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Coastal Banking Company Reports Strong Fourth Quarter and Record 2017 Earnings

BEAUFORT, SC / ACCESSWIRE / January 30, 2018 / Coastal Banking Company Inc. (OTCQX: CBCO) (the "Company"), the holding company of CBC National Bank, which operates branches in Beaufort and Port Royal, S.C., and in Fernandina Beach, Ocala, and The Villages, Fla., today reported record net income of $6.99 million, or $1.83 diluted earnings per common share, for the year ended Dec. 31, 2017. Earnings for 2017 represented a slight increase over the net income for the year ended Dec. 31, 2016, of $6.96 million, or $2.05 diluted earnings per common share.

The Company reported net income of $1.72 million, or $0.45 diluted earnings per common share, for the three months ended Dec. 31, 2017. This compares to $2.21 million, or $0.59 in diluted earnings per common share, for the fourth quarter of 2016, a decrease of $490,000. The fourth quarter of 2016 represented the highest earnings quarter in the Company's history. On a linked-quarter basis, the $1.72 million of net income in the fourth quarter of 2017 was comparable to the third quarter 2017 net income of $1.71 million, or $0.45 diluted earnings per common share.

On Nov. 7, 2017, First Federal Bancorp Inc., the holding company of First Federal Bank of Florida, based in Lake City, Fla., announced a definitive merger agreement to acquire Coastal Banking Company Inc. and CBC National Bank. Upon completion of the merger, First Federal will pay $21.50 per share in cash for each Coastal Banking Company common share and stock option outstanding in a transaction valued at $83.2 million. The proxy describing the transaction was mailed Jan. 6, 2018, and the shareholder vote is scheduled to occur on Feb. 20, 2018. Pending shareholder and regulatory approval, the merger is expected to be completed early in the second quarter of 2018.

Key performance highlights for the fourth quarter and for the year 2017 include:

- Continued shareholder value creation. Driven by strong earnings each quarter since early 2015, book value per share has risen to $16.04 at Dec. 31, 2017, up from $14.18 at Dec. 31, 2016. The CBCO closing market price on Dec. 31, 2017, was $21.10, up from $15.01 at Dec. 31, 2016. CBCO achieved a high closing price of $19.75 during the fourth quarter of 2017 prior to the merger announcement.
- Continued strong profitability. Annual 2017 results continued to feature more balanced net income and solid contributions from all three of the Company's operating segments as compared to 2016: Community Banking earned $3.59 million in 2017, up from $2.20 million in 2016. SBA Lending earned $2.02 million in 2017, up from $891,000 earned in 2016. And Mortgage Banking earned $3.87 million in 2017, down from the robust earnings of $5.59 million in 2016.
- Continued strong mortgage banking income. For the fourth quarter of 2017, $527.3 million in residential mortgage loans were sold, generating $4.32 million in total mortgage banking income, compared to the fourth quarter of 2016, which had $505.2 million in sold loans and $5.87 million in mortgage banking income. For the year, $1.73 billion in mortgage loans were sold, a decline of 16.4 percent from the $2.07 billion in 2016. However, mortgage banking income is down $2.2 million, or only 11.9 percent for 2017, compared to 2016, due to better overall yields in 2017.
- Strong SBA originations and loan sales. SBA loan sale income in the fourth quarter of 2017 was $788,000, compared to $178,000 for the same period in 2016. For the fourth quarter of 2017, SBA Lending originated $11.5 million in loans and sold $6.2 million into the secondary market, compared to fourth quarter 2016 originations of $5.0 million and sales of $1.4 million into the secondary market. The

balance of SBA portfolio loans at Dec. 31, 2017, was $82.9 million, slightly down from the $95.9 million balance at Dec. 31, 2016.

- Solid year-over-year growth in the balance sheet. The balance sheet grew $45.0 million, or 8.0 percent, from Dec. 31, 2016, to Dec. 31, 2017, with total assets of $606.4 million at the end of 2017. The asset growth was driven by $29.5 million of increased loans held for sale and $6.8 million in increased investment securities. The Company's balance sheet is well-positioned for stable or increasing interest rates.
- Strong year-over-year core deposit growth. Deposits have grown from $417.3 million at Dec. 31, 2016, to $428.3 million at Dec. 31, 2017, an increase of $11.0 million. However, core deposits have grown $22.6 million year-over-year.
- Steady to improving credit quality. The ratio of non-performing assets to assets decreased from 1.33 percent at Sept. 30, 2017, to 1.23 percent at Dec. 31, 2017. The ratio was 1.98 percent at Dec. 31, 2016. The allowance for loan losses was 1.34 percent of loans outstanding at Dec. 31, 2017, up slightly from 1.32 percent at Sept. 30, 2017, but down from 1.47 percent at Dec. 31, 2016. Other real estate owned (OREO) declined to $3.9 million at Dec. 31, 2017, from $4.8 million at Sept. 30, 2017, and $5.1 million at Dec. 31, 2016. Net charge-offs were $41,000 for the fourth quarter of 2017, compared to net recoveries of $70,000 for the fourth quarter of 2016. Net charge-offs for 2017 were $1,117,000, compared to $714,000 for 2016.
- Strong capital ratios. Capital ratios for CBC National Bank remained strong, with a total risk-based capital ratio of 25.21 percent and a Tier 1 risk-based capital ratio of 23.95 percent at Dec. 31, 2017, up from 22.13 percent and 20.87 percent, respectively, at Dec. 31, 2016.
- Continued stability in efficiency ratio. The Company's efficiency ratio for the fourth quarter of 2017 was 71.39 percent, compared to 67.01 percent for fourth quarter 2016. Overall, the Company's efficiency ratio for the year ended Dec. 31, 2017, was 71.67 percent, up slightly from 70.52 percent for 2016.

"For the quarter and the year, we saw continued improvement in our credit quality, as our non-performing assets ratio ended the year at 1.23 percent, down from 1.98 percent at year-end 2016, a decline of 38 percent," said Michael G. Sanchez, chairman and chief executive officer. "In addition, non-accrual loans decreased from $6.1 million at year-end 2016 to $3.5 million at Dec. 31, 2017, a 42 percent decline, and foreclosed properties were down $1.1 million, or 22 percent, for the same period. Our loan-loss reserve of 1.34 percent at Dec. 30, 2017, down from 1.47 percent at year-end 2016, is consistent with the decrease in non-performing assets. By all significant asset quality measures, it's clear that we are now fully recovered from the recession years. We are likewise pleased to end the year with a strong balance sheet and capital ratios: at Dec. 31, 2017, the bank's total risk-based capital ratio was 25.21 percent, and the bank's Tier 1 risk-based capital ratio was 23.95 percent, both up more than 10 percent year-over-year. And our 2017 return on average assets of 1.22 percent and return on average equity of 12.57 percent both are indicative of high performance and compare favorably to our peer institutions We are well-positioned to weather any market turmoil."

For the three months ended Dec. 31, 2017, net interest income before the provision for loan losses was $5.51 million, an increase of 7.3 percent from the $5.13 million for the quarter ended Dec. 31, 2016. Net interest income increased from $19.49 million for 2016 to $21.30 million for 2017. This increase was due to the acquisition of FANB in April 2016, increased yields and growth in earning assets. The Company's net interest margin increased from 3.80 percent for the three months ended Dec. 31, 2016, to 3.87 percent for the same period in 2017. The net interest margin increased from 3.85 percent for 2016 to 3.96 percent for 2017.

The provision for loan losses declined from $1.00 million in the fourth quarter of 2016 to $101,000 in the fourth quarter of 2017. For the year, the provision declined from $1.45 million in 2016 to $618,000 in 2017. The decline for both the quarter and for the year is due to the overall improvement in loan quality as discussed above.

Noninterest income was $5.57 million for the fourth quarter of 2017, down from $7.33 million for the fourth quarter of 2016. Income on SBA loan sales increased significantly for the fourth quarter of 2017 compared to the fourth quarter of 2016, while income from mortgage loan sales declined. Other income also declined significantly due to the recording of additional bargain purchase gain income from the FANB acquisition in the fourth quarter of 2016. For all of 2017, noninterest income was $21.34 million, compared to $22.69 million in 2016. Increases in

SBA loan sales income and gain on sale of securities were offset by a decline in mortgage loan sales income and the bargain purchase gain mentioned above.

For the fourth quarter of 2017, noninterest expense was $7.91 million, a decrease of 5.3 percent from the $8.36 million for the fourth quarter of 2016. This decrease is primarily due to a decrease in salaries and employee benefits, other real estate expense and various operating expenses. However, other operating expense was up due to increased pre-acquisition merger expenses. For the year, noninterest expense was $30.57 million, an increase of 2.8 percent over the $29.74 million in noninterest expense for 2016. The increase is due primarily to the full-year 2017 effect of the additional salaries, benefits and occupancy expenses from the FANB branches added in the second quarter of 2016, partially offset by the declines in other real estate expense and the various operating expenses noted above.

Income tax expense for the fourth quarter of 2017 was at a 44.0 percent effective tax rate, up from the 29.1 percent effective rate for the fourth quarter of 2016. The primary reasons for the increased income tax expense were that the Company was subject to a higher corporate tax bracket in 2017 and the Company adjusted its deferred tax asset at Dec. 31, 2017, to the new corporate tax rate to be in effect in 2018. Both of these adjustments were made in the fourth quarter of 2017. For the year, the Company's income tax expense was 39.0 percent, compared to 36.7 percent in 2016.

Beginning in the fourth quarter of 2016, the Company changed its financial statement presentation to reclassify the direct lending costs incurred by its Mortgage segment's National Retail Group against that group's origination income. This change only affects noninterest income and noninterest expense as reflected above and provides for a better reflection of the Company's efficiency ratio. The Company's financials for 2016 were restated for the change for comparability purposes. This change had no effect on the Company's reported net income for 2017 or 2016.

"As we continue toward the shareholder vote Feb. 20 to be acquired by First Federal Bancorp Inc.," said Sanchez, "we reflect on the organizational journey over the past decade-plus that made our company what it is today: the holding company of a high-performing bank with a solid balance sheet and all three of our Company's divisions continuing to drive strong, steady earnings and shareholder value growth. This quarter is the 12th consecutive in which we've booked quarterly net income in excess of $1 million, averaging $1.65 million per quarter during that time. From the merger of two startup banks, First National Bank of Nassau County and Lowcountry National Bank, we later consolidated all of our banking subsidiaries into a single entity, CBC National Bank, in 2008. Just a year before, we created from scratch our Mortgage Banking Division, which would be the strongest driver of our earnings growth going forward; the mortgage division has surpassed $16 billion in loan production in its decade of existence. We later expanded our SBA Lending Division, which grew to be consistently either the No. 1 or No. 2 SBA lender in dollar volume in Florida among community banks headquartered in the state. And our acquisition of First Avenue National Bank, completed in 2016, greatly boosted our Community Banking Division's asset growth and income generation. In short, we weathered the Great Recession and for the past several years have strategically grown the company into a sustainably profitable one that I and all of our management, employees, and directors can be proud of."

About Coastal Banking Company Inc.

Coastal Banking Company Inc. is the $606.4 million-asset bank holding company of CBC National Bank, headquartered in Fernandina Beach, Fla., which provides a full range of consumer and business banking services through full-service banking offices in Fernandina Beach, Ocala, and The Villages, Fla., and Beaufort and Port Royal, S.C. The company's residential mortgage banking division, headquartered in Atlanta, includes both traditional retail and wholesale lending groups, which together have lending offices in Florida, Georgia, Maryland, South Carolina, North Carolina, Illinois, Ohio, and Tennessee. The company's SBA lending division operates under SBA's delegated authority, originating SBA, USDA and FSA loans throughout the southeastern United States. Headquartered in Fernandina Beach, its offices are located in Jacksonville, Ft. Myers, Tampa and Vero Beach, Fla., Greensboro, N.C., Atlanta and Tifton, Ga., and Beaufort.

The company's common stock is publicly traded on the OTCQX Best Market under the symbol CBCO. The company was named to the OTCQX® Best 50 in 2015, 2016, and 2018, an annual ranking of the top 50 U.S. and international companies traded on the OTCQX Best Market, based on equal weighting of one-year return and average daily dollar volume growth.

A current CBCO stock price quote and recent stock trading activity is available at http://www.otcmarkets.com/stock/CBCO/quote.

For complete 2016 audited annual financial results [click here].

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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Coastal Banking Company
Consolidated Balance Sheet
December 31, 2017

	12/31/2017 YTD Consolidated	12/31/2016 YTD Consolidated
Assets		
Cash and due from banks	$ 9,898,982	$ 7,956,004
Federal funds sold	244,738	387,123
Investment securities	31,516,590	24,760,056
Loans held for sale	121,485,045	92,009,241
Loans, gross	410,735,093	408,743,325
Less allowance for loan losses	(5,491,364)	(5,990,733)
Loans, net	405,243,729	402,752,592
Premises and equipment, net	13,279,707	13,604,166
Other real estate owned	3,941,618	5,061,661
Cash Surrender Value of Life Insurance	2,443,405	2,362,805
SBA Servicing Rights	1,643,685	1,403,431
Other assets	16,667,587	11,091,647
Total assets	$ 606,365,086	$ 561,388,726
Liabilities		
DDA - non interest bearing	$ 71,700,041	$ 77,603,027
DDA - interest bearing	187,346,292	174,112,178
Savings	16,756,505	15,618,336
Time	152,471,054	149,983,376
Total deposits	428,273,892	417,316,917
FHLB Advances & other borrowings	91,650,000	63,060,005
Senior Note Payable	7,916,667	8,916,667
Junior subordinated debentures	7,217,000	7,217,000
Other liabilities	11,918,374	13,162,845
Total liabilities	546,975,933	509,673,434
Stockholders' equity		
Common stock	36,874	36,475
Additional paid-in-capital	54,343,022	53,354,382
Retained earnings	5,121,313	(1,870,203)
Net unrealized gain (loss) - securities AFS	(112,056)	194,638
Total stockholders' equity	59,389,153	51,715,292
Total liabilities and stockholders' equity	$ 606,365,086	$ 561,388,726

Coastal Banking Company
Consolidated Income Statement
December 31, 2017

	12/31/2017 QTD Consolidated	12/31/2016 QTD Consolidated	12/31/2017 YTD Consolidated	12/31/2016 YTD Consolidated
Interest Income:				
Loans	$ 6,353,607	$ 6,110,033	$ 24,572,094	$ 22,709,121
Investment Securities	421,556	208,477	1,072,752	805,347
Deposits with Banks	1,074	784	3,567	14,771
Federal funds sold	19,600	7,246	98,235	12,764
Total interest income	6,795,837	6,326,540	25,746,648	23,542,003
Interest Expense:				
Deposits	755,759	698,594	2,847,938	2,422,894
FHLB Advances & other borrowings	406,030	441,250	1,294,791	1,424,088
Junior subordinated debentures	126,754	52,778	299,826	201,441
Total interest expense	1,288,543	1,192,622	4,442,555	4,048,423
Net interest income before provision for loan losses	5,507,294	5,133,918	21,304,093	19,493,580
Provision for loan losses	100,617	1,001,356	618,072	1,450,061
Net interest income after provision for loan losses	5,406,677	4,132,562	20,686,021	18,043,519
Operating income:				
Service charges on deposits	194,206	236,737	758,029	860,338
Mortgage banking income	4,323,779	5,872,236	16,059,334	18,225,244
SBA loan income	787,625	177,990	3,730,599	1,962,023
Gain on sale of securities	(1,015)	-	96,452	18,373
Increase in cash surrender value of life insurance	20,483	19,989	80,840	83,584
Other income	247,737	1,028,009	615,691	1,536,287
Total operating income	5,572,815	7,334,961	21,340,945	22,685,849
Operating expenses:				
Salaries and employee benefits	4,592,972	4,860,788	18,724,920	17,373,369
Net occupancy and equipment expense	870,346	884,657	3,463,402	3,147,188
Mortgage loan expense	196,573	232,631	663,146	703,285
Other real estate expense	40,021	385,295	285,238	597,040
Data processing/ATM expense	504,056	571,494	1,898,807	1,969,355
Audit Fees	120,839	189,580	599,896	769,158
Legal & professional fees	241,769	338,729	1,031,184	1,023,046
Director fees	85,750	97,400	396,400	403,550
Advertising	164,677	184,824	579,766	653,609

FDIC Insurance expense	22,984	(3,494)	169,587	239,506
OCC Examination fees	44,610	38,772	160,926	162,385
Other operating expense	1,025,552	575,283	2,591,828	2,701,515
	7,910,149	8,355,959	30,565,100	29,743,005
Income before provision for income taxes	3,069,343	3,111,564	11,461,866	10,986,363
Provision for income taxes	1,351,240	906,200	4,470,351	4,030,577
Net income	$ 1,718,103	$ 2,205,364	$ 6,991,515	$ 6,955,786

Coastal Banking Company
Consolidated Financial Highlights
December 31, 2017

	12/31/2017 QTD Consolidated	**12/31/2016 QTD Consolidated**	**12/31/2017 YTD Consolidated**	**12/31/2016 YTD Consolidated**
$ Earnings				
Net interest income	$ 5,507,294	$ 5,133,918	$ 21,304,093	$ 19,493,580
Provision for loan loss	100,617	1,001,356	618,072	1,450,061
Other income	5,572,815	7,334,961	21,340,945	22,685,849
Other expense	7,910,149	8,355,959	30,565,100	29,743,005
Pre-tax income	3,069,343	3,111,564	11,461,866	10,986,363
Taxes	1,351,240	906,200	4,470,351	4,030,577
Net income	$ 1,718,103	$ 2,205,364	$ 6,991,515	$ 6,955,786
Earnings per share (basic)	$ 0.47	$ 0.61	$ 1.90	$ 2.10
Earnings per share (diluted)	$ 0.45	$ 0.59	$ 1.83	$ 2.05
Performance Ratios				
ROAA	1.13 %	1.52 %	1.22 %	1.29 %
ROAE	11.64 %	17.33 %	12.57 %	16.07 %
Net Interest Margin	3.87 %	3.80 %	3.96 %	3.85 %
Efficiency Ratio	71.39 %	67.01 %	71.67 %	70.52 %
Capital				
Tier 1 leverage capital ratio (Bank)	12.02 %	11.34 %	12.02 %	11.34 %
Common equity risk-based capital ratio (Bank)	23.95 %	20.87 %	23.95 %	20.87 %
Tier 1 risk-based capital ratio (Bank)	23.95 %	20.87 %	23.95 %	20.87 %

Total risk-based capital ratio (Bank)	25.21 %	22.13 %	25.21 %	22.13 %
Book value per share	$ 16.04	$ 14.18	$ 16.04	$ 14.18
Tangible book value per share	$ 15.46	$ 13.57	$ 15.46	$ 13.57
Asset Quality				
Nonaccrual Loans	$ 3,504,209	$ 6,070,027	$ 3,504,209	$ 6,070,027
Other real estate owned	$ 3,941,618	$ 5,061,661	$ 3,941,618	$ 5,061,661
Net Charge-offs (recoveries)	$ 41,052	$ (69,435)	$ 1,117,441	$ 713,736
Net Charge-offs to average loans	0.01 %	-0.02 %	0.27 %	0.20 %
Allowance to total loans, net of LHFS	1.34 %	1.23 %	1.34 %	1.47 %
Nonperforming assets to total assets	1.23 %	1.98 %	1.23 %	1.98 %
End of Period Balances				
Assets	$ 606,365,086	$ 561,388,726	$ 606,365,086	$ 561,388,726
Portfolio Loans	$ 410,735,093	$ 408,743,325	$ 410,735,093	$ 408,743,325
Loans Held for Sale	$ 121,485,045	$ 92,009,241	$ 121,485,045	$ 92,009,241
Deposits	$ 428,273,892	$ 417,316,917	$ 428,273,892	$ 417,316,917
Borrowings	$ 91,650,000	$ 63,060,005	$ 91,650,000	$ 63,060,005
Shareholders' Equity	$ 59,389,153	$ 51,715,292	$ 59,389,153	$ 51,715,292
Average Balances				
Assets	$ 601,047,594	$ 575,143,290	$ 572,349,652	$ 540,525,290
Portfolio Loans	$ 414,042,365	$ 399,748,183	$ 411,152,385	$ 364,242,751
Loans Held for Sale	$ 98,511,393	$ 107,037,715	$ 82,970,766	$ 111,509,816
Deposits	$ 429,356,958	$ 420,196,540	$ 427,036,663	$ 385,102,055
Borrowings	$ 84,025,272	$ 73,222,407	$ 62,452,143	$ 83,230,853
Shareholders' Equity	$ 58,549,901	$ 50,499,485	$ 55,636,361	$ 43,270,921
Average Shares	3,693,502	3,620,000	3,676,629	3,307,965
Stock Valuation				
Closing Market Price (OTCQX)	21.10	15.01	$ 21.10	$ 15.01

SOURCE: Coastal Banking Company Inc.