Introduction

Coastal Banking Company, Inc. (the "Company") is the $650.8 million-asset bank holding company of CBC National Bank (the "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, and Beaufort and Port Royal, S.C. The company's residential mortgage banking division, headquartered in Atlanta, includes both traditional retail and wholesale lending groups, which together have offices in Florida, Georgia, Maryland, South Carolina, North Carolina, Illinois, Ohio and Tennessee. The company's SBA lending division operates under SBA's delegated authority, originating SBA, USDA and FSA loans throughout the southeastern United States. Headquartered in Fernandina Beach, its offices are located in Jacksonville, Ft. Myers, Tampa and Vero Beach, Fla., Greensboro, N.C., Atlanta and Tifton, Ga. and Beaufort.

The company's common stock is publicly traded on the OTCQX Best Market under the symbol CBCO. The company was named to the OTCQX® Best 50 in both 2015 and 2016, an annual ranking of the top 50 U.S. and international companies traded on the OTCQX Best Market, based on equal weighting of one-year return and average daily dollar volume growth. A current CBCO stock price quote and recent stock trading activity is available at:

http://www.otcmarkets.com/stock/CBCO/quote

On May 2, 2012 the Company filed a Form 15-12G with the Securities and Exchange Commission (the "SEC") to terminate the registration of its common stock under Section 12(G) of the Securities Exchange Act of 1934 and thereby suspend its duty to file reports with the SEC under Sections 13 and 15(D) of the Act. As a result, the Form 10Q filed for the period ended March 31, 2012 is the final financial report filed with the SEC by the Company. Related to the report below, Management intends to continue to prepare and publish quarterly interim and annual financial reports with similar information as previously reported to the SEC to ensure investors have access to timely, meaningful information related to the Company's results. These financial reports will be published on the Company's website at intervals comparable with the comparable SEC filing deadlines.

On January 22, 2016 the Company filed a Regulation A Offering Statement on Form 1-A with the SEC for the purpose of qualifying the common shares to be issued in connection with the acquisition of First Avenue National Bank (see below). Amendments to this filing were submitted to the SEC on February 23, 2016 and February 25, 2016. The SEC issued a notice of qualification of the filing on February 29, 2016. After filing Form 1-Z of Regulation A on May 9, 2016, our duty to file reports with the SEC under Sections 13 and 15(D) of the Act was again suspended.

On April 8, 2016, the Company completed its acquisition of First Avenue National Bank. ("FANB"), a $112 million bank headquartered in Ocala, Florida. At that time, FANB merged with and into the Bank. The acquisition expanded the Company's Florida market presence, as FANB had a total of three full-service branches located in Ocala and The Villages, Florida.

On November 7, 2017, the Company announced that it had entered into a definitive agreement with First Federal Bancorp, Inc.("FFBI"), the holding company for First Federal Bank of Florida whereby FFBI would acquire CBCO and CBC National Bank. Under terms of the definitive agreement, FFBI will pay $21.50 per share in cash for each CBCO common share and stock option outstanding in a transaction valued at $83.2 million plus the repayment of $8.2 million of debt. The merger agreement has been unanimously approved by the Board of Directors of both FFBI and CBCO and is subject to CBCO shareholder approval, customary closing conditions and regulatory approval and is expected to close late in the first quarter or early in the second quarter of 2018. First Federal Bank is a $1.5 billion asset institution headquartered in Lake City, Florida with 16 banking locations in North Florida.

A more complete history of Coastal Banking Company, Inc. (the "Company") may be found at the Company's website at:

http://www.coastalbanking.com/about-us.html

Forward-Looking Statements

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 opinions 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," "may," and "intend," as well as other similar words and expressions of the future, are intended to identify forward-looking statements.

Results of Operations

The following discussion describes our results of operations for the third quarter and year to date ended September 30, 2017 as compared to the third quarter and year to date ended September 30, 2016, and also analyzes our financial condition as of September 30, 2017 as compared to September 30, 2016 and December 31, 2016. Like most community banks, we derive a significant portion of our income from interest we receive on our loans and investments. Our primary sources of funds for making these loans and investments are our deposits and borrowings, 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 and the expense on our interest-bearing liabilities. 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.

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 earnings. Please see the section entitled “Provision and Allowance for Loan Losses” for additional detail.

In addition to earning interest on our loans and investments, we earn income through gains on sales of loans, service charges, fees, cash surrender value of life insurance and other income. The Company’s more significant sources of revenue are from Gain on Sale of Mortgage Loans and SBA Loan Income as discussed in the sections entitled “Mortgage Banking Operations” and “SBA Lending”. We describe these gains and the other various components of noninterest income, as well as our noninterest expense, in the sections entitled “Noninterest Income” and “Noninterest Expense.”

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.

Overview

Net income for the three months ended September 30, 2017 was $1,712,000 or $0.45 per diluted common share, compared to net income of $1,986,000, or $0.54 per diluted common share for the three months ended September 30, 2016. Net income per basic common share was $0.47 for the third quarter of 2017, compared to $0.54 for the third quarter of 2016. Net income decreased 13.8% from the third quarter last year to the third quarter this year.

Net income for the nine months ended September 30, 2017 was $5,273,000 or $1.38 per diluted common share, compared to net income of $4,750,000, or $1.45 per diluted common share for the first nine months of 2016. Net income per basic common share was $1.44 for the first nine months of 2017, compared to $1.48 for the first nine months of 2016. Net income increased 11.0% from September year to date last year to September year to date this year.

Net interest income was $5,401,000 for the third quarter ended September 30, 2017 compared to net interest income of $5,257,000 for the quarter ended September 30, 2016, a year over year increase of 2.7%. The Company’s net interest margin increased from 3.76% for the third quarter of 2016 to 3.85% for the third quarter of 2017.

Net interest income was $15,797,000 for the nine months ended September 30, 2017 compared to net interest income of $14,360,000 for the nine months ended September 30, 2016, a year over year increase of 10.0%. The Company’s net interest margin increased from 4.00% from the nine months ended September 2016 to 4.04% for the nine months ended September 2017.

The provision for loan losses for the three months ended September 30, 2017 was $148,000 compared to $56,000 for the three months ended September 30, 2016. The provision for loan losses for the nine months ended September 30, 2017 was $517,000 compared to $449,000 for the nine months ended September 30, 2016. The level of the provision for loan losses reflects the overall improvement in asset quality in the last two years. The provision for loan losses recorded each year reflects the amount calculated by our allowance for loan losses methodology, which also takes into account current economic conditions, loan quality measures and the underlying collateral value securing many of our loans.

Noninterest income for the third quarter of 2017 totaled $5,196,000 representing a decrease from the $5,811,000 for the third quarter of 2016. This decrease was driven primarily by a lower level of mortgage banking noninterest income for the third quarter of 2017 compared to the third quarter last year. This decrease was partially offset by an increase in gain on sale of securities and other income. Additionally, SBA loan income for the third quarter of 2017 was flat compared to the third quarter of 2016. The decrease in mortgage banking income was due to a 18.8% decline in loan sale volume from $568.0 million during the third quarter of 2016 to $461.5 million for the third quarter of 2017. However, the yield on the sale of mortgage loans actually improved from the third quarter last year to the same period this year, as discussed below. SBA loan income was 1,047,000 for the third quarter of 2017 compared to $1,050,000 for the third quarter of 2016. A total of

$8.3 million of SBA loans were sold during the third quarter of 2017 compared to $9.1 million of SBA loans sold during the third quarter or 2016. Additionally, service charges on deposits were flat for the third quarter in 2017 compared to the same period in 2016.

Noninterest income for the nine months ended September 30, 2017 totaled $15,768,000 representing a 2.7% increase from the $15,351,000 for the nine months ended September 30, 2016. The increase is due to significantly increased SBA loan income, increased gain on sale of securities and increased service charges on deposits, partially offset by a decline in mortgage banking income and the recording of a bargain purchase gain from the FANB acquisition recorded in 2016. SBA loan income increased from $1,784,000 for the nine months ended September 30, 2016 to $2,943,000 for the same period in 2017 due to increased sales volume. SBA loans sold for the nine months ended September 30, 2017 totaled $25.2 million compared to $15.1 million for the first nine months of 2016. Despite a decline in sales volume of 22.8% year over year, mortgage banking income has decreased only $618,000, or 5.0%, for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 due to increased yields on loan sales. Service charges on deposits increased year over year primarily due to the addition of the FANB branches in April, 2016.

Noninterest expenses in the third quarter of 2017 were $7,863,000, a 9.1% increase over the $7,206,000 in the third quarter of 2016, primarily as a result of increase in salaries and benefits, occupancy and equipment and other operating expenses. The Company's efficiency ratio, which is a measure of total noninterest expenses as a percentage of net interest income and noninterest income, increased from 65.11% in the third quarter of 2016 to 74.20% in the third quarter of 2017 due to the increased expenses noted above and the decline in mortgage banking income quarter over quarter.

Noninterest expenses for the nine months ended September 30, 2017 were $22,655,000, a 5.9% increase over the $21,387,000 for the nine months ended September 30, 2016, due to increases in salaries and benefits and occupancy and equipment. Both have increased due to the additional FANB personnel and branches, however, other operating expenses declined year over year due to non-recurring acquisition expenses incurred only in 2016.

For the nine months ended September 30, 2017 we incurred an income tax expense of $3,119,000 compared to $3,124,000 for the nine months ended September 30, 2016. Our effective tax rate was 37.2% in 2017 compared to 39.7% in 2016. The current year decrease in effective tax rate reflects the recording of a $114,000 state tax credit in the third quarter of 2017.

Supplemental Segment Information

The Bank has three primary reportable business operating segments: Community Banking, SBA Lending, and Mortgage Banking Operations. All direct costs and revenues generated by each business segment are allocated to the segment; however, there is no allocation of indirect corporate overhead costs to the Community Banking, SBA Lending or Mortgage Banking segments. Additionally, interest expense is allocated to the SBA Lending and Mortgage Banking segments based on the Bank's monthly average cost of funds plus 1.50%. The Bank's reportable business segments are strategic business units that offer different products and services to a different customer base.

(In thousands)	**Community Banking**		**SBA Lending Operations**		**Mortgage Banking Operations**	
Nine months ended September 30, 2017	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Interest income	$ 10,830	$ 8,609	$ 4,182	$ 3,578	$ 3,992	$ 4,527
Interest expense	1,762	1,288	1,619	1,436	2,200	2,609
Net interest income	9,068	7,321	2,563	2,142	1,792	1,918
Provision for loan losses	240	267	53	76	224	106
Net interest income after provision	8,828	7,054	2,510	2,066	1,568	1,812
Non-interest income	526	356	2,967	1,784	11,592	12,142
Non-interest expense	4,972	4,705	2,722	2,171	8,786	8,136
Net income before tax expense	4,382	2,705	2,755	1,679	4,374	5,818
Income tax expense	1,731	1,068	1,088	663	1,728	2,302
Net income	$ 2,651	$ 1,637	$ 1,667	$ 1,016	$ 2,646	$ 3,516

Mortgage Banking Operations The Bank has operated a residential mortgage lending division headquartered in Atlanta, Georgia since September 2007. The division originates and funds residential mortgage loans submitted by mortgage brokers,

as well as loan applications submitted directly from borrowers, and then sells these mortgage loans into the secondary market. We expanded this division in 2011 by opening retail residential loan production offices throughout the country. This group is known as our National Retail Group (NRG). As of September 30, 2017, the mortgage banking division operates retail and wholesale residential loan production offices in Florida, Georgia, Illinois, Maryland, North Carolina, South Carolina, Tennessee and Ohio. These lending channels subject us to various risks, including credit, liquidity, and interest rate risks. We reduce credit and liquidity risks by selling virtually all the mortgage loans originated through this division. From time to time, we may decide to hold loans originated through this division as additions to our residential real estate loan portfolio. We determine whether the loans will be held in our portfolio or sold in the secondary market at the time of origination. We may also subsequently change our intent to hold loans in portfolio and subsequently sell some or all of these loans from our portfolio as part of our corporate asset/liability management strategy. Additionally, we are also subject to concentration risk due to the high revenue volume currently generated from our NRG group. We have mitigated that risk by growing our Atlanta based mortgage operation volume over the past few years.

As part of our mortgage banking activities, we enter into commitments to fund residential mortgage loans by a specified future date. A mortgage loan commitment is an interest rate lock that binds us to lend funds to a potential borrower at a specified interest rate and within a specified period of time, generally up to 60 days after inception of the rate lock, subject to the loan applicant satisfying the underwriting conditions required for approval of their loan application. These loan commitments are derivative loan commitments and the loans that result upon exercise of the loan commitments are held for sale. These derivative loan commitments are recognized at fair value in the balance sheet with changes in fair value recorded as part of mortgage banking noninterest income. We record no value for the loan commitment at inception. Subsequent to inception, however, we recognize the fair value of the derivative loan commitment based upon (i) estimated changes in the fair value of the underlying loan that would result from the exercise of that commitment and (ii) changes in the probability that the underlying loan will fund within the terms of the commitment (referred to as the "pull through" rate). The value of the underlying loan is affected primarily by changes in interest rates and the passage of time.

Outstanding derivative loan commitments expose us to the risk that the value of the loans underlying the commitments might decline due to increases in mortgage interest rates from the date of the inception of the rate lock to the funding of the loan. The Company's closed inventory and locked pipeline shall be hedged with instruments that present the lowest possible Beta risk to the Company. Hedges include, but are not limited to: FNMA, FHLMC and GNMA I and II Mortgage Backed Securities, cash commitments, and mandatory commitments to investors.

The Mortgage segment's net income declined from $1,329,000 for the third quarter of 2016 to $830,000 for the third quarter of 2017. The primary source of direct income generated by this division is the gain on sale of mortgage loans which is part of noninterest income. Non-interest income was $3,758,000 for the three months ended September 30, 2017 compared to $4,398,000 for the three months ended September 30, 2016, a decrease of 14.6%. However, the volume of loans originated and sold declined 18.8% from the third quarter of 2016 to the third quarter of 2017. The Mortgage Division's strategy of increasing its mix of government backed loans resulted in higher yields this year. The direct noninterest expenses incurred by the division were $2,987,000 during the third quarter of 2017, an increase over the third quarter 2016 expenses of $2,683,000. Salaries and benefits increases were the primary reasons for the year over year change for the third quarter.

The Mortgage segment's net income declined from $3,516,000 for the nine months ended September 30, 2016 to $2,646,000 for the nine months ended September 30, 2017. Noninterest income was $11,592,000 for the nine months ended September 30, 2017 compared to $12,142,000 for the nine months ended September 30, 2016. Noninterest income decreased for the first nine months of 2017 over last year due to a decline in volume mentioned above, but the Mortgage segment did experience an increase in yields in 2017 over 2016. Noninterest expenses for the Mortgage segment increased from $8,136,000 for the nine months ended September 30, 2016 to $8,786,000 for the same period in 2017 due primarily to increased salaries and benefits.

Beginning in the fourth quarter of 2016, the Company changed its financial statement presentation to reclassify the direct lending costs incurred by its Mortgage Segment's National Retail Group (NRG) against that group's origination income. This change only affects reported noninterest income and noninterest expense, and provides for a better reflection of the Company's efficiency ratio. The Company's financials for the third quarter and year to date 2016 were restated for this change for comparability purposes. This change had no effect on the Company's reported net income for the nine months ended September 30, 2017 or 2016. Income and expense discussed above includes this change as well.

SBA Lending SBA Lending has been a part of the Company's banking operations since 1999. Headquartered in Fernandina Beach, Florida, SBA operations were expanded in April 2010, including government guaranteed loan originations throughout the southeastern United States. Loans are generated by experienced, lending professionals through SBA offices in Jacksonville, Ft. Myers, Tampa and Vero Beach, Fla, Greensboro, N.C., Atlanta and Tifton, Ga. and Beaufort, S.C. with loan administration, including approval, centralized in Fernandina Beach. Income from the division is generated through

premiums on sale and servicing income of the guaranteed amounts, typically 75% of the loan. The SBA segment's net income declined from $657,000 for the third quarter of 2016 to $554,000 for the third quarter of 2017. SBA noninterest income for the three months ended September 30, 2017 totaled $1,047,000, comparable to the $1,050,000 during the third quarter of 2016. The volume of loans sold during the third quarter of 2017 totaled $8.3 million compared to $9.1 million in sales during the third quarter last year. However, SBA Lending's expenses increased from $704,000 in the third quarter of 2016 to $943,000 in the third quarter of 2017, primarily in salaries and benefits and other expense. Strategically, the division continues to maintain a healthy retained portfolio. The overall SBA loan portfolio was $86.6 million at September 30, 2017 and $89.8 million at September 30, 2016. Retaining the guaranteed amounts provides increased interest income while maintaining the ability to create potential non-interest income through participation sales at a future date. The portion of the SBA portfolio available for sale at September 30, 2017 stood at $29.1 million, up from $28.9 million at September 30, 2016.. This hold versus sale strategy remains a crucial part of management's plan moving forward.

The SBA segment's net income grew from $1,016,000 for the nine months ended September 30, 2016 to $1,667,000 for the nine months ended September 30, 2017. SBA noninterest income for the nine months ended September 30, 2017 totaled $2,967,000, up from $1,784,000 during the first nine months of 2016. SBA Lending's expenses increased from $2,171,000 for the nine months ended September 30, 2016 to 2,722,000 for the nine months ended September 30, 2017, again primarily in salaries and benefits and other expense.

Community Banking

Prior to the April, 2016 acquisition of FANB, the Bank had 3 branches in Fernandina Beach, Florida, and Beaufort and Port Royal, South Carolina. With the addition of FANB, 3 branches were added in the Ocala, Florida area. The acquisition significantly increased the magnitude and importance of this segment to the Company. The primary source of income generated by this division is interest and fees on loans, service charges and other income from typical retail banking sources. Net income for Community Banking increased from $691,000 in the third quarter of 2016 to $886,000 for the third quarter of 2017 primarily due to reduced operating expenses this year during the third quarter. For the nine months ended September 30, 2017, Community Banking net income was $2,651,000 compared to only $1,637,000 for the same period in 2016. This increase was primarily due to the addition of the three FANB branches to Community Banking in April, 2016. The increased net income from the Community Banking segment has significantly contributed to the more balanced operating results between the Company's three key operating segments.

Net Interest Income

For the three months ended September 30, 2017 net interest income totaled $5,401,000, up from $5,257,000 for the three months ended September 30, 2016. This increase to net interest income was largely driven by increased average portfolio loans and investment securities along with a decrease in average interest bearing liabilities. Interest income from loans, including fees, increased 3.3% to $6,349,000 for the quarter ended September 30, 2017 compared to $6,146,000 for the same period last year. The average balance of portfolio loans was $415.3 million in the third quarter of 2017 compared to $393.0 million during the third quarter of 2016, for a year over year decrease of 5.7%. The weighted average rate earned on loans increased 29 basis points to 4.95% for the three months ended September 30, 2017 from the 4.66% for the three months ended September 30, 2016. This increase was partially due to the three recent prime rate increases. The favorable impact of the year over year increase to interest income was very slightly offset by a corresponding increase in the amount of interest expense, which totaled $1,196,000 for the quarter ended September 30, 2017, compared to $1,091,000 for the quarter ended September 30, 2016. The net interest margin was 3.85% for the quarter ended September 30, 2017 and 3.76% for the quarter ended September 30, 2016.

For the nine months ended September 30, 2017 net interest income totaled $15,797,000, up by 10.0% from $14,360,000 for the nine months ended September 30, 2016. This increase to net interest income was largely driven by growth in investment securities, portfolio loans and the addition of FANB. . The net interest margin was 4.04% for the nine months ended September 30, 2017 and 4.00% for the nine months ended September 30, 2016.

Average Balances and Interest Rates

The table below shows the average balance outstanding for each category of interest-earning assets and interest-bearing liabilities for the third quarter of 2017 and 2016, and the average rate of interest earned or paid thereon. Average balances have been derived from the daily balances throughout the period indicated. Non-accrual loans and the interest income recorded on these loans, if any, are included in the yield calculation for loans in all periods reported. Amounts are presented on a tax equivalent basis.

	2017			2016		
(In thousands)	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets:						
Interest-earning assets:						
Loans	$ 508,757	$ 6,349	4.95%	$ 523,665	$ 6,146	4.66%
Taxable investments	37,249	179	1.90%	26,472	171	2.57%
Tax-free investments	8,689	94	4.28%	3,457	43	4.89%
Interest-bearing deposits in other banks	376	1	0.95%	381	1	0.73%
Federal funds sold	1,123	4	1.45%	597	1	0.92%
Total interest-earning assets	556,193	6,627	4.73%	554,572	6,362	4.55%
Other noninterest earning assets	36,029			37,504		
Total assets	$ 592,222			$ 592,075		
Liabilities and shareholders' equity:						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand and savings deposits	$ 278,294	$ 291	0.42%	$ 262,291	$ 269	0.41%
Time deposits	148,603	430	1.15%	154,838	427	1.09%
Other borrowings	98,488	474	1.91%	115,861	396	1.36%
Total interest-bearing liabilities	525,385	1,196	0.90%	532,989	1,091	0.81%
Other noninterest bearing liabilities	10,054			12,690		
Shareholders' equity	56,782			46,396		
Total liabilities and shareholders' equity	$ 592,222			$ 592,075		
Excess of interest-earning assets over interest bearing liabilities	$ 30,808			$ 21,582		
Ratio of interest-earning assets to interest-bearing liabilities	106%			104%		
Tax equivalent adjustment		(30)			(13)	
Net interest income		$ 5,401			$ 5,257	
Net interest spread			3.82%			3.74%
Net interest margin			3.85%			3.76%

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 manage the risks associated with interest rate movements. Management constantly reviews interest rate risk exposure under various interest rate scenarios so that adjustments in interest rate sensitivity can be made on a timely basis. Net interest income is the primary component of recurring net income for financial institutions. Net interest income is affected by the timing and magnitude of repricing 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 for a given time period. The projected Gap exposure is expressed as a ratio of interest sensitive assets to interest sensitive liabilities in an attempt to predict the behavior of the Company's net interest income during periods of moving interest rates.

The following table summarizes the amounts of the Company's interest-earning assets and interest-bearing liabilities outstanding at September 30, 2017, that are expected to mature, prepay, or reprice in each of the future time periods shown. Except as stated below, the amount of assets or liabilities that mature or reprice during a particular period was determined in accordance with the contractual terms of the asset or liability. Adjustable rate loans are included in the period in which interest rates are next scheduled to adjust rather than in the period in which they are due, and fixed-rate loans and mortgage-backed securities are included in the periods in which they are anticipated to be repaid based on maturities. The Bank's savings accounts and interest-bearing demand accounts (NOW and money market deposit accounts) that are not contractually tied to

an adjusting index are grouped into categories based on the Company's historical repricing practices. Money market accounts, which are contractually tied to repricing indexes, reprice monthly and are grouped in the three month or less category. Many of these money market accounts are tied to a Treasury index.

At September 30, 2017 Maturing or Repricing in:

(In Thousands)	3 Months or Less	4 Months to 12 Months	1 to 5 Years	Over 5 Years	Total
Mortgage-Backed Securities	$ 1,073,921	$ 2,957,421	$ 7,678,854	$ 16,653,564	$ 28,363,760
Fed Funds Sold	345,853				345,853
Other Investments	11,849,915	1,447,393	9,671,400	11,093,303	34,062,011
Total Investments	$ 13,269,689	$ 4,404,814	$ 17,350,254	$ 27,746,867	$ 62,771,624
Commercial Loans	$ 76,251,871	$ 1,565,697	$ 3,016,563	$ 1,870,873	$ 82,705,004
Real Estate Loans	256,213,344	62,020,474	78,631,029	28,641,868	425,506,715
Installment Loans	21,970,708	8,903,.968	5,072,994	8,126,046	44,073,716
Total Loans	$ 354,435,923	$ 72,490,139	$ 86,720,586	$ 38,638,787	$ 552,285,435
Total Interest-Earning Assets	**$ 367,705,612**	**$ 76,894,953**	**$ 104,070,840**	**$ 66,385,654**	**$ 615,057,059**
Certificates of Deposit	$ 24,184,507	$ 75,922,573	$ 48,921,063	$	$ 149,028,143
Transaction & Savings	94,307,882	7,399,378	36,991,320	56,215,505	$ 194,914,085
Senior Debentures	8,166,667				8,166,667
Junior Subordinated Debentures	7,217,000				7,217,000
FHLB Advances	126,100,000	5,500,000	5,000,000		136,600,000
Total Interest-Bearing Liabilities	**$ 259,976,056**	**$ 88,821,951**	**$ 90,912,383**	**$ 56,215,505**	**$ 495,925,895**
Interest Sensitive Assets	$ 367,705,612	$ 76,894,953	$ 104,070,840	$ 66,385,654	$ 615,057,059
Interest Sensitive Liabilities	$ 259,976,056	$ 88,821,951	$ 90,912,383	$ 56,215,505	$ 495,925,895
Gap	$ 107,729,556	$ -11,926,998	$ 13,158,457	$ 10,170,149	$ 119,131,164
Cumulative Gap	**$ 107,729,556**	**$ 95,802,558**	**$ 108,961,015**	**$ 119,131,164**	
Gap Ratio	**1.41**	**0.87**	**1.15**	**1.18**	**1.24**
Cumulative Gap Ratio	**1.41**	**1.28**	**1.25**	**1.24**	
Cumulative Gap as % of Earning Assets	17.5%	15.6%	17.7%	19.4%	

At September 30, 2017, the Company, as measured by Gap, is asset sensitive with a cumulative projected Gap ratio of 1.41 over a three month period and a cumulative projected Gap ratio of 1.28 over a one year period. At September 30, 2017, the Company had $107.7 million more assets than liabilities repricing or maturing within three months, and $95.8 million more assets than liabilities repricing over a one-year time period. Generally, the Company's Gap ratios indicate that net interest income will increase if rates rise. However, Gap analysis does not take into account the potential decreased demand for Mortgage loans and other loans in an increasing interest rate environment that might reduce the Company's noninterest income (i.e. Gain on Sale income).

Management regularly evaluates its interest rate risk, including deposit pricing policies, loan demand, and changes in the mix of various types of interest bearing assets and liabilities. The Company forecasts its sensitivity to interest rate changes not less than quarterly using modeling software.

Provision and Allowance for Loan Losses

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 establish and maintain an allowance for loan losses based on a number of quantitative and qualitative factors including, among other things, historical experience, evaluation of economic conditions, regular reviews of delinquencies and loan portfolio quality and a number of assumptions about future events, which we believe to be reasonable, but which may not prove to be accurate. We believe that changes in economic and industry conditions capture the impact of general declines in the value of collateral property, and in this way our factors reflect general declines in collateral values.

The provision for loan losses is the periodic charge to operating earnings that management believes is necessary to maintain the allowance for possible loan losses at an adequate level. The amounts of these periodic charges are based on management's analysis of the potential risk in the loan portfolio. This analysis includes, among other things, evaluation of the trends in key loan portfolio metrics as follows:

(In thousands)	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
Portfolio loans, gross	$ 410,869	$ 414,870	$ 403,082	$ 408,743	$ 398,686	$ 393,146	$ 298,262	$ 285,933
Loans past due > 30 days and still accruing interest	$ 633	$ 514	$ 4,278	$ 989	$ 795	$ 4,177	$ 1,056	$ 123
Loans on nonaccrual	$ 3,904	$ 4,365	$ 3,503	$ 6,070	$ 5,867	$ 4,478	$ 1,936	$ 2,478
(as a % of loans, gross)	.95%	1.05%	0.87%	1.49%	1.47%	1.14%	0.65%	0.87%
Net loan charge offs (recoveries)	$ 226	$ 183	$ 668	$ (70)	$ (56)	$ (29)	$ 869	$ 16
(as a % of avg. loans, gross)	.06%	0.04%	0.17%	(0.02)%	(0.02)%	(0.01%)	0.29%	0.01%

"Portfolio loans, gross" impact the provision for loan losses from changes in the size and composition of our loan portfolio. We apply various reserve factors to our portfolio based on historical levels and trends to establish various reserve percentages based on the relative inherent risk for a particular loan type and grade. The inherent risk is established based on peer group data, information from regulatory agencies, the experience of the Bank's lending officers, and recent trends in portfolio losses. These reserve factors are continuously evaluated and subject to change depending on trends in national and local economic conditions, the depth of experience of the Bank's lenders, delinquency trends and other factors. We have made an effort over the last several years to lower the risk profile of our loan portfolio. In doing so, the increase in our loan portfolio size over the last two years reflects a shift in composition from higher risk-rated real estate construction loans to comparably lower risk-rated owner occupied residential real estate loans. This has moderated to some degree the inherent risk in an expanding loan portfolio.

"Loans past due greater than 30 days and still accruing interest" has proven to be a useful leading indicator of directional trends in future loan losses. As the level of this metric rises, expectations are for a comparable increase in loans moving into a nonaccrual status and ultimately foreclosure resulting in increased losses. This pattern has been observed in the past where increases in loans past due greater than 30 days and still accruing are followed in future quarters with the same directional changes in the level of loans on nonaccrual. The level of loans past due greater than 30 days and still accruing interest totaled $633,000 at September 30, 2017, a decrease from the $989,000 at December 31, 2016 and a decrease from the $795,000 at September 30, 2016. While the long term trend in credit quality over the last several years has improved, we continue to experience ups and downs throughout the process and so management will continue to carefully monitor past due loans and work aggressively to manage loan delinquency levels.

"Loans on nonaccrual" has been another leading indicator of potential future losses from loans. We typically place loans on nonaccrual status when they become 90 days past due. In addition to the interest lost when a loan is placed on nonaccrual status, there is an increased probability of a loan on nonaccrual moving into foreclosure with a potential loss outcome. The September 30, 2017 nonaccrual loan balance decreased to $3,904,000, or 0.95% of loans compared to $6,070,000, or 1.49% of loans, at December 31, 2016, and $5,867,000 or 1.47% of loans, as of September 30, 2016. All of the ratios above exclude loans held for sale. Management intends to remain vigilant in our loan monitoring and loss mitigation efforts to either rehabilitate these credits or maximize recovery if required.

"Net loan charge offs or recoveries" reflect our practice of charging recognized losses to the allowance and adding subsequent recoveries back to the allowance. For the third quarter of 2017, net charges offs were $226,000, or 0.06% of loans, compared to net recoveries of $56,000, or 0.02% of loans, for the third quarter of 2016. For the nine months ended September 30, 2017, net charge offs were $1,076,000, or 0.26% of loans, compared to $783,000 of net charge offs, or 0.22% of loans, last year.

In addition to considering the metrics described above, we evaluate the collectability of individual loans, the balance of impaired loans, economic conditions that may affect the borrower's ability to repay, the amount and quality of collateral securing the loans and a review of specific problem loans. Based on this process and as shown below, the provision charged to expense was $148,000 for the quarter ended September 30, 2017, as compared to $56,000 for the quarter ended September 30, 2016.

(In thousands)	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
Provision during quarter ended	$ 148	$ 74	$ 295	$ 1,001	$ 56	$ 360	$ 33	$ 44
Provision added in excess of (less than) net charge-offs	$ (78)	$ (109)	$ (373)	$ 1,071	$ 112	$ 389	$ (836)	$ 28
Allowance for loan losses	$ 5,432	$ 5,510	$ 5,618	$ 5,991	$ 4,920	$ 4,808	$ 4,419	$ 5,254
(as a % of loans, gross)	1.32%	1.33%	1.39%	1.47%	1.23%	1.22%	1.48%	1.84%

As shown above, during the nine months ended September 30, 2017 the allowance for loan losses declined slightly to a level of $5,432,000, or 1.32% of gross loans outstanding, as compared to $5,991,000, or 1.47% of gross loans outstanding at December 31, 2016. The decline in the allowance for loan losses percentage is consistent with the decline in loans on nonaccrual discussed above, and the overall decreased level of nonperforming assets since December 31, 2016. The Company's ratio of nonperforming assets to total assets has declined from 1.98% to 1.33% over that time period. The allowance for loan losses was $4,920,000, or 1.23% of loans, at September 30, 2016. These ratios of the allowance to loans excludes loans held for sale.

Management continues to carefully monitor past due and nonaccrual loans. Management acknowledges that future asset quality results may vary from our estimates and expectations, resulting in negative asset quality metrics, which could have a material adverse effect on our results of operations and financial condition.

Noninterest Income

Noninterest income was $5,196,000 for the quarter ended September 30, 2017, a decrease from the $5,811,000 noninterest income earned during the quarter ended September 30, 2016. The decrease was primarily due to less mortgage banking noninterest income, partially offset by increased gain on sale of securities and increased other income. However, mortgage banking generated increased yields earned on mortgages sold into the secondary market for the three month period in 2017 compared to the same period in 2016. The volume of mortgages sold for the three months ended June 30, 2017 declined 18.8% to $461.5 million compared to $568.0 million the same period in 2016. Mortgage banking income only declined 15.7% from $4,505,000 to $3,799,000 from the third quarter last year to the third quarter this year. The Mortgage noninterest income above for 2016 and 2015 again reflect the reclassification of the income and direct lending costs of the NRG as previously discussed. Offsetting the decline discussed above, gain on sale of securities increased $55,000 and other income increased $39,000 from the third quarter of 2016 to the third quarter of 2017. SBA loan noninterest income was flat between the third quarter of 2017 compared to the third quarter of 2016, totaling $1,047,000 and $1,050,000 respectively. SBA loan participations sold into the secondary market decreased from $9.1 million in the third quarter of 2016 to $8.3 million in the third quarter of 2017. The amount of SBA portfolio loans available for sale, the source of SBA's noninterest income, slightly increased from $28.9 million at September 30, 2016 to $29.1 million at September 30, 2017.

Service charges on deposit were flat for the third quarter of 2017 compared to the quarter ended September 30, 2016, totaling 226,000 and $225,000 respectively. Other income increased year over year for the third quarter due recovery of prior year expenses from a court ordered bankruptcy settlement in the bank's favor.

Noninterest income was $15,768,000 for the nine months ended September 30, 2017, which was an increase of 2.7%, from $15,351,000 noninterest income earned during the nine months ended September 30, 2016. This increase was due to increased SBA loan income and service charges on deposit accounts and gain on sale of securities, all partially offset by a decline in

mortgage banking income and the bargain purchase gain recorded in 2016 previously mentioned. SBA loan income has increased 65.0% from $1,784,000 in 2016 to $2,943,000 in 2017. This increase was driven by an increase of SBA loan participations sold into the secondary market from $13.5 million in 2016 to $25.2 million in 2017, an increase of 86.1%. Mortgage banking income has decreased only 5.0% from $12,353,000 in 2016 to $11,736,000 in 2017, despite a 17.5% decline in mortgage sales volume from $1.47 billion in 2016 to $1.21 billion in 2017.

Noninterest Expense

Total noninterest expense for the three months ended September 30, 2017 was $7,863,000 as compared to $7,206,000 for the three months ended September 30, 2016. The year-over-year increase in noninterest expense primarily reflects an increase in salaries and benefits, occupancy and equipment and other operating expense partially offset by declines in audit fees, legal and professional fees, directors fees, FDIC insurance expense and advertising expense. .

Salaries and benefits totaled $4,854,000 for the quarter ended September 30, 2017, compared to 4,079,000 for the same period a year ago. Occupancy and equipment expense increased to $923,000 for the third quarter of 2017 compared to $835,000 during the same period in 2016. Other operating expense increased from $549,000 to $679,000.

Total noninterest expense for the nine months ended September 30, 2017 was $22,655,000 as compared to $21,387,000 for the nine months ended September 30, 2016. Increases in salaries and benefits and occupancy and equipment expense have occurred primarily due to the addition of FANB in April 2016. These increases have been partially offset by decreases in advertising and FDIC insurance expense as noted above for the quarter.

Income Taxes

During the third quarter of 2017, we recognized income tax expense of $874,000 compared to income tax expense of $1,819,000 during the third quarter of 2016. For the nine months ended September 30, 2017, income tax expense was $3,119,000, or an effective tax rate of 37.2%, compared to income tax expense of $3,124,000, or an effective tax rate of 39.7%, for the nine months ended September 30, 2016. The decline in the effective tax rate is primarily attributable to state tax credits recorded in the third quarter of 2017 and increased tax exempt income in 2017 over 2016.

Financial Condition

Total assets increased to $650.8 million at September 30, 2017 from $613.0 million at September 30, 2016. The primary source of the increase in assets was due to growth in portfolio loans and investment securities, partially offset by a slight decline in mortgage loans held for sale. Portfolio loans have increased $12.2 million year over year. Mortgage loans held in the portfolio increased $18.1 million from last year. SBA portfolio loans have decreased $3.2 million and Community Banking portfolio loans have decreased $2.7 million from last year. Loans Held for Sale slightly declined from $143.9 million at September 30, 2016 to $141.7 million at September 30, 2017. Total assets at September 30, 2017 increased significantly from the December 31, 2016 total of $561.4 million.

Total liabilities at September 30, 2017 increased $29.3 million when compared to September 30, 2016. The increase in liabilities was driven by additional deposits of $6.3 million and increased borrowings of $25.8 million

Consolidated Stockholders Equity increased from $49.2 million at September 30, 2016 to $57.7 million at September 30, 2017 due to the earnings of the Company over the past twelve months. The Company's bank subsidiary (CBC National Bank) total risk based capital ratio was 22.76% at September 30, 2017 compared to 20.92% at September 30, 2016. The bank's Tier 1 leverage ratio was 11.81% at September 30, 2017 compared to 10.70% at September 30, 2016.

Investment Securities

The balance of investment securities available for sale has increased to $57.7 million at September 30, 2017 from $27.4 million at September 30, 2016.

The following table presents the investments by category at the end of September 30, 2017 and 2016:

(in thousands)	2017		2016	
Available for sale	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
State and municipal securities	$ 12,445	$ 12,760	$ 3,062	$ 3,426
Corporate	961	987	-	-
Mortgage-backed securities	35,814	35,731	16,386	16,790
	$ 49,220	$ 49,478	$ 19,448	$ 20,216
Held to maturity				
Corporate debt securities	$ 100	$ 100	$ 100	$ 100
Other equity securities	8,102	8,102	7,132	7,132
	$ 8,202	$ 8,202	$ 7,232	$ 7,232
TOTAL	$ 57,422	$ 57,680	$ 26,680	$ 27,448

The following table presents the maturities of available for sale investment securities at amortized cost and the weighted average yields for each range of maturities presented. Yields are based on amortized cost of securities.

Maturities at September 30, 2017 (In thousands)	State and Municipal Securities	Weighted Average Yield	Corporate Securities	Weighted Average Yield	Mortgage Backed Securities	Weighted Average Yield
Within 1 year	$ -	-%	$ -	-%	$ 470	2.18%
After 1 through 5 years	2,533	3.13%	-	-%	15,656	2.59%
After 5 through 10 years	9,665	2.52%	961	3.08%	12,253	2.33%
After 10 years	247	3.10%	-	-%	7,435	3.00%
Totals	$ 12,445	2.53%	$ 961	3.08%	$ 35,814	2.58%

Mortgage-backed securities are included in the maturities categories in which they are anticipated to be repaid based on scheduled maturities.

Loans

Gross loans (portfolio loans) totaled $410.9 million at September 30, 2017, a 3.1% increase from the $398.7 million at September 30, 2016. Balances within the major loans receivable categories and geographic concentration of the loan portfolio are presented below.

	Geographic Concentration of Loan Portfolio September 30, 2017			
(In thousands)	Florida	Georgia	South Carolina	Other
Commercial and financial	$ 16,817	$ 2,808	$ 2,793	$ 1,787
Real estate – construction, commercial	15,930	3,714	4,383	2,017
Real estate – construction, residential	7,762	3,593	5,676	445
Real estate – mortgage, commercial	113,678	14,798	28,830	3,743
Real estate – mortgage, residential	70,027	59,327	23,347	16,643
Real estate – mortgage, farmland	2,825	161	—	4,737
Consumer installment loans	3,988	387	609	44
	$ 231,027	$ 84,788	$ 65,638	$ 29,416

	Geographic Concentration of Loan Portfolio September 30, 2016			
(In thousands)	Florida	Georgia	South Carolina	Other
Commercial and financial	$ 23,427	$ 3,188	$ 2,711	$ 1,910
Real estate – construction, commercial	15,678	2,797	5,099	2,490
Real estate – construction, residential	9,574	4,788	3,345	206
Real estate – mortgage, commercial	96,080	21,302	31,547	8,239
Real estate – mortgage, residential	75,251	38,120	26,258	10,675
Real estate – mortgage, farmland	5,653	241	—	4,823
Consumer installment loans	4,429	$ 222	$ 586	$ 48
	$ 230,092	70,658	69,545	28,391

Other Real Estate Owned (OREO)

Other real estate owned (OREO) represents collateral property taken back from borrowers in partial or full satisfaction of their defaulted debt obligation to the Company. OREO declined from $5.5 million at September 30, 2016 to $4.8 million at September 30, 2017 as the Company continued the downward trend and reduced loss exposure over the past few years. We track our historical experience of loans that ultimately convert to OREO by collateral type and by geographic exposure as shown on the following tables:

	Book Value of Other Real Estate Owned at September 30, 2017			
(In thousands)	Florida	South Carolina	Other	Total
Residential	$ —	$ 339	$ —	$ 339
Commercial	1,396	545	699	2,639
Finished lots	—	284	—	284
Raw land	828	—	680	1,508
	$ 2,224	$ 1,168	$ 1,379	$ 4,771

	Book Value of Other Real Estate Owned at September 30, 2016			
(In thousands)	Florida	South Carolina	Other	Total
Residential	$ —	$ —	$ —	$ —
Commercial	2,760	868	—	3,628
Finished lots	—	182	—	182
Raw land	1,716	—	—	1,716
	$ 4,476	$ 1,050	$ —	$ 5,526

Deposits

Deposits increased $6.3 million from $420.0 million at September 30, 2016 to $426.3 million to September 30, 2017.Lower cost DDA and Savings deposits have increased $13.8 million while higher cost Certificates of Deposits have decreased $7.5 million. Balances within the major deposit categories are as follows:

	September 30, 2017		
(In thousands)	Core Retail Deposits	Brokered Deposits(incl. CDARs)	Total Deposits
Noninterest-bearing demand deposits	$ 82,368	$ —	$ 82,368
Interest-bearing demand deposits	177,292	—	177,292
Savings deposits	17,622	—	17,622
Certificates of deposit $100,000 and over	80,750	30,942	111,692
Other time deposits	25,287	12,049	37,336
	$ 383,319	$ 42,991	$ 426,310

	September 30, 2016		
(In thousands)	Core Retail Deposits	Brokered Deposits(incl. CDARs)	Total Deposits
Noninterest-bearing demand deposits	$ 74,900	$ —	$ 74,900
Interest-bearing demand deposits	173,413	—	173,413
Savings deposits	15,201	—	15,201
Certificates of deposit $100,000 and over	57,677	46,201	103,878
Other time deposits	904	51,713	52,617
	$ 322,095	$ 97,914	$ 420,009

Other Borrowings and Liquidity

Federal Home Loan Bank (FHLB) and other borrowings totaled $136.6 million at September 30, 2017, an increase from $109.8 million outstanding on September 30, 2016. The Bank maintains relationships with six other correspondent banks that can provide funds on short notice for unsecured advances for up to $44,000,000. The Bank also has non-core funding available of $246,945,000 at September 30, 2017 over the amount outstanding at quarter-end of $18,993,000. Additionally, the discount window at the Federal Reserve is available to provide as much as $39,371,000.

As of September 30, 2017, the Company had $539,964,000, in total borrowing capacity, of which we had utilized $155,593,000 or 28.8%, leaving remaining available liquidity of $384,371,000. The following tables present available sources of liquidity at September 30, 2017 and 2016:

(In Thousands)	September 30, 2017		
	Total Line of Credit	Funds Borrowed	Funds Available
Available Sources of Liquidity			
Federal Funds Purchased Lines of Credit	$ 44,000	$ —	$ 44,000
Total Non-Core Deposit Sources	265,938	18,993	246,945
Federal Reserve Borrowing Capacity at Discount Window	39,371	—	39,371
Federal Home Loan Bank Advance Availability	190,655	136,600	54,055
Total Sources of Liquidity	$ 539,964	$ 155,593	$ 384,371
Borrowing Sources Utilized %	28.8%		

	September 30, 2016		
	Total Line of Credit	Funds Borrowed	Funds Available
Available Sources of Liquidity			
Federal Funds Purchased Lines of Credit	$ 44,000	$ —	$ 44,000
Total Non-Core Deposit Sources	242,680	27,480	215,200
Federal Reserve Borrowing Capacity at Discount Window	26,302	—	26,302
Federal Home Loan Bank Advance Availability	172,857	109,775	63,082
Total Sources of Liquidity	$ 485,839	$ 137,255	$ 348,584
Borrowing Sources Utilized %	28.3%		

Coastal Banking Company
Consolidated Balance Sheet
September 30, 2017

	9/30/2017 YTD Consolidated	9/30/2016 YTD Consolidated	12/31/2016 Consolidated
Assets			
Cash and due from banks	$ 11,617,011	$ 11,577,913	$ 7,956,004
Federal funds sold	345,853	394,946	387,123
Investment securities	57,680,189	27,448,189	24,760,056
Loans held for sale	141,666,670	143,917,964	92,009,241
Loans, gross	410,869,238	398,685,772	408,743,325
Less allowance for loan losses	(5,431,786)	(4,919,725)	(5,990,733)
Loans, net	405,437,452	393,766,047	402,752,592
Premises and equipment, net	13,367,935	13,719,383	13,604,166
Other real estate owned	4,770,949	5,525,575	5,061,661
Cash Surrender Value of Life Insurance	2,422,984	2,342,870	2,362,805
SBA Servicing Rights	1,600,628	1,521,446	1,403,431
Other assets	11,877,538	12,768,319	11,091,647
Total assets	$ 650,787,209	$ 612,982,652	$ 561,388,726
Liabilities			
DDA - non interest bearing	$ 82,368,199	$ 74,899,737	$ 77,603,027
DDA - interest bearing	177,292,331	173,412,990	174,112,178
Savings	17,621,754	15,200,599	15,618,336
Time	149,028,143	156,495,719	149,983,376
Total deposits	426,310,427	420,009,045	417,316,917
FHLB Advances & other borrowings	136,600,000	109,785,003	63,060,005
Senior Note Payable	8,166,667	9,166,667	8,916,667
Junior subordinated debentures	7,217,000	7,217,000	7,217,000
Other liabilities	14,782,465	17,521,263	13,162,845
Total liabilities	593,076,559	563,698,978	509,673,434
Stockholders' equity			
Common stock	36,813	36,086	36,475
Additional paid-in-capital	54,114,729	52,861,862	53,354,382
Retained earnings	3,403,209	(4,075,567)	(1,870,203)
Net unrealized gain (loss) - securities AFS	155,899	461,293	194,638
Total stockholders' equity	57,710,650	49,283,674	51,715,292
Total liabilities and stockholders' equity	$ 650,787,209	$ 612,982,652	$ 561,388,726

Coastal Banking Company
Consolidated Income Statement
September 30, 2017

	9/30/2017 QTD Consolidated	9/30/2016 QTD Consolidated	9/30/2017 YTD Consolidated	9/30/2016 YTD Consolidated	12/31/2016 YTD Consolidated
Interest Income:					
Loans	$ 6,349,207	$ 6,145,961	$ 18,218,487	$ 16,599,091	$ 22,709,121
Investment Securities	224,646	195,977	651,196	596,869	805,347
Deposits with Banks	857	4,317	2,493	13,985	14,771
Federal funds sold	21,880	1,385	78,635	5,517	12,764
Total interest income	6,596,590	6,347,640	18,950,811	17,215,462	23,542,003
Interest Expense:					
Deposits	721,780	695,188	2,092,179	1,724,297	2,422,894
FHLB Advances & other borrowings	411,191	345,504	888,761	982,837	1,144,973
Junior subordinated debentures	62,798	50,294	173,072	148,663	480,556
Total interest expense	1,195,769	1,090,986	3,154,012	2,855,797	4,048,423
Net interest income before provision for loan losses	5,400,821	5,256,654	15,796,799	14,359,665	19,493,580
Provision for loan losses	148,255	55,772	517,455	448,705	1,450,061
Net interest income after provision for loan losses	5,252,566	5,200,882	15,279,344	13,910,960	18,043,519
Operating income:					
Service charges on deposits	226,018	224,626	714,166	623,599	860,338
Mortgage banking income	3,799,285	4,505,109	11,735,555	12,353,008	18,225,244
SBA loan income	1,047,141	1,049,912	2,942,974	1,784,033	1,962,023
Gain on sale of securities	54,704	-	97,467	-	18,373
Increase in cash surrender value of life insurance	20,337	21,675	60,357	63,594	83,584
Other income	48,352	9,539	217,611	526,708	1,536,287
Total operating income	5,195,837	5,810,861	15,768,130	15,350,942	22,685,849
Operating expenses:					
Salaries and employee benefits	4,854,038	4,079,183	14,131,948	12,512,579	17,373,369
Net occupancy and equipment expense	922,587	834,509	2,593,056	2,262,530	3,147,188
Mortgage loan expense	185,908	198,116	466,573	470,653	703,285
Other real estate expense	88,431	104,782	245,217	211,744	616,676
Data processing/ATM expense	486,758	466,910	1,394,751	1,397,860	1,969,355
Audit Fees	150,945	255,482	479,057	475,346	769,158
Legal & professional fees	177,015	287,487	789,415	788,547	1,023,046
Director fees	87,725	127,150	310,650	306,150	403,550
Advertising	144,813	178,814	415,089	468,783	653,609
FDIC Insurance expense	46,946	81,000	146,603	243,000	239,506
OCC Examination fees	38,772	43,500	116,316	123,613	162,385
Other operating expense	679,029	549,295	1,566,276	2,126,299	2,681,879
	7,862,967	7,206,228	22,654,951	21,387,104	29,743,005
Income before provision for income taxes	2,585,436	3,805,515	8,392,523	7,874,798	10,986,363
Provision for income taxes	873,808	1,819,177	3,119,111	3,124,376	4,030,577
Net income	$ 1,711,628	$ 1,986,338	$ 5,273,412	$ 4,750,422	$ 6,955,786

Coastal Banking Company
Consolidated Financial Highlights
September 30, 2017

	9/30/2017 QTD Consolidated	9/30/2016 QTD Consolidated	9/30/2017 YTD Consolidated	9/30/2016 YTD Consolidated	12/31/2016 YTD Consolidated
$ Earnings					
Net interest income	$ 5,400,821	$ 5,256,654	$ 15,796,799	$ 14,359,665	$ 19,493,580
Provision for loan loss	148,255	55,772	517,455	448,705	1,450,061
Other income	5,195,837	5,810,861	15,768,130	15,350,942	22,685,849
Other expense	7,862,967	7,206,228	22,654,951	21,387,104	29,743,005
Pre-tax income	2,585,436	3,805,515	8,392,523	7,874,798	10,986,363
Taxes	873,808	1,819,177	3,119,111	3,124,376	4,030,577
Net income	$ 1,711,628	$ 1,986,338	$ 5,273,412	$ 4,750,422	$ 6,955,786
Earnings per share (basic)	$ 0.47	$ 0.55	$ 1.44	$ 1.48	$ 2.10
Earnings per share (diluted)	$ 0.45	$ 0.54	$ 1.38	$ 1.45	$ 2.05
Performance Ratios					
ROAA	1.15%	1.33%	1.25%	1.20%	1.29%
ROAE	11.96%	16.99%	12.89%	15.43%	16.07%
Net Interest Margin	3.85%	3.76%	4.04%	4.00%	3.85%
Efficiency Ratio	74.20%	65.11%	71.77%	71.98%	70.52%
Capital					
Tier 1 leverage capital ratio (Bank)	11.81%	10.70%	11.81%	10.70%	10.01%
Common equity risk-based capital ratio (Bank)	21.50%	19.66%	21.50%	19.66%	18.47%
Tier 1 risk-based capital ratio (Bank)	21.50%	19.66%	21.50%	19.66%	18.47%
Total risk-based capital ratio (Bank)	22.76%	20.92%	22.76%	20.92%	19.74%
Book value per share	$ 15.61	$ 13.66	$ 15.61	$ 13.66	$ 14.18
Tangible book value per share	$ 15.02	$ 12.98	$ 15.02	$ 12.98	$ 13.57
Asset Quality					
Nonaccrual Loans	$ 3,903,633	$ 5,867,154	$ 3,903,633	$ 5,867,154	$ 6,070,027
Other real estate owned	$ 4,770,949	$ 5,525,575	$ 4,770,949	$ 5,525,575	$ 5,061,661
Net Charge-offs (recoveries)	$ 225,733	$ (55,560)	$ 1,076,402	$ 783,388	$ 713,736
Net Charge-offs to average loans	0.05%	-0.01%	0.26%	0.22%	0.20%
Allowance to total loans, net of LHFS	1.32%	1.23%	1.32%	1.23%	1.47%
Nonperforming assets to total assets	1.33%	1.86%	1.33%	1.86%	1.98%
End of Period Balances					
Assets	$ 650,787,209	$ 612,982,652	$ 650,787,209	$ 612,982,652	$ 561,388,726
Portfolio Loans	$ 410,869,238	$ 398,685,772	$ 410,869,238	$ 398,685,772	$ 408,743,325
Loans Held for Sale	$ 141,666,670	$ 143,917,964	$ 141,666,670	$ 143,917,964	$ 92,009,241
Deposits	$ 426,310,427	$ 420,009,045	$ 426,310,427	$ 420,009,045	$ 417,316,917
Borrowings	$ 136,600,000	$ 109,785,003	$ 136,600,000	$ 109,785,003	$ 63,060,005
Shareholders' Equity	$ 57,710,650	$ 49,283,674	$ 57,710,650	$ 49,283,674	$ 51,715,292
Average Balances					
Assets	$ 592,221,593	$ 592,075,310	$ 563,414,370	$ 529,250,543	$ 540,525,290
Portfolio Loans	$ 415,337,566	$ 392,996,546	$ 410,178,472	$ 352,321,219	$ 364,242,751
Loans Held for Sale	$ 93,419,390	$ 130,668,362	$ 77,733,632	$ 113,011,398	$ 111,509,816
Deposits	$ 425,406,126	$ 416,916,380	$ 426,163,223	$ 373,360,999	$ 385,102,055
Borrowings	$ 82,861,967	$ 99,227,373	$ 55,176,567	$ 86,591,353	$ 83,230,853
Shareholders' Equity	$ 56,782,145	$ 46,395,640	$ 54,698,165	$ 41,159,830	$ 43,270,921
Average Shares	3,678,789	3,602,984	3,670,943	3,203,194	3,307,965
Stock Valuation					
Closing Market Price (OTCQX)	19.00	13.45	$ 19.00	$ 13.45	$ 15.01