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Coastal Banking Company Reports Fourth Quarter and Record Annual 2016 Earnings

BEAUFORT, S.C., Feb. 16, 2017 – 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 \$6.96 million, or \$2.05 diluted earnings per common share for the year ended Dec. 31, 2016. This compares to \$5.05 million, or \$1.85 in diluted earnings per common share in 2015, an increase of \$1.91 million, or \$0.20 per diluted earnings per common share. The 2015 earnings and diluted earnings per common share were net of preferred stock dividends.

For the fourth quarter of 2016, the Company reported net income of \$2.21 million, or diluted earnings per common share of \$0.59. This compares to net income of \$1.32 million, or diluted earnings per common share of \$0.48, for the fourth quarter of 2015 (net of preferred stock dividends), and represents a year-over-year increase of \$884,000, or diluted earnings per common share of \$0.11.

On a linked-quarter basis, the \$2.21 million of net income in the fourth quarter of 2016 represents an increase of \$219,000, or \$0.05 diluted earnings per common share, from net income of \$1.99 million, or diluted earnings per common share of \$0.54, in the third quarter of 2016.

Key performance highlights for 2016 include:

- Completion of the acquisition of First Avenue National Bank (“FANB”) in Ocala, Florida, in April 2016, and subsequent integration into CBC National Bank. FANB had assets of \$112 million at the acquisition date.

- Continued strong profitability growth, with 2016 net income increasing by 37.7 percent over 2015, including more balanced net income for all three of the Company's operating segments: Mortgage Banking earned \$5.59 million in 2016, up from \$5.38 million in 2015; Community Banking earned \$1.40 million in 2016, up from \$98,000 in 2015, and SBA Lending earned \$891,000 in 2016, comparable to the \$963,000 earned in 2015.
- Driven by strong earnings over the last four quarters, common tangible book value has risen to \$13.57 per share at Dec. 31, 2016, from \$11.81 at Dec. 31, 2015, an increase of 14.9 percent. The CBCO closing market price on Dec. 31, 2016, was \$15.01 per share.
- Continuation of robust mortgage banking funding and profitability, with more than \$3.05 billion in residential mortgage loans originated and \$18.2 million in total mortgage banking income during 2016, up from \$2.81 billion and \$15.7 million, respectively, for 2015. For the fourth quarter of 2016, \$740.8 million in residential mortgage loans were originated and \$5.9 million in total mortgage banking income generated, up from \$596.4 million and \$3.8 million, respectively, for the fourth quarter of 2015.
- Year-over-year growth in the balance sheet of \$96.7 million, or 20.8 percent, with total assets of \$561.4 million at Dec. 31, 2016. The asset growth was driven by rising portfolio loan balances and the FANB acquisition. SBA portfolio loans grew \$25.3 million and Community Banking portfolio loans grew \$104.3 million, of which \$81.4 million were added as part of the acquisition. The growth in portfolio loans was offset by a decline in loans held for sale of \$36.2 million from the end of 2015 to the end of 2016.
- Related to credit quality, the ratio of non-performing assets to assets increased slightly from 1.85 percent at Dec. 31, 2015, to 1.98 percent at Dec. 31, 2016. The allowance for loan losses was 1.84 percent of loans outstanding at the end of 2015, compared to 1.47 percent at the end of 2016. Other real estate owned (OREO) declined \$1.05 million, or 17.2 percent, from Dec. 31, 2015, to Dec. 31, 2016. Net charge-offs were \$714,000 in 2016 compared to net recoveries of \$32,000 in 2015.
- Capital ratios for the Company remained strong, with a total risk-based capital ratio of 19.74 percent and a Tier 1 risk-based capital ratio of 18.47 percent at Dec. 31, 2016, closely comparable to the levels of both ratios at the end of 2015.

“In 2016 we took significant strategic steps toward further bolstering the value of our Company and, in turn, our stock,” said Michael G. Sanchez, chairman and chief executive officer. “The acquisition of First Avenue National Bank and the integration of its three branches, located in an economically vibrant growth market, along with the added management depth and employee talent, has strengthened our balance sheet and positioned the Company for strong growth into the future, with more balanced contributions from each of our three operating divisions. Our Community Banking Division significantly increased its year-over-year earnings in 2016, and the division’s portfolio loans grew \$104.3 million, which included \$81.4 million from the FANB acquisition. Our SBA Lending Division had strong earnings again in 2016 and the SBA portfolio loans grew by \$25.3 million. Our Mortgage Banking Division continued to perform strongly, with more than \$3.05 billion in residential mortgage loans originated and \$18.2 million in mortgage banking income during 2016, both strong gains over 2015 levels. And, despite the issuance of additional shares as part of the FANB acquisition, we saw diluted earnings per common share increase from \$1.85 in 2015 to \$2.05 for 2016, and common tangible book value rose 14.9 percent year-over-year to \$13.57 per share at Dec. 31, 2016.”

For the year 2016, net interest income before the provision for loan losses was \$19.49 million, an increase of \$2.84 million, or 17.1 percent, from the \$16.65 million for 2015. For the fourth quarter of 2016, net interest income before the provision for loan losses totaled \$5.13 million, compared to \$3.93 million in the fourth quarter of 2015, an increase of 30.7 percent. The annual and fourth quarter increases were due to the acquisition of FANB and growth in portfolio loans. The Company’s net interest margin remained strong, standing at 3.85 percent for 2016, compared to 3.89 percent for 2015.

Noninterest income was \$22.7 million for 2016, compared to \$17.9 million for 2015. All three operating segments showed an increase in noninterest income in 2016, in addition to the bargain purchase gain recognized from the acquisition of First Avenue National Bank. Noninterest income was \$7.3 million in the fourth quarter of 2016, an increase of \$2.3 million, or 46.3 percent, from \$5.0 million in the fourth quarter of 2015. This increase was due primarily to the significant increase in mortgage banking income and the recording of additional bargain purchase gain from the FANB acquisition.

For the year 2016 noninterest expense was \$29.7 million, an increase of \$5.2 million, or 21.3 percent, from the \$24.5 million in 2015. This increase reflects an increase of \$2.4 million in salary and benefit expense from the higher levels of loan volume in the Mortgage Banking Division and additional staff from the FANB branches added. Additionally, there were \$1.2 million of other operating expenses in 2016 as a result of the FANB acquisition. The annual increase also reflects \$674,000 in one-time, non-recurring acquisition-related expenses. Noninterest expense for the fourth quarter of 2016 increased \$1.6 million to \$8.4 million, from \$6.8 million in the fourth quarter of 2015. Salaries and benefits increased \$1.1 million in the fourth quarter of 2016, again largely as a result of the increased mortgage volume and additional FANB staff. Additionally, other operating expenses of \$0.4 million were related to the three FANB branches added in April 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 2015 were also restated for the change for comparability purposes. This change had no effect on the Company's reported net income for 2016 or 2015.

The Company also finalized its purchase accounting adjustments for the FANB acquisition during the fourth quarter of 2016 by recording an additional \$925,000 in bargain purchase gain reflected in other income. The Company also recorded a loan loss provision of \$1.00 million in the fourth quarter based on its allowance for loan loss methodology. The allowance for loan losses to loans (excluding Loans Held for Sale) ended the year at 1.47 percent of loans, compared to 1.23 percent at Sept. 30, 2016, and 1.48 percent just prior to the FANB acquisition at Mar. 31, 2016. The Company's provision for loan losses totaled \$1.45 million for 2016, compared to a loan loss provision of \$394,000 for 2015.

“In 2017 we will remain focused on continuing to create shareholder value through the generation of robust, broad-based earnings made possible by the ongoing strong contributions of each of our operating divisions: mortgage banking, government guaranteed lending and core community

banking,” said Sanchez. “With the acquisition of First Avenue National Bank in 2016, including the added management depth and employee talent, broadened product mix and balance sheet growth, our Company is stronger and better positioned for the future. We will remain vigilant on expense control, as well as asset and loan quality. 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. is the \$561.4 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 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 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
December 31, 2016

	12/31/2016 Consolidated	12/31/2015 Consolidated
Assets		
Cash and due from banks	\$ 7,956,004	\$ 4,830,568
Federal funds sold	387,123	82,642
Investment securities	24,760,056	27,406,568
Loans held for sale	92,009,241	128,181,623
Loans, gross	408,743,325	285,932,549
Less allowance	(5,990,733)	(5,254,407)
Loans, net	<u>402,752,592</u>	<u>280,678,142</u>
Premises and equipment, net	13,604,166	7,174,034
Accrued interest receivable	1,242,703	816,324
Other real estate owned	5,061,661	6,115,715
Other assets	13,615,180	9,381,356
Total assets	<u>\$ 561,388,726</u>	<u>\$ 464,666,972</u>
Liabilities		
DDA - non interest bearing	\$ 77,603,027	\$ 42,156,742
Interest bearing dda	174,112,178	118,889,345
Savings	15,618,336	5,179,736
Time	149,983,376	117,613,561
Total deposits	<u>417,316,917</u>	<u>283,839,384</u>
FHLB Advances & other borrowings	63,060,005	120,501,004
Senior Note Payable	8,916,667	9,916,667
Junior subordinated debentures	7,217,000	7,217,000
Accrued interest payable	198,018	196,863
Other liabilities	12,964,827	9,737,154
Total liabilities	<u>509,673,434</u>	<u>431,408,072</u>
Stockholders' equity		
Common stock	36,475	26,845
Additional paid-in-capital	53,354,381	41,764,823
Retained earnings	(1,870,202)	(8,825,989)
Net unrealized gain (loss) - securities AFS	194,638	293,221
Total stockholders' equity	<u>51,715,292</u>	<u>33,258,900</u>
Total liabilities and stockholders' equity	<u>\$ 561,388,726</u>	<u>\$ 464,666,972</u>

Coastal Banking Company
Consolidated Income Statement
December 31, 2016

	12/31/2016 QTD Consolidated	12/31/2015 QTD Consolidated	12/31/2016 YTD Consolidated	12/31/2015 YTD Consolidated
Interest Income:				
Loans	\$ 6,110,030	\$ 4,407,958	\$ 22,709,121	\$ 18,362,518
Securities	208,478	186,409	805,347	789,306
Interest on Deposits	786	2,526	14,771	8,361
Federal funds sold	7,247	57	12,764	188
Total interest income	<u>6,326,541</u>	<u>4,596,950</u>	<u>23,542,003</u>	<u>19,160,373</u>
Interest Expense:				
Deposits	698,597	380,796	2,422,894	1,603,573
Other	494,029	288,550	1,625,529	904,767
Total interest expense	<u>1,192,626</u>	<u>669,346</u>	<u>4,048,423</u>	<u>2,508,340</u>
Net interest income before provision for loan losses	5,133,915	3,927,604	19,493,580	16,652,033
Provision for loan losses	1,001,356	43,508	1,450,061	393,863
Net interest income after provision for loan losses	<u>4,132,559</u>	<u>3,884,096</u>	<u>18,043,519</u>	<u>16,258,170</u>
Operating income:				
Service charges on deposits	236,739	139,582	860,338	209,486
Mortgage banking income	5,872,234	3,824,953	18,225,244	15,686,148
SBA loan income	177,990	992,979	1,962,023	1,414,020
Gain on sale of securities	18,373	-	18,373	-
Increase in cash surrender value of life insurance	19,990	21,877	83,584	84,594
Other income	1,009,635	40,420	1,536,287	476,460
Total operating income	<u>7,334,961</u>	<u>5,019,811</u>	<u>22,685,849</u>	<u>17,870,708</u>
Operating expenses:				
Salaries and benefits	4,860,789	3,746,341	17,373,369	14,971,769
Net occupancy and equipment expense	884,657	627,008	3,147,188	2,204,884
Other operating expense	2,610,508	2,453,792	9,222,448	7,353,376
	<u>8,355,954</u>	<u>6,827,141</u>	<u>29,743,005</u>	<u>24,530,029</u>
Income before provision for income taxes	3,111,566	2,076,766	10,986,363	9,598,849
Provision for income taxes	906,201	644,041	4,030,577	3,763,628
Net income	<u>\$ 2,205,365</u>	<u>\$ 1,432,725</u>	<u>\$ 6,955,786</u>	<u>\$ 5,835,221</u>
Preferred stock dividends	-	111,938	-	783,563
Net earnings available to common shareholders	<u>\$ 2,205,365</u>	<u>\$ 1,320,787</u>	<u>\$ 6,955,786</u>	<u>\$ 5,051,658</u>

Coastal Banking Company
Consolidated Financial Highlights
December 31, 2016

	12/31/2016 QTD Consolidated		12/31/2015 QTD Consolidated		12/31/2016 YTD Consolidated		12/31/2015 YTD Consolidated	
Earnings								
Net interest income	\$	5,133,915	\$	3,927,604	\$	19,493,580	\$	16,652,033
Provision for loan loss		1,001,356		43,508		1,450,061		393,863
Other income		7,334,961		5,019,811		22,685,849		17,870,708
Other expense		8,355,954		6,827,141		29,743,005		24,530,029
Pre-tax income		3,111,566		2,076,766		10,986,363		9,598,849
Taxes		906,201		644,041		4,030,577		3,763,628
Net income		2,205,365		1,432,725		6,955,786		5,835,221
Preferred stock dividends		-		111,938		-		783,563
Net earnings available to common shareholders	\$	2,205,365	\$	1,320,787	\$	6,955,786	\$	5,051,658
Earnings per share								
Earnings per share (basic)	\$	0.61	\$	0.49	\$	2.10	\$	1.89
Earnings per share (diluted)	\$	0.59	\$	0.48	\$	2.05	\$	1.85
Performance Ratios								
ROAA		1.53%		1.25%		1.29%		1.12%
ROAE		17.47%		14.07%		16.07%		13.14%
Net Interest Margin		3.80%		3.90%		3.85%		3.89%
Efficiency Ratio		67.01%		76.30%		70.52%		71.05%
Capital								
Tier 1 leverage capital ratio		10.01%		9.54%		10.01%		9.54%
Common equity risk-based capital ratio		18.47%		18.60%		18.47%		18.60%
Tier 1 risk-based capital ratio		18.47%		18.60%		18.47%		18.60%
Total risk-based capital ratio		19.74%		19.89%		19.74%		19.89%
Book value per share	\$	14.18	\$	12.39	\$	14.18	\$	12.39
Tangible book value per share	\$	13.57	\$	11.81	\$	13.57	\$	11.81
Asset Quality								
Other real estate owned	\$	5,061,661	\$	6,115,715	\$	5,061,661	\$	6,115,715
Net Charge-offs (recoveries)	\$	(69,652)	\$	15,460	\$	713,736	\$	(31,645)
Net Charge-offs (recoveries) to average loans		-0.07%		0.02%		0.20%		-0.01%
Allowance to total loans, net of LHFS		1.47%		1.84%		1.47%		1.84%
Nonperforming assets to total assets		1.98%		1.85%		1.98%		1.85%
End of Period Balances								
Assets	\$	561,388,726	\$	464,666,972	\$	561,388,726	\$	464,666,972
Portfolio Loans		408,743,325		285,932,549		408,743,325		285,932,549
Loans Held for Sale		92,009,241		128,181,623		92,009,241		128,181,623
Deposits		417,316,917		283,839,384		417,316,917		283,839,384
Borrowings		63,060,005		120,501,004		63,060,005		120,501,004
Shareholders' Equity	\$	51,715,292	\$	33,258,900	\$	51,715,292	\$	33,258,900
Average Balances								
Assets	\$	575,143,290	\$	421,963,201	\$	540,550,612	\$	450,222,835
Portfolio Loans		399,748,183		274,670,443		364,242,751		269,032,510
Loans Held for Sale		107,037,715		95,875,166		111,509,816		126,942,524
Deposits		420,196,540		291,394,253		385,102,055		303,727,269
Borrowings		73,222,407		71,548,227		83,230,853		89,623,123
Shareholders' Equity	\$	50,499,485	\$	37,553,433	\$	43,270,921	\$	38,443,305
Average Shares		3,620,000		2,681,375		3,307,965		2,667,940
Stock Valuation								
Closing Market Price (OTCQX)	\$	15.01	\$	12.00	\$	15.01	\$	12.00