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Coastal Banking Company Reports Fourth Quarter 2015 Earnings, Obtains Regulatory Consent for Bank Acquisition

BEAUFORT, S.C., March 14, 2016 – Coastal Banking Company Inc. (OTCQX:CBCO), the holding company of CBC National Bank, which operates branches in Beaufort and Port Royal, S.C., and Fernandina Beach, Fla., today reported net income of \$1,433,000, or \$0.48 per diluted common share, for the quarter ended Dec. 31, 2015. This compares to net income of \$998,000, or \$0.29 in diluted earnings per common share, in the fourth quarter of 2014.

For the full year 2015, the company reported net income of \$5.84 million, or \$1.85 in earnings per diluted common share. This represents an increase in net income of \$2.72 million, or an increase of \$0.99 per diluted share, compares to net income of \$3.12 million, or \$0.86 in earnings per diluted common share, for the full year 2014.

On Feb. 16, 2016, the Office of the Comptroller of the Currency approved CBC National Bank's application to merge First Avenue National Bank of Ocala, Fla., with and into CBC National Bank, subject to usual and customary closing conditions.

In connection with this merger transaction, Coastal Banking Company filed a Form 1-A under Regulation A of the Securities Act of 1933 with the Securities and Exchange Commission (SEC) in order to qualify the common shares of Coastal Banking Company that will be offered in exchange for shares of First Avenue National Bank as consideration for the merger transaction. On Feb. 29, 2016, the SEC issued a notice of qualification of that Form 1-A filing.

The shareholders of First Avenue National Bank will meet on April 5, 2016, to vote on the merger transaction. The shareholders of Coastal Banking Company will meet on April 6, 2016, to vote on the merger transaction. Subject to the approval of a two-thirds majority of First Avenue shareholders and a simple majority of Coastal Banking Company shareholders, as well as other customary closing conditions, the merger is expected to be effective after the close of business on April 8, 2016.

Key highlights for 2015 include:

- Income before tax of \$9.6 million earned in 2015, more than doubled from the income before tax of \$4.8 million earned in 2014.
- Driven by these strong earnings, common tangible book value has risen to \$11.81 per share at Dec. 31, 2015, an increase of \$1.92 per share, or 19.4 percent, during the last year, from \$9.89 per share at Dec. 31, 2014.
- The Mortgage Banking Division performed very strongly as long-term interest rates remained historically low for much of 2015 and housing markets heated up, generating mortgage banking income of \$56.8 million, a year-over-year increase of \$25.3 million, or 80 percent, with residential mortgages funded and sold during the year exceeding \$1.8 billion.
- Strengthened the core Community Bank through the announced acquisition of First Avenue National Bank and through organic growth as non-interest bearing deposits grew \$7.2 million, or 21 percent, year-over-year, while portfolio loans increased \$13.1 million, or 5 percent.
- Credit quality continued to improve, with the loan-loss provision decreasing \$824,000, or 68 percent, from Dec. 31, 2014, while net charge-offs decreased by \$693,000 from year-end 2014.
- Net interest margin declined by 8 basis points to 3.89 percent for the year ended Dec. 31, 2015, on a slight reduction to the yield on interest earning assets, compared to 3.97 percent for the year ended Dec. 31, 2014.
- Capital ratios at CBC National Bank remained strong, with a total risk-based capital ratio of 23.24 percent and a Tier 1 risk-based capital ratio of 21.96 percent.

“2015 was a year in which our company evolved in some very significant ways that position us well to manage our continued growth and create additional shareholder value,” said Michael G. Sanchez, chief executive officer. “In addition to promoting long-time mortgage banking division head Charles Wagner to President of CBC National Bank, we elevated Brynn Stensrud to executive vice president and head of the mortgage division, which continued its outstanding performance in 2015, contributing \$7.1 million in pretax earnings. Another significant goal for boosting shareholder value was achieved in both the organic growth in our core community bank through increases in both non-interest bearing deposits and portfolio loans, and our announced acquisition of First Avenue National Bank of Ocala, Fla. We also successfully remodeled our capital accounts in 2015 by redeeming our Preferred stock and converting it into lower-rate senior debt; the refinancing will contribute positively to earnings going forward and adds to

shareholder value with nominal risk. In addition, we bolstered our government guaranteed lending division by launching a new Georgia SBA lending franchise to serve the needs of the growing metropolitan Atlanta and Georgia markets, modeled on our top-ranked Florida SBA lending operation. Owing to our strong mortgage banking profitability, we were able to inventory SBA loans in 2015; we expect this inventory, along with ramped-up 2016 production, to continue to provide sustainable high quality earnings.”

Net interest income before the provision for loan losses totaled \$3.9 million in the fourth quarter of 2015, compared to \$4.0 million earned in the fourth quarter of 2014. Noninterest income was \$13.9 million in the final quarter of 2015 and \$59.1 million for the year ended Dec. 31, 2015, up from \$11.4 million in the fourth quarter of 2014. The year-over-year increase in noninterest income in the fourth quarter reflects mortgage banking income of \$12.7 million, up by \$2.4 million, or 23.9 percent, from the \$10.3 million of mortgage banking income in the fourth quarter of 2014. Income from SBA loans totaled \$993,000 in the fourth quarter of 2015, compared to \$856,000 in the fourth quarter of 2014.

Interest expense totaled \$669,000 in the fourth quarter of 2015, compared to \$623,000 in the previous quarter and \$610,000 in the same period a year ago. Noninterest expense for the fourth quarter of 2015 increased to \$15.8 million from \$13.5 million in the fourth quarter of 2014, primarily due to increased costs associated with higher mortgage lending volume.

The company’s net interest margin for the fourth quarter of 2015 was 3.90 percent, compared to 3.98 percent at Sept. 30, 2015, and 4.00 percent for the quarter ended Dec. 31, 2014.

Total assets at Dec. 31, 2015, were \$464.7 million, compared to \$421.9 million at Dec. 31, 2014. Total shareholders’ equity was \$33.3 million at Dec. 31, 2015, compared to \$37.9 million at Dec. 31, 2014, as a result of the \$9.95 million redemption of preferred stock, partially offset by current year earnings. Total deposits were \$283.8 million at Dec. 31, 2015, compared to \$285.7 million at Dec. 31, 2014. Total portfolio loans were \$285.9 million at the end of the fourth quarter of 2015, compared to \$272.8 million at Dec. 31, 2014.

The company’s residential mortgage banking division originated approximately \$363.0 million in loans available for sale in the secondary market during the fourth quarter of 2015, compared to \$565.0 million in loans originated for sale in the secondary market during the fourth quarter of 2014. The lower year-over-year loan production in the final quarter of 2015 reflects the impact of regulatory changes in loan

disclosures and the loan closing process that slowed loan demand and closing timeframes. For the full year of 2015, the mortgage division funded \$1.84 billion in mortgage loans, up from \$1.6 billion in 2014, and has now exceeded \$10.3 billion in total production since the division's inception in September 2007.

Net charge-offs in the fourth quarter of 2015 totaled \$16,000, or 0.01 percent of total loans, compared to \$8,000, or 0.00 percent, in the previous quarter, and \$72,000, or 0.03 percent, in the fourth quarter of 2014. Nonaccrual loans as a percentage of total loans at the end of the fourth quarter of 2015 were 0.87 percent, compared to 1.27 percent at the end of the third quarter of 2015, and 1.59 percent at Dec. 31, 2014. Loans past due greater than 30 days and still accruing interest totaled \$123,000 at Dec. 31, 2015, compared to \$2,302,000 in the previous quarter and \$806,000 at Dec. 31, 2014. Other real estate owned (OREO) totaled \$6.1 million at Dec. 31, 2015, a 16.5 percent decline from \$7.3 million recorded at Dec. 31, 2014.

The company's provision for loan losses totaled \$44,000 for the fourth quarter of 2015, which was \$28,000 more than net charge-offs, compared to a loan-loss provision of \$57,000 for the third quarter of 2015, which was \$49,000 more than net charge-offs, and a provision of \$266,000, or \$194,000 more than net charge-offs, in the quarter ending Dec. 31, 2014. The company's allowance for loan losses totaled \$5.3 million, or 1.84 percent of loans outstanding at Dec. 31, 2015, compared to \$5.2 million, or 1.90 percent of loans outstanding, at Sept. 30, 2015, and \$4.8 million, or 1.77 percent of loans outstanding, at Dec. 31, 2014.

At Dec. 31, 2015, CBC National Bank had a total risk-based capital ratio of 23.24 percent and a Tier 1 risk-based capital ratio of 21.96 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 \$235.4 million in excess funding available from multiple sources at Dec. 31, 2015.

Net interest income for the full year 2015 was \$16.7 million, compared to \$15.2 million in 2014. Noninterest income was \$59.1 million for the full year 2015, compared to \$36.3 million in 2014. Noninterest expense was \$65.7 million for the full year 2015, compared to \$45.5 million in 2014.

"We will maintain our focus in 2016 on creating shareholder value through strong, broad-based earnings achieved by a combination of our mortgage banking, government guaranteed lending and core community banking operations as we integrate the branches of First Avenue National Bank into CBC National Bank and continue to build out and ramp up our new Georgia SBA lending franchise," said Sanchez. "In

mortgage banking, as residential real estate markets continue to heat up, we will look to purchase lending as an even larger part of our income mix. We will continue focused management of our asset and loan quality, and expense control. We maintain the utmost confidence in our staff, our systems, products, and management, and in our ability to achieve our goals.”

About Coastal Banking Company Inc.

Coastal Banking Company Inc., headquartered in Beaufort, S.C., is the \$464.7 million-asset bank holding company of CBC National Bank, headquartered in Fernandina Beach, Fla., which provides a full range of consumer and business banking services through full-service banking offices in Beaufort, Fernandina Beach, 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 been 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.otcm Markets.com/stock/CBCO/quote>

The complete annual audited financial statements for the current year:

[2015 Auditors Report \(Click Here\)](#)

Additional management commentary on current year results:

[2015 MDA Commentary \(Click Here\)](#)

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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