Coastal Banking Company, Inc.

Quarterly Financial Results (Unaudited)

As of September 30, 2016

Coastal Banking Company
Consolidated Balance Sheets

	September 30, 2016 (unaudited)	December 31, 2015 (audited)
Assets		
Cash and due from banks	$ 5,247,564	$ 3,058,112
Interest-bearing deposits in banks	6,330,349	1,772,456
Federal funds sold	394,946	82,642
Securities available for sale, at fair value	20,216,628	20,524,668
Securities held to maturity, at cost	100,000	—
Restricted equity securities, at cost	7,131,561	6,781,900
Loans held for sale, at fair value	33,921,968	35,725,005
Loans, net of unearned income	398,685,772	285,932,549
Less allowance for loan losses	4,919,725	5,254,407
Loans, net	393,766,047	280,678,142
Premises and equipment, net	13,719,383	7,174,034
Cash surrender value of life insurance	2,342,870	2,521,887
SBA loan servicing rights	1,521,446	1,544,682
Core deposit intangible	906,534	—
Other real estate owned	5,525,575	6,115,715
Loan sales receivable	109,995,996	92,456,618
Other assets	11,861,785	6,231,111
Total assets	$ 612,982,652	$ 464,666,972
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing	$ 74,899,737	$ 42,156,742
Interest-bearing	345,109,308	241,682,642
Total deposits	420,009,045	283,839,384
Other borrowings	109,775,000	120,500,000
Senior note payable	9,166,667	9,916,667
Junior subordinated debentures	7,217,000	7,217,000
Other liabilities	17,531,266	9,935,021
Total liabilities	563,698,978	431,408,072
Commitments and contingencies		
Shareholders' Equity:		
Common stock, par value $.01; 10,000,000 shares authorized; 3,608,609 shares issued and outstanding at September 30, 2016; 2,684,478 shares issued and outstanding at December 31, 2015	36,086	26,845
Additional paid-in capital	52,861,862	41,764,823
Accumulated deficit	(4,075,567)	(8,825,989)
Accumulated other comprehensive income	461,293	293,221
Total shareholders' equity	49,283,674	33,258,900
Total liabilities and shareholders' equity	$ 612,982,652	$ 464,666,972

See accompanying notes to unaudited consolidated financial statements.

Coastal Banking Company
Consolidated Statements of Income
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Interest income:				
Interest and fees on loans	$ 6,145,961	$ 4,851,315	$ 16,599,091	$ 13,954,559
Interest on taxable securities	167,856	171,487	512,261	517,492
Interest on nontaxable securities	28,121	28,390	84,608	85,407
Interest on deposits in other banks	4,317	2,021	13,985	5,833
Interest on federal funds sold	1,385	48	5,517	130
Total interest income	6,347,640	5,053,261	17,215,462	14,563,421
Interest expense:				
Interest on deposits	695,188	409,958	1,724,297	1,222,776
Interest on junior subordinated debentures	50,294	43,541	148,663	128,839
Interest on other borrowings	345,504	169,780	982,837	487,376
Total interest expense	1,090,986	623,279	2,855,797	1,838,991
Net interest income	5,256,654	4,429,982	14,359,665	12,724,430
Provision for loan losses	55,772	57,229	448,705	350,354
Net interest income after provision for loan losses	5,200,882	4,372,753	13,910,960	12,374,076
Non-interest income:				
Service charges on deposit accounts	59,434	51,326	177,524	149,540
Other service charges, commissions and fees	165,192	115,768	446,075	333,753
SBA loan income	1,049,912	267,043	1,784,033	421,040
Mortgage banking income	21,015,528	13,355,562	49,706,393	44,128,477
Gain on sale of securities available for sale	—	—	—	—
Income from investment in life insurance contracts	21,675	21,936	63,594	62,716
Other income	9,539	5,839	526,709	21,038
Total other income	22,321,280	13,817,474	52,704,328	45,116,564
Non-interest expenses:				
Salaries and employee benefits	19,049,886	11,465,924	45,502,679	39,627,598
Occupancy and equipment expense	1,236,025	935,398	3,508,923	2,686,118
Mortgage loan expense	942,334	783,377	2,514,402	2,300,175
Data processing fees	540,387	418,633	1,593,601	1,179,190
Other real estate expenses	111,729	395,598	222,243	512,179
Legal and other professional fees	359,958	389,532	988,875	787,507
Advertising fees	201,492	102,283	531,518	345,223
Audit fees	255,482	146,621	475,346	373,575
FDIC insurance expense	81,000	113,996	243,000	262,954
Director fees	127,150	94,950	306,150	217,300
OCC examination fees	43,500	4,479	123,613	66,222
Other operating	767,704	561,108	2,730,140	1,610,515
Total other expenses	23,716,647	15,411,899	58,740,490	49,968,556
Income before income tax	3,805,515	2,778,328	7,874,798	7,522,084
Income tax expense	1,819,177	1,148,925	3,124,376	3,119,587
Net income	$ 1,986,338	$ 1,629,403	$ 4,750,422	$ 4,402,497
Preferred stock dividends	—	223,875	—	671,625
Net earnings available to common shareholders	$ 1,986,338	$ 1,405,528	$ 4,750,422	$ 3,730,872
Basic earnings per common share	$ 0.55	$ 0.53	$ 1.48	$ 1.40
Diluted earnings per common share	$ 0.54	$ 0.51	$ 1.45	$ 1.37

See accompanying notes to unaudited consolidated financial statements.

Coastal Banking Company
Consolidated Statements of Comprehensive Income
For the Nine Months Ended September 30, 2016 and 2015
(Unaudited)

	2016	2015
Net income	$ 4,750,422	$ 4,402,497
Other comprehensive income, net of tax:		
Net unrealized holding gains arising during period, net of tax of $86,583 and $8,512	168,072	16,523
Total other comprehensive income	168,072	16,523
Comprehensive income	$ 4,918,494	$ 4,419,020

See accompanying notes to unaudited consolidated financial statements.

Coastal Banking Company
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2016 and 2015
(Unaudited)

	2016	2015
Cash flows from operating activities:		
Net income	$ 4,750,422	$ 4,402,497
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	646,035	529,002
Stock-based compensation expense	66,674	51,134
Provision for loan losses	448,705	350,354
Gain on sale of securities available for sale	(18,373)	—
Loss on sale/abandonment of premises and equipment	90,281	1,476
Net (increase) decrease in loan sales receivable	(17,539,378)	2,852,969
Write downs and losses on sale of other real estate owned	218,887	452,448
Proceeds from sales of other real estate owned	1,393,237	1,408,788
Increase in cash value of life insurance	(63,543)	(97,375)
Originations of mortgage loans held for sale	(2,259,983,270)	(2,177,743,088)
Proceeds from sales of mortgage loans held for sale	2,311,492,700	2,200,575,868
Net (increase) in interest receivable	(123,369)	(14,334)
Net increase (decrease) in interest payable	33,180	(34,858)
SBA loan income	(1,784,033)	(421,040)
Mortgage banking income	(49,706,393)	(44,128,477)
Bargain purchase gain	(583,824)	—
Net other operating activities	16,346,770	3,683,445
Net cash provided (used) in operating activities	5,684,708	(8,131,191)
Cash flows from investing activities:		
Net increase (decrease) in interest-bearing deposits in banks	337,081	(678,425)
Net increase in federal funds sold	(312,304)	(169)
Proceeds from maturities of securities available for sale	2,487,239	3,094,107
Proceeds from sale of other investments	2,864	—
Proceeds from sale of fixed assets	—	—
Purchases of securities held to maturity	—	(100,000)
Net change in restricted equity securities	155,125	(42,100)
Net increase in loans	(34,728,279)	(2,771,069)
Purchase of premises and equipment	631,223	(199,470)
Net cash used in investing activities	(31,427,051)	(697,126)
Cash flows from financing activities:		
Net increase in deposits	39,035,022	3,421,061
Proceeds from exercise of stock options	68,540	—
Proceeds from employee stock purchase plan	303,233	185,832
Repayment of loan payable, long term	(750,000)	—
Net increase (decrease) in other borrowings	(10,725,000)	5,300,000
Net cash provided by financing activities	27,931,795	8,906,893
Net increase in cash and due from banks	2,189,452	78,576
Cash and due from banks at beginning of period	3,058,112	2,726,911
Cash and due from banks at end of period	$ 5,247,564	$ 2,805,487
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest expense	$ 2,822,617	$ 1,873,849
Federal and state income taxes	$ 3,346,620	$ 2,875,473
Noncash Transactions:		
Principal balances of loans transferred to other real estate owned	$ 1,021,984	$ 871,142
Issuance of common stock in acquisition	$ 10,667,832	$ —

See accompanying notes to unaudited consolidated financial statements.

Notes to Consolidated Financial Statements – September 30, 2016 and 2015 (Unaudited) and December 31, 2015

Note 1 - Basis of Presentation

For corporate history of Coastal Banking Company, Inc. (the "Company") [click here]

On May 2, 2012 the Company filed a Form 15-12G with the Securities and Exchange Commission 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 was the final financial report filed with the SEC by the Company. Management intends to continue to prepare and publish quarterly and annual financial reports with similar information as required in filings with the SEC to ensure that investors have access to timely, meaningful information related to the Company's results. These financial reports will be published on the Company's web site at intervals consistent with the comparable SEC filing deadlines.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, CBC National Bank (the "Bank"). All intercompany accounts and transactions have been eliminated in consolidation.

The financial statements for the interim periods ended September 30, 2016 and September 30, 2015 are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation. The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. The financial information as of December 31, 2015 has been derived from the audited financial statements as of that date.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates that affect the amounts of assets and liabilities and changes therein. Actual results could differ from those estimates.

Note 2 – Business Combination

On April 8, 2016, the Company completed its acquisition of First Avenue National Bank. ("FANB"), a 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. Under the terms of the merger, FANB's common shareholders received 0.4848 shares of Coastal common stock for each share of FANB common stock they previously held, plus cash of $12.14 times any fractional share of Coastal common stock received in the exchange. As a result, the Company issued 885,345 common shares at a fair value of $10,818,916 and will pay cash to former shareholders of FANB for fractional shares of Coastal common stock in the total amount of $1,238.

The acquisition of FANB was accounted for using the acquisition method of accounting in accordance with FASB ASC 805, *Business Combinations*. Assets acquired, liabilities assumed and consideration exchanged were recorded at their respective acquisition date fair values. Determining the fair value of assets and liabilities is a complicated process involving significant judgment regarding methods and assumptions used to calculate estimated fair values. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair values becomes available. In addition, management assessed and recorded the deferred tax assets resulting from differences in the carrying values of acquired assets and assumed liabilities for financial reporting purposes and their basis for income tax purposes. This estimate also reflects acquired net operating loss carryforwards and other acquired assets with built-in losses that are expected to be settled or otherwise recovered in future periods where the realization of such benefits would be subject to applicable limitations under Section 382 of the Internal Revenue Code of 1986, as amended. Management continues to evaluate fair value adjustments related to loans, other real estate owned, premises, intangibles and deferred tax assets.

The following table presents the assets acquired and liabilities of FANB assumed as of April 8, 2016, and their initial fair value estimates. The fair value adjustments shown in the following table continue to be evaluated by management and may be subject to further adjustment:

	As Recorded by FANB	Fair Value Adjustments	As Recorded by Coastal
Assets			
Cash and cash equivalents	$ 4,894,974	$ -	$ 4,894,974
Investment securities	2,034,855	-	2,034,855
Other investments	504,786	-	504,786
Loans	81,273,345	(1,515,313) (a)	79,758,032
Less allowance for loan losses	(621,830)	621,830 (b)	-
Loans, net	80,651,515		79,758,032
Other real estate owned	60,050		60,050
Premises and equipment	9,562,689	(2,963,039) (c)	6,599,650
Intangible assets	-	1,071,678 (d)	1,071,678
Other assets	13,878,980	946,847 (e)	14,825,827
Total assets	$ 111,587,849	$ (1,837,997)	$ 109,749,852
Liabilities			
Deposits:			
Noninterest-bearing	$ 20,652,396		$ 20,652,396
Interest-bearing	77,562,920		77,562,920
Total deposits	98,215,316		98,215,316
Other liabilities	131,796		131,796
Total liabilities	98,347,112		98,347,112
Net identifiable assets acquired over (under) liabilities assumed	13,240,737		11,402,740
Bargain purchase gain	-		(583,824)
Net assets acquired over (under) liabilities assumed	$ 13,240,737		$ 10,818,916
Consideration:			
Coastal Banking Company common shares issued	885,345		
Purchase price per share of the Company's common stock	$ 12.22		
Company common stock issued	10,818,916		
Cash exchanged for shares	-		
Fair value of total consideration transferred	10,818,916		
Less: stock issuance costs	151,084		
Issuance of common stock in acquisition	$ 10,667,832		

Explanation of fair value adjustments

(a) Adjustment reflects the fair value adjustments based on the Company's evaluation of the acquired loan portfolio.

(b) Adjustment reflects the elimination of FANB's allowance for loan losses.

(c) Adjustment reflects the fair value adjustment based on the Company's evaluation of the acquired real estate, which is based on recent appraised values.

(d) Adjustment reflects the recording of core deposit intangible on the acquired core deposit accounts.

(e) Adjustment reflects the deferred taxes on the difference in the carrying values of acquired assets and assumed liabilities for financial reporting purposes and their basis for federal income tax purposes and the reversal of FANB valuation allowance established on their deferred tax assets.

Bargain purchase gain of $583,824, which is the excess of the fair value of net assets acquired over the purchase price, was recorded in the FANB acquisition and is the result of expected operational synergies and other factors. Bargain purchase gain is not expected to be included in income for tax purposes.

Note 3 – Regulatory Oversight, Capital Adequacy, Operating Results and Liquidity

Regulatory Oversight

The Company operates under the supervision and monitoring of the Federal Reserve Bank of Richmond while the Bank's primary regulator is the Office of the Comptroller of the Currency. In 2008 the Company issued preferred stock and warrants to purchase common stock to the US Treasury under the Capital Purchase Program within the Troubled Asset Relief Program (TARP). In February 2013, Coastal Banking Company preferred stock was included in a Treasury Department TARP auction, and that

transaction settled on March 11, 2013 at which point the original preferred stock was owned by a small group of private investors. On November 15, 2015, the Company redeemed all outstanding preferred stock and paid all preferred dividends accrued through the date of redemption. The redemption and dividend payments were funded with the proceeds of a senior note payable to NexBank, SSB.

For more detailed information on the status and requirements of the regulatory oversight under which we operate is available [click here]

Capital Adequacy

Effective January 1, 2015 (with some changes transitioned into full effectiveness over two to four years), the Bank became subject to new capital requirements adopted by the FDIC. These new requirements create a new required ratio for common equity Tier 1 capital, increase the leverage and Tier 1 capital ratios, change the risk weight of certain assets for purposes of the risk-based capital ratios, create an additional capital conservation buffer over the required capital ratios and change what qualifies as capital for purposes of meeting these various capital requirements. Beginning in 2016, failure to maintain the required capital conservation buffer will limit the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses. The Company is exempt from consolidated capital requirements as those requirements do not apply to certain small savings bank holding companies with assets under $1 billion.

Under the new capital regulations, the minimum capital ratios are: (1) common equity Tier 1 capital ratio of 4.5% of risk-weighted assets, (2) a Tier 1 capital ratio of 6.0% of risk-weighted assets, (3) a total capital ratio of 8.0% of risk-weighted assets, and (4) a Tier 1 capital to average assets ratio of 4.0%. Common equity Tier 1 capital generally consists of common stock and retained earnings, subject to applicable regulatory adjustments and deductions.

There are a number of changes in what constitutes regulatory capital, some of which are subject to transition periods. These changes include the phasing-out of certain instruments as qualifying capital. The Bank does not use any of these instruments. Under the new requirements for total capital, Tier 2 capital is no longer limited to the amount of Tier 1 capital included in total capital. Mortgage servicing rights, certain deferred tax assets and investments in unconsolidated subsidiaries over designated percentages of common equity Tier 1 capital will be deducted from capital. The Bank has elected to permanently opt-out of the inclusion of accumulated other comprehensive income in our capital calculations, as permitted by the regulations. This opt-out is expected to reduce the impact of market volatility on our regulatory capital levels.

The new requirements also include changes in the risk-weights of assets to better reflect credit risk and other risk exposures. These include a 150% risk weight (increased from 100%) for certain high volatility commercial real estate acquisition, development and construction loans and for non-residential mortgage loans that are 90 days past due or otherwise in non-accrual status; a 20% (increased form 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable; a 250% risk weight (increased from 100%) for mortgage servicing and deferred tax assets that are not deducted from capital; and increased risk weights (0% to 600%) for equity exposures.

In addition to the minimum common equity Tier 1, Tier 1 and total capital ratios, the Bank will have to maintain a capital conservation buffer consisting of additional common equity Tier 1 capital greater than 2.5% to risk weighted assets above the required minimum levels in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions. This new capital conservation buffer requirement will be phased in beginning in January 2016 at 0.635% of risk-weighted assets and increasing each year until fully implemented in January 2019.

The FDIC's prompt corrective action standards also changed effective January 1, 2015. Under the new standards, in order to be considered well-capitalized, the Bank must have a common equity Tier 1 ratio of 6.5% (new), a Tier 1 ratio of 8.0% (increased from 6.0%), a total risk-based capital ratio of 10.0% (unchanged) and a leverage ratio of 5.0% (unchanged). The Bank meets all these new requirements, including the full capital conservation buffer.

As of September 30, 2016, the Bank was well capitalized under the regulatory framework for prompt corrective action. The following table summarizes the Company's and Bank's capital ratios at September 30, 2016:

	Regulatory Levels To Be Well Capitalized (Applies to Bank)	**CBC National Bank**	**Coastal Banking Company**
Total risk-based (to risk-weighted assets)	10.00%	20.92%	18.28%
Tier 1 risk-based (to risk-weighted assets)	8.00%	19.66%	17.02%
Common Equity Tier 1 (to risk-weighted assets)	6.50%	19.66%	17.02%
Tier 1 leverage (to total average assets)	5.00%	10.70%	9.26%

Operating Results

The Company recorded net income of $4,750,000 for the nine months ended September 30, 2016 compared to net income of $4,402,000 for the nine months ended September 30, 2015, a 7.9% year over year increase in net income for the comparative nine month period. Net interest income increased by $1,635,000, or 12.9%, driven by continued balance sheet growth, particularly due to the acquisition of First Avenue National Bank previously mentioned. This year over year improvement in nine month earnings was also driven by a $5,578,000 or 12.6% increase in mortgage banking income on significantly higher lending volume. In addition, SBA loan income increased $1,363,000, or 323.7%, as a result of a year over year increase in the number of SBA loan participation sales during the nine months ended September 30, 2016. Other income increased $584,000 primarily as a result of recognizing the bargain purchase gain from the First Avenue National Bank acquisition. This year over year income improvement was partially offset by a combination of salaries and employee expenses rising by $5,875,000 or 14.8% on higher mortgage banking related compensation and increased personnel due to the FANB acquisition, increased operating expenses due to the additional new branches from FANB and $674,000 of non-recurring expenses related to that same acquisition.

For the quarter ended September 30, 2016 the Company recorded net income of $1,986,000 compared to net income of $1,629,000 during the third quarter of 2015, a 21.9% year over year increase in third quarter net income. The increase in year over year third quarter earnings reflects higher levels of net interest income of $5,257,000, up by $827,000 or 18.7%, and mortgage banking income of $21,016,000, up by $7,660,000 or 57.4%. In addition, SBA loan income increased $783,000, or 293.2%, as a result of a year over year increase in the number of SBA loan participation sales during the three months ended September 30, 2016. This year over year income improvement was partially offset by a combination of salaries and employee expenses rising by $7,584,000 or 66.1% on elevated mortgage banking related compensation and increased personnel from the FANB acquisition and increased operating expenses due to the additional new branches from FANB.

Liquidity

Liquidity represents the ability of a company to convert assets into cash or cash equivalents without significant loss, and the ability to raise additional funds by increasing liabilities. Liquidity management involves monitoring our sources and uses of funds in order to meet our day-to-day cash flow requirements while maximizing profits. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities of our investment portfolio is fairly predictable and subject to a high degree of control at the time investment decisions are made. However, net deposit inflows and outflows are far less predictable and are not subject to the same degree of control. Our primary liquidity needs involve the funding of mortgage loans available for sale, new portfolio loans, and maturing deposits.

We meet our liquidity needs through scheduled maturities of loans and investments on the asset side and through pricing policies on the liability side for interest-bearing deposit accounts and with advances from approved borrowing facilities with correspondent banks, the Federal Home Loan Bank of Atlanta, federal funds purchased lines of credit, and the Federal Reserve Bank discount window.

As of September 30, 2016, the Company had $485.8 million in total borrowing capacity, of which we had utilized $137.3 million or 28%, leaving remaining available liquidity of $348.6 million. The following tables present available sources of liquidity at September 30, 2016 and December 31, 2015:

	September 30, 2016		
	Total Line of Credit	**Funds Borrowed**	**Funds Available**
Available sources of liquidity			
Federal funds purchased lines of credit	$ 44,000,000	$ —	$ 44,000,000
Available brokered certificates of deposit	42,026,631	12,026,000	30,000,631
Internet deposits – CD Rateline	91,909,507	6,943,898	84,965,609
StoneCastle wholesale MMDA	42,891,103	10,003	42,881,100
CDARS – one way buy deposits	61,273,005	8,500,000	52,773,005
Repurchase agreements secured by investment securities	4,580,000	—	4,580,000
Federal Reserve Borrowing Capacity at Discount Window	26,301,610	—	26,301,610
Federal Home Loan Bank Advance Availability	172,857,209	109,775,000	63,082,209
Total sources of liquidity	$ 485,839,065	$ 137,254,901	$ 348,584,164

	December 31, 2015		
	Total Line of Credit	Funds Borrowed	Funds Available
Available sources of liquidity			
Federal funds purchased lines of credit	$ 37,000,000	$ —	$ 37,000,000
Available brokered certificates of deposit	28,411,635	14,793,320	13,618,315
Internet deposits – CD Rateline	69,398,474	3,726,000	65,672,474
StoneCastle wholesale MMDA	32,385,955	1,000	32,384,955
CDARS – one way buy deposits	46,265,649	2,848,181	43,417,468
Repurchase agreements secured by investment securities	5,682,000	—	5,682,000
Federal Reserve Borrowing Capacity at Discount Window	26,580,002	—	26,580,002
Federal Home Loan Bank Advance Availability	131,563,200	120,500,000	11,063,200
Total sources of liquidity	$ 377,286,915	$ 141,868,501	$ 235,418,414

Additionally, loans available for sale function as a further source of liquidity based on the speed with which these loans are sold and settled for cash. Management expects that, on average, loans originated for sale will be sold and converted to cash within 18 to 20 business days after the loan is originated. The balance of loans available for sale averaged $113.1 million during the first nine months of 2016. Accordingly, in the event of a liquidity crisis, we have the ability to slow or stop loan origination activity to allow the loans available for sale to convert into cash. Based on current and expected liquidity needs and sources, management expects the Company to be able to meet all obligations as they become due.

Note 4 –Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30.

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Net income	$ 1,986,338	$ 1,629,403	$ 4,750,422	$ 4,402,497
Preferred stock dividends	—	(223,875)	—	(671,625)
Net income (loss) available to common shareholders	$ 1,986,338	$ 1,405,528	$ 4,750,422	$ 3,730,872
Weighted average common shares	3,602,984	2,671,042	3,203,194	2,663,412
Effect of dilutive securities	85,773	67,875	77,779	61,579
Diluted average common shares	3,688,757	2,738,917	3,280,973	2,724,991
Earnings (losses) per common share	$ 0.55	$ 0.53	$ 1.48	$ 1.40
Diluted earnings (losses) per common share	$ 0.54	$ 0.51	$ 1.45	$ 1.37

Note 5 - Supplemental Segment Information

The Bank has three reportable business segments: Community Banking, SBA Lending, and Mortgage Banking operations. The Company evaluates performance based on profit and loss from operations before income taxes, not including nonrecurring gains and losses. 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 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% through an intersegment charge as shown below.

The Bank's reportable business segments are strategic business units that offer different products and services to a different customer base. They are managed separately because each segment has different types and levels of credit and interest rate risk.

(In thousands)	Community Banking		SBA Lending Operations		Mortgage Banking Operations	
Three months ended September 30,	2016	2015	2016	2015	2016	2015
Interest income	$ 3,489	$ 2,253	$ 1,258	$ 838	$ 1,599	$ 1,961
Interest expense	922	580	—	—	—	—
Intersegment interest allocation	1,534	1,345	(519)	(319)	(1,015)	(1,026)
Net interest income	4,101	3,018	739	519	584	935
Provision for loan losses	14	12	—	—	42	45
Net interest income after provision	4,087	3,006	739	519	542	890
Non interest income	377	269	1,050	267	20,909	13,296
Non interest expense	3,624	2,940	704	563	19,192	11,785
Net income before tax expense	840	335	1,085	223	2,259	2,401
Income tax expense (benefit)	313	113	428	88	929	948
Net income	$ 527	$ 222	$ 657	$ 135	$ 1,330	$ 1,453

(In thousands)	Community Banking		SBA Lending Operations		Mortgage Banking Operations	
Nine months ended September 30,	2016	2015	2016	2015	2016	2015
Interest income	$ 9,106	$ 6,724	$ 3,578	$ 2,271	$ 4,527	$ 5,565
Interest expense	2,343	1,710	—	—	—	—
Intersegment interest allocation	4,046	3,820	(1,436)	(928)	(2,610)	(2,892)
Net interest income	10,809	8,834	2,142	1,343	1,917	2,673
Provision for loan losses	267	159	76	63	106	128
Net interest income after provision	10,542	8,675	2,066	1,280	1,811	2,545
Non interest income	1,469	809	1,784	421	49,496	43,933
Non interest expense	10,515	7,399	2,171	1,566	45,489	40,652
Net income before tax expense	1,496	2,085	1,679	135	5,818	5,826
Income tax expense (benefit)	302	766	663	53	2,302	2,301
Net income	$ 1,194	$ 1,319	$ 1,016	$ 82	$ 3,516	$ 3,525

The Community Banking segment provides traditional banking services offered through the Bank's six full service branch locations in Lady's Island and Port Royal, South Carolina; Ocala (2), The Villages, and Fernandina Beach, Florida. At September 30, 2016 this segment had 95 full time equivalent employees including staff that provides operational and administrative support to the other two reportable segments. Staff levels include 27 full time equivalent employees added during the second quarter of 2016 from the First Avenue National Bank acquisition. The year over year increase in noninterest income for the nine months ended September 30, 2016 reflects the impact of the nonrecurring bargain purchase gain, while the year over year increase in noninterest expenses were largely reflective of a combination of nonrecurring merger related costs and recurring operating costs from the three new branch locations obtained in the merger. The increase to net interest income reflects the expansion of the balance of earning assets, also from the recent bank acquisition.

The Small Business Administration lending segment originates SBA loans throughout the southeastern United States by the Bank's SBA business development officers. At September 30, 2016 the division had 16 full time equivalent employees and conducted all loan funding, sales and servicing activity from the Bank's operations center in Fernandina Beach, Florida. These officers serve markets in Jacksonville, Ft. Myers, Tampa, and Vero Beach, Florida; Atlanta, Georgia; Greensboro, North Carolina; and Beaufort, South Carolina. The majority of loans originated by the division are processed through the SBA 7(a) loan program. Participations in these loans are typically sold to secondary market investors within 30 days of the loan being funded. However, since the fourth quarter of 2014, the SBA lending segment began to extend the holding time of new loans to accumulate into larger groups of loans for sale rather than selling on a flow basis as the loans were originated. This was done with the expectation of achieving more advantageous pricing with increased block sizes sold in secondary market channels. As a result there were ten SBA loan participation sales during the quarter ending September 30, 2016 with a participation balance sold of $9,118,000. The inventory of SBA loans available for participation sale at September 30, 2016 is $28,889,000. There were two SBA loan participation sales during the three months ended September 30, 2015 with a participation balance sold of $1,775,000. The inventory of SBA loans available for participation sale at September 30, 2015 was $14,210,000. During the nine months ended September 30, 2016, there were twenty-two SBA loan participation sales with a principal balance of $15,086,000. During the nine months ended September 30, 2015, there were two SBA loan participation sales with a participation balance sold of $1,775,000.

The Mortgage Banking segment was staffed by 360 full time equivalent employees at September 30, 2016 who originate residential mortgage loans through one of four distinct delivery channels. These channels include (1.) a network of independent mortgage brokers, (2.) a national network of traditional retail mortgage lending branches, (3.) an internet leads based retail loan origination branch, and (4.) retail mortgage lending through the Bank's deposit branch locations. Most of these loans are closed by the Bank and sold to various investors on the secondary market while a limited number of loans are retained in the Bank's loan portfolio. Additionally, during the first nine months of 2016, approximately 34% of the loan production was brokered away to other lenders and so were not closed by the Bank. All wholesale and internet retail mortgage banking activity is conducted in the Bank's mortgage banking offices in Atlanta, Georgia, as is the national retail mortgage lending administration function. The national retail lending branches are located in Florida, Georgia, South Carolina, Illinois, Maryland, Michigan, North Carolina, and Ohio.

Loans on one-to-four family residential mortgages originated by us are sold to various other financial institutions with representations and warranties that are usual and customary for the industry. In addition to these representations and warranties, our loan sale contracts define a condition in which the borrower fails to make any one of the first four loan payments within 30 days of the due date as an Early Payment Default ("EPD"). In the event of an EPD occurrence, we are required to return the premium paid by the investor for the loan as well as pay certain administrative fees. In the event of a breach of any of the representations and warranties related to a loan sold, we could be liable for damages to the investor up to and including a "make whole" demand that involves, at the investor's option, either reimbursing the investor for actual losses incurred on the loan or repurchasing the loan in full. Our maximum exposure to credit loss in the event of a loan repurchase related to a make whole claim would be the unpaid principal balance of the loan to be repurchased along with any premium paid by the investor when the loan was purchased and other minor collection cost reimbursements. The claims rate on EPDs since the inception of the mortgage banking division in 2007 has been only 0.09% of the number of loans sold.

The primary source of direct income generated by the mortgage banking division is the gain on sale of mortgage loans which was $20,909,000 for the quarter ended September 30, 2016 compared to $13,296,000 for the quarter ended September 30, 2015. For the first nine months of 2016, the gain was $49,496,000 compared to $43,933,000 for the same period in 2015. The increase in gain on sale is a result of significantly higher volume in the third quarter of 2016 caused by the continued lower long term interest rates which has fueled increasing loan demand for both refinance and purchase money loans. The volume of loans originated in the third quarter of 2016 was $886.3 million, up 44.2% over the third quarter 2015 total of $614.8 million.

The direct noninterest expenses incurred by the division were $19,192,000 for the third quarter of 2016, an increase of $7,407,000 over the third quarter 2015 expenses of $11,785,000. The largest contributor to this increase was in salaries and benefits due to the significant increase in volume and related commissions previously mentioned.

For the nine months ended September 30, 2016, noninterest expenses incurred by the mortgage banking division were $45,489,000, an increase of $4,837,000 compared to $40,652,000 of noninterest expense for the first nine months of 2015. The largest contributor to this increase was the increase in salaries and benefits mentioned above.

Note 6 - Net Interest Income

The Bank's net interest income is determined by the level of our earning assets, primarily loans outstanding, and the management of our net interest margin. For the quarter ended September 30, 2016, net interest income totaled $5,257,000 as compared to $4,430,000 for the quarter ended September 30, 2015 for an increase of $827,000. On a consecutive quarter basis, net interest income remained relatively flat as compared to the $5,163,000 earned during the quarter ended June 30, 2016.

Total interest income increased by $1,295,000 to $6,348,000 for the three months ended September 30, 2016 compared to $5,053,000 for the three months ended September 30, 2015. On a consecutive quarter basis, total interest income increased compared to the $6,160,000 earned during the quarter ended June 30, 2016.

The primary reason for the increase in interest income is the additional earning assets from the FANB acquisition. Average earning assets increased to an average balance of $554,572,000 during the quarter ended September 30, 2016, up by $113,508,000 or 25.7%, from the average balance during the quarter ended September 30, 2015. Approximately $82 million of earning assets were added at the date of the acquisition. The average portfolio loans have increased from $404,545,000 during the third quarter of 2015 to $523,665,000 in the third quarter of 2016, an increase of $119,120,000. Interest income on portfolio loans grew from $4,771,000 for the third quarter of 2015 to $6,034,000 for the third quarter of 2016. One of the largest contributors to the increase in interest income for the third quarter of 2016 over last year is the interest earned on SBA loans held in the portfolio, which increased $420,000 to $1,258,000, compared to $838,000 during the third quarter of 2015. The average balance of SBA portfolio loans grew from $60,396,000 to $88,520,000 over that time period. Interest income from investment securities slightly decreased in the three months ended September 30, 2016 compared to the three months ended September 30, 2015.

Total interest expense increased by $468,000, or 75.0%, to $1,091,000 for the three months ended September 30, 2016 compared to $623,000 for the same period in 2015. This increase was due to the acquisition and to increased borrowings during the third quarter of 2016 to fund the significant increase in mortgage volume.

On November 15, 2015, the Company redeemed all outstanding TARP preferred stock and paid all preferred dividends accrued through the date of redemption. The redemption and dividend payments were funded with the proceeds of a senior note payable to NexBank, SSB. As a result of this refinancing total interest expense increased by $468,000, or 75%, to $1,091,000 for the three months ended September 30, 2016 compared to $623,000 for the same period in 2015. On a consecutive quarter basis, total interest expense increased by $93,000, or 9.3%, from $998,000 expensed during the quarter ended June 30, 2016 primarily as a result of an increase in deposit balances and slightly higher cost of funds.

The net interest margin is a performance metric that reports how successful the Bank's investment decisions have been relative to its funding choices. It is calculated by dividing the annualized net interest income by the balance of the average earning assets for the period. The net interest margin realized on earning assets decreased by 22 basis points to 3.76% for the three months ended September 30, 2016 when compared to the 3.98% net interest margin earned during the same three months in 2015. This decline is due to the additional borrowing at the holding company level to redeem its preferred stock in the fourth quarter of 2015. The bank's net interest margin only declined from 4.02% to 3.88% on a quarter to quarter comparison.

For the nine months ended September 30, 2016, net interest income totaled $14,360,000 as compared to $12,724,000 for the same period in 2016, for an increase of $1,636,000, or 12.9%. Total interest income increased $2,652,000, or 18.2%, to $17,215,000 for the nine months ended September 30, 2016 compared to $14,563,000 for the nine months ended September 30, 2015. Interest and fees on loans increased by $2,644,000, or 19.0%, to $16,599,000 in the nine months ended September 30, 2016 from $13,955,000 in the nine months ended September 30, 2015. As discussed above, the FANB acquisition accounted for the majority of this year over year increase. Interest income on investment securities decreased slightly in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. Total interest expense increased by $1,017,000, or 55.3%, to $2,856,000 for the nine months ended September 30, 2016 compared to $1,839,000 for the same period in 2015. The net interest margin was 3.86 % and 3.90%, respectively, for the nine months ended September 30, 2016 and September 30, 2015. On a bank level basis, net interest margin actually increased for the nine months ended September 30, 2016 to 4.00% compared to 3.94% for the nine months ended September 30, 2015. As evidence by the relatively flat net interest margin changes for the year to date, the primary reason for changes in interest income, interest expense and net interest income was due to volume changes.

Note 7 - 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 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 qualitative factors reflect general declines in collateral values.

To the extent that the recovery of loan balances has become collateral dependent, we obtain appraisals not less than annually, and then we reduce these appraised values for selling and holding costs to determine the liquidated value. Any shortfall between the liquidated value and the loan balance is charged against the allowance for loan losses in the month the related appraisal was received. In the ordinary course of managing and monitoring nonperforming loans, information may come to our attention that indicates the collateral value has declined further from the value established in the most recent appraisal. Such other information may include prices on recent comparable property sales or internet based property valuation estimates. In cases where this other information is deemed reliable, and the impact of a further reduction in collateral value would result in a further loss to the Company, we will record an increase to the allowance to reflect the additional estimated collateral shortfall.

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, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014
Portfolio loans, gross	$ 398,686	$ 393,146	$ 298,262	$ 285,933	$ 274,704	$ 272,115	$ 270,230	$ 272,757
Loans past due > 30 days and still accruing interest	$ 795	$ 4,177	$ 1,056	$ 123	$ 2,302	$ 1,752	$ 2	$ 806
Loans on nonaccrual	$ 5,867	$ 4,478	$ 1,936	$ 2,478	$ 3,484	$ 4,176	$ 4,629	$ 4,330
(as a % of loans, gross)	1.47%	1.14%	0.65%	0.87%	1.27%	1.53%	1.71%	1.59%

Net loan charge offs (recoveries)	$ (56)	$ (29)	$ 868	$ 16	$ 8	$ 21	$ (76)	$ 72
(as a % of loans, gross)	(0.02)%	(0.01)%	0.29%	0.01%	0.00%	0.01%	(0.03)%	0.03%

Portfolio loans, gross addresses the impact on the provision for loan losses from changes in the size and composition of our loan portfolio. In the past we applied various reserve factors to our portfolio based on the risk-rated categories of loans because we had relatively little charge off activity prior to the quarter ended December 31, 2008. As a result of increasing charge off activity, we now rely more 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 in recent 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. Portfolio loans grew by $5.1 million in the third quarter of 2016 following growth of $95.1 million in the second quarter of 2016. The acquisition of First Avenue National Bank contributed $80.5 million to the second quarter increase of which $43.3 million were commercial real estate loans having a higher risk profile.

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 decreased to $795,000 at September 30, 2016, a decrease of $3,382,000 as compared to June 30, 2016. As a leading indicator, this metric suggests that relatively stable loan quality trends may be expected to continue in the current economic and interest rate environment. Management will continue to carefully monitor past due loans and work aggressively to manage loan delinquency levels. While the long term trend in credit quality over the last several years has improved, we can expect that slight volatility will occur as experienced over the last few quarters may continue.

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. During the three months ended September 30, 2016, nonaccrual loans increased from $4.5 million to $5.9 million. Three loans migrated to nonaccrual status during the third quarter. Management remains vigilant in our loan monitoring and loss mitigation efforts related to non-accrual loans. As mentioned above the overall long-term trend in credit quality has improved and we can expect slight volatility will occur as experienced over the recent few quarters.

Net loan charge offs or recoveries reflect our practice of charging recognized losses to the allowance and adding subsequent recoveries back to the allowance. During the three months ended September 30, 2016, we recorded net recoveries of $56,000. During the three months ended September 30, 2015 we recorded $8,000 in net charge offs.

Prior to the fourth fiscal quarter of 2008, we had very little charge off activity and therefore, had limited historical information upon which to base past estimates. Since 2009 charge off activity has been volatile and difficult to predict, but we continue to assess the implications of trends in recent charge off activity on potential future losses. The recent volatility in the level of quarterly net loan charge offs or recoveries makes it difficult to identify a specific trend or establish reliable future expectations. As a result, there can be no assurance that charge offs of loans in future periods will not increase or exceed the allowance for loan losses as estimated at any point in time or that provisions for loan losses will not be significant to a particular accounting period. Thus, there is a risk that substantial additional increases in the allowance for loan losses could be required, which would result in a decrease in our net income and possibly our capital.

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 $56,000 for the three months ended September 30, 2016, comparable to the $57,000 for the three months ended September 30, 2015. On a consecutive quarter basis, this provision level was $360,000, during the quarter ended June 30, 2016. The level of provision expense for the three months ended September 30, 2016, as related to the prior comparative periods, does not necessarily indicate a general overall change of loan portfolio credit quality, but rather was driven by a combination of loan portfolio growth and increased levels directional risk factors of past due loans, nonaccrual loans, and loans classified as substandard.

(In thousands)	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014
Provision during quarter ended	$ 56	$ 360	$ 33	$ 44	$ 57	$ 33	$ 260	$ 266
Provision added in excess of net charge-offs/(recoveries)	$ 112	$ 389	$ (835)	$ 28	$ 49	$ 12	$ 336	$ 194
Allowance for loan losses	$ 4,920	$ 4,808	$ 4,419	$ 5,254	$ 5,226	$ 5,177	$ 5,165	$ 4,829
(as a % of loans, gross)	1.23%	1.22%	1.48%	1.84%	1.90%	1.90%	1.91%	1.77%

The difference between the amount of the provision for loan losses and net loan charge offs will result in expansion or shrinkage to the level of the allowance for loan losses. As shown above, during the three months ended September 30, 2016 the current provision added in excess of net charge offs was $112,000. The result was an increase to the allowance for loan losses by $112,000 to a level of $4,920,000, or 1.23% of gross loans outstanding at September 30, 2016, as compared to $4,808,000, or 1.22% of gross loans outstanding at June 30, 2016. The allowance for loan loss as a percentage of gross loans was 1.90% at September 30, 2015. The bank's overall allowance percentage declined at the acquisition of FANB as described in more detail in Note 2 – Business Combinations above.

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.

Note 8 - Noninterest Income

Noninterest income for the three months ended September 30, 2016 totaled $22,321,000 as compared to $13,817,000 for the three months ended September 30, 2015. Mortgage banking income was $21,016,000 for the quarter ended September 30, 2016 compared to $13,356,000 for the same period during 2015 for an increase of $7,660,000 or 57.4% on significantly increased loan funding levels. Mortgage loan originations increased from $614.8 to $886.3 quarter over quarter. SBA loan income increased by $783,000 or 293% to $1,050,000 for the three month period ended September 30, 2016 compared to the $267,000 for the third quarter of 2015. Service charges on deposit accounts and other service charges, commissions and fees increased primarily due to the FANB acquisition

Noninterest income for the nine months ended September 30, 2016 totaled $52,704,000, as compared to $45,117,000 for the nine months ended September 30, 2015. The increases were in mortgage banking income, SBA loan income, service charges on deposit accounts and other service charges, commissions and fees as noted above. Also, the increase in Other Income was due to the $584,000 recognition of the bargain purchase gain from the acquisition of First Avenue National Bank during the quarter ended June 30, 2016.

Note 9 - Noninterest Expense

Total noninterest expense for the three months ended September 30, 2016 was $23,717,000 as compared to $15,412,000 for the same period in 2015. The year-over-year increase in noninterest operating expense of $8,305,000 is due largely to increased expenses as a result of the First Avenue National Bank acquisition and expenses related to the mortgage loan operation volume increase.

The Community Banking segment reported a $684,000, or 23.3%, increase in noninterest expenses totaling $3,624,000 for the third quarter of 2016 as compared to $2,940,000 for the same period in 2015 primarily as a result of elevated operating expenses from the three new deposit branch locations added in the FANB acquisition. The SBA Division reported a $141,000, or 25.0%, increase in noninterest expenses totaling $704,000 for the third quarter of 2016 as compared to $563,000 for the same period in 2015. The Mortgage Banking Segment reported a $7,407,000, or 62.9%, decrease in noninterest expenses totaling $19,192,000 for the third quarter of 2016 as compared to $11,785,000 for the same period in 2015 as a result of the significantly higher level of loan volume which increased commission and administrative expenses.

Total noninterest expense for the nine months ended September 30, 2016 increased $8,772,000, or 17.6%, to $58,740,000, as compared to $49,969,000 for the same period in 2015. The largest contributor to this increase was in salaries and benefits which increased $5,875,000, or 14.8%, primarily due to the increased mortgage volume and FANB acquisition previously discussed. Occupancy and equipment costs increased $823,000, or 30.6%, to $3,508,000 during the first nine months of 2016 compared to $2,686,000 during the first nine months of 2015 from the addition of the three First Avenue National Bank locations. Most other expense categories increased year over year due to the acquisition as well.

Note 10 – Investment Securities

Investment securities are as follows:

	September 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
State and municipal securities	$ 3,061,838	$ 364,336	$ —	$ 3,426,174
Mortgage-backed securities	16,385,955	414,637	(10,138)	16,790,454
	$ 19,447,793	$ 778,973	$ (10,138)	$ 20,216,628
Held to maturity				
Corporate debt securities	$ 100,000	$ —	$ —	$ 100,000
	$ 100,000	$ —	$ —	$ 100,000

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
State and municipal securities	$ 3,135,595	$ 318,519	$ (101)	$ 3,454,013
Mortgage-backed securities	16,944,799	231,847	(105,991)	17,070,655
	$ 20,080,394	$ 550,366	$ (106,092)	$ 20,524,668

Note 11 — Loans and allowance for loan losses

The composition of loans is summarized as follows:

	September 30, 2016	December 31, 2015
Commercial and financial	$ 31,229,420	$ 18,795,061
Agricultural	7,035	17,500
Real estate – construction, commercial	26,064,356	20,635,761
Real estate – construction, residential	17,912,760	12,901,736
Real estate – mortgage, commercial	157,167,977	106,651,258
Real estate – mortgage, residential	150,302,428	121,878,211
Real estate – mortgage, farmland	10,716,569	3,845,325
Consumer installment loans	5,285,227	1,207,697
Gross loans	398,685,772	285,932,549
Less: Allowance for loan losses	4,919,725	5,254,407
Net loans	$ 393,766,047	$ 280,678,142

The Bank grants loans and extensions of credit to individuals and a variety of businesses and corporations located in its general trade areas of Beaufort County, South Carolina, Nassau and Marion County, Florida. Although the Bank has a diversified loan portfolio, a substantial portion of the loan portfolio is collateralized by improved and unimproved real estate and is dependent upon the real estate market.

Loans exhibiting one or more of the following attributes are placed on a nonaccrual status:

a.) Principal and/or interest is 90 days or more delinquent, unless the obligation is (i) well secured by collateral with a realizable value sufficient to discharge the debt including accrued interest in full, and (ii) in the process of collection, which is reasonably expected to result in repayment of the debt or in its restoration to a current status.

b.) A borrower's financial condition has deteriorated to such an extent, or some condition exists, that makes collection of interest and/or principal in full unlikely in management's opinion.

c.) Foreclosure or legal action has been initiated as a result of default by the borrower on the terms of the debt.

The following is a summary of current, past due and nonaccrual loans:

	September 30, 2016						
(In thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due & Accruing	Nonaccrual	Total Past Due & Nonaccrual	Current Loans	Total Loans
Commercial and financial	$ 247	$ —	$ —	$ 78	$ 325	$ 30,904	$ 31,229
Agricultural	—	—	—	—	—	7	7
Real estate – construction, commercial	—	—	—	—	—	26,064	26,064
Real estate – construction, residential	—	—	—	182	182	17,731	17,913
Real estate – mortgage, commercial	—	—	—	3,106	3,106	154,062	157,168
Real estate – mortgage, residential	—	—	—	2,501	2,501	147,802	150,303
Real estate – mortgage, farmland	—	—	—	—	—	10,717	10,717
Consumer installment loans	—	—	—	—	—	5,285	5,285
	$ 247	$ —	$ —	$ 5,867	$ 6,114	$ 392,572	$ 398,686

	December 31, 2015						
(In thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due & Accruing	Nonaccrual	Total Past Due & Nonaccrual	Current Loans	Total Loans
Commercial and financial	$ —	—	$ —	$ —	$ —	$ 18,795	$ 18,795
Agricultural	—	—	—	—	—	18	18
Real estate – construction, commercial	—	—	—	887	887	19,749	20,636
Real estate – construction, residential	—	—	—	—	—	12,902	12,902
Real estate – mortgage, commercial	—	—	—	1,026	1,026	105,625	106,651
Real estate – mortgage, residential	114	—	—	565	679	121,199	121,878
Real estate – mortgage, farmland	—	—	—	—	—	3,845	3,845
Consumer installment loans	9	—	—	—	9	1,199	1,208
	$ 123	$ —	$ —	$ 2,478	$ 2,601	$ 283,332	$ 285,933

Other Risk Elements in the Loan Portfolio

The following is a summary of other risk elements in the loan portfolio:

	Loans with Interest Only Payments			
(In thousands)	September 30, 2016		December 31, 2015	
Commercial and financial	$ 5,772	10%	$ 3,047	7%
Agricultural	7	—%	18	—%
Real estate – construction, commercial	10,449	18%	7,018	17%
Real estate – construction, residential	11,938	20%	7,461	18%
Real estate – mortgage, commercial	5,330	9%	6,255	15%
Real estate – mortgage, residential	26,249	43%	18,131	43%
Consumer installment loans	89	—%	33	—%
	$ 59,834		$ 41,963	

As shown above, we have a moderate concentration of interest only loans in our portfolio, and such loans are generally regarded as carrying a higher risk profile than fully amortizing loans. It is important to note that none of the interest only loans in our portfolio allow negative amortization, nor do we have any loans with capitalized interest reserves.

Balances within the major loans receivable categories and geographic concentration of the loan portfolio are presented below:

	Geographic Concentration of Loan Portfolio			
	September 30, 2016			
(In thousands)	Florida	Georgia	South Carolina	Other
Commercial and financial	$ 23,427	$ 3,188	$ 2,704	$ 1,910
Agricultural	—	—	7	—
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	26,257	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

	Geographic Concentration of Loan Portfolio			
	December 31, 2015			
(In thousands)	Florida	Georgia	South Carolina	Other
Commercial and financial	$ 10,952	$ 3,203	$ 2,803	$ 1,836
Agricultural	—	—	18	—
Real estate – construction, commercial	9,075	2,058	7,042	2,461
Real estate – construction, residential	4,230	4,113	4,287	271
Real estate – mortgage, commercial	54,123	16,510	27,776	6,304
Real estate – mortgage, residential	46,898	39,695	25,458	11,766
Real estate – mortgage, farmland	3,594	252	—	—
Consumer installment loans	329	265	552	62
	$ 129,201	$ 66,096	$ 67,936	$ 22,700

We also monitor and evaluate several other loan portfolio characteristics at a total portfolio level rather than by major loan category. These characteristics include:

Junior Liens – Loans secured by liens in subordinate positions tend to have a higher risk profile than loans secured by liens in the first or senior position. At September 30, 2016 the Company held $19,039,000 of loans secured by junior liens, which represented approximately 4.8% of the total net loan portfolio. Net loan charge-offs totaled 60,000 in the nine months ended September 30, 2016 for all loans secured by junior liens for an annualized net charge-off rate of 0.42%. At December 31, 2015 the Company held $19,243,000 of loans secured by junior liens which represented approximately 6.7% of the total net loan portfolio.

High Loan to Value Ratios – Typically the Company will not originate a new loan with a loan to value (LTV) ratio in excess of 100%. However, declines in collateral values can result in the case of an existing loan renewal with an LTV ratio in excess of 100% based on the current appraised value of the collateral. In such cases the borrower may be asked to pledge additional collateral or to renew the loan for a lesser amount. If the borrower lacks the ability to pay down the loan or provide additional collateral, but has the ability to continue to service the debt, the loan will be renewed with an LTV ratio in excess of 100%. At September 30, 2016 the loan portfolio included 40 loans with an aggregate balance of $11,224,000, or 2.9% of the net loan portfolio, with LTV ratios in excess of 100%. At December 31, 2015 the loan portfolio included 50 loans with an aggregate balance of $12,972,000, or 4.6% of the net loan portfolio, with LTV ratios in excess of 100%.

Restructured Loans – Historically, the Company has followed a conservative approach by classifying any loan as restructured whenever the terms of a loan were adjusted to the benefit of any borrower in financial distress, regardless of the status of the loan at the time of restructuring. In some cases we have restructured loans for borrowers who were not delinquent, but for various reasons these borrowers were experiencing financial distress that raised a doubt about their continued ability to make payments under current terms. By adjusting the terms of the loan to better fit the borrower's current financial condition, expectations are that the loan will avoid a future default. In other cases we have restructured loans for borrowers who were in default at the time the loan terms were restructured. The expectation is that by adjusting the terms of such loans, the borrower may begin to make payments again based on the improved loan terms.

The types of changes that are made for troubled borrowers to restructure their obligations include the following:

- Deferral of one or more scheduled loan payments to a future date
- Temporary or permanent reduction of the loan interest rate
- Conversion from principal and interest payment term to an interest only payment term on a temporary basis, or until maturity
- Forgiveness of accrued but uncollected interest
- Extension of loan maturity date
- Reduction in principal due under the loan agreement

The potential financial effects of restructuring troubled debts includes a reduction in the level of interest income collected, a complete loss of interest income, or a loss of some portion of the original loan principal. All troubled debt restructurings are tested for impairment. If a loan is considered to be collateral dependent, the measurement of impairment is based on the fair value of the collateral, net of estimated liquidation costs. If the loan is not considered to be collateral dependent, the present value of expected cash flows is used to determine any amount of impairment. Any impairment is then charged to the allowance for loan and lease losses or designated as a specific reserve, and as such will be considered as a component of the reserve calculation.

The following table provides a summary of all loans that are currently designated as restructured for regulatory purposes.

	September 30, 2016			December 31, 2015		
Troubled debt restructurings	**Number of loans**	**Recorded Investment**	**Unpaid Principal Balance**	**Number of loans**	**Recorded Investment**	**Unpaid Principal Balance**
Real estate – mortgage, commercial	3	$ 521,527	$ 1,107,094	—	$ —	$ —
Real estate – mortgage	4	1,199,840	1,576,379	9	3,741,945	3,866,771
Commercial and financial	1	238,605	238,605			
Total troubled debt restructurings	8	$ 1,959,972	$ 2,922,078	9	$ 3,741,945	$ 3,866,771

The following table provides the payment status as of September 30, 2016 and September 30, 2015 of all loans that were restructured in the twelve month periods ending on those respective dates. None of the loans that were restructured in the preceding twelve months as of September 30, 2016 or September 30, 2015 were greater than 30 days past due or on non-accrual status.

	September 30, 2016		September 30, 2015	
	Number of loans	**Recorded Investment**	**Number of loans**	**Recorded Investment**
Restructured loans less than 30 days past due				
Commercial and financial	1	$ 238,605	—	$ —
Real estate – mortgage, commercial	—	—	2	871,958
Total restructured loans less than 30 days past due	1	$ 238,605	2	$ 871,958

Loans classified as Special Mention or Substandard – Management evaluates all loan relationships periodically in order to assess the financial strength of the borrower and the value of any underlying collateral. Loans that are found to have a potential or actual weakness are classified as special mention or substandard and subject to increased monitoring by management. This typically includes frequent contact with the borrower to actively manage the borrowing relationship as needed to rehabilitate or mitigate the weakness identified. A summary of loan credit quality is presented below:

(In thousands)	September 30, 2016			
	Pass	**Special Mention**	**Substandard**	**Total**
Commercial and financial	$ 30,654	$ 386	$ 189	$ 31,229
Agricultural	7	—	—	7
Real estate – construction, commercial	26,064	—	—	26,064
Real estate – construction, residential	17,913	—	—	17,913
Real estate – mortgage, commercial	150,822	3,742	2,604	157,168
Real estate – mortgage, residential	145,971	203	4,129	150,303
Real estate – mortgage, farmland	10,717	—	—	10,717
Consumer installment loans	5,245	40	—	5,285
	$ 387,393	$ 4,371	$ 6,922	$ 398,686

(In thousands)	December 31, 2015			
	Pass	**Special Mention**	**Substandard**	**Total**
Commercial and financial	$ 18,022	$ 767	$ 6	$ 18,795
Agricultural	18	—	—	18
Real estate – construction, commercial	19,749	—	887	20,636
Real estate – construction, residential	12,902	—	—	12,902
Real estate – mortgage, commercial	101,274	1,936	3,441	106,651
Real estate – mortgage, residential	120,081	360	1,437	121,878
Real estate – mortgage, farmland	3,845	—	—	3,845
Consumer installment loans	1,207	—	1	1,208
	$ 277,098	$ 3,063	$ 5,772	$ 285,933

Management has established an allowance for loan losses through a provision for loan losses charged to expense on the statement of earnings. Additions to the allowance for loan losses are made periodically to maintain the allowance at an appropriate level based on management's analysis of the potential risk in the loan portfolio. The allowance for loan losses represents an amount, which is believed to be adequate to absorb probable losses on existing loans that may become uncollectible. Management's judgment as to the adequacy of the allowance for loan losses is based upon a number of assumptions about future events, which are believed to be reasonable, but which may or may not prove to be accurate. To the extent that the recovery of loan balances has become collateral dependent, the Bank obtains appraisals not less than annually, and then reduces these appraised values by the amount estimated for selling and holding costs to determine the liquidated value. Any shortfall between the liquidated value and

the loan balance is charged against the allowance for loan losses in the month the related appraisal was received. Losses will undoubtedly vary from management estimates, and there is a possibility that charge-offs can reduce this allowance. Management's determination of the allowance for loan losses is based on evaluations of the collectability of loans, including consideration of factors such as the balance of impaired loans, the quality, mix, and size of the overall loan portfolio, economic conditions that may affect the borrower's ability to repay, commercial and residential real estate market trends, the amount and quality of collateral securing the loans, the Bank's historical loan loss experience, and a review of specific problem loans. Management also considers subjective issues such as changes in the lending policies and procedures, changes in the local/national economy, changes in volume or type of credits, changes in volume/severity of problem loans, quality of loan review and board of director oversight, concentrations of credit, and peer group comparisons.

An analysis of the activity in the allowance for loan losses is presented below:

	For the nine Months Ended September 30,	
	2016	**2015**
Balance, beginning of year	$ 5,254,407	$ 4,828,899
Provision for loan losses	448,705	350,354
Loans charged off	(1,000,303)	(165,440)
Recoveries of loans previously charged off	216,916	212,546
Balance, end of period	$ 4,919,725	$ 5,226,359

Note 12 — SBA Loan Servicing Rights

Loan Servicing Rights (LSR) are initially recorded when the participation is sold at a value established by an independent LSR valuation company. This initial valuation also provides an expected life for each new LSR added during the quarter. The balance of the LSR is amortized on a straight line basis in proportion to, and over the period of, estimated servicing income as a reduction to SBA loan income. The balance of the LSR asset is evaluated for impairment at the end of each quarter by obtaining a current fair value from an independent third party. For the period ended September 30, 2016, the carrying value of the SBA LSRs was $1,521,000 and the fair value of the SBA LSRs was $2,052,000. As of December 31, 2015, the carrying value of the SBA LSRs was $1,545,000 and the fair value of the SBA LSRs was $1,938,000. As a result of the quarterly independent valuation process, no valuation allowance was required at either period end. The related balance of SBA loans participated and serviced for others was $92,578,000 at September 30, 2016 and $85,830,000 at December 31, 2015.

The fair value of loan servicing rights typically rises as market interest rates increase and declines as market interest rates decrease; however, the extent to which this occurs depends in part on (1) the magnitude of changes in market interest rates, and (2) the differential between the then current market interest rates for mortgage loans and the mortgage interest rates included in the loan-servicing portfolio. Since sales of mortgage servicing rights tend to occur in private transactions and the precise terms and conditions of the sales are typically not readily available, there is a limited market to refer to in determining the fair value of loan servicing rights. As such, like other participants in the SBA loan servicing business, we determine value of loan servicing rights by estimating the present value of the future income stream attained from all of the servicing related cash flows. The value is the sum on the present value of these future income streams, which is impacted by assumptions on prepayment speeds, age and type of the underlying mortgage, and the rate at which these cash flows are discounted. The present value of the portfolio's expected stream of future cash flows is determined though a loan level analysis utilizing assumptions that would be used by other market participants. The valuation incorporates a five step process. Three income elements that include servicing value, remittance value, and additional income are determined as a present value of the respective estimated cash flows from each loan. Finally, the servicing cost, also expressed as a dollar amount per loan, is valued. The net servicing value for each loan is then determined by subtracting the servicing cost from the three income values.

Note 13 — Other Real Estate Owned

A summary of other real estate owned is presented as follows:

	Nine Months Ended September 30,	
	2016	**2015**
Balance, beginning of year	$ 6,115,715	$ 7,322,404
Additions	1,021,984	871,142
Disposals	(1,393,237)	(1,408,790)
Valuation write downs and net gains on sales	(218,887)	(452,446)
Balance, end of period	$ 5,525,575	$ 6,332,310

Expenses related to other real estate owned include the following:

	Nine Months Ended September 30,	
	2016	2015
Net loss/(gain) on sales of real estate	$ (12,210)	$ (20,420)
Valuation write downs	231,097	472,866
Operating expenses	3,356	59,733
	$ 222,243	$ 512,179

Other real estate owned represents collateral property taken back from borrowers in partial or full satisfaction of their defaulted debt obligation to the Company. We track our historical experience of loans that ultimately convert to other real estate owned by collateral type and by geographic exposure as shown on the following tables:

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

	Number of Parcels at September 30, 2016		
	Florida	South Carolina	Total
Residential	—	—	—
Commercial	3	5	8
Finished lots	—	5	5
Raw land	5	—	5
	8	10	18

	Book Value of Other Real Estate at December 31, 2015		
(In thousands)	Florida	South Carolina	Total
Residential	$ 158	$ —	$ 158
Commercial	2,277	961	3,238
Finished lots	227	571	798
Raw land	1,726	196	1,922
	$ 4,388	$ 1,728	$ 6,116

	Number of Parcels at December 31, 2015		
	Florida	South Carolina	Total
Residential	1	—	1
Commercial	3	7	10
Finished lots	4	37	41
Raw land	5	1	6
	13	45	58

During the nine months ended September 30, 2016 we sold a total of 46 other real estate owned properties with a total book value of $1,344,000. The net proceeds from these sales were $1,357,000, which resulted in a net recovery of approximately 52.8% of the original loan amounts and 100.9% of the book value of the other real estate sold. During the nine months ended September 30, 2015 we sold a total of 11 other real estate owned properties with a total book value of $1,388,000. The net proceeds from these sales were $1,409,000, which resulted in a net recovery of approximately 79.7% of the original loan amounts and 101.5% of the book value of the other real estate sold.

The Bank's special asset group is charged with the administration and liquidation of other real estate owned. Our approach has been to manage each property individually in such a way as to maximize our net proceeds upon sale. Management continues to evaluate other methods to liquidate these properties more quickly, but such methods typically result in a much lower recovery relative to the original loan amount. Management attempts to balance the desire to aggressively drive down the level of nonperforming assets with the objective to maximize recovery levels from liquidation of these assets.

Note 14 — Deposits

Total deposits increased by $136,170,000 or 48%, to a total of $420,009,000 at September 30, 2016 from $283,839,000 at December 31, 2015. This increase was driven primarily from the $98,215,000 in total deposits from the First Avenue National Bank acquisition noted above in Note 2. An additional $11,790,000 in brokered deposits with terms of four to thirteen weeks were used to fund the growth in the balance of mortgage loans available for sale and the related loan sales receivable. Noninterest-bearing demand deposits increased $32,743,000 or 78%, while interest-bearing demand deposits increased $54,524,000 or 46%. The Company has continued its use of brokered deposits, which typically carry interest rates that are comparable with rates offered for core retail deposits. Brokered deposits are issued in individual's names and in the names of trustees with balances participated out to others. Core retail deposits are deposits which are gathered in the normal course of business, without the use of a broker. Core reciprocal deposits are gathered in the same manner as core retail deposits, but the funds are participated out to other banks through use of the CDARS reciprocal transactions program. The CDARS program allows depositors to obtain FDIC insurance for deposits up to $50 million by exchanging the portions of their deposits in excess of FDIC insurance limitations with other financial institutions participating in the CDARS program. In return, we receive an equal amount of deposits back from other CDARS participating financial institutions, such that there is no net change in the level of total deposits on our balance sheet.

Balances within the major deposit categories are as follows:

	September 30, 2016			
(In thousands)	**Core Retail Deposits**	**Core CDAR's Deposits**	**Brokered Deposits**	**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	37,701	8,500	103,878
Other time deposits	904	993	50,720	52,617
	$ 322,095	$ 38,694	$ 59,220	$ 420,009

	December 31, 2015			
(In thousands)	**Core Retail Deposits**	**Core CDAR's Deposits**	**Brokered Deposits**	**Total Deposits**
Noninterest-bearing demand deposits	$ 42,157	$ —	$ —	$ 42,157
Interest-bearing demand deposits	118,889	—	—	118,889
Savings deposits	5,180	—	—	5,180
Certificates of deposit $100,000 and over	38,355	28,759	2,848	69,962
Other time deposits	2,040	1,029	44,582	47,651
	$ 206,621	$ 29,788	$ 47,430	$ 283,839

Note 15 - Other Borrowings

Other Borrowings of $109,775,000 at September 30, 2016 are composed of advances from the Federal Home Loan Bank of Atlanta (FHLB) and represent a $10,725,000 decrease from $120,500,000 at December 31, 2015.

FHLB advances outstanding and related terms at September 30, 2016 and December 31, 2015 are shown in the following tables:

		FHLB Advances Outstanding September 30, 2016		
Type advance	**Balance**	**Interest rate**	**Maturity date**	**Convertible date**
Fixed rate	10,000,000	0.42%	October 7, 2016	
Fixed rate	20,000,000	0.40%	October 14, 2016	
Fixed rate	20,000,000	0.35%	October 28, 2016	
Fixed rate	2,500,000	0.94%	July 28, 2017	
Fixed rate	2,000,000	2.84%	August 9, 2017	
Convertible fixed rate advance	2,000,000	3.69%	September 7, 2017	March 7, 2016
Fixed rate	2,500,000	1.32%	July 30, 2018	
Fixed rate	3,000,000	2.94%	August 9, 2018	
Fixed rate	2,500,000	1.70%	July 24, 2019	
Fixed rate	2,500,000	1.98%	July 24, 2020	
Variable rate overnight advance	42,775,000	0.56%		
Total	$ 109,775,000	0.73%		

Type advance	Balance	FHLB Advances Outstanding December 31, 2015 Interest rate	Maturity date	Convertible date
Fixed rate	$ 10,000,000	0.39%	January 15, 2016	
Fixed rate	15,000,000	0.40%	January 21, 2016	
Fixed rate	10,000,000	0.38%	January 29, 2016	
Fixed rate	5,000,000	1.95%	August 9, 2016	
Fixed rate	2,500,000	0.94%	July 28, 2017	
Fixed rate	2,000,000	2.84%	August 9, 2017	
Convertible fixed rate advance	2,000,000	3.69%	September 7, 2017	March 7, 2016
Fixed rate	2,500,000	1.32%	July 30, 2018	
Fixed rate	3,000,000	2.94%	August 9, 2018	
Fixed rate	2,500,000	1.70%	July 24, 2019	
Fixed rate	2,500,000	1.98%	July 24, 2020	
Variable rate overnight advance	63,500,000	0.49%		
Total	$ 120,500,000	0.76%		

Note 16 - Senior Note Payable

On November 15, 2015 the Company redeemed $9.95 million of its outstanding Cumulative Perpetual Preferred Stock, Series A(the “Preferred Stock”) with the proceeds from a $10.0 million term loan. The term loan is due November 10, 2020 and has a floating rate equal to LIBOR plus 400 basis points. The current rate is 5.0%. The loan also requires fixed monthly principal payments equal to $83,333. The stated dividend rate on the Preferred Stock was 9.0%. Accordingly, the Company believes the redemption of the Preferred Stock will result in an increase in its net income available to common shareholders.

	September 30, 2016	December 31, 2015
Note payable to NexBank SSB with variable interest rate at 3-month LIBOR plus 4% subject to a 5% floor, with principal plus interest due monthly through maturity at November 2020.	$ 9,166,667	$ 9,916,667
	$ 9,166,667	$ 9,916,667

As of September 30, 2016 and December 31, 2015, the Company was in compliance with the covenants in this agreement.

The senior note payable is secured by 100% of the common stock of the Company’s wholly-owned subsidiary, CBC National Bank.

Note 17 - Junior Subordinated Debentures

In May 2004, Coastal Banking Company Statutory Trust I issued $3.0 million of trust preferred securities with a maturity of July 23, 2034. The proceeds from the issuance of the trust preferred securities were used by the Trust to purchase $3,093,000 of the Company’s junior subordinated debentures, which pay interest quarterly at a floating rate equal to 3 month LIBOR plus 275 basis points. The Company used the proceeds from the sale of the junior subordinated debentures to strengthen the capital position of the Bank and to accommodate current and future growth. The current regulatory rules allow certain amounts of junior subordinated debentures to be included in the calculation of regulatory capital, and have been included in the Tier I calculation accordingly. The debentures and related accrued interest represent the sole asset of the Trust.

The Company has entered into contractual arrangements which, taken collectively, fully and unconditionally guarantee payment of: (i) accrued and unpaid distributions required to be paid on the trust preferred securities; (ii) the redemption price with respect to any trust preferred securities called for redemption by Trust I, and (iii) payments due upon a voluntary or involuntary dissolution, winding up, or liquidation of the Trust I. The trust preferred securities must be redeemed upon maturity of the debentures on July 23, 2034, or upon earlier redemption as provided in the indenture. The Company has the right to redeem the debentures purchased by the Trust I in whole or in part, on or after July 23, 2009. As specified in the indentures, if the debentures are redeemed prior to maturity, the redemption price will be the unpaid principal amount, plus any accrued unpaid interest.

In June 2006, Coastal Banking Company Statutory Trust II issued $4.0 million of trust preferred securities with a maturity of September 30, 2036. The proceeds from the issuance of the trust preferred securities were used by the Trust to purchase $4,124,000 of the Company’s junior subordinated debentures, which pay interest quarterly at a floating rate equal to 3 month LIBOR plus 160 basis points. The Company used the proceeds from the sale of the junior subordinated debentures to strengthen the capital position of the Bank and to accommodate current and future growth. The current regulatory rules allow certain amounts of junior subordinated debentures to be included in the calculation of regulatory capital, and have been included in the Tier I calculation accordingly. The debentures and related accrued interest represent the sole asset of the Trust.

The Company has entered into contractual arrangements which, taken collectively, fully and unconditionally guarantee payment of: (i) accrued and unpaid distributions required to be paid on the trust preferred securities; (ii) the redemption price with respect to any trust preferred securities called for redemption by Trust II, and (iii) payments due upon a voluntary or involuntary dissolution, winding up, or liquidation of the Trust II. The trust preferred securities must be redeemed upon maturity of the debentures on September 30, 2036, or upon earlier redemption as provided in the indenture. The Company has the right to redeem the debentures purchased by the Trust II in whole or in part, on or after September 30, 2011. As specified in the indentures, if the debentures are redeemed prior to maturity, the redemption price will be the unpaid principal amount, plus any accrued unpaid interest.

As of September 30, 2016, the Company has paid all interest payments due on all trust preferred securities.

Note 18 – Employee Stock Purchase Plan

On February 27, 2013 the Board of Directors approved the adoption of the Coastal Banking Company Employee Stock Purchase Plan (the "Plan") effective April 1, 2013, and set aside 250,000 shares of common stock for issuance under the Plan. The Plan allows eligible full time employees to direct an after-tax deduction from their pay to be accumulated and disbursed once per quarter to purchase newly issued common stock in the Company at a 5% discount to fair market value on the final day of each calendar quarter. Total shares purchased through the plan were 8,709 shares for the three month period ending September 30, 2016, 25,686 shares for the nine month period ended September 30, 2016 and 30,053 shares for the year ending December 31, 2015. The 5% discount to fair market value is considered compensation cost to the Company and it totaled $5,574 for the three month period ended September 30, 2016, $15,922 for the nine month period ended September 30, 2016 and $15,233 for the year ended December 31, 2015.

Note 19 – Reclassifications

Certain amounts reported as of December 31, 2015, or the periods ended September 30, 2015, have been reclassified to conform with the presentation of September 30, 2016. These reclassifications had no effect on previously reported net income or shareholders' equity.