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Coastal Banking Company Reports Strong Third Quarter 2017 Earnings

BEAUFORT, SC / ACCESSWIRE / October 30, 2017 / 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 net income of \$1.71 million, or \$0.45 diluted earnings per common share, for the three months ended Sept. 30, 2017.

This compares to \$1.99 million, or \$0.54 in diluted earnings per common share, for the third quarter of 2016, a decrease of \$280,000. On a linked-quarter basis, the \$1.71 million of net income in the third quarter of 2017 decreased from second quarter 2017 net income of \$2.11 million, or \$0.55 diluted earnings per common share. The third quarter of 2016 and the second quarter of 2017 represented two of the three highest net income quarters in the Company's history.

For the first nine months ending Sept. 30, 2017, the Company reported net income of \$5.27 million, or \$1.38 diluted earnings per common share, an increase of \$520,000 over the net income for the first nine months of 2016 of \$4.75 million, or \$1.45 diluted earnings per common share. The increase in 2017 year-to-date earnings over 2016, and the slight decline in diluted earnings per share, reflect the effects of the Company's April 2016 acquisition of First Avenue National Bank in Ocala, Florida.

Key performance highlights for the third quarter of 2017 include:

- Continued shareholder value creation. Driven by strong earnings each quarter since early 2015, book value per share has risen to \$15.61 at Sept. 30, 2017, up from \$14.18 at Dec. 31, 2016, and \$13.66 at Sept. 30, 2016. The CBCO closing market price on Sept. 30, 2017, was \$19.00, up from \$15.01 at Dec. 31, 2016.
- Continued strong profitability. Despite a year-over-year decrease in quarterly net income, third quarter 2017 results continued to feature more balanced net income and solid contributions from all three of the Company's operating segments as compared to the third quarter of 2016: Community Banking earned \$886,000 in 2017's third quarter, up from \$690,000 in third quarter 2016. SBA Lending earned \$554,000 in the third quarter of 2017, down from \$657,000 earned in the same period in 2016. And Mortgage Banking earned \$830,000 in the third quarter of 2017, down from the robust earnings of \$1,176,000 in the third quarter of 2016. Community Banking and SBA Lending have outperformed the Company's 2017 budget for both the third quarter and year-to-date.
- Continued strong mortgage banking income. For the third quarter of 2017, \$461.5 million in residential mortgage loans were sold, generating \$3.80 million in total mortgage banking income, compared to the very robust third quarter of 2016, which had \$568.0 million in volume and \$4.51 million in mortgage banking income. Additionally, mortgage banking has generated increased yields on sold loans throughout 2017, compared to 2016, as a result of strategic changes in its loan origination mix. Mortgage banking income is down only \$618,000, or 5.0 percent for the first nine months of 2017 compared to the same period in 2016, despite sales volume being down \$357 million, or 22.8 percent, from the same period last year.

- Strong SBA originations and loan sales. SBA loan sale income in the third quarter of 2017 was \$1,047,000, compared to \$1,050,000 for the same period in 2016. For the third quarter of 2017, SBA Lending originated \$7.1 million in loans and sold \$8.3 million into the secondary market, compared to third quarter 2016 originations of \$11.7 million and sales of \$9.1 million into the secondary market. The balance of SBA loans available for sale at Sept. 30, 2017, was \$29.1 million, up from the \$28.9 million balance at Sept. 30, 2016.
- Solid year-over-year growth in the balance sheet. The balance sheet grew \$37.8 million, or 6.2 percent, from Sept. 30, 2016, to Sept. 30, 2017, with total assets of \$650.8 million at Sept. 30, 2017. The asset growth was driven by \$12.2 million of increased portfolio loan balances and \$30.2 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 \$420.0 million at Sept. 30, 2016, to \$426.3 million at Sept. 30, 2017, an increase of \$6.3 million, or 1.5 percent. However, core deposits have grown \$25.2 million year over year as declines have only occurred in non-core deposits.
- Steady to improving credit quality. The ratio of non-performing assets to assets decreased from 1.86 percent at Sept. 30, 2016, to 1.33 percent at Sept. 30, 2017. The ratio was 1.98 percent at Dec. 31, 2016. The allowance for loan losses was 1.32 percent of loans outstanding at Sept. 30, 2017, up slightly from 1.23 percent at the end of September 2016 but down from 1.47 percent at Dec. 31, 2016. Other real estate owned (OREO) declined to \$4.8 million at Sept. 30, 2017, from \$5.5 million at Sept. 30, 2016, and \$5.1 million at Dec. 31, 2016. Net charge-offs were \$226,000 for the third quarter of 2017, compared to net recoveries of \$56,000 for the third quarter of 2016. Net charge-offs for the first nine months of 2017 were \$1,076,000, compared to \$783,000 for the same period last year.
- Strong capital ratios. Capital ratios for CBC National Bank remained strong, with a total risk-based capital ratio of 22.76 percent and a Tier 1 risk-based capital ratio of 21.50 percent at Sept. 30, 2017, up from 20.92 percent and 19.66 percent, respectively, at Sept. 30, 2016.
- Continued stability in efficiency ratio. The Company's efficiency ratio for the third quarter of 2017 was 74.2 percent, compared to 65.1 percent for third quarter 2016. The increase in the ratio was due to the higher volume of mortgage revenue in the third quarter of 2016 compared to the third quarter of 2017. Overall, the Company's efficiency ratio for the nine months ended Sept. 30, 2017, was 71.8 percent, down slightly from 72.0 percent for the same period in 2016.

"In the third quarter, we continued to see a steady increase in shareholder value growth, driven by continued strong earnings," said Michael G. Sanchez, chairman and chief executive officer. "Shareholders' equity has increased \$8.4 million from Sept. 30, 2016, to Sept. 30, 2017, as book value per share has risen to \$15.61, up 14.3 percent from \$13.66 at Sept. 30, 2016. Driving shareholder value creation has been the strong, steady earnings we've booked each of the last 11 consecutive quarters, averaging \$1.64 million in quarterly net income during that time. Our consistently strong earnings and increase in equity have contributed to our market price increasing from \$13.45 at Sept. 30, 2016, to \$19.00 at Sept. 30, 2017, recognition by the market of our steady performance. Our managed growth is built on a foundation of solid fundamentals, as our balance sheet and capital ratios continue to strengthen through retained earnings, our credit quality remains well-managed, and we continue to see healthy deposit growth. The balance sheet has grown \$37.8 million, or 6.2 percent, from Sept. 30, 2016, to Sept. 30, 2017, driven by increased portfolio loan balances and increased investment securities. Non-performing assets decreased to 1.33 percent at Sept. 30, 2017, from 1.86 percent Sept. 30, 2016, driven primarily by a decrease in non-accrual loans. Our loan-loss reserve of 1.32 percent of loans outstanding at Sept. 30, 2017, remains satisfactory and is consistent with the decrease in non-performing assets. We are likewise pleased that our capital ratios continue to strengthen. Our Tier 1 risk-based capital ratio and our total risk-based capital ratio both increased more than 8 percent year over year."

For the three months ended Sept. 30, 2017, net interest income before the provision for loan losses was \$5.40 million, an increase of 2.7 percent, from the \$5.26 million for the quarter ended Sept. 30, 2016. Net interest income increased from \$14.36 million for the nine months ended Sept. 30, 2016, to \$15.80 million for the nine months ended Sept. 30, 2017. This increase was due to the acquisition of FANB in April 2016, increased yields and growth in portfolio loans. The Company's net interest margin increased from 3.76 percent for the three

months ended Sept. 30, 2016, to 3.85 percent for the same period in 2017. The net interest margin increased from 4.00 percent for the nine months ended Sept. 30, 2016, to 4.04 percent for the nine months ended Sept. 30, 2017.

Noninterest income was \$5.20 million for the third quarter of 2017, down from \$5.81 million for the third quarter of 2016. Income on SBA loan sales and service charges on deposits for the third quarter of 2017 were flat compared to last year's third quarter, while income from mortgage loan sales declined. Increases occurred in gain on sale of securities and other income. For the nine months ended Sept. 30, 2017, noninterest income was \$15.77 million, compared to \$15.35 million for the nine months ended Sept. 30, 2016. The increase is primarily due to increased SBA loan sales income and the gain on sale of securities mentioned above, partially offset by a decline in mortgage loan sales income and the bargain purchase gain recorded in April 2016 related to the FANB acquisition.

For the third quarter of 2017 noninterest expense was \$7.86 million, an increase of 9.1 percent from the \$7.21 million for the third quarter of 2016. This increase is primarily due to an increase in salaries and employee benefits, and occupancy and equipment. For the nine months ended Sept. 30, 2017, noninterest expense was \$22.65 million, an increase of 5.9 percent over the \$21.39 million in noninterest expense for the first nine months of 2016. The increase is due primarily to the year-to-date 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 non-recurring acquisition expenses incurred 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.

"Our strategic initiatives aimed at achieving ongoing, balanced earnings contributions from all three of our Company's divisions continue to drive strong, steady earnings and shareholder value growth," said Sanchez. "We continue to make product mix, operational and balance sheet adjustments to adapt to changing business and economic conditions to enable our Company to achieve our future growth targets. And as we remain vigilant on expense control, asset and loan quality, we maintain the utmost confidence in our talented management and staff to continue to successfully execute our operating strategy, and to continue to deliver strong shareholder value growth."

About Coastal Banking Company Inc.

Coastal Banking Company Inc. is the \$650.8 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, NC, 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 both 2015 and 2016, 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.

Coastal Banking Company Consolidated Balance Sheet September 30, 2017

	9/30/2017 YTD <u>Consolidated</u>	9/30/2016 YTD <u>Consolidated</u>	12/31/2016 <u>Consolidated</u>
Assets			
Cash and due from banks	\$ 11,617,011	\$ 11,577,913	\$ 7,956,004
Federal funds sold	345,853	394,946	387,123
Investment securities	57,680,189	27,448,189	24,760,056
Loans held for sale	141,666,670	143,917,964	92,009,241
Loans, gross	410,869,238	398,685,772	408,743,325
Less allowance for loan losses	(5,431,786)	(4,919,725)	(5,990,733)
Loans, net	405,437,452	393,766,047	402,752,592
Premises and equipment, net	13,367,935	13,719,383	13,604,166
Other real estate owned	4,770,949	5,525,575	5,061,661
Cash Surrender Value of Life Insurance	2,422,984	2,342,870	2,362,805
SBA Servicing Rights	1,600,628	1,521,446	1,403,431
Other assets	11,877,538	12,768,319	11,091,647
Total assets	<u>\$ 650,787,209</u>	<u>\$ 612,982,652</u>	<u>\$ 561,388,726</u>
Liabilities			
DDA - non interest bearing	\$ 82,368,199	\$ 74,899,737	\$ 77,603,027
DDA - interest bearing	177,292,331	173,412,990	174,112,178
Savings	17,621,754	15,200,599	15,618,336
Time	149,028,143	156,495,719	149,983,376
Total deposits	426,310,427	420,009,045	417,316,917
FHLB Advances & other borrowings	136,600,000	109,785,003	63,060,005
Senior Note Payable	8,166,667	9,166,667	8,916,667

Junior subordinated debentures	7,217,000	7,217,000	7,217,000
Other liabilities	14,782,465	17,521,263	13,162,845
Total liabilities	<u>593,076,559</u>	<u>563,698,978</u>	<u>509,673,434</u>
Stockholders' equity			
Common stock	36,813	36,086	36,475
Additional paid-in-capital	54,114,729	52,861,862	53,354,382
Retained earnings	3,403,209	(4,075,567)	(1,870,203)
Net unrealized gain (loss) - securities AFS	155,899	461,293	194,638
Total stockholders' equity	<u>57,710,650</u>	<u>49,283,674</u>	<u>51,715,292</u>
Total liabilities and stockholders' equity	<u>\$ 650,787,209</u>	<u>\$ 612,982,652</u>	<u>\$ 561,388,726</u>

Coastal Banking Company
Consolidated Income Statement
September 30, 2017

	9/30/2017	9/30/2016	9/30/2017	9/30/2016	12/31/2016
	QTD	QTD	YTD	YTD	YTD
	<u>Consolidated</u>	<u>Consolidated</u>	<u>Consolidated</u>	<u>Consolidated</u>	<u>Consolidated</u>
Interest Income:					
Loans	\$ 6,349,207	\$ 6,145,961	\$ 18,218,487	\$ 16,599,091	\$ 22,709,121
Investment Securities	224,646	195,977	651,196	596,869	805,347
Deposits with Banks	857	4,317	2,493	13,985	14,771
Federal funds sold	21,880	1,385	78,635	5,517	12,764
Total interest income	<u>6,596,590</u>	<u>6,347,640</u>	<u>18,950,811</u>	<u>17,215,462</u>	<u>23,542,003</u>
Interest Expense:					
Deposits	721,780	695,188	2,092,179	1,724,297	2,422,894
FHLB Advances & other borrowings	411,191	345,504	888,761	982,837	1,144,973
Junior subordinated debentures	62,798	50,294	173,072	148,663	480,556
Total interest expense	<u>1,195,769</u>	<u>1,090,986</u>	<u>3,154,012</u>	<u>2,855,797</u>	<u>4,048,423</u>
Net interest income before provision for loan losses	5,400,821	5,256,654	15,796,799	14,359,665	19,493,580
Provision for loan losses	148,255	55,772	517,455	448,705	1,450,061
Net interest income after provision for loan losses	<u>5,252,566</u>	<u>5,200,882</u>	<u>15,279,344</u>	<u>13,910,960</u>	<u>18,043,519</u>
Operating income:					
Service charges on deposits	226,018	224,626	714,166	623,599	860,338
Mortgage banking income	3,799,285	4,505,109	11,735,555	12,353,008	18,225,244
SBA loan income	1,047,141	1,049,912	2,942,974	1,784,033	1,962,023
Gain on sale of securities	54,704	-	97,467	-	18,373
Increase in cash surrender value of life insurance	20,337	21,675	60,357	63,594	83,584
Other income	48,352	9,539	217,611	526,708	1,536,287
Total operating income	<u>5,195,837</u>	<u>5,810,861</u>	<u>15,768,130</u>	<u>15,350,942</u>	<u>22,685,849</u>
Operating expenses:					
Salaries and employee benefits	4,854,038	4,079,183	14,131,948	12,512,579	17,373,369
Net occupancy and equipment expense	922,587	834,509	2,593,056	2,262,530	3,147,188
Mortgage loan expense	185,908	198,116	466,573	470,653	703,285
Other real estate expense	88,431	104,782	245,217	211,744	616,676
Data processing/ATM expense	486,758	466,910	1,394,751	1,397,860	1,969,355
Audit Fees	150,945	255,482	479,057	475,346	769,158
Legal & professional fees	177,015	287,487	789,415	788,547	1,023,046
Director fees	87,725	127,150	310,650	306,150	403,550

Advertising	144,813	178,814	415,089	468,783	653,609
FDIC Insurance expense	46,946	81,000	146,603	243,000	239,506
OCC Examination fees	38,772	43,500	116,316	123,613	162,385
Other operating expense	679,029	549,295	1,566,276	2,126,299	2,681,879
	<u>7,862,967</u>	<u>7,206,228</u>	<u>22,654,951</u>	<u>21,387,104</u>	<u>29,743,005</u>
Income before provision for income taxes	2,585,436	3,805,515	8,392,523	7,874,798	10,986,363
Provision for income taxes	873,808	1,819,177	3,119,111	3,124,376	4,030,577
Net income	<u>\$ 1,711,628</u>	<u>\$ 1,986,338</u>	<u>\$ 5,273,412</u>	<u>\$ 4,750,422</u>	<u>\$ 6,955,786</u>

Coastal Banking Company
Consolidated Financial Highlights
September 30, 2017

	9/30/2017	9/30/2016	9/30/2017	9/30/2016	12/31/2016
	QTD	QTD	YTD	YTD	YTD
	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated
\$ Earnings					
Net interest income	\$ 5,400,821	\$ 5,256,654	\$ 15,796,799	\$ 14,359,665	\$ 19,493,580
Provision for loan loss	148,255	55,772	517,455	448,705	1,450,061
Other income	5,195,837	5,810,861	15,768,130	15,350,942	22,685,849
Other expense	<u>7,862,967</u>	<u>7,206,228</u>	<u>22,654,951</u>	<u>21,387,104</u>	<u>29,743,005</u>
Pre-tax income	2,585,436	3,805,515	8,392,523	7,874,798	10,986,363
Taxes	873,808	1,819,177	3,119,111	3,124,376	4,030,577
Net income	<u>\$ 1,711,628</u>	<u>\$ 1,986,338</u>	<u>\$ 5,273,412</u>	<u>\$ 4,750,422</u>	<u>\$ 6,955,786</u>
Earnings per share (basic)	\$ 0.47	\$ 0.55	\$ 1.44	\$ 1.48	\$ 2.10
Earnings per share (diluted)	\$ 0.45	\$ 0.54	\$ 1.38	\$ 1.45	\$ 2.05
Performance Ratios					
ROAA	1.15%	1.33%	1.25%	1.20%	1.29%
ROAE	11.96%	16.99%	12.89%	15.43%	16.07%
Net Interest Margin	3.85%	3.76%	4.04%	4.00%	3.85%
Efficiency Ratio	74.20%	65.11%	71.77%	71.98%	70.52%
Capital					
Tier 1 leverage capital ratio (Bank)	11.81%	10.70%	11.81%	10.70%	10.01%
Common equity risk-based capital ratio (Bank)	21.50%	19.66%	21.50%	19.66%	18.47%
Tier 1 risk-based capital ratio (Bank)	21.50%	19.66%	21.50%	19.66%	18.47%
Total risk-based capital ratio (Bank)	22.76%	20.92%	22.76%	20.92%	19.74%
Book value per share	\$ 15.61	\$ 13.66	\$ 15.61	\$ 13.66	\$ 14.18
Tangible book value per share	\$ 15.02	\$ 12.98	\$ 15.02	\$ 12.98	\$ 13.57
Asset Quality					
Nonaccrual Loans	\$ 3,903,633	\$ 5,867,154	\$ 3,903,633	\$ 5,867,154	\$ 6,070,027
Other real estate owned	\$ 4,770,949	\$ 5,525,575	\$ 4,770,949	\$ 5,525,575	\$ 5,061,661
Net Charge-offs (recoveries)	\$ 225,733	\$ (55,560)	\$ 1,076,402	\$ 783,388	\$ 713,736
Net Charge-offs to average loans	0.05%	-0.01%	0.26%	0.22%	0.20%
Allowance to total loans, net of LHFS	1.32%	1.23%	1.32%	1.23%	1.47%
Nonperforming assets to total assets	1.33%	1.86%	1.33%	1.86%	1.98%

End of Period Balances

Assets	\$ 650,787,209	\$ 612,982,652	\$ 650,787,209	\$ 612,982,652	\$ 561,388,726
Portfolio Loans	\$ 410,869,238	\$ 398,685,772	\$ 410,869,238	\$ 398,685,772	\$ 408,743,325
Loans Held for Sale	\$ 141,666,670	\$ 143,917,964	\$ 141,666,670	\$ 143,917,964	\$ 92,009,241
Deposits	\$ 426,310,427	\$ 420,009,045	\$ 426,310,427	\$ 420,009,045	\$ 417,316,917
Borrowings	\$ 136,600,000	\$ 109,785,003	\$ 136,600,000	\$ 109,785,003	\$ 63,060,005
Shareholders' Equity	\$ 57,710,650	\$ 49,283,674	\$ 57,710,650	\$ 49,283,674	\$ 51,715,292

Average Balances

Assets	\$ 592,221,593	\$ 592,075,310	\$ 563,414,370	\$ 529,250,543	\$ 540,525,290
Portfolio Loans	\$ 415,337,566	\$ 392,996,546	\$ 410,178,472	\$ 352,321,219	\$ 364,242,751
Loans Held for Sale	\$ 93,419,390	\$ 130,668,362	\$ 77,733,632	\$ 113,011,398	\$ 111,509,816
Deposits	\$ 425,406,126	\$ 416,916,380	\$ 426,163,223	\$ 373,360,999	\$ 385,102,055
Borrowings	\$ 82,861,967	\$ 99,227,373	\$ 55,176,567	\$ 86,591,353	\$ 83,230,853
Shareholders' Equity	\$ 56,782,145	\$ 46,395,640	\$ 54,698,165	\$ 41,159,830	\$ 43,270,921
Average Shares	3,678,789	3,602,984	3,670,943	3,203,194	3,307,965

Stock Valuation

Closing Market Price (OTCQX)	19.00	13.45	\$	19.00	\$	13.45	\$	15.01
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SOURCE: Coastal Banking Company Inc.