms and conditions determined by Treasury.

The Company prohibits any compensation plan that encourages manipulation of reported earnings to enhance the compensation of any employee.

Pursuant to applicable securities laws, and in conjunction with the Company's annual reporting at the completion of each fiscal year, the Company's principal executive officer and the principal financial officer are required to provide written certification of compliance with all above-referenced Executive Compensation and Corporate Governance requirements.

Finally, the Compensation Committee must review all senior executive officer incentive compensation arrangements with the Company's senior risk officers to ensure that the senior executive officer incentive compensation arrangements do not encourage such senior executive officers to take unnecessary and excessive risks that could threaten the value of the Company. Further, within 120 days of the Company's TARP Capital Purchase Program closing date, the Company's principal executive officer must certify to Treasury that the Compensation Committee completed such review.

#### **Board Compensation Committee**

The Compensation Committee shall meet at least semi-annually with the senior risk officers of the Company to discuss and review the relationship between the Company's risk management policies and practices and its senior executive officer incentive compensation arrangements. Further, the Compensation Committee shall review employee compensation plans and be comprised entirely of independent directors.

#### **Limitation on Luxury Expenditures**

The Compensation Committee shall prepare a policy on any excessive or luxury expenditures related to aviation or other transportation services, office and facility renovations, entertainment and events, and other activities and events that are not reasonable expenditures for sales conferences, staff development, reasonable performance incentives and other similar measures conducted in the Company's normal business operations.

#### **Shareholder Approval of Executive Compensation**

The Company's proxy for its annual meeting of shareholders must permit a separate shareholder vote to approve the compensation of senior executive officers. Such senior executive officer compensation must continue to be disclosed in the proxy statement pursuant to the compensation disclosure rules of the Securities and Exchange Commission.

The above referenced shareholder vote is not binding on the Board of Directors and may not be construed as overruling a decision by the Board of Directors, nor create or imply any additional fiduciary duty by the Board of Directors. Further, the shareholder vote should not be construed to restrict or limit the ability of shareholders to make proposals for inclusion in proxy materials related to executive compensation.