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Coastal Banking Company Reports Third Quarter 2016 Earnings

BEAUFORT, S.C., Nov. 4, 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 in Fernandina Beach, Ocala, and The Villages, Fla., today reported net income of $1.99 million, or diluted earnings per common share of $0.54, for the quarter ended Sept. 30, 2016.

This compares to net income of $1.63 million, or diluted earnings per common share of $0.51, for the third quarter of 2015, and represents a year-over-year increase of $360,000, or diluted earnings per common share of $0.03.

On a linked-quarter basis, the $1.99 million of net income in the third quarter of 2016 represents an increase of $440,000, or diluted earnings per common share of $0.08, from net income of $1.55 million, or diluted earnings per common share of $0.46, in the second quarter of 2016.

Key highlights from the third quarter of 2016 include:

- Completion of the integration of First Avenue National Bank, acquired in April 2016.
- Continued strong profitability growth, with third quarter 2016 net income increasing by 28.5 percent over the second quarter of 2016, with strong and more balanced net income for all three of the Company’s operating divisions: Community Banking, SBA Lending and Mortgage Banking.
- Driven by strong earnings over the last four quarters, common tangible book value has risen to $12.98 per share at Sept. 30, 2016, from $11.38 at Sept. 30, 2015, an increase of $1.60 per share, or 14.1 percent.
- Continuation of robust mortgage banking funding and profitability, with more than $886.3 million in residential mortgage loans originated and $21.0 million in mortgage banking income

during the quarter, up from $614.8 million and $13.4 million, respectively, for the third quarter of 2015.

- Year-over-year growth in the balance sheet of $174.3 million, or 39.7 percent, with total assets of $613.0 million at Sept. 30, 2016, driven by rising balances of SBA portfolio loans, increased residential mortgage loans available for sale and the related loan sales receivable, and the addition of First Avenue National Bank.
- Continued strong net interest margin for the third quarter of 2016 of 3.76 percent, compared to 3.95 percent for the second quarter of 2016 and 3.98 percent for the third quarter of 2015.
- Other real estate owned (OREO) of $5.5 million, a slight increase by $400,000, or 7.4 percent, from the second quarter of 2016, but a decline of $800,000, or 12.7 percent, from Sept. 30, 2015.
- Capital ratios at CBC National Bank remaining strong, with a total risk-based capital ratio of 20.92 percent and a Tier 1 risk-based capital ratio of 19.66 percent at Sept. 30, 2016.

“We are pleased that our continued stable, strong earnings are driving robust shareholder value creation,” said Michael G. Sanchez, chairman and chief executive officer. “Common tangible book value has risen to $12.98 per share at Sept. 30, 2016, from $11.38 at Sept. 30, 2015, an increase of $1.60 per share, or 14.1 percent. All three of our Company’s divisions continued to generate profits in the third quarter, becoming more balanced in their respective contributions to core earnings, with third quarter net income increasing by 28.5 percent over the second quarter of 2016. The Mortgage Banking Division continues to lead the way, with more than $886.3 million in residential mortgage loans originated and $21.0 million in mortgage banking income during the quarter, as continued lower long-term interest rates fueled increased loan demand for both purchase and refinance loans. The Community Banking Division, bolstered by the completed integration of the operations of First Avenue National Bank, saw an increase to net interest income related to the expansion of the balance of earning assets. And one of the largest contributors to the increase in net income for the third quarter, year-over-year, is the interest earned on SBA loans held for participation sale. We continue to grow our SBA portfolio balance to reap more advantageous pricing for block sales in the secondary market, and the portfolio provides a ready tool to help maintain steady earnings in the event of changes in the economy or interest-rate environment.”

Net interest income before the provision for loan losses totaled $5.26 million in the third quarter of 2016, compared to $4.43 million earned in the third quarter of 2015, an increase of 18.7 percent. For the first nine months of 2016, net interest income before the provision for loan losses was $14.36 million, an increase of $1.64 million, or 12.9 percent, from the first nine months of 2015.

Noninterest income was $22.32 million in the third quarter of 2016, an increase of $8.50 million, or 61.5 percent, from $13.82 million in the third quarter of 2015. The increase was due primarily to a significant increase in mortgage banking income and increases in SBA loan income. Noninterest income was $52.70 million for the first nine months of 2016, compared to $45.12 million for the same period in 2015. The increase in year-to-date noninterest income is also due to increases in mortgage banking and SBA loan income, and the bargain purchase and securities gains recognized in the second quarter from the acquisition of First Avenue National Bank.

Noninterest expense for the third quarter of 2016 increased to $23.72 million, from $15.41 million in the third quarter of 2015, largely as a result of increased expenses related to the increase in mortgage volume and due to the First Avenue National Bank acquisition in April 2016. Salaries and benefits increased $7.58 million quarter-over-quarter, largely as a result of the increased mortgage volume. Additionally, increases to operating expenses of $797,000 related to the acquisition of the three First Avenue branches were incurred in the third quarter of 2016. For the first nine months of 2016 noninterest expense was $58.74 million, an increase of $8.77 million, or 17.6 percent, from the $49.97 million in the first nine months of 2015. As with the current quarter, this increase reflects an increase of $5.88 million, or 14.8 percent, in salary and benefit expense from the higher levels of loan volume in the Mortgage Banking Division and $1.60 million of operating expenses as a result of the First Avenue National Bank acquisition. The year-to-date increase also reflects $674,000 in one-time, non-recurring acquisition-related expenses.

The company’s net interest margin for the third quarter of 2016 was 3.76 percent, down from 3.95 percent in the second quarter of 2016, and from 3.98 percent for the third quarter of 2015. The decline is partially attributable to purchase accounting adjustments from the acquisition.

Total assets at Sept. 30, 2016, were $613.0 million, compared to $464.7 million at Dec. 31, 2015, and $438.7 million at Sept. 30, 2015. Total shareholders’ equity was $49.3 million at Sept. 30, 2016, compared to $33.3 million at Dec. 31, 2015. Total deposits were $420.0 million at Sept. 30, 2016, compared to $283.8 million at Dec. 31, 2015. Total portfolio loans were $398.7 million at the end of the third quarter of 2016, compared to $285.9 million at year-end 2015.

The company's residential Mortgage Banking Division originated approximately $886.3 million in loans available for sale in the secondary market during the third quarter of 2016, compared to $614.8 million during the third quarter of 2015, and $786.5 million in the second quarter of 2016. The year-over-year and linked-quarter increases in mortgage loan production were driven by the sustained low interest rate environment and increased demand for refinance loans, as evidenced by the loan production mix in the third quarter of 2016 at 73 percent refinance and 27 percent purchase. During the third quarter of 2015 the mix was 39 percent refinance and 61 percent purchase. Since the inception of the mortgage banking division in 2007, total loan production has exceeded $13.7 billion, of which $11.1 billion was closed and funded by the Company and $2.6 billion of which was brokered to other lenders for closing.

Net loan recoveries in the third quarter of 2016 totaled $56,000, or 0.02 percent of total loans, compared to net loan recoveries of $29,000, or 0.01 percent, in the previous quarter, and net charge-offs of $8,000, or 0.00 percent, in the third quarter of 2015. Nonaccrual loans as a percentage of total loans at the end of the third quarter of 2016 were 1.47 percent, compared to 1.14 percent at the end of the prior quarter, and 1.27 percent at Sept. 30, 2015. Loans past due greater than 30 days and still accruing interest totaled $795,000 at Sept. 30, 2016, compared to $4.2 million at the end of the previous quarter and $2.3 million at Sept. 30, 2015. Other real estate owned (OREO) totaled $5.5 million at Sept. 30, 2016, a 12.7 percent decline from $6.3 million at Sept. 30, 2015.

The Company's provision for loan losses totaled $56,000 for the third quarter of 2016, compared to a loan-loss provision of $360,000 for the second quarter of 2016, and a provision of $57,000 in the third quarter ended Sept. 30, 2015. The Company's allowance for loan losses totaled $4.92 million, or 1.23 percent of loans outstanding, at Sept. 30, 2016, compared to $4.81 million, or 1.22 percent of loans outstanding, at the prior quarter end, and $5.23 million, or 1.90 percent of loans outstanding, at Sept. 30, 2015.

At Sept. 30, 2016, CBC National Bank had a total risk-based capital ratio of 20.92 percent and a Tier 1 risk-based capital ratio of 19.66 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 $348.6 million in excess funding available from multiple sources at Sept. 30, 2016.

"The more balanced ongoing profitable operations of all three of our Company's key divisions continues to fuel strong, steady earnings that translate to equally strong shareholder value creation," said Sanchez. "With the full integration of our three new branches in a vibrant, economically robust market in Ocala and The Villages, Fla., in addition to the added management depth and employee talent, our Company is stronger and better positioned for the future. We will maintain our focus on strong profitability across our divisions while remaining vigilant on expense control, asset and loan quality. We maintain full confidence in the capabilities of our talented staff and management 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 $613.0 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 traditional retail and wholesale lending, as well as a National Retail Group that has lending offices in Florida, Georgia, Maryland, Michigan, North Carolina, Illinois and Ohio. The company's government guaranteed lending division originates SBA loans primarily in Jacksonville, Ft. Myers, Tampa and Vero Beach, Fla., Greensboro, N.C., Atlanta and Beaufort.

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

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

For complete unaudited quarterly financial results [click here].

For more information, please visit the company's website, www.coastalbanking.com.

FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISK FACTORS

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

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

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