Introduction

Coastal Banking Company, Inc. (the "Company") is the $635.8 million-asset bank holding company of CBC National Bank (the "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 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 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

On May 2, 2012 the Company filed a Form 15-12G with the Securities and Exchange Commission (the "SEC") to terminate the registration of its common stock under Section 12(G) of the Securities Exchange Act of 1934 and thereby suspend its duty to file reports with the SEC under Sections 13 and 15(D) of the Act. As a result, the Form 10Q filed for the period ended March 31, 2012 is the final financial report filed with the SEC by the Company. Related to the report below, Management intends to continue to prepare and publish quarterly interim and annual financial reports with similar information as previously reported to the SEC to ensure investors have access to timely, meaningful information related to the Company's results. These financial reports will be published on the Company's website at intervals comparable with the comparable SEC filing deadlines.

On January 22, 2016 the Company filed a Regulation A Offering Statement on Form 1-A with the SEC for the purpose of qualifying the common shares to be issued in connection with the acquisition of First Avenue National Bank (see below). Amendments to this filing were submitted to the SEC on February 23, 2016 and February 25, 2016. The SEC issued a notice of qualification of the filing on February 29, 2016. After filing Form 1-Z of Regulation A on May 9, 2016, our duty to file reports with the SEC under Sections 13 and 15(D) of the Act was again suspended.

On April 8, 2016, the Company completed its acquisition of First Avenue National Bank. ("FANB"), a $112 million bank headquartered in Ocala, Florida. At that time, FANB merged with and into the Bank. The acquisition expanded the Company's Florida market presence, as FANB had a total of three full-service branches located in Ocala and The Villages, Florida.

A more complete history of Coastal Banking Company, Inc. (the "Company") may be found at the Company's website at:

http://www.coastalbanking.com/about-us.html

Forward-Looking Statements

This report contains "forward-looking statements" relating to, without limitation, future economic performance, plans and objectives of management for future operations, and projections of revenues and other financial items that are based on the opinions of management, as well as assumptions made by and information currently available to management. The words "may," "will," "anticipate," "should," "would," "believe," "contemplate," "expect," "estimate," "continue," "may," and "intend," as well as other similar words and expressions of the future, are intended to identify forward-looking statements.

Results of Operations

The following discussion describes our results of operations for the second quarter and year to date ended June 30, 2017 as compared to the second quarter and year to date ended June 30, 2016, and also analyzes our financial condition as of June 30, 2017 as compared to June 30, 2016 and December 31, 2016. Like most community banks, we derive a significant portion of our income from interest we receive on our loans and investments. Our primary sources of funds for making these loans

and investments are our deposits and borrowings, on which we pay interest. Consequently, one of the key measures of our success is our amount of net interest income, or the difference between the income on our interest-earning assets and the expense on our interest-bearing liabilities. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities.

There are risks inherent in all loans, so we maintain an allowance for loan losses to absorb possible losses on existing loans that may become uncollectible. We establish and maintain this allowance by charging a provision for loan losses against our operating earnings. Please see the section entitled “Provision and Allowance for Loan Losses” for additional detail.

In addition to earning interest on our loans and investments, we earn income through gains on sales of loans, service charges, fees, cash surrender value of life insurance and other income. The Company’s more significant sources of revenue are from Gain on Sale of Mortgage Loans and SBA Loan Income as discussed in the sections entitled “Mortgage Banking Operations” and “SBA Lending”. We describe these gains and the other various components of noninterest income, as well as our noninterest expense, in the sections entitled “Noninterest Income” and “Noninterest Expense.”

The following discussion and analysis also identifies significant factors that have affected our financial position and operating results during the periods included in the accompanying financial statements. We encourage you to read this discussion and analysis in conjunction with the financial statements and the related notes and the other statistical information also included in this report.

Overview

Net income for the three months ended June 30, 2017 was $2,113,000 or $0.55 per diluted common share, compared to net income of $1,546,000, or $0.46 per diluted common share for the three months ended June 30, 2016. Net income per basic common share was $0.58 for the second quarter of 2017, compared to $0.47 for the second quarter of 2016. Net income increased 36.7% from the second quarter last year to the second quarter this year.

Net income for the six months ended June 30, 2017 was $3,562,000 or $0.94 per diluted common share, compared to net income of $2,764,000, or $0.90 per diluted common share for the first six months of 2016. Net income per basic common share was $0.97 for the first six months of 2017, compared to $0.92 for the first six months of 2016. Net income increased 28.9% from June year to date last year to June year to date this year.

Net interest income was $5,288,000 for the second quarter ended June 30, 2017 compared to net interest income of $5,163,000 for the quarter ended June 30, 2016, a year over year increase of 2.4%. The Company’s net interest margin increased from 3.95% for the second quarter of 2016 to 4.09% for the second quarter of 2017.

Net interest income was $10,396,000 for the six months ended June 30, 2017 compared to net interest income of $9,103,000 for the six months ended June 30, 2016, a year over year increase of 14.2%. The Company’s net interest margin increased from 3.92% from the six months ended June 2016 to 4.14% for the six months ended June 2017.

The provision for loan losses for the three months ended June 30, 2017 was $74,000 compared to $360,000 for the three months ended June 30, 2016. The provision for loan losses for the six months ended June 30, 2017 was $369,000 compared to $392,000 for the six months ended June 30, 2016. The year over year decrease to the provision for loan losses reflects the overall improvement in asset quality in the last year. The provision for loan losses recorded each year reflects the amount calculated by our allowance for loan losses methodology, which also takes into account current economic conditions, loan quality measures and the underlying collateral value securing many of our loans.

Noninterest income for the second quarter of 2017 totaled $5,801,000 representing a slight decrease from the $5,844,000 for the second quarter of 2016. This decrease was driven primarily by a lower level of mortgage banking noninterest income for the second quarter of 2017 and the recognition of a $584,000 bargain purchase gain for the FANB acquisition during the second quarter of 2016. The bargain purchase gain in 2016 was recorded in other income. These decreases were partially offset by a strong increase in SBA loan income for the second quarter of 2017 compared to the second quarter of 2016. The decrease in mortgage banking income was due to a decline in loan sale volume from $521.9 million during the second quarter of 2016 to $404.6 million for the second quarter of 2017. However, the yield on the sale of mortgage loans actually improved from the second quarter last year to the same period this year. The year over year increase in SBA loan income reflects increased selling volume in 2017 of the guaranteed portion of SBA loans. A total of $8.0 million of SBA loans were sold during the second quarter of 2017 compared to $1.5 million of SBA loans sold during the second quarter or 2016. Service charges on deposits increased for the second quarter in 2017 over the same period in 2016 in part due to increased debit card and ATM fee income.

Noninterest income for the six months ended June 30, 2017 totaled $10,572,000 representing a $1,032,000, or 10.8% increase from the $9,540,000 for the six months ended June 30, 2016. The increase is due to significantly increased SBA loan income, increased mortgage banking income, increased service charges on deposits, partially offset by the recording of the bargain purchase gain mentioned above. SBA loan income increased from $734,000 for the six months ended June 30, 2016 to

$1,896,000 for the same period in 2016 due to increased sales volume. Despite a decline in sales volume of $150 million year over year, mortgage banking income increased from $7,848,000 for the six months ended June 30, 2016 to $7,936,000 for the six months ended June 30, 2017 due to enhanced yields on loan sales. Service charges on deposits increased year over year primarily due to the addition of the FANB branches.

Noninterest expenses in the second quarter of 2017 were $7,566,000, an 11.0% decrease over the $8,503,000 in the second quarter of 2016, primarily as a result of the expenses related to the acquisition of FANB incurred last year. Salaries and benefits also declined from the second quarter of 2016 to the second quarter of 2017 due to decreased commissions on mortgage loan sales. The Company's efficiency ratio, which is a measure of total noninterest expenses as a percentage of net interest income and noninterest income, declined from 77.26% in the second quarter of 2016 to 68.23% in the second quarter of 2017.

Noninterest expenses for the six months ended June 30, 2017 were $14,792,000, a 4.3% increase over the $14,181,000 for the six months ended June 30, 2016, primarily as a result of the acquisition of FANB as noted above. Salaries and benefits and occupancy and equipment expenses have increased due to the additional FANB personnel and branches, but other operating expenses declined year over year due to non-recurring acquisition expenses incurred last year.

For the six months ended June 30, 2017 we incurred an income tax expense of $2,245,000 compared to $1,305,000 for the six months ended June 30, 2016. Our effective tax rate was 38.7% in 2017 and 32.1% in 2016. The current year increase in effective tax rate reflects a slightly higher percentage of growth in taxable income in 2017 over 2016, in part due to the non-taxable bargain purchase gain recorded in 2016.

Supplemental Segment Information

The Bank has three reportable business operating segments: Community Banking, SBA Lending, and Mortgage Banking Operations. All direct costs and revenues generated by each business segment are allocated to the segment; however, there is no allocation of indirect corporate overhead costs to the Community Banking, SBA Lending or Mortgage Banking segments. Additionally, interest expense is allocated to the SBA Lending and Mortgage Banking segments based on the Bank's monthly average cost of funds plus 1.50%. The Bank's reportable business segments are strategic business units that offer different products and services to a different customer base.

(In thousands)	Community Banking		SBA Lending Operations		Mortgage Banking Operations	
Six months ended June 30,	2017	2016	2017	2016	2017	2016
Interest income	$ 7,085	$ 5,274	$ 2,831	$ 2,320	$ 2,470	$ 2,928
Interest expense	1,150	752	1,079	917	1,358	1,595
Net interest income	5,935	4,522	1,752	1,403	1,112	1,333
Provision for loan losses	172	253	53	76	144	64
Net interest income after provision	5,763	4,269	1,699	1,327	968	1,269
Non-interest income	372	175	1,920	734	7,834	7,744
Non-interest expense	3,219	2,881	1,779	1,467	5,799	5,453
Net income before tax expense	2,916	1,563	1,840	594	3,003	3,560
Income tax expense (benefit)	1,151	616	727	235	1,187	1,373
Net income (loss)	$ 1,765	$ 947	$ 1,113	$ 359	$ 1,816	$ 2,187

Mortgage Banking Operations The Bank has operated a residential mortgage lending division headquartered in Atlanta, Georgia since September 2007. The division originates and funds residential mortgage loans submitted by mortgage brokers, as well as loan applications submitted directly from borrowers, and then sells these mortgage loans into the secondary market. We expanded this division in 2011 by opening retail residential loan production offices throughout the country. This group is known as our National Retail Group (NRG). As of June 30, 2017, the mortgage banking division operates retail and wholesale residential loan production offices in Florida, Georgia, Illinois, Maryland, North Carolina, South Carolina, Tennessee and Ohio. This lending channel subjects us to various risks, including credit, liquidity, and interest rate risks. We reduce credit and liquidity risks by selling virtually all the mortgage loans originated through this division. From time to time, we may decide to hold loans originated through this division as additions to our residential real estate loan portfolio. We determine whether the loans will be held in our portfolio or sold in the secondary market at the time of origination. We may also subsequently change our intent to hold loans in portfolio and subsequently sell some or all of these loans from our portfolio as part of our corporate asset/liability management strategy.

As part of our mortgage banking activities, we enter into commitments to fund residential mortgage loans by a specified future date. A mortgage loan commitment is an interest rate lock that binds us to lend funds to a potential borrower at a specified interest rate and within a specified period of time, generally up to 60 days after inception of the rate lock, subject to the loan applicant satisfying the underwriting conditions required for approval of their loan application. These loan commitments are derivative loan commitments and the loans that result upon exercise of the loan commitments are held for sale. These derivative loan commitments are recognized at fair value in the balance sheet with changes in fair value recorded as part of mortgage banking noninterest income. We record no value for the loan commitment at inception. Subsequent to inception, however, we recognize the fair value of the derivative loan commitment based upon (i) estimated changes in the fair value of the underlying loan that would result from the exercise of that commitment and (ii) changes in the probability that the underlying loan will fund within the terms of the commitment (referred to as the "pull through" rate). The value of the underlying loan is affected primarily by changes in interest rates and the passage of time.

Outstanding derivative loan commitments expose us to the risk that the value of the loans underlying the commitments might decline due to increases in mortgage interest rates from the date of the inception of the rate lock to the funding of the loan. The Company's closed inventory and locked pipeline shall be hedged with instruments that present the lowest possible Beta risk to the Company. Hedges include, but are not limited to: FNMA, FHLMC and GNMA I and II Mortgage Backed Securities, cash commitments, and mandatory commitments to investors.

The Mortgage segment's net income declined from $1,579,000 for the second quarter of 2016 to $1,242,000 for the second quarter of 2017. The primary source of direct income generated by this division is the gain on sale of mortgage loans which is part of noninterest income. Non-interest income was $4,476,000 for the three months ended June 30, 2017 compared to $4,850,000 for the three months ended June 30, 2016, a decrease of 7.7%. Although the volume of loans originated and sold declined from the second quarter of 2016 to the second quarter of 2017 as mentioned above, the Mortgage Division's strategy of increasing its mix of government backed loans resulted in higher yields this year. The direct noninterest expenses incurred by the division were $2,921,000 during the first three months of 2017, a slight increase over the second quarter 2016 expenses of $2,879,000. Salaries and benefits and other expense increases were the primary reasons for the year over year change for the second quarter.

The Mortgage segment's net income declined from $2,187,000 for the six months ended June 30, 2016 to $1,816,000 for the six months ended June 30, 2017. Noninterest income was $7,834,000 for the six months ended June 30, 2017 compared to $7,744,000 for the six months ended June 30, 2016. Noninterest income increased for the first six months of 2017 over last year despite a decline in volume due to the higher yields mentioned above. Noninterest expenses for the Mortgage segment increased from $5,453,000 for the six months ended June 30, 2016 to $5,799,000 for the same period in 2017 due primarily to increased salaries and benefits.

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 (NRG) against that group's origination income. This change only affects reported noninterest income and noninterest expense, and provides for a better reflection of the Company's efficiency ratio. The Company's financials for the second quarter and year to date 2016 were restated for this change for comparability purposes. This change had no effect on the Company's reported net income for the six months ended June 30, 2017 or 2016. Income and expense discussed above includes this change as well.

SBA Lending SBA Lending has been a part of the Company's banking operations since 1999. Headquartered in Fernandina Beach, Florida, SBA operations were expanded in April 2010, including government guaranteed loan originations throughout the southeastern United States. Loans are generated by experienced, lending professionals through SBA offices in Jacksonville, Ft. Myers, Tampa and Vero Beach, Fla, Greensboro, N.C., Atlanta and Beaufort, S.C. with loan administration, including approval, centralized in Fernandina Beach. Income from the division is generated through premiums on sale and servicing income of the guaranteed amounts, typically 75% of the loan. The SBA segment's net income grew from $5,000 for the second quarter of 2016 to $475,000 for the second quarter of 2017. SBA noninterest income for the three months ended June 30, 2017 totaled $871,000, up from $154,000 during the first three months of 2016. The volume of loans sold during the second quarter of 2017 totaled $8.0 million compared to only $1.5 million in sales during the second quarter last year. However, SBA Lending's expenses only increased from $810,000 in the second quarter of 2016 to $918,000 in the second quarter of 2017, primarily in Salaries and benefits. Strategically, the division continues to grow its retained portfolio. The overall SBA loan portfolio increased from $87.4 million at June 30, 2016 to $88.9 million at June 30, 2017. Retaining the guaranteed amounts provides increased interest income while maintaining the ability to create potential non-interest income through participation sales at a future date. The portion of the SBA portfolio available for sale at June 30, 2017 2016 stood at $35.0 million, up from $28.0 million at June 30, 2016.. This hold versus sale strategy remains a crucial part of management's plan moving forward.

The SBA segment's net income grew from $359,000 for the six months ended June 30, 2016 to $1,113,000 for the six months ended June 30, 2017. SBA noninterest income for the six months ended June 30, 2017 totaled $1,920,000, up from $734,000 during the first six months of 2016. SBA Lending's expenses only increased from $1,467,000 for the six months ended June 30, 2016 to 1,779,000 for the six months ended June 30, 2017, primarily in salaries and benefits.

Community Banking

Prior to the April, 2016 acquisition of FANB, the Bank had 3 branches in Fernandina Beach, Florida, and Beaufort and Port Royal, South Carolina. With the addition of FANB, 3 branches were added in the Ocala, Florida area. The acquisition significantly increased the magnitude and importance of this segment to the Company. The primary source of income generated by this division is interest and fees on loans, service charges and other income from typical retail banking sources. Net income for Community Banking increased from $418,000in the second quarter of 2016 to $953,000 for the second quarter of 2017. For the six months ended June 30, 2017, Community Banking net income was $1,765,000 compared to only $947,000 for the same period in 2016. The increased net income from the Community Banking segment has significantly contributed to the more balanced operating results between the Company's three key operating segments.

Net Interest Income

For the three months ended June 30, 2017 net interest income totaled $5,288,000, up by 2.4% from $5,163,000 for the three months ended June 30, 2016. This increase to net interest income was largely driven by a $20,410,000, or 4.0%, decrease in average interest bearing liabilities, partially offset by a $5,893,000, or 1.1%, decrease in the average balance of earning assets. Interest income from loans, including fees, increased 1.9% to $6,054,000 for the quarter ended June 30, 2017 compared to $5,944,000 for the same period last year. The average balance of loans was $486.5 million in the second quarter of 2017 compared to $493.7 million during the second quarter of 2016, for a year over year decrease of 1.5%. These decreases were all attributable to the decline in Loans Held for Sale. The weighted average rate earned on loans increased 15 basis points to 4.99% for the three months ended June 30, 2017 from the 4.84% for the three months ended June 30, 2016. This increase was partially due to the three recent prime rate increases. The favorable impact of the year over year increase to interest income was very slightly offset by a corresponding increase in the amount of interest expense, which totaled $1,000,000 for the quarter ended June 30, 2017, compared to $998,000 for the quarter ended June 30, 2016. The net interest margin was 4.09% for the quarter ended June 30, 2017 and 3.95% for the quarter ended June 30, 2016.

For the six months ended June 30, 2017 net interest income totaled $10,396,000, up by 14.2% from $9,103,000 for the six months ended June 30, 2016. This increase to net interest income was largely driven by growth in investment securities, portfolio loans and the addition of FANB. . The net interest margin was 4.14% for the six months ended June 30, 2017 and 3.92% for the six months ended June 30, 2016.

Average Balances and Interest Rates

The table below shows the average balance outstanding for each category of interest-earning assets and interest-bearing liabilities for the second quarter of 2017 and 2016, and the average rate of interest earned or paid thereon. Average balances have been derived from the daily balances throughout the period indicated. Non-accrual loans and the interest income recorded on these loans, if any, are included in the yield calculation for loans in all periods reported. Amounts are presented on a tax equivalent basis.

	2017			2016		
(In thousands)	**Average Balance**	**Interest**	**Yield/ Rate**	**Average Balance**	**Interest**	**Yield/ Rate**
Assets:						
Interest-earning assets:						
Loans	$ 486,521	$ 6,054	4.99%	$ 493,707	$ 5,944	4.83%
Taxable investments	23,747	179	3.02%	27,098	181	2.68%
Tax-free investments	7,657	77	4.02%	3,402	43	5.04%
Interest-bearing deposits in other banks	381	1	0.88%	368	1	1.56%
Federal funds sold	545	2	1.40%	169	1	0.32%
Total interest-earning assets	518,851	6,313	4.88%	524,744	6,170	4.72%
Other noninterest earning assets	35,775			40,922		
Total assets	$ 554,626			$ 565,666		

Liabilities and shareholders' equity:						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand and savings deposits	$ 277,623	$ 276	0.40%	$ 254,361	$ 223	0.35%
Time deposits	154,984	418	1.08%	153,981	394	1.03%
Other borrowings	56,709	306	2.17%	101,384	381	1.51%
Total interest-bearing liabilities	489,316	1,000	0.82%	509,726	998	0.79%
Other noninterest bearing liabilities	11,616			11,081		
Shareholders' equity	53,694			44,859		
Total liabilities and shareholders' equity	$ 554,626			$ 565,666		
Excess of interest-earning assets over interest bearing liabilities	$ 29,535			$ 15,018		
Ratio of interest-earning assets to interest-bearing liabilities	106%			103%		
Tax equivalent adjustment		(25)			(9)	
Net interest income		$ 5,288			$ 5,163	
Net interest spread			4.06%			3.93%
Net interest margin			4.09%			3.95%

Interest Rate Sensitivity and Asset Liability Management

Interest rate sensitivity measures the timing and magnitude of the repricing of assets compared with the repricing of liabilities and is an important part of asset/liability management of a financial institution. The objective of interest rate sensitivity management is to generate stable growth in net interest income, and to manage the risks associated with interest rate movements. Management constantly reviews interest rate risk exposure under various interest rate scenarios so that adjustments in interest rate sensitivity can be made on a timely basis. Net interest income is the primary component of recurring net income for financial institutions. Net interest income is affected by the timing and magnitude of repricing as well as the mix of interest sensitive and noninterest sensitive assets and liabilities. "Gap" is a static measurement of the difference between the contractual maturities or repricing dates of interest sensitive assets and interest sensitive liabilities for a given time period. The projected Gap exposure is expressed as a ratio of interest sensitive assets to interest sensitive liabilities in an attempt to predict the behavior of the Company's net interest income during periods of moving interest rates.

The following table summarizes the amounts of the Company's interest-earning assets and interest-bearing liabilities outstanding at June 30, 2017, that are expected to mature, prepay, or reprice in each of the future time periods shown. Except as stated below, the amount of assets or liabilities that mature or reprice during a particular period was determined in accordance with the contractual terms of the asset or liability. Adjustable rate loans are included in the period in which interest rates are next scheduled to adjust rather than in the period in which they are due, and fixed-rate loans and mortgage-backed securities are included in the periods in which they are anticipated to be repaid based on maturities. The Bank's savings accounts and interest-bearing demand accounts (NOW and money market deposit accounts) that are not contractually tied to an adjusting index are grouped into categories based on the Company's historical repricing practices. Money market accounts, which are contractually tied to repricing indexes, reprice monthly and are grouped in the three month or less category. Many of these money market accounts are tied to a Treasury index.

At June 30, 2017 Maturing or Repricing in:

(In Thousands)	3 Months or Less	4 Months to 12 Months	1 to 5 Years	Over 5 Years	Total
Mortgage-Backed Securities	$ 615,337	$ 2,293,584	$ 5,377,136	$ 10,292,657	$ 18,578,714
Fed Funds Sold	224,000				224,000
Other Investments	6,899,190	1,471,988	9,103,317	7,410,036	24,884,531
Total Investments	$ 7,738,527	$ 3,765,572	$ 14,480,453	$ 17,702,693	$ 43,687,245
Commercial Loans	$ 75,765,479	$ 2,623,216	$ 3,372,320	$ 2,763,005	$ 84,524,020
Real Estate Loans	256,633,788	59,271,262	76,813,435	26,497,223	419,215,708

Installment Loans	25,525,766	9,783,036	5,452,452	8,618,299	49,379,553
Total Loans	$ 357,925,033	$ 71,677,514	$ 85,638,207	$ 37,878,527	$ 553,119,281
Total Interest-Earning Assets	**$ 365,663,560**	**$ 75,443,086**	**$ 100,118,660**	**$ 55,581,220**	**$ 596,806,526**
Certificates of Deposit	$ 33,011,477	$ 74,072,403	$ 47,724,451	$	$ 154,808,331
Transaction & Savings	77,841,831	8,587,478	43,079,016	65,183,698	$ 194,692,023
Senior Debentures	7,217,000				7,217,000
Junior Subordinated Debentures	8,416,667				8,416,667
FHLB Advances	101,500,000	6,500,000	10,500,000		118,500,000
Total Interest-Bearing Liabilities	**$ 227,986,975**	**$ 89,159,881**	**$ 101,303,467**	**$ 65,183,698**	**$ 483,634,021**
Interest Sensitive Assets	$ 365,663,560	$ 75,443,086	$ 100,118,660	$ 55,581,220	$ 596,806,526
Interest Sensitive Liabilities	$ 227,986,975	$ 89,159,881	$ 101,303,467	$ 65,183,698	$ 483,634,021
Gap	$ 137,676,585	$ -13,716,795	$ -1,184,807	$ -9,602,478	$ 113,172,505
Cumulative Gap	**$ 137,676,585**	**$ 123,959,790**	**$ 122,774,983**	**$ 113,172,505**	
Gap Ratio	**1.60**	**0.85**	**0.99**	**0.85**	**1.23**
Cumulative Gap Ratio	**1.60**	**1.39**	**1.29**	**1.23**	
Cumulative Gap as % of EA	23.1%	20.8%	20.6%	19.0%	

At June 30, 2017, the Company, as measured by Gap, is asset sensitive with a cumulative projected Gap ratio of 1.60 over a three month period and a cumulative projected Gap ratio of 1.39 over a one year period. At June 30, 2017, the Company had $137.7 million more assets than liabilities repricing or maturing within three months, and $124.0 million more assets than liabilities repricing over a one-year time period. Generally, the Company's Gap ratios indicate that net interest income will increase if rates rise. However, Gap analysis does not take into account the potential decreased demand for Mortgage loans and other loans in an increasing interest rate environment that might reduce the Company's noninterest income (i.e. Gain on Sale income).

Management regularly evaluates its interest rate risk, including deposit pricing policies, loan demand, and changes in the mix of various types of interest bearing assets and liabilities. The Company forecasts its sensitivity to interest rate changes not less than quarterly using modeling software.

Provision and Allowance for Loan Losses

There are risks inherent in making all loans, including risks with respect to the period of time over which loans may be repaid, risks resulting from changes in economic and industry conditions, risks inherent in dealing with individual borrowers, and, in the case of a collateralized loan, risks resulting from uncertainties about the future value of the collateral. We establish and maintain an allowance for loan losses based on a number of quantitative and qualitative factors including, among other things, historical experience, evaluation of economic conditions, regular reviews of delinquencies and loan portfolio quality

and a number of assumptions about future events, which we believe to be reasonable, but which may not prove to be accurate. We believe that changes in economic and industry conditions capture the impact of general declines in the value of collateral property, and in this way our factors reflect general declines in collateral values.

The provision for loan losses is the periodic charge to operating earnings that management believes is necessary to maintain the allowance for possible loan losses at an adequate level. The amounts of these periodic charges are based on management's analysis of the potential risk in the loan portfolio. This analysis includes, among other things, evaluation of the trends in key loan portfolio metrics as follows:

(In thousands)	**June 30, 2017**	**March 31, 2017**	**December 31, 2016**	**September 30, 2016**	**June 30, 2016**	**March 31, 2016**	**December 31, 2015**	**September 30, 2015**
Portfolio loans, gross	$ 414,870	$ 403,082	$ 408,743	$ 398,686	$ 393,146	298,262	$ 285,933	$ 274,704
Loans past due > 30 days and still accruing interest	$ 514	$ 4,278	$ 989	$ 795	$ 4,177	1,056	$ 123	$ 2,302
Loans on nonaccrual	$ 4,365	$ 3,503	$ 6,070	$ 5,867	$ 4,478	1,936	$ 2,478	$ 3,484
(as a % of loans, gross)	1.05%	0.87%	1.49%	1.47%	1.14%	0.65%	0.87%	1.27%
Net loan charge offs (recoveries)	$ 183	$ 668	$ (70)	$ (56)	$ (29)	869	$ 16	$ 8
(as a % of avg. loans, gross)	0.04%	0.17%	(0.02)%	(0.02)%	(0.01%)	0.29%	0.01%	0.00%

"Portfolio loans, gross" addresses the impact on the provision for loan losses from changes in the size and composition of our loan portfolio. We apply various reserve factors to our portfolio based on historical levels and trends to establish various reserve percentages based on the relative inherent risk for a particular loan type and grade. The inherent risk is established based on peer group data, information from regulatory agencies, the experience of the Bank's lending officers, and recent trends in portfolio losses. These reserve factors are continuously evaluated and subject to change depending on trends in national and local economic conditions, the depth of experience of the Bank's lenders, delinquency trends and other factors. We have made an effort over the last several years to lower the risk profile of our loan portfolio. In doing so, the increase in our loan portfolio size over the last two years reflects a shift in composition from higher risk-rated real estate construction loans to comparably lower risk-rated owner occupied residential real estate loans. This has moderated to some degree the inherent risk in an expanding loan portfolio.

"Loans past due greater than 30 days and still accruing interest" has proven to be a useful leading indicator of directional trends in future loan losses. As the level of this metric rises, expectations are for a comparable increase in loans moving into a nonaccrual status and ultimately foreclosure resulting in increased losses. This pattern has been observed in the past where increases in loans past due greater than 30 days and still accruing are followed in future quarters with the same directional changes in the level of loans on nonaccrual. The level of loans past due greater than 30 days and still accruing interest totaled $514,000 at June 30, 2017, a decrease from the $989,000 at December 31, 2016 and a significant decrease from the $4,177,000 at June 30, 2016. While the long term trend in credit quality over the last several years has improved, we continue to experience ups and downs throughout the process and so management will continue to carefully monitor past due loans and work aggressively to manage loan delinquency levels.

"Loans on nonaccrual" has been another leading indicator of potential future losses from loans. We typically place loans on nonaccrual status when they become 90 days past due. In addition to the interest lost when a loan is placed on nonaccrual status, there is an increased probability of a loan on nonaccrual moving into foreclosure with a potential loss outcome. The June 30, 2017 nonaccrual loan balance decreased to $4,365,000, or 1.05% of loans compared to $6,070,000, or 1.49% of loans, at December 31, 2016, and $4,478,000 or 1.14% of loans, as of June 30, 2016. All of the ratios above exclude loans held for sale. Management intends to remain vigilant in our loan monitoring and loss mitigation efforts to either rehabilitate these credits or maximize recovery if required.

"Net loan charge offs or recoveries" reflect our practice of charging recognized losses to the allowance and adding subsequent recoveries back to the allowance. For the second quarter of 2017, net charges offs were $183,000, or 0.04% of loans, compared to net recoveries of $29,000, or 0.01% of loans, for the second quarter of 2016. For the six months ended June 30, 2017, net charge offs were $850,000, or 0.21% of loans, compared to $840,000 of net charge offs, or 0.24% of loans, last year.

In addition to considering the metrics described above, we evaluate the collectability of individual loans, the balance of impaired loans, economic conditions that may affect the borrower's ability to repay, the amount and quality of collateral securing the loans and a review of specific problem loans. Based on this process and as shown below, the provision charged to expense was $74,000 for the quarter ended June 30, 2017, as compared to $360,000 for the quarter ended June 30, 2016.

(In thousands)	June 30, 2017	March 31, 2017	December 31, 2016	Sept 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	Sept 30, 2015
Provision during quarter ended	$ 74	$ 295	$ 1,001	$ 56	$ 360	$ 33	$ 44	$ 57
Provision added in excess of (less than) net charge-offs	$ (109)	$ (373)	$ 1,071	$ 112	$ 389	$ (836)	$ 28	$ 49
Allowance for loan losses	$ 5,510	$ 5,618	$ 5,991	$ 4,920	$ 4,808	$ 4,419	$ 5,254	$ 5,226
(as a % of loans, gross)	1.33%	1.39%	1.47%	1.23%	1.22%	1.48%	1.84%	1.90%

As shown above, during the six months ended June 30, 2017 the allowance for loan losses declined slightly to a level of $5,510,000, or 1.33% of gross loans outstanding, as compared to $5,991,000, or 1.47% of gross loans outstanding at December 31, 2016. The decline in the allowance for loan losses percentage is consistent with the decline in loans on nonaccrual discussed above, and the overall decreased level of nonperforming assets since December 31, 2016. The Company's ratio of nonperforming assets to total assets has declined from 1.98% to 1.48% over that time period. The allowance for loan losses was $4,808,000, or 1.22% of loans, at June 30, 2016 prior to the FANB acquisition. These ratios of the allowance to loans excludes loans held for sale.

Management continues to carefully monitor past due and nonaccrual loans. Management acknowledges that future asset quality results may vary from our estimates and expectations, resulting in negative asset quality metrics, which could have a material adverse effect on our results of operations and financial condition.

Noninterest Income

Noninterest income was $5,801,000 for the quarter ended June 30, 2017, a slight decrease from the $5,844,000 noninterest income earned during the quarter ended June 30, 2016. The decrease was primarily due to less mortgage banking noninterest income and the recording of a $584,000 bargain purchase gain during the second quarter of 2016 related to the FANB acquisition. Mortgage banking generated increased yields earned on mortgages sold into the secondary market for the three month period as this segment has strategically shifted to a higher percentage of government backed mortgage origination. The volume of mortgages sold for the three months ended June 30, 2017 declined to $404.6 million compared to $521.9 million the same period in 2016. The Mortgage noninterest income above for 2016 and 2015 again reflect the reclassification of the income and direct lending costs of the NRG as previously discussed. Offsetting the declines discussed above, SBA loan noninterest income significantly increased to $871,000 for the second quarter of 2017 compared to $154,000 for the second quarter of 2016. SBA loan participations sold into the secondary market increased from $1.5 million in the second quarter of 2016 to $8.0 million in the second quarter of 2017. The amount of SBA portfolio loans available for sale, the source of SBA's noninterest income, only slightly decreased from $37.1 million at December 31, 2016 to $35.0 million at June 30, 2017.

Service charges on deposit increased from $65,000 last year for the second quarter to $145,000 for the quarter ended June 30, 2017. Other income decreased year over year for the second quarter due to the bargain purchase gain mentioned above, offset partially by a $65,000 recovery of prior year expenses from a court ordered bankruptcy settlement in the bank's favor.

Noninterest income was $10,572,000 for the six months ended June 30, 2017, which was an increase of 10.8%, from $9,540,000 noninterest income earned during the six months ended June 30, 2016. This increase was due to the combination of increased mortgage banking noninterest income, SBA loan income, service charges on deposit accounts, gain on sale of securities, all partially offset by the bargain purchase gain recorded in 2016 previously mentioned.

Noninterest Expense

Total noninterest expense for the three months ended June 30, 2017 was $7,566,000 as compared to $8,503,000 for the three months ended June 30, 2016. The year-over-year decrease in noninterest expense primarily reflects a decline in salaries and benefits due to lower second quarter 2017 mortgage volume and the recording of $674,000 in non-recurring acquisition expenses during the second quarter of 2016.

Salaries and benefits totaled $4,660,000 for the quarter ended June 30, 2017, compared to 4,834,000 for the same period a year ago. Additionally, both data processing and advertising have declined from the second quarter last year to the second quarter of 2017. Occupancy and equipment expense increased to $889,000 for the second quarter of 2017 compared to $849,000 during the same period in 2016, reflecting an increase in costs relating to the three new FANB branches.

Total noninterest expense for the six months ended June 30, 2017 was $14,792,000 as compared to $14,181,000 for the six months ended June 30, 2016. Increases in salaries and benefits, occupancy and equipment expense, audit fees and professional fees have occurred primarily due to the addition of FANB in April 2016.

Income Taxes

During the second quarter of 2017, we recognized income tax expense of $1,336,000 compared to income tax expense of $597,000 during the second quarter of 2016. Our effective tax rate was 38.7%for the second quarter of 2017 and 27.9% during the second quarter of 2016. The fluctuation in effective tax rates reflects the impact of a higher percentage of non-taxable earnings in 2016. For the six months ended June 30, 2017, income tax expense was $2,245,000, or an effective tax rate of 38.7%, compared to income tax expense of $1,305,000, or an effective tax rate of 32.1%, for the six months ended June 30, 2016.

Financial Condition

Total assets increased to $635,753,000 at June 30, 2017 from $615,607,000 at June 30, 2016. The primary source of the increase in assets was due to growth in portfolio loans and investment securities, offset by a decline in mortgage loans held for sale. The SBA portfolio loan balance increased $1.2 million, Community Banking's loan portfolio grew $5.4 million and Mortgage loans held in the portfolio increased $15.1 million from last year. Loans Held for Sale declined $12,665,000 from June 30, 2016 to June 30, 2017. Total assets at June 30, 2017 increased from the December 31, 2016 total of $561,389,000.

Total liabilities at June 30, 2017 increased $11,483,000, when compared to June 30, 2016. The increase in liabilities was driven by additional deposits, partially offset by a decline in borrowings. Deposits increased $19,065,000 from $413,037,000 at June 30, 2016 to $432,102,000 at June 30, 2017.

Consolidated Stockholders Equity increased from $47,190,000at June 30, 2016 to $55,854,000 at June 30, 2017. The Company's total risk based capital ratio was 19.53% at June 30, 2017 compared to 17.32% at June 30, 2016. The Company's Tier 1 leverage ratio was 11.07% at June 30, 2017 compared to 9.14% at June 30, 2016.

Investment Securities

The balance of investment securities available for sale increased to $40,537,000 at June 30, 2017 from $29,013,000 at June 30, 2016.

The following table presents the investments by category at the end of June 30, 2017 and 2016.

Available for sale	2017		2016	
(In thousands)	**Amortized Cost**	**Estimated Fair Value**	**Amortized Cost**	**Estimated Fair Value**
State and municipal securities	$ 8,767	$ 9,058	$ 3,121	$ 3,506
Corporate	959	989	-	-
Mortgage-backed securities	22,942	23,055	17,334	17,759
	$ 32,668	$ 33,102	$ 20,455	$ 21,265
Held to maturity				
Corporate debt securities	$ 100	$ 100	$ 100	$ 100
Other equity securities	7,335	7,335	7,648	7,648
	$ 7,435	$ 7,435	$ 7,748	$ 7,748
TOTAL	$ 40,103	$ 40,537	$ 28,203	$ 29,013

The following table presents the maturities of available for sale investment securities at amortized cost and the weighted average yields for each range of maturities presented. Yields are based on amortized cost of securities.

Maturities at June 30, 2017 (In thousands)	State and Municipal Securities	Weighted Average Yield	Corporate Securities	Weighted Average Yield	Mortgage Backed Securities	Weighted Average Yield
Within 1 year	$ -	-%	$ -	-%	$ -	-%
After 1 through 5 years	2,264	3.25%	-	-%	11,115	2.60%
After 5 through 10 years	6,256	2.81%	959	2.93 %	9,004	3.27%
After 10 years	247	3.10%	-	-%	2,823	2.90%
Totals	$ 8,767	2.93%	$ 959	2.93%	$ 22,942	2.90%

Mortgage-backed securities are included in the maturities categories in which they are anticipated to be repaid based on scheduled maturities.

Loans

Gross loans totaled $414,870,000 at June 30, 2017, a 5.5% increase from the $393,146,000 at June 30, 2016. Balances within the major loans receivable categories and geographic concentration of the loan portfolio are presented below.

	Geographic Concentration of Loan Portfolio June 30, 2017			
(In thousands)	Florida	Georgia	South Carolina	Other
Commercial and financial	$ 16,418	$ 3,430	$ 3,014	$ 958
Real estate – construction, commercial	19,751	3,163	4,728	2,050
Real estate – construction, residential	10,902	4,260	5,426	366
Real estate – mortgage, commercial	109,462	19,092	30,411	4,248
Real estate – mortgage, residential	67,640	55,725	22,855	18,108
Real estate – mortgage, farmland	2,728	162	—	4,744
Consumer installment loans	4,150	395	639	45
	$ 231,051	$ 86,227	$ 67,073	$ 30,519

	Geographic Concentration of Loan Portfolio June 30, 2016			
(In thousands)	Florida	Georgia	South Carolina	Other
Commercial and financial	$ 19,292	$ 4,933	$ 2,492	$ 3,044
Agricultural	—	—	10	—
Real estate – construction, commercial	15,053	3,730	5,812	2,422
Real estate – construction, residential	7,778	6,320	3,721	295
Real estate – mortgage, commercial	100,231	14,019	28,643	8,639
Real estate – mortgage, residential	74,399	36,558	27,767	11,993
Real estate – mortgage, farmland	10,476	244	—	—
Consumer installment loans	3,932	$ 312	$ 618	$ 413
	$ 231,161	66,116	69,063	26,806

Other Real Estate Owned (OREO)

Other real estate owned (OREO) represents collateral property taken back from borrowers in partial or full satisfaction of their defaulted debt obligation to the Company. OREO declined from $5,146,000 at June 30, 2016 to $5,018,000 at June 30, 2017 as the Company continued the downward trend and reduced loss exposure over the past few years. We track our historical experience of loans that ultimately convert to OREO by collateral type and by geographic exposure as shown on the following tables:

(In thousands)	Book Value of Other Real Estate Owned at June 30, 2017 Florida	South Carolina	Other	Total
Residential	$ —	$ 339	$ —	$ 339
Commercial	1,287	642	749	2,678
Finished lots	—	284	—	284
Raw land	1,717	—	—	1,717
	$ 3,004	$ 1,265	$ 749	$ 5,018

(In thousands)	Book Value of Other Real Estate Owned at June 30, 2016 Florida	South Carolina	Total
Residential	$ —	$ —	$ —
Commercial	2,170	982	3,152
Finished lots	—	268	268
Raw land	1,726	—	1,726
	$ 3,896	$ 1,250	$ 5,146

Deposits

Deposits increased from $413,037,000at June 30, 2016 to $432,102,000 at June 30, 2017. Balances within the major deposit categories are as follows:

	June 30, 2017		
(In thousands)	Core Retail Deposits	Brokered Deposits(incl. CDARs)	Total Deposits
Noninterest-bearing demand deposits	$ 82,611	$ —	$ 82,611
Interest-bearing demand deposits	177,351	—	177,351
Savings deposits	17,331	—	17,331
Certificates of deposit $100,000 and over	77,210	38,886	116,096
Other time deposits	26,664	12,049	38,713
	$ 381,167	$ 50,935	$ 432,102

	June 30, 2016		
(In thousands)	Core Retail Deposits	Brokered Deposits(incl. CDARs)	Total Deposits
Noninterest-bearing demand deposits	$ 71,417	$ —	$ 71,417
Interest-bearing demand deposits	176,222	—	176,222
Savings deposits	14,406	—	14,406
Certificates of deposit $100,000 and over	55,093	45,348	100,441
Other time deposits	7,222	43,329	50,551
	$ 324,360	$ 88,677	$ 413,037

Other Borrowings and Liquidity

Federal Home Loan Bank (FHLB) borrowings totaled $118,500,000 at June 30, 2017, a decrease from $121,976,000 outstanding on June 30, 2016. The Bank maintains relationships with six other correspondent banks that can provide funds on short notice for unsecured advances for up to $44,000,000. The Bank also has non-core funding available of $239,119,000 at June 30, 2017 over the amount outstanding at quarter-end of $19,241,000. Additionally, the discount window at the Federal Reserve is available to provide as much as $42,270,000.

As of June 30, 2017, the Company had $513,326,000, in total borrowing capacity, of which we had utilized $137,741,000 or 26.8%, leaving remaining available liquidity of $375,585,000. The following tables present available sources of liquidity at June 30, 2017 and June 30, 2016:

(In Thousands)	June 30, 2017		
	Total Line of Credit	Funds Borrowed	Funds Available
Available Sources of Liquidity			
Federal Funds Purchased Lines of Credit	$ 44,000	$ —	$ 44,000
Total Non-Core Deposit Sources	258,360	19,241	239,119
Federal Reserve Borrowing Capacity at Discount Window	42,270	—	42,270
Federal Home Loan Bank Advance Availability	168,696	118,500	50,196
Total Sources of Liquidity	$ 513,326	$ 137,741	$ 375,585
Borrowing Sources Utilized %	26.8%		

	June 30, 2016		
	Total Line of Credit	Funds Borrowed	Funds Available
Available Sources of Liquidity			
Federal Funds Purchased Lines of Credit	$ 44,000	$ —	$ 44,000
Total Non-Core Deposit Sources	243,091	33,998	209,093
Federal Reserve Borrowing Capacity at Discount Window	31,756	—	31,756
Federal Home Loan Bank Advance Availability	162,961	121,976	40,985
Total Sources of Liquidity	$ 481,808	$ 155,974	$ 325,834
Borrowing Sources Utilized %	32.4%		

Coastal Banking Company
Consolidated Balance Sheet
June 30, 2017

	6/30/2017 YTD Consolidated	6/30/2016 YTD Consolidated	12/31/2016 Consolidated
Assets			
Cash and due from banks	$ 11,105,535	$ 7,163,423	$ 7,956,004
Federal funds sold	224,000	103,894	387,123
Investment securities	40,537,393	29,013,435	24,760,056
Loans held for sale	141,664,093	154,328,774	92,009,241
Loans, gross	414,869,550	393,145,710	408,743,325
Less allowance	(5,509,635)	(4,808,392)	(5,990,733)
Loans, net	409,359,915	388,337,318	402,752,592
Premises and equipment, net	13,468,510	13,741,240	13,604,166
Other real estate owned	5,017,505	5,146,302	5,061,661
Cash Surrender Value of Life Insurance	2,402,709	2,598,458	2,362,805
SBA Servicing Rights	1,514,559	1,457,880	1,403,431
Other assets	10,459,206	13,716,285	11,091,647
Total assets	$ 635,753,425	$ 615,607,009	$ 561,388,726
Liabilities			
DDA - non interest bearing	$ 82,611,180	$ 71,417,215	$ 77,603,027
Interest bearing dda	177,350,869	176,221,999	174,112,178
Savings	17,331,118	14,406,114	15,618,336
Time	154,808,391	150,991,728	149,983,376
Total deposits	432,101,558	413,037,056	417,316,917
FHLB Advances & other borrowings	118,500,000	121,976,003	63,060,005
Senior Note Payable	8,416,667	9,416,667	8,916,667
Junior subordinated debentures	7,217,000	7,217,000	7,217,000
Other liabilities	13,664,560	16,769,958	13,162,845
Total liabilities	579,899,785	568,416,684	509,673,434
Stockholders' equity			
Common stock	36,735	35,957	36,475
Additional paid-in-capital	53,862,614	52,683,135	53,354,382
Retained earnings	1,691,581	(6,061,904)	(1,870,203)
Net unrealized gain (loss) - securities AFS	262,710	533,137	194,638
Total stockholders' equity	55,853,640	47,190,325	51,715,292
Total liabilities and stockholders' equity	$ 635,753,425	$ 615,607,009	$ 561,388,726

Coastal Banking Company
Consolidated Income Statement
June 30, 2017

	6/30/2017 QTD Consolidated	6/30/2016 QTD Consolidated	6/30/2017 YTD Consolidated	6/30/2016 YTD Consolidated	12/31/2016 YTD Consolidated
Interest Income:					
Loans	6,054,389	5,944,222	11,869,280	10,453,130	$ 22,709,121
Securities	220,373	207,191	426,550	400,892	805,347
Interest on Deposits	569	5,224	1,636	9,667	14,771
Federal funds sold	12,319	3,787	56,755	4,132	12,764
Total interest income	6,287,650	6,160,424	12,354,221	10,867,821	23,542,003
Interest Expense:					
Deposits	693,383	617,191	1,370,399	1,029,110	2,422,894
Trust Preferred	55,674	48,812	110,274	98,369	480,556
Other	250,539	331,707	477,570	637,332	1,144,973
Total interest expense	999,596	997,710	1,958,243	1,764,811	4,048,423
Net interest income before provision for loan losses	5,288,054	5,162,714	10,395,978	9,103,010	19,493,580
Provision for loan losses	74,364	359,523	369,200	392,932	1,450,061
Net interest income after provision for loan losses	5,213,690	4,803,191	10,026,778	8,710,078	18,043,519
Operating income:					
Service charges on deposits	145,095	65,242	386,964	140,529	860,338
Mortgage banking income	4,528,492	4,918,870	7,936,270	7,847,928	18,225,244
SBA loan income	870,790	153,975	1,895,833	734,120	1,962,023
Gain on sale of securities	42,763	-	42,763	-	18,373
Increase in cash surrender value of life insurance	20,142	20,252	40,020	41,918	83,584
Other income	193,857	685,271	270,443	775,552	1,536,287
Total operating income	5,801,139	5,843,610	10,572,293	9,540,047	22,685,849
Operating expenses:					
Salaries and benefits	4,660,141	4,834,156	9,277,910	8,433,396	17,373,369
Net occupancy and equipment expense	888,561	848,778	1,670,469	1,428,020	3,147,188
Mortgage loan expense	187,276	145,321	280,665	272,536	703,285
Other real estate expense	171,735	88,971	156,786	106,961	616,676
Data processing/ATM expense	459,700	554,452	907,993	930,948	1,969,355
Audit Fees	197,848	117,293	328,112	211,670	769,158
Legal & professional fees	330,432	347,069	612,400	501,057	1,023,046
Director fees	117,675	104,900	222,925	179,000	403,550
Advertising	133,958	156,616	270,276	289,969	653,609
FDIC Insurance expense	55,588	81,000	99,657	162,000	239,506
OCC Examination fees	38,772	42,523	77,544	80,113	162,385
Other operating expense	324,167	1,182,352	887,247	1,585,173	2,681,879
	7,565,853	8,503,431	14,791,984	14,180,843	29,743,005
Income before provision for income taxes	3,448,976	2,143,370	5,807,087	4,069,282	10,986,363
Provision for income taxes	1,335,627	597,230	2,245,303	1,305,198	4,030,577
Net income	$ 2,113,349	$ 1,546,140	$ 3,561,784	$ 2,764,084	$ 6,955,786

Coastal Banking Company
Consolidated Financial Highlights
June 30, 2017

	6/30/2017 QTD Consolidated	6/30/2016 QTD Consolidated	6/30/2017 YTD Consolidated	6/30/2016 YTD Consolidated	12/31/2016 YTD Consolidated
$ Earnings					
Net interest income	$ 5,288,054	$ 5,162,714	$ 10,395,978	$ 9,103,010	$ 19,493,580
Provision for loan loss	$ 74,364	$ 359,523	$ 369,200	$ 392,932	$ 1,450,061
Other income	$ 5,801,139	$ 5,843,610	$ 10,572,293	$ 9,540,047	$ 22,685,849
Other expense	$ 7,565,853	$ 8,503,431	$ 14,791,984	$ 14,180,843	$ 29,743,005
Pre-tax income	$ 3,448,976	$ 2,143,370	$ 5,807,087	$ 4,069,282	$ 10,986,363
Taxes	$ 1,335,627	$ 597,230	$ 2,245,303	$ 1,305,198	$ 4,030,577
Net income	$ 2,113,349	$ 1,546,140	$ 3,561,784	$ 2,764,084	$ 6,955,786
Earnings per share (basic)	$ 0.58	$ 0.47	$ 0.97	$ 0.92	$ 2.10
Earnings per share (diluted)	$ 0.55	$ 0.46	$ 0.94	$ 0.90	$ 2.05
Performance Ratios					
ROAA	1.53%	1.10%	1.31%	1.12%	1.29%
ROAE	15.79%	13.82%	13.38%	14.50%	16.07%
Net Interest Margin	4.09%	3.95%	4.14%	3.92%	3.85%
Efficiency Ratio	68.23%	77.26%	70.54%	76.07%	70.52%
Capital					
Tier 1 leverage capital ratio	11.07%	9.14%	11.07%	9.14%	10.01%
Common equity risk-based capital ratio	18.27%	16.06%	18.27%	16.06%	18.47%
Tier 1 risk-based capital ratio	18.27%	16.06%	18.27%	16.06%	18.47%
Total risk-based capital ratio	19.53%	17.32%	19.53%	17.32%	19.74%
Book value per share	$ 15.20	$ 13.12	$ 15.20	$ 13.12	$ 14.18
Tangible book value per share	$ 14.61	$ 12.44	$ 14.61	$ 12.44	$ 13.57
Asset Quality					
Other real estate owned	$ 5,017,505	$ 5,146,302	$ 5,017,505	$ 5,146,302	$ 5,061,661
Net Charge-offs (recoveries)	$ 182,800	$ (29,877)	$ 850,298	$ 838,948	$ 713,736
Net Charge-offs to average loans	0.04%	-0.01%	0.21%	0.25%	0.20%
Allowance to total loans, net of LHFS	1.33%	1.22%	1.33%	1.22%	1.47%
Nonaccrual Loans	$ 4,365,335	$ 4,477,476	$ 4,365,335	$ 4,477,476	$ 6,070,027
Nonperforming assets to total assets	1.48%	1.56%	1.48%	1.56%	1.98%
End of Period Balances					
Assets	635,753,425	615,607,009	$ 635,753,425	$ 615,607,009	$ 561,388,726
Portfolio Loans	414,869,550	393,145,710	$ 414,869,550	$ 393,145,710	$ 408,743,325
Loans Held for Sale	141,664,093	154,328,774	$ 141,664,093	$ 154,328,774	$ 92,009,241
Deposits	432,101,558	413,037,056	$ 432,101,558	$ 413,037,056	$ 417,316,917
Borrowings	118,500,000	121,976,003	$ 118,500,000	$ 121,976,003	$ 63,060,005
Shareholders' Equity	55,853,640	47,190,325	$ 55,853,640	$ 47,190,325	$ 51,715,292
Average Balances					
Assets	$ 554,626,142	$ 565,666,017	$ 549,417,364	$ 497,529,296	$ 540,525,290
Portfolio Loans	$ 410,245,995	$ 376,720,582	$ 407,556,175	$ 331,772,764	$ 364,242,751
Loans Held for Sale	$ 76,275,217	$ 116,985,042	$ 69,760,761	$ 104,073,200	$ 111,509,816
Deposits	$ 431,559,425	$ 408,115,210	$ 426,412,789	$ 351,353,485	$ 385,102,055
Borrowings	$ 40,815,179	$ 84,625,387	$ 41,066,038	$ 80,203,915	$ 83,230,853
Shareholders' Equity	$ 53,694,002	$ 44,859,161	$ 53,694,002	$ 38,451,882	$ 43,270,921
Average Shares	3,672,462	3,308,403	3,666,954	3,001,103	3,307,965
Stock Valuation					
Closing Market Price (OTCQX)	17.55	12.99	$ 17.55	$ 12.99	$ 15.01