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Coastal Banking Company Reports First Quarter 2016 Earnings

BEAUFORT, S.C., May 9, 2015 – Coastal Banking Company Inc. (OTCQX:CBCO), the holding company of CBC National Bank, which operates branches in Fernandina Beach, Ocala and The Villages, Fla, and Beaufort and Port Royal, S.C., today reported net income of \$1,218,000, or earnings per diluted common share of \$0.44, for the quarter ended March 31, 2016. This represents a \$47,000 improvement from the net income of \$1,171,000, or earnings per diluted common share of \$0.35, for the first quarter of 2015.

On a linked-quarter basis, net income in the first quarter of 2016 represents a decrease of \$215,000, or earnings per diluted common share of \$0.13, from net income of \$1,433,000, or earnings per diluted common share of \$0.48, in the final quarter of 2015.

Key highlights from the first quarter of 2016 include:

- Continuation of strong, recurring quarterly earnings which has averaged in excess of \$1 million over the past eight consecutive quarters.
- Driven by these strong earnings, common tangible book value has grown to \$12.36 per share at March 31, 2016, an increase of \$2.03 per share, or 19.7 percent, during the last year, from \$10.33 per share at March 31, 2015.
- Mortgage banking funding and profitability remained strong, with more than \$400 million in residential mortgage loans funded and \$12.3 million in mortgage banking income earned during the quarter.
- Asset quality costs of \$84,000 for the quarter were down 75 percent, or \$253,000, from costs of \$337,000 incurred during the first quarter of 2015.
- Stable net interest margin in the first quarter at 3.89 percent, unchanged from the first quarter of 2015, and a decrease of 1 basis point from the prior quarter end.
- Nonaccrual loans ended the quarter at \$1.9 million, a decrease of \$542,000, or 21.9 percent, from the prior quarter end, and down by \$2.7 million from March 31, 2015.

- Other real estate owned (OREO) of \$6.3 million increased by 3.9 percent during the quarter but was down by \$633,000, or 9.1 percent, from March 31, 2015.
- Capital ratios at CBC National Bank remained strong, with a total risk-based capital ratio of 23.61 percent and a Tier 1 risk-based capital ratio of 22.34 percent.

“Our first quarter results demonstrated a continued progression of strong year-over-year earnings,” said Michael G. Sanchez, chief executive officer. “We delivered robust earnings per share this quarter thanks in part to our recent redemption of our preferred stock and the much lower interest rate on the accompanying refinancing, a stable net interest margin and solid credit quality, and strong earnings contributions from both our mortgage banking and SBA lending divisions. Mortgage banking volume moderated slightly due to the stabilization of the historically low long-term interest rates that in recent years have fueled increasing loan demand. The SBA division’s contribution included eight loan participation sales of loans previously held for sale in anticipation of more advantageous pricing.”

Net interest income before the provision for loan losses totaled \$3.94 million in the first quarter of 2016, compared to \$3.87 million earned in the first quarter of 2015, an increase of \$66,000. Noninterest income decreased \$1.5 million to \$13.1 million at March 31, 2016, from \$14.6 million in the first quarter of 2015. This reflects a decrease of \$2.0 million in mortgage banking income compared to the same period in 2015, partially offset by an increase in income from SBA loans of \$498,000 in the first quarter of 2016 compared to the first quarter of 2015.

Interest expense totaled \$767,000 in the first quarter of 2016, compared to \$669,000 in the previous quarter and \$587,000 in the same period a year ago. The increased interest expense was driven primarily from the interest paid on the \$10 million holding company loan obtained in November 2015, the proceeds from which redeemed the company’s Preferred stock. The net after-tax impact of the interest expense on this borrowing represents approximately one-third the reduction to earnings available to common shareholders from paying the required dividends on the Preferred stock.

Noninterest expense for the first quarter of 2016 decreased to \$15.0 million from \$16.2 million in first quarter of 2015, primarily due to decreased compensation costs associated with lower

mortgage lending volume, partially offset by higher occupancy, data processing and advertising fees.

The company's net interest margin for the first quarter of 2016 was 3.89 percent, compared to 3.90 percent for the quarter ended Dec. 31, 2015, and 3.89 percent for the quarter ended March 31, 2015.

Total assets at March 31, 2016, were \$474.8 million, compared to \$464.7 million at Dec. 31, 2015. Total shareholders' equity was \$34.8 million at March 31, 2016, compared to \$33.3 million at Dec. 31, 2015. Total deposits were \$319.8 million at March 31, 2016, compared to \$283.8 million at Dec. 31, 2015. Total portfolio loans were \$293.8 million at the end of the first quarter of 2016, compared to \$280.7 million at year-end 2015.

The company's residential mortgage banking division funded approximately \$403.6 million in loans available for sale in the secondary market during the first quarter of 2016, compared to \$507.5 million during the first quarter of 2015, and \$363.0 million in the fourth quarter of 2015. The increased production relative to the prior quarter reflects a combination of increased demand for refinance loans on lower long term interest rates and the normalization of the impact on loan closing timeframes from the new regulatory changes to loan disclosures and loan closing requirements that had depressed funding levels in the final quarter of 2015.

The low interest rate environment has sustained the demand for refinance loans, as evidenced by the loan production purpose mix in the first quarter of 2016 at 70 percent refinance and 30 percent purchase. During the first quarter of 2015 the mix was 74 percent refinance and 26 percent purchase. Since the inception of the mortgage banking division in 2007, total loan production as exceeded \$12 billion of which \$9.9 was closed and funded by the Company and \$2.1 billion of which was brokered to other lenders for closing.

In the first quarter of 2016 the company incurred net loan charge-offs of \$868,000, or 0.29 percent of total loans, compared to net loan charge-offs of \$16,000, or 0.01 percent, in the previous quarter, and net loan recoveries of \$76,000, or 0.03 percent, in the first quarter of 2015.

Nonaccrual loans as a percentage of total loans at the end of the first quarter of 2016 were 0.65

percent, compared to 0.87 percent at the end of the prior quarter, and 1.71 percent at March 31, 2015. Loans past due greater than 30 days and still accruing interest totaled \$1,056,000 at March 31, 2016, compared to \$123,000 in the previous quarter and \$2,000 at March 31, 2015. Other real estate owned (OREO) totaled \$6.3 million at March 31, 2016, a 9.1 percent decline from \$6.9 million recorded at March 31, 2015.

The company's provision for loan losses totaled \$33,000 for the first quarter of 2016, which was \$835,000 less than net charge-offs of \$868,000, compared to a loan-loss provision of \$44,000 for the fourth quarter of 2015, which was \$28,000 more than net charge-offs of \$16,000, and a provision of \$260,000, or \$336,000 more than net recoveries of \$76,000 in the quarter ending March 31, 2015. The company's allowance for loan losses totaled \$4.4 million, or 1.48 percent of loans outstanding at March 31, 2016, compared to \$5.3 million, or 1.84 percent of loans outstanding, at the prior quarter end, and \$5.2 million, or 1.91 percent of loans outstanding, at March 31, 2015.

At March 31, 2016, CBC National Bank had a total risk-based capital ratio of 23.61 percent and a Tier 1 risk-based capital ratio of 22.34 percent, which exceed the 10 percent and 8 percent respective thresholds for being classified as "well capitalized" by federal regulators. The company also continued to have ample liquidity, with \$247.1 million in excess funding available from multiple sources at March 31, 2016.

"We will continue to strive for stable, strong earnings in 2016, with solid contributions from all three primary operating divisions, including mortgage banking, SBA lending and the core community bank," said Sanchez. "We look forward to fully integrating the operations of the recently acquired First Avenue National Bank, which was completed at the beginning of the second quarter, into CBC National Bank. Meanwhile, we will maintain our focus on expense control, and vigilance in asset and loan quality. And we firmly believe we have in place the operating strategy, management, staff, systems and products to meet our performance objectives for 2016."

About Coastal Banking Company Inc.

Coastal Banking Company Inc., headquartered in Beaufort, S.C., is the \$474.8 million-asset bank holding company of CBC National Bank, headquartered in Fernandina Beach, Fla., which provides a full range of consumer and business banking services through full-service banking offices in Fernandina Beach, Ocala, and The Villages, Fla, Beaufort and Port Royal, S.C. The company's residential mortgage banking division, headquartered in Atlanta, includes traditional retail and wholesale lending, as well as a National Retail Group that has lending offices in Arizona, Florida, Georgia, Maryland, Michigan, North Carolina, Indiana, Illinois and Ohio. The company's government guaranteed lending division originates SBA loans primarily in Jacksonville, Ft. Myers, Tampa and Vero Beach, Fla., Greensboro, N.C., Atlanta and Beaufort. The company's common stock is publicly traded on the OTCQX Markets under the symbol CBCO. The company was been named to the OTCQX® Best 50 in both 2015 and 2016, an annual ranking of the top 50 US and international companies traded on the OTCQX Best Market, based on the combined one-year total return on market value and average growth in daily dollar trading volume.

A current CBCO stock price quote and recent stock trading activity is available at

<http://www.otcm Markets.com/stock/CBCO/quote>

The complete unaudited quarterly financial results are available at

[1st Quarter Financial Results](#)

For more information, please visit the company's website, 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. All written or oral forward-looking statements are expressly qualified in their entirety by these cautionary statements. 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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