Coastal Banking Company, Inc.®

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For More Information:

Paul R. Garrigues	Michael G. Sanchez
Chief Financial Officer	Chief Executive Officer
Coastal Banking Company Inc.	Coastal Banking Company Inc.
904-491-9833	904-321-0400

Coastal Banking Company Reports Fourth Quarter 2014 Earnings, Declares and Pays Preferred Stock Dividend

BEAUFORT, S.C., March 23, 2015 – Coastal Banking Company Inc. (OTCQX:CBCO), the holding company of CBC National Bank, which operates branches in Beaufort and Port Royal, S.C., and Fernandina Beach, Fla., today reported net income of $998,000, or $0.29 per diluted common share, for the quarter ended Dec. 31, 2014. This compares to a net loss of $1.5 million, or a loss of $0.63 in diluted earnings per common share, in the fourth quarter of 2013.

For the full year 2014, the company reported net income of $3.12 million, or $0.86 in earnings per diluted common share. This compares to net income of $1.59 million, or $0.40 in earnings per diluted common share for the full year of 2013.

Earnings for 2013 were favorably impacted by the $1.73 million nonrecurring recovery of the deferred tax asset impairment reserve. As a result, the income before taxes for 2014 of $4.76 million represents a year over year improvement of $3.53 million or 285% from the income before taxes for 2013 of $1.24 million.

On January 28, 2014, the Board of Directors of CBCO declared a dividend of $22.50 per share of its outstanding Series A Cumulative Perpetual Preferred Stock. The dividend was paid on February 15, 2015, to shareholders of record on February 5, 2015. The dividend rate of 9% annually results in a total quarterly dividend payment of $223,875.

Key highlights from the fourth quarter of 2014 include:

- Income before income tax of $1.7 million for the current quarter compared to a loss before income tax of $1.1 million in the final quarter of 2013, for a year over year improvement to fourth quarter pre-tax income of $2.8 million.

- The Mortgage Banking Division continued to benefit from the 2014 decline in long-term interest rates and the alignment of staffing, products and markets to take advantage of both increasing purchase and refinance loan demand.

- Cost-saving efforts implemented in 2013 resulted in compensation expense reductions in the core community bank and the SBA Lending Division of $773,000, or 9% year-over-year, in 2014.
- Net interest margin strengthening 12% year-over-year to 3.97% for the year ended Dec. 31, 2014, from 3.55% for the year ended Dec. 31, 2013.
- Improving asset quality resulted in other real estate owned (OREO) related expenses decreasing $1.3 million in 2014, or 52%, from Dec. 31, 2013.
- Capital ratios at CBC National Bank remained strong, with a total risk-based capital ratio of 22.90 percent and a Tier 1 risk-based capital ratio of 21.62 percent.

"The company returned to a pattern of strong, steady earnings throughout 2014, a marked improvement after ending 2013 with a 4th quarter loss driven by charges related to systematic cost-saving efforts ," said Michael G. Sanchez, chief executive officer. "We witnessed continued stability in asset and loan quality, an improvement in our net interest margin and strong capital ratios. Our net interest income of $15.2 million for the year represented a year-over-year increase of 18.2% in core earnings. Our mortgage banking division remained a strong driver of earnings as the division increased its income nearly 45% year-over-year owing to a favorable interest rate environment that helped spur both residential purchase and refinance lending (after a systemic shift the prior year away from refinancing dominating mortgage lending), as well as more efficient loan sale execution helping expand profit margins. We also broadened our government guaranteed lending in 2014 beyond Small Business Administration (SBA) loans into Farm Service Agency (FSA) credit facilities and U.S. Department of Agriculture (USDA) lending. We remained the No. 1 community bank SBA lender in Florida, and our government guaranteed lending division remaining a solid contributor of income despite increasing competition in the marketplace. Our core community bank and the government guaranteed lending division continued to show the fruits of our ongoing cost-saving efforts, as compensation expense for those divisions was down $773,000, or 9% year-over-year. As credit quality continues to improve and we remain vigilant with expense control, the core community bank can be an important contributor to net income."

Net interest income before the provision for loan losses totaled $4.0 million in the fourth quarter of 2014, compared to $3.2 million earned in the fourth quarter of 2013. Noninterest income increased $11.4 million to $36.3 million at Dec. 31, 2014, from $3.7 million in the fourth quarter of 2013, primarily due to an increase of $10.3 million in mortgage banking income in the 4th quarter. Income from SBA loans totaled $856,219 in the fourth quarter of 2014, compared to $1.1 million in the fourth quarter of 2013.

Interest expense totaled $610,000 in the fourth quarter of 2014, compared to $645,000 in the previous quarter and $661,000 in the same period a year ago. Noninterest expense for the fourth quarter of 2014 increased to $13.5 million from $7.9 million in fourth quarter of 2013, primarily due to increased costs associated with higher mortgage lending volume.

The company's net interest margin for the fourth quarter of 2014 was 4.00 percent, compared to 4.01 percent at Sept. 30, 2014, and 3.71 percent for the quarter ended Dec. 31, 2013.

Total assets at Dec. 31, 2014, were $421.9 million, compared to $375.6 million at Dec. 31, 2013. Total shareholders' equity was $37.9 million at Dec. 31, 2014, compared to $34.9 million at Dec. 31, 2013. Total deposits were $285.7 million at Dec. 31, 2014, compared to $292.0 million at Dec. 31, 2013. Total portfolio loans were $272.8 million at the end of the fourth quarter of 2014, compared to $244.5 million at Dec. 31, 2013.

The company's residential mortgage banking division originated approximately $565.0 million in loans available for sale in the secondary market during the fourth quarter of 2014, compared to $243.0 million in loans originated for sale in the secondary market during the fourth quarter of 2013. The higher production is mainly attributed to an increase in both purchase and refinance transactions nationwide due to lower interest rates during 2014. For the full year, the mortgage division funded in excess of $1.6 billion in mortgage loans, up from $1.3 billion in 2013, and has now exceeded $8.5 billion in total production since the division's inception in September 2007.

Net charge-offs in the fourth quarter of 2014 totaled $72,000, or 0.03 percent of total loans, compared to $256,000, or 0.10 percent, in the previous quarter, and $64,000, or 0.03 percent, in the fourth quarter of 2013. Nonaccrual loans as a percentage of total loans at the end of the fourth quarter of 2014 were 1.58 percent, compared to 1.08 percent at the end of the third quarter of 2014, and 0.87 percent at Dec. 31, 2013. Loans past due greater than 30 days and still accruing interest totaled $806,000 at Dec. 31, 2014, compared to $455,000 in the previous quarter and $785,000 at Dec. 31, 2013. Other real estate owned (OREO) totaled $7.3 million at Dec. 31, 2014, a 36.5 percent decline from $11.5 million recorded at Dec. 31, 2013.

The company's provision for loan losses totaled $267,000 for the fourth quarter of 2014, which was $195,000 more than net charge-offs, compared to a loan-loss provision of $223,000 for the third quarter of 2014, which was $33,000 less than net charge-offs, and a provision of $83,000, or $19,000 less than net charge-offs, in the quarter ending Dec. 31, 2013. The company's allowance for loan losses totaled $4.8 million, or 1.77 percent of loans outstanding at Dec. 31, 2014, compared to $4.6 million, or 1.73 percent of loans outstanding, at Sept. 30, 2014, and $4.3 million, or 1.75 percent of loans outstanding, at Dec. 31, 2013.

At Dec. 31, 2014, CBC National Bank had a total risk-based capital ratio of 22.90 percent and a Tier 1 risk-based capital ratio of 21.62 percent, which exceed the 10 percent and 6 percent respective thresholds for being classified as "well capitalized" by federal regulators. The company also continued to have ample liquidity, with $236 million in excess funding available from multiple sources at Dec. 31, 2014.

Net interest income for the full year 2014 was $15.2 million, compared to $12.9 million in 2013. Noninterest income was $36.3 million for the full year 2014, compared to $27.3 million in 2013. Noninterest expense was $45.5 million for the full year 2014, compared to $38.6 million in 2013.

"We will remain focused in 2015 on working to continue the strong, steady earnings we achieved throughout 2014," said Sanchez. "That includes continued vigilance in maintaining our stable asset and loan quality, and continuing our ongoing expense control and cost-saving measures. In mortgage banking, as housing markets continue to recover, we will look to purchase lending becoming a larger part of our production, and we will continue to broaden our government guaranteed product line, as well as work to return the core community bank to long-term profitability. We remain confident in our staff, our systems, products, and management, and in our ability to achieve our plan."

About Coastal Banking Company Inc.

Coastal Banking Company Inc. is the $421.9 million-asset bank holding company of CBC National Bank, headquartered in Fernandina Beach, Fla., which provides a full range of consumer and business banking services through full-service banking offices in Beaufort, S.C., Fernandina Beach, and Port Royal, S.C. The company's residential mortgage banking division, headquartered in Atlanta, includes an Internet-based retail mortgage operation, as well as a National Retail Group that has lending offices in Arizona, Florida, Georgia, Illinois, Indiana, Maryland, Michigan, and Ohio. The company's Small Business Administration lending division originates SBA loans primarily in Jacksonville, Orlando, Ft. Myers, and Vero Beach, Fla., Charlotte, N.C., and Beaufort. The company's common stock is publicly traded and is quoted on the OTCQX Markets under the symbol CBCO.

A current CBCO stock price quote and recent stock trading activity is available at
http://www.otcmarkets.com/stock/CBCO/quote
The complete annual audited financial statements for the current year are available at
http://www.coastalbanking.com/pdf/2014cbcoannualfinancials.pdf

Additional management commentary on current year results is available at
http://www.coastalbanking.com/pdf/2014cbcomanagementcomments.pdf

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, Inc.®

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For Immediate Release

For More Information:
Michael G. Sanchez
Chief Executive Officer
Coastal Banking Company Inc.
904-321-0400

Coastal Banking Company Reports Third Quarter 2013 Earnings

BEAUFORT, S.C., Nov. 15, 2013 – Coastal Banking Company Inc. (OTCQB:CBCO), the holding company of CBC National Bank, which operates branches in Beaufort and Port Royal, S.C., Fernandina Beach, Fla., and Meigs, Ga., today reported net income of $47,549, or a loss of $0.03 per diluted common share, for the quarter ended Sept. 30, 2013. This compares to net income of $772,844, or $0.24 in diluted earnings per common share, in the third quarter of 2012.

Key highlights from the third quarter of 2013 include:

- Interest expense decreased by $263,000, or 26.0 percent, from a year ago.
- Other real estate expenses were more than halved from a year ago, decreasing $278,567.
- Income from SBA loans grew 77.9 percent to $911,000 compared to a year ago.
- The net interest margin increased 31 basis points from a year ago.
- Nonaccrual loans of $3.2 million marked the lowest level in five years. As a percentage of total loans, nonaccrual loans decreased 467 basis points from a year ago.
- Net charge-offs declined to $92,000, or 0.04 percent of total loans, from $923,000, or 0.39 percent of total loans a year ago.
- Capital ratios at CBC National Bank remained strong with a total risk-based capital ratio of 24.17 percent and a Tier 1 risk-based capital ratio of 22.90 percent.

"As expected, the recent rise in interest rates resulted in a drop in mortgage demand in the third quarter, which impacted our income and earnings," said Michael G. Sanchez, chief executive officer. "Lower refinancing volumes led to reduced mortgage banking income. Knowing the slowdown was coming, we made the strategic decision to downsize and remodel our mortgage operations to maintain a sustainable and profitable business model moving forward. We closed our commercial loan production office in Savannah during the third quarter and made the decision to close our satellite accounting office in Port Royal and our secondary marketing office in Jacksonville during the fourth quarter.

“We also will close our full-service branch in Meigs effective Dec. 31, 2013,” said Sanchez. “The Meigs branch held just $7.1 million in deposits at the end of the third quarter, and was originally acquired specifically to give us a legal foothold from which to expand in Georgia. With the passage of the Dodd-Frank Act, that requirement is no longer necessary, thus it makes financial and strategic sense to close this branch. We expect to incur some modest non-recurring costs in the fourth quarter related to the closure.

“It’s important to note that we continued to make progress in areas outside of mortgage banking, including substantial gains in SBA loan income, reductions in interest and noninterest expenses, and improvements in our credit quality,” added Sanchez.

Net interest income before the provision for loan losses totaled $3.2 million in the third quarter of 2013, compared to $3.1 million earned in the third quarter of 2012. Noninterest income totaled $5.0 million at Sept. 30, 2013, compared to $12.8 million in the third quarter of 2012, reflecting the expected decline in mortgage income from the slowdown in refinancing activity. Income from SBA loans totaled $911,000 in the third quarter of 2013, compared to $512,000 in the third quarter of 2012.

Interest expense decreased to $745,969 in the third quarter of 2013, from $1.0 million in the same period a year ago due largely to reduced deposit costs. Noninterest expense for the third quarter of 2013 decreased to $7.8 million from $13.9 million in third quarter of 2012, in large part due to lower operational and advertising costs from the reduction of retail residential loan production activity. Other real estate expenses totaled $241,084 at the end of the third quarter of 2013, a significant decline from $519,651 a year ago.

The company’s net interest margin for the third quarter of 2013 increased to 3.59 percent from 3.28 percent for the quarter ended Sept. 30, 2012.

Total assets at Sept. 30, 2013, were $373.7 million, compared to $475.0 million at Dec. 31, 2012. Total shareholders' equity was $36.7 million at Sept. 30, 2013, compared to $34.4 million at Dec. 31, 2012. Total deposits were $306.4 million at Sept. 30, 2013, compared to $337.5 million at Dec. 31, 2012, and $339.8 million at Sept. 30, 2012. Total portfolio loans were $232.9 million at the end of the third quarter of 2013, compared to $242.4 million at Dec. 31, 2012, and $238.8 million at Sept. 30, 2012.

The company's residential mortgage banking division originated approximately $261.7 million in loans available for sale in the secondary market during the third quarter of 2013. This compares to $515.7 million in loans originated for sale in the secondary market during the third quarter of 2012. This year-over-year decline in residential funding volume is reflective of recent increases in long-term interest rates and related declines in refinance lending activity.

The balance of refinance loans funded by the mortgage division declined approximately 74 percent in the third quarter of 2013 compared to the same quarter in 2012, while purchase money lending saw an increase of more than 40 percent during the same time. As a result, the mortgage banking division's lending product mix was 62 percent purchase to 38 percent refinance lending in the third quarter of 2013 versus 23 percent purchase to 77 percent refinance lending in the third quarter of 2012.

Net charge-offs in the third quarter of 2013 totaled $92,000, or 0.04 percent of total loans, compared to $412,000, or 0.18 percent, in the previous quarter, and $923,000 or 0.39 percent in the third quarter of 2012. Nonaccrual loans as a percentage of total loans at the end of the third quarter of 2013 were 1.35 percent, compared to 1.56 percent at the end of the second quarter 2013, and 6.02 percent at Sept. 30, 2012. Loans past due greater than 30 days and still accruing interest totaled $261,000 at Sept. 30, 2013, compared to $584,000 in the previous quarter and $1.2 million at Sept. 30, 2012. Other real estate owned (OREO) totaled $13.8 million at Sept. 30, 2013, compared to $13.5 million recorded at Dec. 31, 2012.

"Our credit quality improved on both a linked-quarter and year-over-year basis, including a fourth consecutive quarterly reduction in loans on nonaccrual," said Sanchez. "We expect to have further reductions in our classified assets in the fourth quarter of 2013 as we sell additional OREO."

The company's provision for loan losses totaled $171,000 for the third quarter of 2013, which was $79,000 in excess of net charge-offs, compared to a loan-loss provision of $57,000 for the second quarter of 2013, which was $355,000 less than net charge-offs, and a provision of $807,000, or $116,000 less than net charge-offs, at Sept. 30, 2012. The company's allowance for loan losses totaled $4.3 million, or 1.83 percent of loans outstanding at Sept. 30, 2013, compared to $4.2 million, or 1.77 percent of loans outstanding, at June 30, 2013, and $5.5 million, or 2.32 percent of loans outstanding, at Sept. 30, 2012.

At Sept. 30, 2013, CBC National Bank had a total risk-based capital ratio of 24.17 percent and a Tier 1 risk-based capital ratio of 22.90 percent, which exceed the 10 percent and 6 percent respective thresholds for being classified as "well capitalized" by federal regulators. The company also continued to have ample liquidity, with $157.8 million in excess funding available from multiple sources at Sept. 30, 2013.

Net income for the nine months ended Sept. 30, 2013, was $3.1 million, compared to net income of $962,079 for the same period in 2012. Diluted earnings per common share for the first nine months of 2013 was $1.03, compared to $0.21 in diluted earnings per common share for the same period a year ago.

Net interest income for the first nine months of 2013 was $9.7 million, compared to $9.6 million in the first nine months of 2012. Noninterest income was $23.6 million for the first nine months of 2013, compared to $34.5 million in the same period of 2012. Noninterest expense was $30.7 million for the first nine months of 2013, compared to $39.3 million for the same period in 2012.

"In your classic good news/bad news scenario, we ended the third quarter of 2013 with nearly 40 percent of our OREO properties under contract of sale," said Sanchez. "If these sales are completed as planned, we will see a material reduction in the level of our non-performing assets in the final quarter of 2013. However, the potential losses from sales of this magnitude could be significant. This coupled with the slowdown in mortgage banking revenue and the costs incurred from our actions to restructure operations likely will place significant pressure on income and earnings in the final quarter of 2013. Fortunately, we will face these headwinds from a relative position of strength with improving credit quality, solid capital ratios and tight expense controls."

About Coastal Banking Company Inc.

Coastal Banking Company Inc. is the $373.7 million-asset bank holding company of CBC National Bank, headquartered in Fernandina Beach, Fla., which provides a full range of consumer and business banking services through full-service banking offices in Beaufort, S.C., Fernandina Beach, Meigs, Ga., and Port Royal, S.C., and a commercial loan production office in Jacksonville, Fla. The company's residential mortgage banking division, headquartered in Atlanta, includes an Internet-based retail mortgage operation as well as a National Retail Group that has lending offices in Arizona, Florida, Georgia, Maryland, New York, and Ohio. The company's Small Business Administration lending division originates SBA loans primarily in Jacksonville, Orlando, Ft. Myers, Naples and Vero Beach, Fla., Greensboro, N.C., Atlanta and Beaufort. The company's common stock is publicly traded on the OTCQB Markets under the symbol CBCO. A current CBCO stock price quote and recent stock trading activity is available at www.otcmarkets.com/stock/CBCO/quote. The complete unaudited quarterly financial results are available at http://www.coastalbanking.com/pdf/CBCO_3Q13_Earnings.pdf or for more information, please visit the company's website, www.coastalbanking.com.

FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISK FACTORS

This release contains forward-looking statements including statements relating to present or future trends or factors generally affecting the banking industry and specifically affecting Coastal's operations, markets and products. Without limiting the foregoing, the words "believes," "anticipates," "intends," "expects," or similar expressions are intended to identify forward-looking statements. These forward-looking statements involve risks and uncertainties. Actual results could differ materially from those projected for many reasons, including, without limitation, changing events and trends that have influenced Coastal's assumptions, but that are beyond Coastal's control. These trends and events include (i) changes in the interest rate environment which may reduce margins, (ii) not achieving expected growth, (iii) less favorable than anticipated changes in the national and local business environments and securities markets, (iv) adverse changes in the regulatory requirements affecting Coastal, (v) greater competitive pressures among financial institutions in Coastal's markets, (vi) greater loan losses than historic levels, and (vii) difficulties in expanding our banking operations into a new geographic market.

All written or oral forward-looking statements are expressly qualified in their entirety by these cautionary statements. Coastal Banking Company, Inc. undertakes no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date on which such statements were made.

Coastal Banking Company, Inc.®

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For More Information:
Michael G. Sanchez
Chief Executive Officer
Coastal Banking Company Inc.
904-321-0400

Paul R. Garrigues
Chief Financial Officer
Coastal Banking Company Inc.
904-491-9833

Coastal Banking Company Reports Second Quarter 2014 Earnings, Declares Preferred Stock Dividend

BEAUFORT, S.C., July 31, 2014 – Coastal Banking Company Inc. (OTCQX:CBCO), the holding company of CBC National Bank, which operates branches in Beaufort and Port Royal, S.C., and Fernandina Beach, Fla., today reported net income of $1.1 million, or earnings per diluted common share of $0.34, for the quarter ended June 30, 2014.

This compares to net income of $2.0 million, or diluted earnings per common share of $0.69, in the second quarter of 2013, which included nonrecurring revenue of $1.73 million from the reversal of a deferred tax asset valuation reserve. Excluding the impact of the prior-year nonrecurring event, pre-tax income in the current quarter was up 236 percent from the pre-tax earnings of the same quarter in 2013.

On a linked-quarter basis, net income in the second quarter of 2014 represents an increase of $922,000, or earnings per diluted common share of $0.33, from net income of $201,000, or earnings per diluted common share of $0.01, in the first quarter of 2014.

On July 23, 2014, the Board of Directors of CBCO declared a dividend of $22.50 per share of its outstanding Series A Cumulative Perpetual Preferred Stock. The dividend will be payable on August 15, 2014, to shareholders of record on August 5, 2014. The dividend rate of 9% annually results in a total quarterly dividend payment of $223,875.

Key highlights from the second quarter of 2014 include:

- Increasing profitability, with a $922,000 linked-quarter improvement in net income.
- Balance sheet growth during the quarter of $32.3 million, or 7.9 percent, with total assets reaching $442.6 million, on increasing residential loan balances available for sale.

- Net interest margin was 3.84 percent in the second quarter, an increase of 68 basis points from the second quarter of 2013, but down 7 basis points from the first quarter of 2014.
- The Mortgage Banking Division has generated improved profit margins and lending volume while prior restructuring efforts continue to shift the product mix away from reliance on refinance lending and toward more home purchase lending activity.
- The cost savings program implemented throughout the core community bank at the end of 2013 continues to drive operating costs lower.
- Asset quality costs of $563,000 for the second quarter were down 37 percent, or $336,000, from the costs of $899,000 incurred during the second quarter of 2013.
- Nonaccrual loans ended the quarter at $2.8 million, the third consecutive quarter end below $3 million, and a decrease of $886,000, or 24 percent, from June 30, 2013.
- Other real estate owned (OREO) of $11.6 million was largely unchanged during the quarter, but is a decrease of $2.1 million, or 15.1 percent, from the June 30, 2013, level.
- Capital ratios at CBC National Bank remained strong, with a total risk-based capital ratio of 20.63 percent and a Tier 1 risk-based capital ratio of 19.35 percent.

"Our second quarter results were very encouraging and continued to build on the momentum begun in the first quarter of 2014. Both the SBA and Mortgage Banking divisions contributed meaningfully to overall Company profitability, while at the same time the core community bank is once again generating sustainable core profitability. These improved earnings trends are validation that the actions we took in the second half of 2013 to position the Company for continued profitability in 2014 have been effective," said Michael G. Sanchez, chief executive officer. "The balance sheet growth in 2014 has far exceeded our goals and expectations, and we continue to see expansion of loan application pipelines within the SBA and Mortgage Banking divisions, which point to continued robust loan growth and related loan sale gains. The resurgence in mortgage banking volume that began in the first quarter has continued and expanded into the current quarter, with a majority of activity now in home purchase lending. The SBA lending division continues to expand, with a growing application pipeline. Declining asset quality costs, various efficiency actions implemented late last year, and our expanding net interest margin has fueled the trend of growing core earnings within our core Community Banking Division."

Net interest income before the provision for loan losses totaled $3.7 million in the second quarter of 2014, compared to $2.9 million earned in the second quarter of 2013. For the first half of 2014, core earnings from net interest income before the provision for loan losses was $7 million, an increase of $493,000 or 7.5 percent, from the first half of 2013.

Noninterest income increased $660,000 to $9.1 million at June 30, 2014, from $8.5 million in the second quarter of 2013, primarily due to an increase of $608,000 in mortgage banking income compared to the same period in 2013. Income from SBA loans totaled $1.1 million in the second quarter of 2014, unchanged from the second quarter of 2013. For the first half of 2014, noninterest income was $14.7 million, a decrease of $3.9 million, or 21 percent, from the first half of 2013 on reduced gains from sales of SBA loans and residential mortgage loans.

Interest expense totaled $656,000 in the second quarter of 2014, compared to $616,000 in the previous quarter and $880,000 in the second quarter of 2013 as the favorable impact from increased use of lower cost short-term borrowings was partially offset by increased balances of interest-bearing liabilities. For the first half of 2014, interest expense totaled $1.3 million, a decrease of $534,000, or 29.5 percent, from $1.8 million in the first half of 2013.

Noninterest expense for the second quarter of 2014 decreased to $10.7 million from $10.8 million in second quarter of 2013, primarily due to reduced other real estate costs and lower advertising expenses, partially offset by increased compensation expense. For the first half of 2014 noninterest expense of $19.1 million was a decrease of $3.8 million, or 16.6 percent, from $22.9 million in the first half of 2013. This decline reflects lower costs of compensation, other real estate owned expenses and advertising.

The company’s net interest margin for the second quarter of 2014 was 3.84 percent, down slightly from 3.91 percent in the first quarter, but up by 68 basis points from 3.16 percent in the second quarter of 2013.

Total assets at June 30, 2014, were $442.6 million, compared to $375.6 million at Dec. 31, 2013. Total shareholders’ equity was $36.5 million at June 30, 2014, compared to $34.9 million at Dec. 31, 2013. Total deposits were $292.3 million at June 30, 2014, compared to $292.0 million at Dec.

31, 2013. Total portfolio loans were $258.0 million at the end of the second quarter of 2014, compared to $244.5 million at year-end 2013.

The company's residential mortgage banking division originated approximately $374.3 million in loans available for sale in the secondary market during the second quarter of 2014, compared to $419.4 million during the second quarter of 2013, and $227.3 million in the first quarter of 2014. The lower year over year second quarter production is mainly attributed to a nationwide reduction in refinance lending transactions during the last year due to increasing long-term interest rates, which was partially offset by slightly increased home purchase lending activity. On a linked quarter basis, loan production has increased by 64.7 percent as refinance lending levels have stabilized and purchase loans continue to increase. As a result, the mortgage division product mix has shifted from 64 percent refinance loans and 36 percent purchase loans during the second quarter of 2013 to 47 percent refinance loans and 53 percent purchase loans in the second quarter of 2014. The mortgage division has now funded and sold nearly $6.7 billion in mortgage loans since the division's inception in September 2007.

Net charge-offs in the second quarter of 2014 totaled $85,000, or 0.03 percent of total loans, compared to $249,000, or 0.10 percent, in the previous quarter, and $412,000, or 0.18 percent, in the second quarter of 2013. Nonaccrual loans as a percentage of total loans at the end of the second quarter of 2014 were 1.08 percent, compared to 0.81 percent at the end of the prior quarter, and 1.56 percent at June 30, 2013. Loans past due greater than 30 days and still accruing interest totaled $1,720,000 at June 30, 2014, compared to $152,000 in the previous quarter and $584,000 at June 30, 2013. Other real estate owned (OREO) totaled $11.6 million at June 30, 2014, a 15.1 percent decline from $13.7 million recorded at June 30, 2013.

The company's provision for loan losses totaled $473,000 for the second quarter of 2014, which was $388,000 more than net charge-offs, compared to a loan-loss provision of $256,000 for the first quarter of 2014, which was $7,000 more than net charge-offs, and a provision of $57,000, or $355,000 less than net charge-offs, in the quarter ended June 30, 2013. The company's allowance for loan losses totaled $4.6 million, or 1.81 percent of loans outstanding at June 30, 2014, compared to $4.3 million, or 1.69 percent of loans outstanding, at the prior quarter end, and $4.2 million, or 1.77 percent of loans outstanding, at June 30, 2013.

At June 30, 2014, CBC National Bank had a total risk-based capital ratio of 20.63 percent and a Tier 1 risk-based capital ratio of 19.35 percent, which exceed the 10 percent and 6 percent respective thresholds for being classified as "well capitalized" by federal regulators. The company also continued to have ample liquidity, with $115.4 million in excess funding available from multiple sources at June 30, 2014.

"We have seen significant contributions from all three of our Company's divisions in the second quarter. When our Community Banking, Mortgage Banking and SBA divisions all contribute to drive earnings, it begins to approach the real potential of our Company," said Sanchez. "We continue to see favorable Mortgage Banking results in terms of both volume and profitability. SBA volume continues to expand, as well, and contribute meaningfully to earnings. And normalized credit costs allowed Community Banking to exceed expectations in the quarter and help grow core earnings. We remain confident that the plans we put in place in the fourth quarter of 2013 are working as expected, and we look forward to the continued success that our plans, staff, and management will enable."

About Coastal Banking Company Inc.

Coastal Banking Company Inc. is the $442.6 million-asset bank holding company of CBC National Bank, headquartered in Fernandina Beach, Fla., which provides a full range of consumer and business banking services through full-service banking offices in Beaufort, S.C., Fernandina Beach, and Port Royal, S.C. The company's residential mortgage banking division, headquartered in Atlanta, includes an Internet-based retail mortgage operation, as well as a National Retail Group that has lending offices in Florida, Georgia, Illinois, Maryland, Michigan, and Ohio. The company's Small Business Administration lending division originates SBA loans primarily in Jacksonville, Ft. Myers, Naples and Vero Beach, Fla., Greensboro, N.C., and Beaufort.

The company's common stock is publicly traded on the OTCQX Markets under the symbol CBCO. A current CBCO stock price quote and recent stock trading activity is available at www.otcmarkets.com/stock/CBCO/quote. The complete unaudited quarterly financial results are available at www.coastalbanking.com/pdf/CBCO_2Q14_Earnings.pdf or for more information, please visit the company's website, www.coastalbanking.com.

FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISK FACTORS

This release contains forward-looking statements including statements relating to present or future trends or factors generally affecting the banking industry and specifically affecting Coastal's operations, markets and products. Without limiting the foregoing, the words "believes," "anticipates," "intends," "expects," or similar expressions are intended to identify forward-looking statements. These forward-looking statements involve risks and uncertainties. Actual results could differ materially from those projected for many reasons, including, without limitation, changing events and trends that have influenced Coastal's assumptions, but that are beyond Coastal's control. These trends and events include (i) changes in the interest rate environment which may reduce margins, (ii) not achieving expected growth, (iii) less favorable than anticipated changes in the national and local business environments and securities markets, (iv) adverse changes in the regulatory requirements affecting Coastal, (v) greater competitive pressures among financial institutions in Coastal's markets, (vi) greater loan losses than historic levels, and (vii) difficulties in expanding our banking operations into a new geographic market.

All written or oral forward-looking statements are expressly qualified in their entirety by these cautionary statements. Coastal Banking Company Inc. undertakes no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date on which such statements were made.

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COASTAL BANKING
Company, Inc.®

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For More Information:
Michael G. Sanchez
Chief Executive Officer
Coastal Banking Company Inc.
904-321-0400

Paul R. Garrigues
Chief Financial Officer
Coastal Banking Company Inc.
904-491-9833

Coastal Banking Company Reports First Quarter 2014 Earnings

BEAUFORT, S.C., May 19, 2014 – Coastal Banking Company Inc. (OTCQB:CBCO), the holding company of CBC National Bank, which operates branches in Beaufort and Port Royal, S.C., and Fernandina Beach, Fla., today reported net income of $201,000, or earnings per diluted common share of $0.01, for the quarter ended March 31, 2014. This represents a $1.7 million improvement from the net loss of $1.5 million, or a loss of $0.63 per diluted common share, in the final quarter of 2013.

Key highlights from the first quarter of 2014 include:

- Returned to profitability with a $1.7 million linked-quarter improvement in net income.
- Balance sheet growth of $34.7 million, or 9.2 percent, with total assets reaching $410.3 million on increasing residential loan balances.
- Net interest margin reached 3.91 percent in the first quarter, an increase of 19 basis points from the first quarter of 2013, and an increase of 20 basis points from the prior quarter end.
- Prior quarter restructuring of the mortgage banking division contributed to improvement in profit margins, lending volume and product mix away from reliance on refinance lending and toward more home purchase lending activity.
- Operating cost reductions realized from cost savings program implemented in the fourth quarter of 2013 within the core community bank.
- Asset quality costs of $855,000 for the quarter were down 14 percent, or $140,000, from the costs of $995,000 incurred during the first quarter of 2013.
- Nonaccrual loans ended the quarter at $2.0 million, the lowest quarter-end level in over five years, a decrease of $2.8 million, or 58 percent, from March 31, 2013.
- Other real estate owned (OREO) of $11.6 million increased by 0.8 percent during the quarter, but is a decrease of $3.6 million, or 23.9 percent, from March 31, 2013.
- Capital ratios at CBC National Bank remained strong, with a total risk-based capital ratio of 21.76 percent and a Tier 1 risk-based capital ratio of 20.49 percent.

"We are very encouraged by our first quarter results. The improvement in earnings is a strong indication that the actions we took in the second half of 2013 to position the Company for continued profitability in 2014 have been effective," said Michael G. Sanchez, chief executive officer. "After repositioning our mortgage banking division to operate in a changed regulatory and interest rate environment, we have seen a resurgence in mortgage banking volume, with improving profit margins during the quarter. The SBA lending division has remained stable, with a growing application pipeline, and our core community banking division contribution continues to improve on lower asset quality costs, increased core earnings from an expanding net interest margin, and reductions to operating expenses from various efficiency actions taken late last year."

Net interest income before the provision for loan losses totaled $3.4 million in the first quarter of 2014, compared to $3.6 million earned in the first quarter of 2013; however, the first quarter of 2013 included a nonrecurring interest recovery of $315,000. Noninterest income decreased $4.6 million to $5.6 million at March 31, 2014, from $10.2 million in the first quarter of 2013, primarily due to a decrease of $4.0 million in mortgage banking income compared to the same period in 2013. Income from SBA loans totaled $912,000 in the first quarter of 2014, compared to $1.4 million in the first quarter of 2013.

Interest expense totaled $616,000 in the first quarter of 2014, compared to $661,000 in the previous quarter and $926,000 in the same period a year ago. Noninterest expense for the first quarter of 2014 decreased to $8.3 million from $12.0 million in first quarter of 2013, primarily due to reduced costs associated with lower mortgage lending volume and lower asset quality costs.

The company's net interest margin for the first quarter of 2014 was 3.91 percent, compared to 3.71 percent at Dec. 31, 2013, and 3.72 percent for the quarter ended March 31, 2013.

Total assets at March 31, 2014, were $410.3 million, compared to $375.6 million at Dec. 31, 2013. Total shareholders' equity was $35.3 million at March 31, 2014, compared to $34.9 million at Dec. 31, 2013. Total deposits were $290.2 million at March 31, 2014, compared to $292.0 million at Dec. 31, 2013. Total portfolio loans were $253.8 million at the end of the first quarter of 2014, compared to $244.5 million at Dec. 31, 2013.

The company's residential mortgage banking division originated approximately $239.7 million in loans available for sale in the secondary market during the first quarter of 2014, compared to $431.0 million during the first quarter of 2013 and $243.0 million in the fourth quarter of 2013. The lower production is mainly attributed to a nationwide reduction in refinance lending transactions during the last year due to increasing long term interest rates, which was partially offset by slightly increased home purchase lending activity. The mortgage division product mix shifted from 77 percent refinance loans and 23 percent purchase loans during the first quarter of 2013 to 48 percent refinance loans and 52 percent purchase loans in the first quarter of 2014. The mortgage division has now funded nearly $6.6 billion in mortgage loans since the division's inception in September 2007.

Net charge-offs in the first quarter of 2014 totaled $249,000, or 0.10 percent of total loans, compared to $64,000, or 0.03 percent, in the previous quarter, and $180,000, or 0.08 percent, in the first quarter of 2013. Nonaccrual loans as a percentage of total loans at the end of the first quarter of 2014 were 0.81 percent, compared to 0.87 percent at the end of the prior quarter, and 2.10 percent at March 31, 2013. Loans past due greater than 30 days and still accruing interest totaled $152,000 at March 31, 2014, compared to $785,000 in the previous quarter and $388,000 at March 31, 2013. Other real estate owned (OREO) totaled $11.6 million at March 31, 2014, a 23.9 percent decline from $15.3 million recorded at March 31, 2013.

The company's provision for loan losses totaled $256,000 for the first quarter of 2014, which was $7,000 more than net charge-offs, compared to a loan-loss provision of $83,000 for the fourth quarter of 2013, which was $19,000 more than net charge-offs, and a provision of $31,000, or $149,000 less than net charge-offs, in the quarter ending March 31, 2013. The company's allowance for loan losses totaled $4.3 million, or 1.69 percent of loans outstanding at March 31, 2014, compared to $4.3 million, or 1.95 percent of loans outstanding, at the prior quarter end, and $4.5 million, or 1.95 percent of loans outstanding, at March 31, 2013.

At March 31, 2014, CBC National Bank had a total risk-based capital ratio of 21.68 percent and a Tier 1 risk-based capital ratio of 20.41 percent, which exceed the 10 percent and 6 percent respective thresholds for being classified as "well capitalized" by federal regulators. The company also continued to have ample liquidity, with $140.2 million in excess funding available from multiple sources at March 31, 2014.

"We took steps in the fourth quarter of 2013 to restructure the mortgage banking division, implement a cost savings program within the core community bank, and close our Meigs, Ga., branch. Our focus remains on stabilizing mortgage banking results, continuing to improve our asset quality trends, expanding SBA lending volume and returning the core community bank to sustainable profitability. All those areas of focus are showing favorable results in 2014," said Sanchez. "We remain confident that our staff and management have the experience, systems, and products needed to continue the successful implementation of our plan."

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