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Coastal Banking Company Reports Third Quarter 2015 Earnings, Declares Preferred Stock Dividend

BEAUFORT, S.C., Oct. 29, 2015 – Coastal Banking Company Inc. (OTCQX:CBCO), the holding company of CBC National Bank, which operates branches in Beaufort and Port Royal, S.C., and Fernandina Beach, Fla., today reported net income of \$1.6 million, or earnings per diluted common share of \$0.51, for the quarter ended Sept. 30, 2015.

This compares to net income of \$796,000, or diluted earnings per common share of \$0.21, in the third quarter of 2014, a year-over-year increase in net income of \$833,000, or diluted earnings per common share of \$0.30.

On a linked-quarter basis, net income in the third quarter of 2015 was unchanged from net income of \$1.6 million, or earnings per diluted common share of \$0.51, in the second quarter of 2015.

On Oct. 28, 2015, the Board of Directors of CBCO declared a dividend of \$22.50 per share of its outstanding Series A Cumulative Perpetual Preferred Stock. The dividend will be payable on Nov. 15, 2015, to shareholders of record on Nov. 5, 2015. The dividend rate of 9% annually results in a total quarterly dividend payment of \$223,875.

Key highlights from the third quarter of 2015 include:

- Continued strong profitability, with third quarter net income increasing by 104.7 percent year-over-year.
- Driven by strong earnings, common tangible book value has risen to \$11.38 per share at Sept. 30, 2015, an increase of \$1.71 per share, or 17.7 percent, during the last year, from \$9.67 per share at Sept. 30, 2014.

- Third consecutive quarter of record mortgage banking funding and profitability, with more than \$400 million in residential mortgage loans funded and \$13.4 million in mortgage banking revenue during the quarter.
- Other real estate owned (OREO) of \$6.3 million declined by \$693,000, or 9.9 percent, during the third quarter, and was down by \$1.5 million, or 19.6 percent, from Sept. 30, 2014.
- Asset quality costs related to OREO and nonperforming loans continued to decline, reaching \$481,000 in the quarter, a year-over-year reduction of \$224,000, or 31.8 percent. Through the third quarter of 2015, asset quality costs of \$1.04 million were less than half of the \$2.12 million incurred during the same period in 2014.
- Balance sheet returned to a more typical level of \$438.7 million in total assets as the balance of mortgage loans available for sale and related loan sales receivable contracted from the temporary spike upward at the end of the prior quarter.
- Net interest margin for the quarter was 3.98 percent, down by 3 basis points from the prior quarter but up by 16 basis points from the third quarter of 2014.
- Nonaccrual loans ended the quarter at \$3.5 million, down by \$692,000, or 16.6 percent, from the prior quarter end, but up by \$603,000 from Sept. 30, 2014. Despite the year-over-year increase, the overall long-term trends in asset quality continue to be positive.
- Capital ratios at CBC National Bank remained strong, with a total risk-based capital ratio of 23.77 percent and a Tier 1 risk-based capital ratio of 22.50 percent.

“Our third quarter results marked the 6th consecutive quarter of strong, steady earnings averaging well over \$1 million, with the \$1.6 million earned in the third quarter matching our second-quarter earnings,” said Michael G. Sanchez, chief executive officer. “Our strong earnings in turn have driven strong shareholder value growth, as common tangible book value has risen to \$11.38 per share at Sept. 30, 2015, an increase of \$1.71 per share, or 17.7 percent, during the last year, from \$9.67 per share at Sept. 30, 2014. Our Mortgage Banking division again led the way, with more than \$400 million in residential mortgage loans funded and \$13.4 million in mortgage banking revenue during the quarter, representing a third consecutive quarter of record funding and profitability. Although mortgage banking loan production has moderated somewhat as long-term interest rates moved slightly higher over the course of the year, it has reached \$1.47 billion in loans funded during the first three quarters of 2015. Asset quality and core earnings were likewise

strong in the third quarter, as net interest income before the provision for loan losses totaled \$12.7 million, an increase of \$1.5 million, or 13.7 percent, from the same period in 2014. After a temporary spike at the end of the second quarter, our balance sheet returned to a more typical level of \$438.7 million in total assets as the balance of mortgage loans available for sale and related loan sales receivable contracted.”

Net interest income before the provision for loan losses totaled \$4.4 million in the third quarter of 2015, compared to \$4.1 million earned in the third quarter of 2014. Through the third quarter of 2015, core earnings from net interest income before the provision for loan losses was \$12.7 million, an increase of \$1.5 million, or 13.7 percent, from the same period in 2014.

Noninterest income was \$13.8 million in the third quarter of 2015, an increase of \$3.7 million, or 36.2 percent, from \$10.1 million in the third quarter of 2014. The year-over-year increase was due primarily to a \$4.4 million increase in mortgage banking income in the quarter compared to the same period in 2014, partially offset by a quarterly decline in other income of \$445,000 compared to the third quarter of 2014, which included a nonrecurring recovery of indemnification reserve reversal of \$437,000.

Interest expense totaled \$623,000 in the third quarter of 2015, compared to \$628,000 in the previous quarter and \$645,000 in the third quarter of 2014, as the favorable impact from increased use of lower cost short-term borrowings and deposits was partially offset by increased balances of interest-bearing liabilities. For the first three quarters of 2015, interest expense totaled \$1.8 million, a decrease of \$79,000, or 4.1 percent, from the same period in 2014.

Noninterest expense for the third quarter of 2015 increased to \$15.4 million, from \$12.9 million in the third quarter of 2014, primarily due to increased compensation expense related to increased mortgage banking loan funding activity. For the first three quarters of 2015 noninterest expense was \$50.0 million, an increase of \$18.0 million, or 56.1 percent, from \$32.0 million in the first three quarters of 2014. As with the current quarter, this increase reflects higher costs of compensation, occupancy and related mortgage lending direct expenses.

The company's net interest margin for the third quarter of 2015 was 3.98 percent, an increase of 16 basis points from 3.82 percent in the second quarter of 2015, but 3 basis points lower than the 4.01 percent margin for the third quarter of 2014.

Total assets at Sept. 30, 2015, were \$438.7 million, compared to \$421.9 million at Dec. 31, 2014. Total shareholders' equity was \$41.8 million at Sept. 30, 2015, compared to \$37.9 million at Dec. 31, 2014. Total deposits were \$289.1 million at Sept. 30, 2015, compared to \$285.7 million at Dec. 31, 2014. Total portfolio loans were \$274.7 million at the end of the third quarter of 2015, compared to \$272.8 million at year-end 2014.

The company's mortgage banking division funded approximately \$400.4 million in loans available for sale in the secondary market during the third quarter of 2015, compared to \$494.6 million during the third quarter of 2014, and \$565.7 million in the second quarter of 2015. The year-over-year decrease in mortgage lending was driven by a decline in demand for refinance loans, partially offset by higher levels of loans to purchase homes. The decreased refinance lending demand reflects the impact of long-term interest rates moving slightly higher over the course of the year.

Although mortgage banking loan production has moderated slightly from the record levels achieved during the first half of 2015, it has reached \$1.47 billion in loans funded during the first three quarters of 2015. The increased demand during this period for refinance loans has shifted the loan-purpose mix of new loan production toward a higher proportion of refinance lending. The mortgage division product mix has shifted from 54 percent refinance and 46 percent purchase loans during the third quarter of 2014 to 61 percent refinance and 39 percent purchase loans in the third quarter of 2015, and 69 percent refinance and 31 percent purchase lending in the second quarter of 2015. The mortgage division has now funded and sold over \$9.0 billion in mortgage loans since the division's inception in September 2007.

Net charge-offs in the third quarter of 2015 totaled \$8,000, less than 0.003 percent of total loans, compared to net charge-offs of \$21,000, or 0.01 percent, in the previous quarter, and net charge-offs of \$256,000, or 0.10 percent, in the third quarter of 2014. Nonaccrual loans as a percentage of total loans at the end of the third quarter of 2015 were 1.27 percent, compared to 1.53 percent at the end of the prior quarter, and 1.08 percent at Sept. 30, 2014. Loans past due greater than 30 days

and still accruing interest totaled \$2.30 million at Sept. 30, 2015, compared to \$1.75 million at the previous quarter end and \$455,000 at Sept. 30, 2014. Other real estate owned (OREO) totaled \$6.3 million at Sept. 30, 2015, a 19.6 percent decline from \$7.9 million at Sept. 30, 2014.

The company's provision for loan losses totaled \$57,000 for the third quarter of 2015, which was \$49,000 more than net charge-offs, compared to a loan-loss provision of \$33,000 for the second quarter of 2015, which was \$12,000 more than net charge-offs, and a provision of \$223,000, or \$33,000 less than net charge-offs, in the quarter ended Sept. 30, 2014. The company's allowance for loan losses totaled \$5.2 million, or 1.90 percent of loans outstanding at Sept. 30, 2015, unchanged from the prior quarter end, and up from \$4.6 million, or 1.73 percent of loans outstanding, at Sept. 30, 2014.

At Sept. 30, 2015, CBC National Bank had a total risk-based capital ratio of 23.77 percent and a Tier 1 risk-based capital ratio of 22.50 percent, which exceed the 10 percent and 8 percent respective thresholds for being classified as "well capitalized" by federal banking regulators. The company also continued to have ample liquidity, with \$132.6 million in excess funding available from multiple sources at Sept. 30, 2015.

"The overall mix of our continued strong earnings once again represents solid contributions from all three of our Company's key divisions," said Sanchez. "Ongoing profitable operations of all three will be increasingly important in light of the trend toward slightly higher long-term interest rates, which is moderating Mortgage Banking growth. Despite the interest-rate uptick, Mortgage Banking continues to deliver very strong earnings, and not only did Community Banking contribute meaningfully in the third quarter as well, but we also see solid contributions from our SBA lending division, which recently was recognized by the U.S. Small Business Administration as among the 100 most active SBA 7(a) lenders of fiscal year 2015, and which is expanding its operations into Georgia. We remain confident in the ability of our talented, dedicated staff and management to continue the successful execution of our operating strategy to achieve our growth and profit objectives in 2015, and to continue to deliver the strong shareholder value growth that we have throughout 2015."

Coastal Banking Company Inc., headquartered in Beaufort, S.C., is the \$438.7 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 Beaufort, Fernandina Beach, 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, Indiana, Illinois and Ohio. The company's Small Business Administration lending division originates SBA loans primarily in Jacksonville, Ft. Myers, Tampa and Vero Beach, Fla., Greensboro, N.C., and Beaufort. The company's common stock is publicly traded on the OTCQX Markets under the symbol CBCO. For more information, please visit the company's website, www.coastalbanking.com.

The company's common stock is publicly traded on the OTCQX Markets under the symbol CBCO. A current CBCO stock price quote and recent stock trading activity is available at www.otcm Markets.com/stock/CBCO/quote. The complete unaudited quarterly financial results are available at [Coastal Banking 3rd Qtr Financials](#) or 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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