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Coastal Banking Company Reports Second Quarter 2016 Earnings

BEAUFORT, S.C., Aug. 8, 2016 – Coastal Banking Company Inc. (OTCQX:CBCO), the holding company of CBC National Bank, which operates branches in Beaufort and Port Royal, S.C., Fernandina Beach, Ocala, and The Villages, Fla., today reported net income of $1.5 million, or earnings per diluted common share of $0.46, for the quarter ended June 30, 2016.

This compares to net income of $1.6 million, or diluted earnings per common share of $0.51, in the second quarter of 2015, a year-over-year decrease of $56,000, or diluted earnings per common share of $0.05.

On a linked-quarter basis, net income in the second quarter of 2016 represents an increase of $328,000, or earnings per diluted common share of $0.02, from net income of $1.2 million, or earnings per diluted common share of $0.44, in the first quarter of 2016.

Key highlights from the second quarter of 2016 include:

- Completion of the acquisition of First Avenue National Bank.
- Continued strong profitability growth, with second quarter net income increasing by 26.9 percent over the first quarter.
- Non-interest bearing demand deposits grew $27.5 million, or 62.6 percent, over the first quarter.
- Driven by strong earnings over the last four quarters, common tangible book value has risen to $12.48 per share at June 30, 2016, an increase of $1.63 per share, or 15 percent, during the last year from $10.85 per share at June 30, 2015.
- Continuation of robust mortgage banking funding and profitability, with more than $551.7 million in residential mortgage loans funded and $16.4 million in mortgage banking income during the quarter.

- Balance sheet expansion continued during the quarter, up by $140.8 million, or 29.7 percent, with total assets reaching $615.6 million, driven by rising balances of SBA portfolio loans, residential mortgage loans available for sale and the related loan sales receivable, as well as completing the acquisition of First Avenue National Bank.
- Improving net interest margin for the second quarter at 3.95 percent, up 6 basis points from the first quarter of 2016.
- Other real estate owned (OREO) of $5.1 million decreased by $1.2 million, or 19.0 percent, during the quarter and $1.9 million, or 27.1 percent, from June 30, 2015.
- Capital ratios at CBC National Bank remained strong, with a total risk-based capital ratio of 19.96 percent and a Tier 1 risk-based capital ratio of 18.70 percent.

“The key event in our second quarter was completing the acquisition of First Avenue National Bank and successfully integrating First Avenue’s two branches in Ocala and one branch in The Villages, Fla., into CBC National Bank,” said Michael G. Sanchez, chairman and chief executive officer. “Our company is strengthened in significant ways by the acquisition, including growing our core community banking franchise in a vibrant, economically strong market that ties in well with our existing markets, as well as adding management depth and employee talent. Through a combination of the acquisition and organic growth, we have seen non-interest bearing demand deposits increase $27.5 million, or 62.6 percent over the first quarter, and low cost interest bearing deposits increase $48.4 million, or 37.8 percent. Our Mortgage Banking division also continues to perform well, capitalizing on the ongoing favorable long term interest rate environment, with more than $551.7 million in residential mortgage loans funded and $16.4 million in mortgage banking income during the quarter. Our SBA division likewise has shown strong loan growth through the second quarter. Our robust mortgage banking revenues have enabled us to accumulate SBA loan production, holding it for sale at the most opportune time. Because of the strong SBA loan growth, a moderate increase in commercial real estate lending and weakness in two legacy problem loans, we deemed it prudent to increase our loan-loss provision to $360,000 in the second quarter.”

Net interest income before the provision for loan losses totaled $5.2 million in the second quarter of 2016, compared to $4.4 million earned in the second quarter of 2015. For the first half of 2016, core earnings from net interest income before the provision for loan losses was $9.1 million, an increase of $1.2 million or 9.7 percent, from the first half of 2015.

Noninterest income was $17.3 million in the second quarter of 2016, an increase of $0.6 million, or 3.6 percent, from $16.7 million in the second quarter of 2015. The year-over-year increase was due primarily to the bargain purchase and securities gains recognized from the acquisition of First Avenue National Bank on April 8, 2016, in addition to the $82,000, or 114 percent, increase in SBA loan income.

Interest expense totaled $998,000 in the second quarter of 2016, compared to $767,000 in the previous quarter and $628,000 in the second quarter of 2015. The increased interest expense was driven primarily by the interest paid on the $10 million holding company loan obtained in the fourth quarter of 2015 as well as the wholesale borrowing costs that are indexed to an overnight rate that increased in connection with the fourth quarter 2015 increase in the Prime interest rate.

Noninterest expense for the second quarter of 2016 increased to $20 million from $18.4 million in the second quarter of 2015 largely as a result of the First Avenue National Bank acquisition with an increase to operating expenses of $803,000 for the three branches acquired and $674,000 in one-time, non-recurring acquisition related expenses. For the first half of 2016 noninterest expense was $35 million, an increase of $0.4 million, or 1.2 percent, from $34.6 million in the first half of 2015. As with the current quarter, this increase reflects higher costs as a result of the First Avenue National Bank acquisition, partially offset by a decrease of $1.7 million, or 6.1 percent, in salary and benefit expense from the slightly lower levels of loan volume in the Mortgage Banking segment.

The company's net interest margin for the second quarter of 2016 was 3.95 percent, up 6 basis points from 3.89 percent in the first quarter of 2016, and 13 basis points higher than the 3.82 percent margin for the second quarter of 2015.

Total assets at June 30, 2016, were $615.6 million, compared to $464.7 million at Dec. 31, 2015. Total shareholders' equity was $47.2 million at June 30, 2016, compared to $33.3 million at Dec. 31, 2015. Total deposits were $413 million at June 30, 2016, compared to $283.8 million at Dec. 31, 2015. Total portfolio loans were $393.2 million at the end of the second quarter of 2016, compared to $285.9 million at year-end 2015.

The company's residential mortgage banking division funded approximately $551.7 million in loans available for sale in the secondary market during the second quarter of 2016, compared to $516.6 million during the second quarter of 2015, and $403.6 million in the first quarter of 2016. The year-over-year and linked-quarter increases in mortgage loan production were driven by the sustained low interest rate environment and increased demand for refinance loans, as evidenced by the loan production mix in the second quarter of 2016 at 63 percent refinance and 27 percent purchase. During the second quarter of 2015 the mix was 31 percent refinance and 69 percent purchase. Since the inception of the mortgage banking division in 2007, total loan production has exceeded $12.8 billion of which $10.5 billion was closed and funded by the Company and $2.3 billion of which was brokered to other lenders for closing.

Net recoveries in the second quarter of 2016 totaled $29,000, or 0.01 percent of total loans, compared to a net charge-offs of $868,000, or 0.29 percent, in the previous quarter, and net charge-offs of $21,000, or 0.01 percent, in the second quarter of 2015. Nonaccrual loans as a percentage of total loans at the end of the second quarter of 2016 were 1.14 percent, compared to 0.65 percent at the end of the prior quarter, and 1.53 percent at June 30, 2015. Loans past due greater than 30 days and still accruing interest totaled $4.2 million at June 30, 2016, compared to $1.1 million in the previous quarter and $1.8 million at June 30, 2015. Other real estate owned (OREO) totaled $5.1 million at June 30, 2016, a 16.4 percent decline from $6.1 million at June 30, 2015.

The company's provision for loan losses totaled $360,000 for the second quarter of 2016, which was $389,000 more than net recoveries, compared to a loan-loss provision of $33,000 for the first quarter of 2016, which was $835,000 less than net charge-offs of $868,000 and a provision of $33,000, or $12,000 more than net charge-offs, in the quarter ended June 30, 2015. The company's allowance for loan losses totaled $4.8 million, or 1.22 percent of loans outstanding at June 30, 2016, compared to $4.4 million, or 1.48 percent of loans outstanding, at the prior quarter end, and $5.2 million, or 1.90 percent of loans outstanding, at June 30, 2015.

At June 30, 2016, CBC National Bank had a total risk-based capital ratio of 19.96 percent and a Tier 1 risk-based capital ratio of 18.70 percent, which exceed the 10 percent and 8 percent respective thresholds for being classified as "well capitalized" by federal regulators. The company also continued to have ample liquidity, with $325.8 million in excess funding available from multiple sources at June 30, 2016.

“We will continue to focus on asset and loan quality, and we believe expense control and income enhancements will be fully realized over the next 12 months,” said Sanchez. “We anticipate continued strengthening of the core Community Bank in the third quarter, as well as ongoing robust performance in our Mortgage Banking division assuming the current favorable interest rate environment remains little changed. With the full integration of First Avenue National Bank into our company, we remain resolute that we have the talented, dedicated staff and management to continue the successful execution of our operating strategy to achieve strong, stable earnings and continue to bolster shareholder value in 2016.”

About Coastal Banking Company Inc.

Coastal Banking Company Inc. is the $615.6 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 Fernandina Beach, Ocala, and The Villages, Fla, Beaufort and Port Royal, S.C. The company’s residential mortgage banking division, headquartered in Atlanta, includes traditional retail and wholesale lending, as well as a National Retail Group that has lending offices in Arizona, Florida, Georgia, Maryland, Michigan, North Carolina, Indiana, Illinois and Ohio. The company’s government guaranteed lending division originates SBA loans primarily in Jacksonville, Ft. Myers, Tampa and Vero Beach, Fla., Greensboro, N.C., Atlanta and Beaufort.

The company's common stock is publicly traded on the OTCQX Markets under the symbol CBCO. The company was named to the OTCQX® Best 50 in both 2015 and 2016, an annual ranking of the top 50 US and international companies traded on the OTCQX Best Market, based on the combined one-year total return on market value and average growth in daily dollar trading volume.

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

For complete unaudited quarterly 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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