Coastal Banking Company, Inc.

Quarterly Financial Results (Unaudited)

As of March 31, 2016



Coastal Banking Company
Consolidated Balance Sheets

	March 31, 2016 (unaudited)	December 31, 2015 (audited)
Assets		
Cash and due from banks	$ 3,598,698	$ 3,058,112
Interest-bearing deposits in banks	2,546,651	1,772,456
Federal funds sold	106,930	82,642
Securities available for sale, at fair value	19,970,563	20,524,668
Securities held to maturity, at cost	100,000	100,000
Restricted equity securities, at cost	5,566,800	6,781,900
Loans held for sale, at fair value	33,017,545	35,725,005
Loans, net of unearned income	298,261,921	285,932,549
Less allowance for loan losses	4,418,991	5,254,407
Loans, net	293,842,930	280,678,142
Premises and equipment, net	7,184,570	7,174,034
Cash surrender value of life insurance	2,543,502	2,521,887
SBA loan servicing rights	1,579,467	1,544,682
Other real estate owned	6,292,050	6,115,715
Loan sales receivable	91,338,335	92,456,618
Other assets	7,072,791	6,131,111
Total assets	$ 474,760,832	$ 464,666,972
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing	$ 43,879,074	$ 42,156,742
Interest-bearing	275,888,418	241,682,642
Total deposits	319,767,492	283,839,384
Other borrowings	91,000,000	120,500,000
Senior note payable	9,666,667	9,916,667
Junior subordinated debentures	7,217,000	7,217,000
Other liabilities	12,356,266	9,935,021
Total liabilities	440,007,425	431,408,072
Commitments and contingencies		
Shareholders' Equity:		
Common stock, par value $.01; 10,000,000 shares authorized; 2,698,388 shares issued and outstanding at March 31, 2016; 2,684,478 shares issued and outstanding at December 31, 2015	26,984	26,845
Additional paid-in capital	41,904,147	41,764,823
Accumulated deficit	(7,608,044)	(8,825,989)
Accumulated other comprehensive income	430,320	293,221
Total shareholders' equity	34,753,407	33,258,900
Total liabilities and shareholders' equity	$ 474,760,832	$ 464,666,972

See accompanying notes to unaudited consolidated financial statements.

Coastal Banking Company
Consolidated Statements of Income
(Unaudited)

	For the three months ending March 31,	
	2016	**2015**
Interest income:		
Interest and fees on loans	$ 4,508,908	$ 4,255,054
Interest on taxable securities	165,443	176,504
Interest on nontaxable securities	28,258	28,521
Interest on deposits in other banks	4,442	1,514
Interest on federal funds sold	345	26
Total interest income	4,707,396	4,461,619
Interest expense:		
Interest on deposits	411,921	399,869
Interest on junior subordinated debentures	49,557	42,046
Interest on other borrowings	305,594	145,828
Total interest expense	767,072	587,743
Net interest income	3,940,324	3,873,876
Provision for loan losses	33,409	260,345
Net interest income after provision for loan losses	3,906,915	3,613,531
Non-interest income:		
Service charges on deposit accounts	52,847	50,972
Other service charges, commissions and fees	74,516	102,938
SBA loan income	580,146	82,184
Mortgage banking income	12,278,763	14,298,859
Income from investment in life insurance contracts	21,666	21,130
Other income	38,206	5,350
Total other income	13,046,144	14,561,433
Non-interest expenses:		
Salaries and employee benefits	11,524,927	13,153,923
Occupancy and equipment expense	1,005,003	866,512
Data processing fees	444,188	354,581
Other real estate expenses	20,131	4,596
Legal and other professional fees	177,423	142,514
Audit fees	94,377	115,084
Advertising fees	153,487	107,406
FDIC insurance expense	81,000	73,302
Director fees	74,100	63,350
OCC examination fees	37,590	32,898
Other operating	1,414,921	1,266,827
Total other expenses	15,027,147	16,180,993
Income before income tax	1,925,912	1,993,971
Income tax expense	707,968	823,220
Net income	$ 1,217,944	$ 1,170,751
Preferred stock dividends	—	223,875
Net income available to common shareholders	$ 1,217,944	$ 946,876
Basic earnings per common share	$ 0.45	$ 0.36
Diluted earnings per common share	$ 0.44	$ 0.35

See accompanying notes to unaudited consolidated financial statements.

Coastal Banking Company
Consolidated Statements of Comprehensive Income
(Unaudited)

	For the three months ending March 31,	
	2016	**2015**
Net income	$ 1,217,944	$ 1,170,751
Other comprehensive income, net of tax:		
Net unrealized holding gains arising during period, net of tax of $70,627 and $57,553	137,099	111,721
Total other comprehensive income	137,099	111,721
Comprehensive income	$ 1,355,043	$ 1,282,472

See accompanying notes to unaudited consolidated financial statements.

Coastal Banking Company
Consolidated Statements of Cash Flows
(Unaudited)

	For the Three Months Ended March 31,	
	2016	**2015**
Cash flows from operating activities:		
Net income	$ 1,217,944	$ 1,170,751
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	151,231	180,614
Stock-based compensation expense	12,000	17,045
Provision for loan losses	33,409	260,345
Net decrease (increase) in loan sales receivable	1,118,283	(50,208,995)
Write downs and (gains)/losses on sale of other real estate owned	20,131	(4,686)
Proceeds from sales of other real estate owned	—	520,603
Increase in cash value of life insurance	(21,615)	(21,131)
Originations of mortgage loans held for sale	(850,341,965)	(750,792,535)
Proceeds from sales of mortgage loans held for sale	865,328,188	725,480,695
Net decrease (increase) in interest receivable	(48,593)	42,204
Net increase in interest payable	10,684	23,339
(Gain)/Loss on sale/abandonment of premises and equipment	10,784	2,222
SBA loan income	(580,146)	(82,184)
Mortgage banking income	(12,278,763)	(14,298,859)
Net other operating activities	1,992,209	749,129
Net cash provided by (used in) operating activities	6,623,781	(86,961,443)
Cash flows from investing activities:		
Net (increase) decrease in interest-bearing deposits in banks	(774,195)	374,742
Net (increase) decrease in federal funds sold	(24,288)	14,076
Proceeds from maturities of securities available for sale	695,689	819,099
Purchase of securities held to maturity	—	(100,000)
Net change in restricted equity securities	1,215,100	(1,639,100)
Net (increase) decrease in loans	(13,394,663)	2,484,235
Purchase of premises and equipment	(106,410)	(56,027)
Net cash provided by (used in) investing activities	(12,388,767)	1,897,025
Cash flows from financing activities:		
Net increase in deposits	35,928,108	38,915,594
Net increase in fed funds purchased	—	3,775,000
Proceeds from employee stock purchase plan	102,464	39,918
Proceeds from exercise of stock options	25,000	—
Repayment of senior note payable	(250,000)	—
Net increase (decrease) in other borrowings	(29,500,000)	42,500,000
Net cash used in financing activities	6,305,572	85,230,512
Net (decrease) increase in cash and due from banks	540,586	166,094
Cash and due from banks at beginning of period	3,058,112	2,726,911
Cash and due from banks at end of period	$ 3,598,698	$ 2,893,005
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest expense	$ 756,388	$ 564,404
Federal & State income taxes	$ 301,421	$ 14,188
Noncash Transactions:		
Principal balances of loans transferred to other real estate owned	$ 176,335	$ 118,192

See accompanying notes to unaudited consolidated financial statements.

Notes to Consolidated Financial Statements – March 31, 2016 and 2015 (Unaudited) and December 31, 2015

Note 1 - Basis of Presentation

The corporate history of Coastal Banking Company, Inc. (the "Company") is available at http://www.coastalbanking.com/about-us.html

On May 2, 2012 the Company filed a Form 15-12G with the Securities and Exchange Commission 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 was the final financial report filed with the SEC by the Company until the SEC Form 1-A was filed on January 22, 2016 in order to qualify 885,345 shares of common stock for issuance pursuant to the merger with First Avenue National Bank of Ocala, FL. Management has continued to prepare and publish quarterly and annual financial reports with similar information as required in filings with the SEC to ensure that investors have access to timely, meaningful information related to the Company's results. These financial reports will be published on the Company's web site at intervals consistent with the comparable SEC filing deadlines.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, CBC National Bank (the "Bank"). All intercompany accounts and transactions have been eliminated in consolidation.

The financial statements for the interim periods ended March 31, 2016 and March 31, 2015 are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation. The results of operations for the three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. The financial information as of December 31, 2015 has been derived from the audited financial statements as of that date.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates that affect the amounts of assets and liabilities and changes therein. Actual results could differ from those estimates.

Note 2 – Regulatory Oversight, Capital Adequacy, Operating Results and Liquidity

Regulatory Oversight

The Company operates under the supervision and monitoring of the Federal Reserve Bank of Richmond while the Bank's primary regulator is the Office of the Comptroller of the Currency. In 2008 the Company issued preferred stock and warrants to purchase common stock to the US Treasury under the Capital Purchase Program within the Troubled Asset Relief Program (TARP). In February 2013, Coastal Banking Company preferred stock was included in a Treasury Department TARP auction, and that transaction settled on March 11, 2013 at which point the original preferred stock was owned by a small group of private investors. On November 15, 2015, the Company redeemed all outstanding preferred stock and paid all preferred dividends accrued through the date of redemption. The redemption and dividend payments were funded with the proceeds of a senior note payable to NexBank, SSB.

More detailed information on the status and requirements of the regulatory oversight under which we operate is available at http://www.coastalbanking.com/reports--news---filings.html

Capital Adequacy

Effective January 1, 2015 (with some changes transitioned into full effectiveness over two to four years), the Bank became subject to new capital requirements adopted by the FDIC. These new requirements create a new required ratio for common equity Tier 1 capital, increase the leverage and Tier 1 capital ratios, change the risk weight of certain assets for purposes of the risk-based capital ratios, create an additional capital conservation buffer over the required capital ratios and change what qualifies as capital for purposes of meeting these various capital requirements. Beginning in 2016, failure to maintain the required capital conservation buffer will limit the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses. The Company is exempt from consolidated capital requirements as those requirements do not apply to certain small savings bank holding companies with assets under $1 billion.

Under the new capital regulations, the minimum capital ratios are: (1) common equity Tier 1 capital ratio of 4.5% of risk-weighted assets, (2) a Tier 1 capital ratio of 6.0% of risk-weighted assets, (3) a total capital ratio of 8.0% of risk-weighted assets, and (4) a Tier 1 capital to average assets ratio of 4.0%. Common equity Tier 1 capital generally consists of common stock and retained earnings, subject to applicable regulatory adjustments and deductions.

There are a number of changes in what constitutes regulatory capital, some of which are subject to transition periods. These changes include the phasing-out of certain instruments as qualifying capital. The Bank does not use any of these instruments. Under the new requirements for total capital, Tier 2 capital is no longer limited to the amount of Tier 1 capital included in total capital. Mortgage servicing rights, certain deferred tax assets and investments in unconsolidated subsidiaries over designated percentages of common equity Tier 1 capital will be deducted from capital. The Bank has elected to permanently opt-out of

the inclusion of accumulated other comprehensive income in our capital calculations, as permitted by the regulations. This opt-out is expected to reduce the impact of market volatility on our regulatory capital levels.

The new requirements also include changes in the risk-weights of assets to better reflect credit risk and other risk exposures. These include a 150% risk weight (increased from 100%) for certain high volatility commercial real estate acquisition, development and construction loans and for non-residential mortgage loans that are 90 days past due or otherwise in non-accrual status; a 20% (increased form 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable; a 250% risk weight (increased from 100%) for mortgage servicing and deferred tax assets that are not deducted from capital; and increased risk weights (0% to 600%) for equity exposures.

In addition to the minimum common equity Tier 1, Tier 1 and total capital ratios, the Bank will have to maintain a capital conservation buffer consisting of additional common equity Tier 1 capital greater than 2.5% to risk weighted assets above the required minimum levels in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions. This new capital conservation buffer requirement will be phased in beginning in January 2016 at 0.635% of risk-weighted assets and increasing each year until fully implemented in January 2019.

The FDIC's prompt corrective action standards also changed effective January 1, 2015. Under the new standards, in order to be considered well-capitalized, the Bank must have a common equity Tier 1 ratio of 6.5% (new), a Tier 1 ratio of 8.0% (increased from 6.0%), a total risk-based capital ratio of 10.0% (unchanged) and a leverage ratio of 5.0% (unchanged). The Bank meets all these new requirements, including the full capital conservation buffer.

As of March 31, 2016, the Bank was well capitalized under the regulatory framework for prompt corrective action. The following table summarizes the Company's and Bank's capital ratios at March 31, 2016:

	Regulatory Levels To Be Well Capitalized (Applies to Bank)	CBC National Bank	Coastal Banking Company
Total risk-based (to risk-weighted assets)	10.00%	23.61%	20.11%
Tier 1 risk-based (to risk-weighted assets)	8.00%	22.34%	19.21%
Common Equity Tier 1 (to risk-weighted assets)	6.50%	22.34%	19.21%
Tier 1 leverage (to total average assets)	5.00%	11.74%	9.67%

Operating Results

The Company recorded net income of $1,218,000 for the three months ended March 31, 2016 compared to net income of $1,171,000 for the three months ended March 31, 2015. The increase in year over year earnings for the first quarter was driven primarily by increased SBA loan income and core earnings from net interest income.

Liquidity

Liquidity represents the ability of a company to convert assets into cash or cash equivalents without significant loss, and the ability to raise additional funds by increasing liabilities. Liquidity management involves monitoring our sources and uses of funds in order to meet our day-to-day cash flow requirements while maximizing profits. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities of our investment portfolio is fairly predictable and subject to a high degree of control at the time investment decisions are made. However, net deposit inflows and outflows are far less predictable and are not subject to the same degree of control. Our primary liquidity needs involve the funding of mortgage loans available for sale, new portfolio loans, and maturing deposits.

We meet our liquidity needs through scheduled maturities of loans and investments on the asset side and through pricing policies on the liability side for interest-bearing deposit accounts and with advances from approved borrowing facilities with correspondent banks, the Federal Home Loan Bank of Atlanta, and the Federal Reserve Bank discount window.

As of March 31, 2016, the Company had $383.5 million in total borrowing capacity, of which we had utilized $136.4 million or 36%, leaving remaining available liquidity of $247.1 million. The following tables present available sources of liquidity at March 31, 2016 and December 31, 2015:

	March 31, 2016		
	Total Line of Credit	Funds Borrowed	Funds Available
Available sources of liquidity			
Federal funds purchased lines of credit	$ 37,000,000	$ —	$ 37,000,000
Available brokered certificates of deposit	31,999,488	14,261,000	17,738,488
Internet deposits – CD Rateline	70,919,448	3,227,000	67,692,448
StoneCastle wholesale MMDA	33,095,742	1,000	33,094,742
CDARS – one way buy deposits	47,279,632	27,933,259	19,346,373
Repurchase agreements secured by investment securities	6,432,280	—	6,432,280
Federal Reserve Borrowing Capacity at Discount Window	17,461,735	—	17,461,735
Federal Home Loan Bank Advance Availability	139,310,400	91,000,000	48,310,400
Total sources of liquidity	$ 383,498,725	$ 136,422,259	$ 247,076,466

	December 31, 2015		
	Total Line of Credit	Funds Borrowed	Funds Available
Available sources of liquidity			
Federal funds purchased lines of credit	$ 37,000,000	$ —	$ 37,000,000
Available brokered certificates of deposit	28,411,635	14,793,320	13,618,315
Internet deposits – CD Rateline	69,398,474	3,726,000	65,672,474
StoneCastle wholesale MMDA	32,385,955	1,000	32,384,955
CDARS – one way buy deposits	46,265,649	2,848,181	43,417,468
Repurchase agreements secured by investment securities	5,682,000	—	5,682,000
Federal Reserve Borrowing Capacity at Discount Window	26,580,002	—	26,580,002
Federal Home Loan Bank Advance Availability	131,563,200	120,500,000	11,063,200
Total sources of liquidity	$ 377,286,915	$ 141,868,501	$ 235,418,414

Additionally, loans available for sale are considered by management as a key source of liquidity as a result of the speed with which these loans are sold and settled for cash. Management expects that, on average, loans originated for sale will be sold and converted to cash within 18 to 20 business days after the loan is originated. The balance of loans available for sale averaged $91.2 million during the first three months of 2016. Accordingly, in the event of a liquidity crisis, we anticipate having the ability to slow or stop loan origination activity to allow the loans available for sale to convert into cash. Another key metric of our liquidity position is the loan-to-total deposit ratio, calculated using loans, net of unearned income, which was 132% at March 31, 2016 and 146% at December 31, 2015. Based on current and expected liquidity needs and sources, management expects the Company to be able to meet all obligations as they become due.

Note 3 –Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share for the three months ended March 31, 2016 and 2015.

	For the three months ended March 31,	
	2016	2015
Net income	$ 1,217,944	$ 1,170,751
Preferred stock dividends	—	223,875
Net income available to common shareholders	$ 1,217,944	$ 946,876
Weighted average common shares	2,693,802	2,658,736
Effect of dilutive securities	65,863	27,345
Diluted average common shares	2,759,665	2,686,081
Earnings per common share	$ 0.45	$ 0.36
Diluted earnings (losses) per common share	$ 0.44	$ 0.35

Note 4 - Supplemental Segment Information

The Bank has three reportable business segments: community banking, SBA lending, and mortgage banking operations. The Bank evaluates performance based on profit and loss from operations before income taxes, not including nonrecurring gains and losses.

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 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% through an intersegment charge. Management believes that the intersegment interest expense reflected in the SBA Lending and Mortgage Banking segments may be lower than would be paid by these two operations in an arm's length, market rate borrowing relationship, and conversely the intersegment interest income credited to the Community Bank from this intersegment interest allocation may be lower than would otherwise be earned by the Bank in arm's length investments or loans. Except as described above, the Bank accounts for intersegment revenues and expenses as if the revenue/expense transactions were to third parties at current market prices.

The Bank's reportable business segments are strategic business units that offer different products and services to a different customer base. They are managed separately because each segment has different types and levels of credit and interest rate risk.

(In thousands)	Community Banking		SBA Lending Operations		Mortgage Banking Operations	
Three months ended March 31,	2016	2015	2016	2015	2016	2015
Interest income	$ 2,264	$ 2,276	$ 1,075	$ 679	$ 1,367	$ 1,506
Interest expense	593	546	—	—	—	—
Intersegment interest allocation	1,109	1,092	(419)	(278)	(690)	(814)
Net interest income	2,780	2,822	656	401	677	692
Provision for loan losses	1	138	—	63	32	59
Net interest income after provision	2,779	2,684	656	338	645	633
Non interest income	263	265	580	82	12,218	14,229
Non interest expense	2,597	2,097	657	466	11,671	13,528
Net income before tax expense	445	852	579	(46)	1,192	1,334
Income tax expense (benefit)	155	307	229	(18)	438	534
Net income	$ 290	$ 545	$ 350	$ (28)	$ 754	$ 800

The community banking segment provides traditional banking services offered through the Bank's three full service branch locations in Lady's Island and Port Royal, South Carolina; and Fernandina Beach, Florida. At March 31, 2016 this segment had 71 full time equivalent employees including staff that provides operational and administrative support to the other two reportable segments.

The Small Business Administration lending segment originates SBA loans throughout the southeastern United States by the Bank's SBA business development officers. At March 31, 2016 the division had 16 full time equivalent employees and conducted all loan funding, sales and servicing activity from the Bank's operations center in Fernandina Beach, Florida. These officers serve markets in Jacksonville, Ft. Myers, Tampa, and Vero Beach, Florida; Greensboro, North Carolina; and Beaufort, South Carolina. The majority of loans originated by the division are processed through the SBA 7(a) loan program. Participations in these loans are typically sold to secondary market investors within 30 days of the loan being funded. However, since the fourth quarter of 2014, the SBA lending segment began to extend the holding time of new loans to accumulate into larger groups of loans for sale rather than selling on a flow basis as the loans were originated. This was done with the expectation of achieving more advantageous pricing with increased block sizes sold in secondary market channels. As a result there were eight SBA loan participation sales during the quarter ending March 31, 2016 with a participation balance sold of $4,474,000 and at a weighted average premium of 10.32% from a balance of loans available for participation sale of $5,965,000. The inventory of SBA loans available for participation sale at March 31, 2016 is $20,170,000. During the three months ended March 31, 2015, there were no SBA loan participation sales and the inventory of SBA loans available for participation sale at March 31, 2015 was $6,552,000.

The mortgage banking segment was staffed by 345 full time equivalent employees at March 31, 2016 who originate residential mortgage loans through one of four distinct delivery channels. These channels include (1.) a network of independent mortgage brokers, (2.) a national network of traditional retail mortgage lending branches, (3.) an internet leads based retail loan origination branch, and (4.) retail mortgage lending through the Bank's deposit branch locations. Most of these loans are closed by the Bank and sold to various investors on the secondary market while a limited number of loans are retained in the Bank's loan portfolio. Additionally, during the first three months of 2016, approximately 36% of the loan production was brokered away to other lenders and so were not closed by the Bank. All wholesale and internet retail mortgage banking activity is conducted in the Bank's mortgage banking offices in Atlanta, Georgia, as is the national retail mortgage lending administration function. The national retail lending branches are located in Arizona, Florida, Georgia, Illinois, Indiana, Maryland, Michigan, North Carolina, and Ohio.

Loans on one-to-four family residential mortgages originated by us are sold to various other financial institutions with representations and warranties that are usual and customary for the industry. In addition to these representations and warranties, our loan sale contracts define a condition termed an Early Payment Default ("EPD") in which a borrower fails to make any one of the first four loan payments within 30 days of the due date. In the event of an EPD occurrence, we are required to return the premium paid by the investor for the loan as well as pay certain administrative fees. In the event of a breach of any of the representations and warranties related to a loan sold, we could be liable for damages to the investor up to and including a "make whole" demand that involves, at the investor's option, either reimbursing the investor for actual losses incurred on the loan or repurchasing the loan in full. Our maximum exposure to credit loss in the event of a loan repurchase related to a make whole claim would be the unpaid principal balance of the loan to be repurchased along with any premium paid by the investor when the loan was purchased and other minor collection cost reimbursements.

From the September 2007 inception of the mortgage banking division through March 31, 2016, we have sold over 43,000 residential mortgage loans into the secondary market with a principal balance in excess of $9.8 billion. From this population of sold loans, the Bank has received notification from purchasers of a total of forty-four EPD claims or on average one EPD claim per 984 loans sold. Below are the EPD claims by year of sale-vintage:

Year of Sale	# Loans Sold	EPDs	Claims Rate	$ Loans Sold
2016	1,749	—	0.0%	$ 417,037,230
2015	7,741	8	0.10%	1,905,768,081
2014	4,892	2	0.04%	1,151,537,418
2013	5,607	3	0.05%	1,301,421,133
2012 & prior	23,293	31	0.13%	5,049,034,014
Total	43,282	44	0.10%	$ 9,824,797,876

Beyond the initial payment to the purchasers of $234,000 upon receipt of the EPD claims, the maximum remaining exposure under investor claims of a representation and warranty breach would be the difference between the total loan amount and the liquidated value of the underlying collateral. In the case of our forty-four EPD claims received since the inception of mortgage banking operations, the aggregate loan balance was $8,075,000 and consisted of forty-four single family residences. Original loan-to-value ratios ranged from 65% to 98%, and loans with a loan-to-value ratio over 80% have a mortgage insurance policy in place. If repurchase was required in the future, management believes that the potential amount of loss would not be material and that sufficient reserves exist to fully absorb any loss. Management does not anticipate any material credit risk related to potential EPD claims on loans that have been previously sold and are no longer on the Bank's balance sheet. Because the risk of an EPD claim only exists during the first four payments after a loan is originated, the Bank reports the total of the most recent four months mortgage banking lending volume as off-balance sheet credit risk from EPD claims. As of March 31, 2016, the total off-balance sheet credit risk from EPD claims was $513,525,000.

As discussed above, the representations and warranties in loan sale agreements require that the Bank repurchase loans or indemnify the investors for losses or costs on loans sold under certain limited conditions. Some of these conditions include underwriting errors or omissions, fraud or material misstatements by the borrower in the loan application, or invalid market value on the collateral property due to deficiencies in the appraisal. From the total population of sold loans, in over eight years of operations the Bank has been required to settle nineteen make whole claims or on average one claim per 2,278 loans sold at a total cost of $1,766,000, and has repurchased six loans totaling $1,918,000. Of the six repurchased loans, two have been paid off, and the other four are current and performing in accordance with their loan terms.

Management has recognized the potential risk from costs related to EPD claims and breaches of representations and warranties made in connection with residential loan sales. It is noteworthy that the Bank's loan sale activity began in late 2007 at a time when underwriting requirements had changed and limited documentation conventional (non-government insured) loans were no longer eligible for purchase in the secondary market. Accordingly, the population of conventional loans the Bank has sold was underwritten based on fully documented information. While this will not eliminate all risk of repurchase or indemnification costs, management believes it significantly mitigates that risk as evidenced by the relatively insignificant level of repurchase and indemnification costs incurred to date.

In recognition of risk from potential EPD claims and breaches of representations and warranties, an indemnification reserve has been established and maintained since mortgage banking loan sales began in late 2007 to cover potential costs. Initially we had a limited history of actual costs incurred, so additions to the reserve were made monthly based on a percentage of loan balances sold that month. This approach recognizes that the risk of indemnification costs will rise in relation to the level of loans sold. In August 2013 we evaluated actual loss experience for six years relative to the reserve level and lower new business volume, and based on that analysis the decision was made to suspend further additions to the reserve balance. As a result, the balance of the indemnification reserve was approximately $2,446,000 at December 31, 2013. We updated this evaluation of actual loss experience in September 2014, including a detailed analysis of investor repurchase demands and claims paid over seven years.

Based on that updated analysis, management determined that our existing indemnification reserve level should be reduced by $437,000 in 2014, resulting in a balance of the indemnification reserve of $1,938,000 at December 31, 2014. The trend of limited claims activity continued in 2015 with charges against the indemnification reserve of $30,000 during the year ended December 31, 2015. In light of the slightly elevated risk and claims from loans sourced through the national retail group channel (NRG), management made the decision to make monthly additions to the reserve beginning in January 2015 based on a percentage of NRG sourced loans that were sold or brokered away to other lenders. The total additions to the reserve for NRG loans sold during 2015 was $54,000. As a result, the balance of the indemnification reserve at December 31, 2015 was $1,962,000. Total additions to the reserve for NRG loans during the three months ended March 31, 2016 were $12,000 while charges against the reserve were $15,000. As a result, the balance of the indemnification reserve at March 31, 2016 was $753,000 and based on the Bank's modest historical loss experience and the current level of indemnification claims under review, management believes this level of reserve is adequate for potential exposure in connection with loan sale indemnification or EPD claims. Management will monitor the reserve level relative to loss experience and business volume levels and may continue the suspension of additions to the reserve or alternatively decide that further additions to the reserve may be appropriate. However, we can provide no assurance that our methodology will not change and that the balance of this indemnification reserve will prove sufficient to cover actual costs in the future.

The primary source of direct income generated by the mortgage banking division is the gain on sale of mortgage loans which was $12,279,000 for the quarter ended March 31, 2016 compared to $14,299,000 for the quarter ended March 31, 2015. The decrease in gain on sale is a result of slightly lower volume caused by the stabilization of the historically low long term interest rates which fueled increasing loan demand for both refinance and purchase money loans. At the peak of refinance activity in 2012, 76.4% of units closed by the mortgage division were for the purpose of refinancing an existing loan and 23.6% were for the purpose of purchasing a home. Management has worked to restructure loan product offerings, geographic sales presence, and pricing incentives to increase the focus on purchase money lending. As a result we observed a gradual shift from refinance to purchase money lending with refinance lending falling to 53% of total units funded in 2014. Refinance lending increased back to 74% of units funded for the three months ended March 31, 2015 and 70% for the three months ended March 31, 2016 as a result of lower long-term interest rates, reductions in FHA insurance premiums and higher allowable loan to value limits on agency eligible loans. While mortgage loan volume will always be directly impacted by interest rates, purchase money lending has proven to be more resilient to increasing rate environments than has refinance lending, and so by reducing our reliance on refinance lending we expect to be well positioned to maintain profitable funding levels as long term rates rise from current levels.

The direct noninterest expenses incurred by the segment were $11,265,000 for the first quarter of 2016, a decrease of $2,263,000 over the first quarter 2015 expenses of $13,528,000. The largest contributor to this decrease was in salaries and benefits, which were $9,067,000 for first quarter 2016, compared to $11,510,000 for the first quarter 2015, a year over year decrease of 21%. This Q1 year over year decline in mortgage banking compensation expense occurred as a result of a slightly reduced lending volume of $127.8 million or 17%, from $761.0 million in Q1-2015 to $633.2 million in Q1-2016. Typically lending volume and compensation expense are closely correlated as long as the wholesale/retail mix remains relatively the same as evidenced by the comparable funding mix of 26%/74% in Q1-2015 versus 30%/70% in Q1-2016.

Beyond the impact of the noninterest income and expense from this division, the Bank earns interest income at the respective note rates on the balance of loans originated by the division from the time the loan is funded until it is sold to a secondary market investor. The average outstanding daily balance of residential mortgage loans available for sale was $91,237,000 for the three months ended March 31, 2016 and $102,026,000 for the three months ended March 31, 2015. The interest income earned on these loans available for sale was $914,000 and $966,000 for the three months ended March 31, 2016 and 2015 respectively.

Note 5 - Net Interest Income

The Bank's net interest income is determined by the level of our earning assets, primarily loans outstanding, and the management of our net interest margin. For the quarter ended March 31, 2016 net interest income totaled $3,940,000 as compared to $3,874,000 for the quarter ended March 31, 2015 for an increase of $66,000 or 1.70%. On a consecutive quarter basis, net interest income increased by $12,000 or 0.31%, from the $3,928,000 earned during the quarter ended December 31, 2015.

Total interest income increased by $245,000 to $4,707,000 for the three months ended March 31, 2016 compared to $4,462,000 for the three months ended March 31, 2015. On a consecutive quarter basis, total interest income increased by $110,000 or 2%, from the $4,597,000 earned during the quarter ended December 31, 2015.

During the final quarter of 2015 the Federal Reserve Bank increased short term interest rates for the first time in nearly a decade. A significant portion of the Bank's portfolio loans carry a variable rate of interest tied to the Prime interest rate, and so the 25 basis point increase to the Prime interest rate from 3.25% to 3.50% had a favorable impact on core earnings of the Company during the first quarter of 2016. At March 31, 2016 and March 31, 2015 the Bank held $156,200,000 and $123,968,000 respectively, in loans carrying rates based on the Prime interest rate index.

The positive impact from an increase in the Prime interest rate was partially offset by a reduced balance of residential mortgage loans available for sale during the first quarter of 2016, as well as a lower year over year yield on those loans. The average balance of residential mortgage loans held for sale declined from $102,026,000 in the first quarter of 2015 to $91,237,000 for the first

quarter of 2016, a decrease of $10,789,000, or 11%. Overall average earning assets increased to an average balance of $406,586,000 during the quarter ended March 31, 2016, up by $2,722,000, or 0.67%, from the average balance during the quarter ended March 31, 2015. The most significant increase in interest income was in interest earned on SBA commercial real estate loans held in the portfolio, which increased $295,000 to $761,000 during the first quarter of 2016, compared to $466,000 during the first quarter of 2015. Interest and fees earned on portfolio loans increased by $247,000 or 8%, to $3,582,000, in the three months ended March 31, 2016 from $3,281,000 in the three months ended March 31, 2015. Interest income from investment securities decreased $11,000, or 5%, to $194,000 in the three months ended March 31, 2016 compared to $205,000 earned in the three months ended March 31, 2015. On a consecutive quarter basis, interest income from investments increased $8,000 from $186,000 earned during the quarter ended December 31, 2015. Interest and fees earned on loans increased by $254,000 or 6%, to $4,509,000 for the three month period ended March 31, 2016 compared to $4,255,000 for the same three month period in 2015.

Interest income not recognized on non-accruing loans totaled $73,000 during the three months ended March 31, 2016. During the first quarter of 2015, we lost income on nonaccrual loans totaling $39,000.

On November 15, 2015, the Company redeemed all outstanding TARP preferred stock and paid all preferred dividends accrued through the date of redemption. The redemption and dividend payments were funded with the proceeds of a senior note payable to NexBank, SSB. As a result of this refinancing, total interest expense increased $179,000 or 30%, to $767,000 for the three months ended March 31, 2016 compared to $588,000 for the same period in 2015. On a consecutive quarter basis, total interest expense increased by $98,000, or 15%, from $669,000 expensed during the quarter ended December 31, 2015.

The net interest margin is a performance metric that reflects how successful the Bank's investment decisions have been relative to its funding choices. It is calculated by dividing the annualized net interest income by the balance of the average earning assets for the period. The net interest margin realized on earning assets remained flat at 3.89% for the three months ended March 31, 2016. On a consecutive quarter basis, the net interest margin decreased by 1 basis point from 3.90% during the quarter ended December 31, 2015.

The net interest rate spread is the difference between the average yield earned by the Bank on loans, investment securities and other earning assets, and the rate paid by the Bank on interest bearing deposits and other borrowings. The net interest rate spread increased by 4 basis points to 3.73% for the three months ended March 31, 2016 compared to the 3.69% net interest rate spread earned during the same three month period in 2015. On a consecutive quarter basis, the net interest rate spread remained relatively stable, decreasing by 2 basis points from 3.75% during the quarter ended December 31, 2015.

Note 6 - 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 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 qualitative factors reflect general declines in collateral values.

To the extent that the recovery of loan balances has become collateral dependent, we obtain appraisals not less than annually, and we reduce these appraised values for selling and holding costs to determine the liquidated value. Any shortfall between the liquidated value and the loan balance is charged against the allowance for loan losses in the month the related appraisal was received. In the ordinary course of managing and monitoring nonperforming loans, information may come to our attention that indicates the collateral value has declined further from the value established in the most recent appraisal. Such other information may include prices on recent comparable property sales or internet based property valuation estimates. In cases where this other information is deemed reliable, and the impact of a further reduction in collateral value would result in a further loss to the Company, we will record an increase to the allowance to reflect the additional estimated collateral shortfall.

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)	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014
Portfolio loans, gross	$ 298,262	$ 285,933	$ 274,704	$ 272,115	$ 270,230	$ 272,757	$ 267,393	$ 258,022
Loans past due > 30 days and still accruing interest	$ 1,056	$ 123	$ 2,302	$ 1,752	$ 2	$ 806	$ 455	$ 1,720
Loans on nonaccrual	$ 1,936	$ 2,478	$ 3,484	$ 4,176	$ 4,629	$ 4,330	$ 2,881	$ 2,787
(as a % of loans, gross)	0.65%	0.87%	1.27%	1.53%	1.71%	1.59%	1.08%	1.08%
Net loan charge offs (recoveries)	$ 868	$ 16	$ 8	$ 21	$ (76)	$ 72	$ 256	$ 85
(as a % of loans, gross)	0.29%	0.01%	0.00%	0.01%	(0.03)%	0.03%	0.10%	0.03%

Portfolio loans, gross addresses the impact on the provision for loan losses from changes in the size and composition of our loan portfolio. In the past we applied various reserve factors to our portfolio based on the risk-rated categories of loans because we had relatively little charge off activity prior to the quarter ended December 31, 2008. As a result of increasing charge off activity during the US Great Recession and related banking credit crisis, we now rely more 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 rate 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 $1,056,000 at March 31, 2016, an increase of $933,000 as compared to $123,000 at December 31, 2015. This increase in past due loans reflects the impact of one long standing SBA borrowing relationship that was responsible for the majority of the increase in the balance over the previous quarter. As such, the deterioration in this credit metric reflects ongoing legacy credit challenges rather than indications of possible negative trends from recent portfolio growth. As a leading indicator, this metric suggests that relatively stable loan quality trends may be expected to continue in the current economic and interest rate environment. Management will continue to carefully monitor past due loans and work aggressively to manage loan delinquency levels. While the long term trend in credit quality over the last several years has improved, we can expect that ups and downs as experienced over the last few quarters may continue to occur.

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. Although it is not shown in the table above, the level of loans on nonaccrual peaked at $25,925,000 at June 30, 2009 and then declined by 50% over the following three quarters to $12,992,000 at March 31, 2010. From that March 31, 2010 low point, loans on nonaccrual gradually increased again to peak at $25,399,000 in mid-2011 which was very near the mid-2009 high point. Once again we saw a downward trend; however, after the mid-2011 spike the improvement in nonaccrual balances has generally been sustained. During the three months ended March 31, 2016 four loans totaling $729,000 migrated to nonaccrual status, seven loans had principal reductions totaling $190,000, three loans totaling $213,000 migrated to other real estate owned, one loan in the amount of $45,000 was upgraded to accrual status, and the remaining balance reduction of $822,000 reflects loans charged off. While management is generally encouraged by the long term improvement in nonaccrual loans, we remain vigilant in our loan monitoring and loss mitigation efforts.

Net loan charge offs or recoveries reflect our practice of charging recognized losses to the allowance and adding subsequent recoveries back to the allowance. During the three months ended March 31, 2016 we recorded net charge-offs of $868,000. This amount represented an increase of $852,000 from the $16,000 in net charge offs recorded during the prior quarter ended December 31, 2015, and an increase of $944,000 from the $76,000 in net recoveries during the same quarter in the prior year. This increase in net charge-offs reflects the impact of three long standing borrowing relationships that were responsible for the majority of the increase in the balance over the previous quarter.

Prior to the fourth fiscal quarter of 2008, we had very little charge off activity and therefore, had limited historical information upon which to base past estimates. Since 2009 charge off activity has been volatile and difficult to predict, but we continue to assess the implications of trends in recent charge off activity on potential future losses. The recent volatility in the level of quarterly net loan charge offs or recoveries makes it difficult to identify a specific trend or establish reliable future expectations. As a result, there can be no assurance that charge offs of loans in future periods will not increase or exceed the allowance for loan losses as estimated at any point in time or that provisions for loan losses will not be significant to a particular accounting period. Thus, there is a risk that substantial additional increases in the allowance for loan losses could be required, which would result in a decrease in our net income and possibly our capital.

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 $33,000 for the three months ended March 31, 2016 as compared to $260,000 for the three months ended March 31, 2015. On a consecutive quarter basis, the provision was $11,000 or 25%, less than the $44,000 provision charged to expense during the quarter ended December 31, 2015.

(In thousands)	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014
Provision during quarter ended	$ 33	$ 44	$ 57	$ 33	$ 260	$ 266	$ 223	$ 473
Provision added in excess of (less than) net charge-offs	$ (835)	$ 28	$ 49	$ 12	$ 336	$ 194	$ (33)	$ 388
Allowance for loan losses	$ 4,419	$ 5,254	$ 5,226	$ 5,177	$ 5,165	$ 4,829	$ 4,635	$ 4,668
(as a % of loans, gross)	1.48%	1.84%	1.90%	1.90%	1.91%	1.77%	1.73%	1.81%

The difference between the amount of the provision for loan losses and net loan charge offs will result in expansion or shrinkage to the level of the allowance for loan losses. As shown above, during the three months ended March 31, 2016, the current provision for loan losses of $33,000 was less than the net charge-offs against the allowance of $868,000 by $835,000. The result was a decrease to the allowance for loan losses of $835,000 to a level of $4,419,000 or 1.48% of gross loans outstanding at March 31, 2016 as compared to $5,254,000 or 1.84% of gross loans outstanding at December 31, 2015.

From a historical perspective, prior to 2008, while the level of loans on nonaccrual was relatively stable, the allowance for loan losses was maintained in the range of 1.2% to 1.3% of the balance of gross loans. As we moved into 2008 and experienced an increase in loans on nonaccrual, it was determined that an increase to the allowance level was appropriate given the projected increased risk of loss, so the allowance was increased to a range of 1.4% to 1.6% during 2008. The weakening of the loan portfolio performance continued into 2009 with actual loss levels that exceeded projections from earlier in 2008, resulting in the decision to increase the allowance level further, to the range of 1.6% to 1.8% in early 2009. With nonaccrual loans reaching a peak in mid-2009, further analysis and projections of potential loan losses in the Bank's existing portfolio supported a further increase in the allowance level to a range of 2.0% to 2.3% of gross loans outstanding, which was sustained through the end of 2012. Beginning in the final two quarters of 2012 we observed significant improvement in loan portfolio performance that continued into 2014 and throughout 2015 with many key asset quality metrics improving to levels last reported during 2008. Based on these improving trends and current projections of future potential loses, we have gradually reduced our target allowance level to the current range of 1.40% to 1.60% of gross loans outstanding. Management believes that the changes in the level of the allowance for loan losses are directionally consistent with the trends observed in the various asset quality metrics discussed above.

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.

Note 7 - Noninterest Income

Noninterest income for the three months ended March 31, 2016 totaled $13,046,000 as compared to $14,561,000 for the three months ended March 31, 2015. Mortgage banking income was $12,279,000 for the quarter ended March 31, 2015 compared to $14,299,000 for the same period during 2015 for a decrease of $2,020,000 or -14% on reduced funding levels. SBA loan income increased $498,000 or 606% to $580,000 for the three month period ended March 31, 2016 compared to $82,000 for the first quarter of 2015 as a result of management's decision to begin selling more of the SBA production into the secondary market as compared to retaining the production on the balance sheet during the three months ended March 31, 2015. Beginning with the fourth quarter of 2014, the SBA lending segment began to accumulate production in anticipation of more advantageous pricing

with increased block sizes to sell in secondary market channels. As a result there were no SBA loan participation sales during the three months ended March 31, 2015 compared to eight SBA loan participation sales during the three months ended March 31, 2016. Despite the SBA participation sales during the first quarter of 2016, the inventory of SBA loans available for participation sale at March 31, 2016 has grown to $20,170,000 for an increase of $12.789.000 or 195% as compared to $6,552,000 of inventory of SBA loans available for participation sale at March 31, 2015.

Note 8 - Noninterest Expense

Total noninterest expense for the three months ended March 31, 2016 was $15,027,000 as compared to $16,181,000 for the same period in 2015. The year-over-year decrease in noninterest operating expense of $1,154,000 is due largely to decreased expenses in the mortgage banking division. Noninterest expenses related to the mortgage banking division decreased $1,857,000 or 14%, to $11,671,000 for the first quarter of 2016 compared to expenses of $13,528,000 in the first quarter of 2015.

Salaries and benefits totaled $11,525,000 for the three months ended March 31, 2016 compared to $13,154,000 for the same period a year ago, for a decrease of $1,629,000. Salaries and benefits decreased $2,146,000 in the mortgage division offset by a $162,000 increase in the SBA lending division and a $355,000 increase in the community banking division.

Net occupancy and equipment expenses increased $139,000 or 16% to $1,005,000 for the first quarter of 2016 compared to $867,000 during the same period of 2015 primarily as a result of increased software expense incurred in connection with mortgage regulatory requirements and streamlining the mortgage operations processing flow.

Note 9 – Investment Securities

Investment securities are as follows:

	March 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
State and municipal securities	$ 3,128,008	$ 355,982	$ —	$ 3,483,990
Mortgage-backed securities	16,190,555	312,860	(16,841)	16,486,574
	$ 19,318,563	$ 668,842	$ (16,841)	$ 19,970,564
Held to maturity				
Corporate debt securities	$ 100,000	$ —	$ —	$ 100,000
	$ 100,000	$ —	$ —	$ 100,000

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
State and municipal securities	$ 3,135,595	$ 318,519	$ (101)	$ 3,454,013
Mortgage-backed securities	16,944,799	231,847	(105,991)	17,070,655
	$ 20,080,394	$ 550,366	$ (106,092)	$ 20,524,668
Held to maturity				
Corporate debt securities	$ 100,000	$ —	$ —	$ 100,000
	$ 100,000	$ —	$ —	$ 100,000

Note 10 — Loans and allowance for loan losses

The composition of loans is summarized as follows:

	March 31, 2016	December 31, 2015
Commercial and financial	$ 19,867,209	$ 18,795,061
Agricultural	13,814	17,500
Real estate – construction, commercial	18,458,154	20,635,761
Real estate – construction, residential	15,893,579	12,901,736
Real estate – mortgage, commercial	113,468,136	106,651,258
Real estate – mortgage, residential	120,652,105	121,878,211
Real estate – mortgage, farmland	8,680,151	3,845,325
Consumer installment loans	1,228,773	1,207,697
Gross loans	298,261,921	285,932,549
Less: Allowance for loan losses	4,418,991	5,254,407
Net loans	$ 293,842,930	$ 280,678,142

The Bank grants loans and extensions of credit to individuals and a variety of businesses and corporations located in its general trade areas of Beaufort County, South Carolina, Nassau County, Florida and Thomas County, Georgia. Although the Bank has a diversified loan portfolio, a substantial portion of the loan portfolio is collateralized by improved and unimproved real estate and is dependent upon the real estate market.

Loans exhibiting one or more of the following attributes are placed on a nonaccrual status:

a.) Principal and/or interest is 90 days or more delinquent, unless the obligation is (i) well secured by collateral with a realizable value sufficient to discharge the debt including accrued interest in full, and (ii) in the process of collection, which is reasonably expected to result in repayment of the debt or in its restoration to a current status.

b.) A borrower's financial condition has deteriorated to such an extent, or some condition exists, that makes collection of interest and/or principal in full unlikely in management's opinion.

c.) Foreclosure or legal action has been initiated as a result of default by the borrower on the terms of the debt.

The following is a summary of current, past due and nonaccrual loans:

	March 31, 2016						
(In thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due & Accruing	Nonaccrual	Total Past Due & Nonaccrual	Current Loans	Total Loans
Commercial and financial	$ —	—	$ —	$ —	$ —	$ 19,867	$ 19,867
Agricultural	—	—	—	—	—	14	14
Real estate – construction, commercial	—	—	—	—	—	18,458	18,458
Real estate – construction, residential	—	—	—	39	39	15,855	15,894
Real estate – mortgage, commercial	921	113	—	1,190	2,224	111,244	113,468
Real estate – mortgage, residential	—	—	—	707	707	119,945	120,652
Real estate – mortgage, farmland	—	—	—	—	—	8,680	8,680
Consumer installment loans	7	15	—	—	22	1,207	1,229
	$ 928	$ 128	$ —	$ 1,936	$ 2,992	$ 295,270	$ 298,262

	December 31, 2015						
(In thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due & Accruing	Nonaccrual	Total Past Due & Nonaccrual	Current Loans	Total Loans
Commercial and financial	$ —	—	$ —	$ —	$ —	$ 18,795	$ 18,795
Agricultural	—	—	—	—	—	18	18
Real estate – construction, commercial	—	—	—	887	887	19,749	20,636
Real estate – construction, residential	—	—	—	—	—	12,902	12,902
Real estate – mortgage, commercial	—	—	—	1,026	1,026	105,625	106,651
Real estate – mortgage, residential	114	—	—	565	679	121,199	121,878
Real estate – mortgage, farmland	—	—	—	—	—	3,845	3,845
Consumer installment loans	9	—	—	—	9	1,199	1,208
	$ 123	$ —	$ —	$ 2,478	$ 2,601	$ 283,332	$ 285,933

Other Risk Elements in the Loan Portfolio

The following is a summary of other risk elements in the loan portfolio:

	Loans with Interest Only Payments			
(In thousands)	**March 31, 2016**		**December 31, 2015**	
Commercial and financial	$ 3,151	7%	$ 3,047	7%
Agricultural	14	—%	18	—%
Real estate – construction, commercial	6,019	13%	7,018	17%
Real estate – construction, residential	10,280	22%	7,461	18%
Real estate – mortgage, commercial	6,447	14%	6,255	15%
Real estate – mortgage, residential	20,119	44%	18,131	43%
Consumer installment loans	35	—%	33	—%
	$ 46,065		$ 41,963	

As shown above, we have a moderate concentration of interest only loans in our portfolio, and such loans are generally regarded as carrying a higher risk profile than fully amortizing loans. It is important to note that none of the interest only loans in our portfolio allow negative amortization, nor do we have any loans with capitalized interest reserves.

Balances within the major loans receivable categories and geographic concentration of the loan portfolio are presented below:

	Geographic Concentration of Loan Portfolio			
	March 31, 2016			
(In thousands)	**Florida**	**Georgia**	**South Carolina**	**Other**
Commercial and financial	$ 10,664	3,123	3,079	3,002
Agricultural	—	—	14	—
Real estate – construction, commercial	8,509	1,451	6,053	2,445
Real estate – construction, residential	6,048	5,666	3,986	194
Real estate – mortgage, commercial	58,379	18,674	27,389	9,027
Real estate – mortgage, residential	47,311	37,177	25,554	10,608
Real estate – mortgage, farmland	3,581	249	—	4,850
Consumer installment loans	299	255	624	51
	$ 134,791	66,595	66,699	30,177

	Geographic Concentration of Loan Portfolio			
	December 31, 2015			
(In thousands)	**Florida**	**Georgia**	**South Carolina**	**Other**
Commercial and financial	$ 10,952	3,203	2,803	1,836
Agricultural	—	—	18	—
Real estate – construction, commercial	9,075	2,058	7,042	2,461
Real estate – construction, residential	4,230	4,113	4,287	271
Real estate – mortgage, commercial	54,123	16,510	27,776	6,304
Real estate – mortgage, residential	46,898	39,695	25,458	11,766
Real estate – mortgage, farmland	3,594	252	—	—
Consumer installment loans	329	265	552	62
	$ 129,201	66,096	67,936	22,700

We also monitor and evaluate several other loan portfolio characteristics at a total portfolio level rather than by major loan category. These characteristics include:

Junior Liens – Loans secured by liens in subordinate positions tend to have a higher risk profile than loans secured by liens in the first or senior position. At March 31, 2016 the Company held $18,662,000 of loans secured by junior liens, which represented approximately 6.3% of the total net loan portfolio. Net loan charge-offs were $60,000 during the three months ended March 31, 2016 for all loans secured by junior liens for an annualized net charge-off rate of 2.63%. At December 31, 2015 the Company held $19,243,000 of loans secured by junior liens which represented approximately 6.7% of the total net loan portfolio.

High Loan to Value Ratios – Typically the Company will not originate a new loan with a loan to value (LTV) ratio in excess of 100%. However, declines in collateral values can result in the case of an existing loan renewal with an LTV ratio in excess of 100% based on the current appraised value of the collateral. In such cases the borrower may be asked to pledge additional collateral or to renew the loan for a lesser amount. If the borrower lacks the ability to pay down the loan or provide additional collateral, but has the ability to continue to service the debt, the loan will be renewed with an LTV ratio in excess of 100%. At March 31, 2016 the loan portfolio included 45 loans with an aggregate balance of $11,964,000 or 4.1% of the net loan portfolio, with LTV ratios in excess of 100%. At December 31, 2015 the loan portfolio included 50 loans with an aggregate balance of $12,972,000 or 4.5% of the net loan portfolio, with LTV ratios in excess of 100%.

Restructured Loans – Historically, the Company has followed a conservative approach by classifying any loan as restructured whenever the terms of a loan were adjusted to the benefit of any borrower in financial distress, regardless of the status of the loan at the time of restructuring. In some cases we have restructured loans for borrowers who were not delinquent, but for various reasons these borrowers were experiencing financial distress that raised a doubt about their continued ability to make payments under current terms. By adjusting the terms of the loan to better fit the borrower's current financial condition, expectations are that the loan will avoid a future default. In other cases we have restructured loans for borrowers who were in default at the time the loan terms were restructured. The expectation is that by adjusting the terms of such loans, the borrower may begin to make payments again based on the improved loan terms.

The types of changes that are made for troubled borrowers to restructure their obligations may include one or more of the following:

- Deferral of one or more scheduled loan payments to a future date
- Temporary or permanent reduction of the loan interest rate
- Conversion from principal and interest payment term to an interest only payment term on a temporary basis, or until maturity
- Forgiveness of accrued but uncollected interest
- Extension of loan maturity date
- Reduction in principal due under the loan agreement

The potential financial effects of restructuring troubled debts includes a reduction in the level of interest income collected, a complete loss of interest income, or a loss of some portion of the original loan principal. All troubled debt restructurings are tested for impairment. If a loan is considered to be collateral dependent, the measurement of impairment is based on the fair value of the collateral, net of estimated liquidation costs. If the loan is not considered to be collateral dependent, the present value of expected future cash flows is used to determine any amount of impairment. Any impairment is then charged to the allowance for loan and lease losses or designated as a specific reserve, and as such will be considered as a component of the reserve calculation.

The following table provides a summary of all loans that are currently designated as restructured for regulatory purposes.

	March 31, 2016			December 31, 2015		
Troubled debt restructurings	**Number of loans**	**Recorded Investment**	**Unpaid Principal Balance**	**Number of loans**	**Recorded Investment**	**Unpaid Principal Balance**
Real estate – mortgage	8	3,458,909	3,818,210	9	3,741,945	3,866,771
Total troubled debt restructurings	8	$ 3,458,909	$ 3,818,210	9	$ 3,741,945	$ 3,866,771

The following table provides the payment status as of March 31, 2016 and 2015 of all loans that were restructured in the twelve month periods ending on those respective dates.

	March 31, 2016		March 31, 2015	
	Number of loans	**Recorded Investment**	**Number of loans**	**Recorded Investment**
Restructured loans less than 30 days past due				
Real estate – mortgage	1	$ 139,988	1	$ 730,932
Total restructured loans less than 30 days past due	1	$ 139,988	1	$ 730,932
Total restructured loans 30 days or more past due	—	—	—	—
Restructured loans on nonaccrual	—	—	—	—
Total restructured loans on nonaccrual	—	—	—	—

Loans classified as Special Mention or Substandard – Management evaluates all loan relationships periodically in order to assess the financial strength of the borrower and the value of any underlying collateral. Loans that are found to have a potential or actual weakness are classified as special mention or substandard and subject to increased monitoring by management. This typically includes frequent contact with the borrower to actively manage the borrowing relationship as needed to rehabilitate or mitigate the weakness identified. A summary of loan credit quality is presented below:

(In thousands)	March 31, 2016			
	Pass	Special Mention	Substandard	Total
Commercial and financial	$ 19,277	$ 404	$ 186	$ 19,867
Agricultural	14	—	—	14
Real estate – construction, commercial	18,458	—	—	18,458
Real estate – construction, residential	15,894	—	—	15,894
Real estate – mortgage, commercial	107,504	3,767	2,197	113,468
Real estate – mortgage, residential	119,263	—	1,389	120,652
Real estate – mortgage, farmland	8,680	—	—	8,680
Consumer installment loans	1,189	40	—	1,229
	$ 290,279	$ 4,211	$ 3,772	$ 298,262

(In thousands)	December 31, 2015			
	Pass	Special Mention	Substandard	Total
Commercial and financial	$ 18,022	$ 767	$ 6	$ 18,795
Agricultural	18	—	—	18
Real estate – construction, commercial	19,749	—	887	20,636
Real estate – construction, residential	12,902	—	—	12,902
Real estate – mortgage, commercial	101,274	1,936	3,441	106,651
Real estate – mortgage, residential	120,081	360	1,437	121,878
Real estate – mortgage, farmland	3,845	—	—	3,845
Consumer installment loans	1,207	—	1	1,208
	$ 277,098	$ 3,063	$ 5,772	$ 285,933

Management has established an allowance for loan losses through a provision for loan losses charged to expense on the statement of earnings. Additions to the allowance for loan losses are made periodically to maintain the allowance at an appropriate level based on management's analysis of the potential risk in the loan portfolio. The allowance for loan losses represents an amount, which is believed to be adequate to absorb probable losses on existing loans that may become uncollectible. Management's judgment as to the adequacy of the allowance for loan losses is based upon a number of assumptions about future events, which are believed to be reasonable, but which may or may not prove to be accurate. To the extent that the recovery of loan balances has become collateral dependent, the Bank obtains appraisals not less than annually, and then reduces these appraised values by the amount estimated for selling and holding costs to determine the liquidated value. Any shortfall between the liquidated value and the loan balance is charged against the allowance for loan losses in the month the related appraisal was received. Losses will undoubtedly vary from management estimates, and there is a possibility that charge-offs can reduce this allowance. Management's determination of the allowance for loan losses is based on evaluations of the collectability of loans, including consideration of factors such as the balance of impaired loans, the quality, mix, and size of the overall loan portfolio, economic conditions that may affect the borrower's ability to repay, commercial and residential real estate market trends, the amount and quality of collateral securing the loans, the Bank's historical loan loss experience, and a review of specific problem loans. Management also considers subjective issues such as changes in the lending policies and procedures, changes in the local/national economy, changes in volume or type of credits, changes in volume/severity of problem loans, quality of loan review and board of director oversight, concentrations of credit, and peer group comparisons.

An analysis of the activity in the allowance for loan losses is presented below:

	For the Three Months Ended March 31,	
	2016	2015
Balance, beginning of year	$ 5,254,407	$ 4,828,899
Provision for loan losses	33,409	260,345
Loans charged off	(880,314)	(51,608)
Recoveries of loans previously charged off	11,489	127,086
Balance, end of period	$ 4,418,991	$ 5,164,722

Note 11 — SBA Loan Servicing Rights

Loan Servicing Rights (LSR) are initially recorded when the participation is sold at a value established by an independent LSR valuation company. This initial valuation also provides an expected life for each new LSR added during the quarter. The balance of the LSR is amortized on a straight line basis in proportion to, and over the period of, estimated servicing income as a reduction to SBA loan income. The balance of the LSR asset is evaluated for impairment at the end of each quarter by obtaining a current fair value from an independent third party. For the period ended March 31, 2016, the carrying value of the SBA LSRs was $1,579,000 and the fair value of the SBA LSRs was $2,055,000. As of December 31, 2015, the carrying value of the SBA LSRs was $1,545,000 and the fair value of the SBA LSRs was $1,938,000. As a result of the quarterly independent valuation process, no valuation allowance was required at either period end. The related balance of SBA loans participated and serviced for others was $84,820,000 at March 31, 2016 and $85,830,000 at December 31, 2015.

The fair value of loan servicing rights typically rises as market interest rates increase and declines as market interest rates decrease; however, the extent to which this occurs depends in part on (1) the magnitude of changes in market interest rates, and (2) the differential between the then current market interest rates for mortgage loans and the mortgage interest rates included in the loan-servicing portfolio. Since sales of mortgage servicing rights tend to occur in private transactions and the precise terms and conditions of the sales are typically not readily available, there is a limited market to refer to in determining the fair value of loan servicing rights. As such, like other participants in the SBA loan servicing business, we determine value of loan servicing rights by estimating the present value of the future income stream attained from all of the servicing related cash flows. The value is the sum on the present value of these future income streams, which is impacted by assumptions on prepayment speeds, age and type of the underlying mortgage, and the rate at which these cash flows are discounted. The present value of the portfolio's expected stream of future cash flows is determined though a loan level analysis utilizing assumptions that would be used by other market participants. The valuation incorporates a five step process. Three income elements that include servicing value, remittance value, and additional income are determined as a present value of the respective estimated cash flows from each loan. Finally, the servicing cost, also expressed as a dollar amount per loan, is valued. The net servicing value for each loan is then determined by subtracting the servicing cost from the three income values.

Note 12 — Other Real Estate Owned

A summary of other real estate owned is presented as follows:

	Three Months Ended March 31,	
	2016	2015
Balance, beginning of year	$ 6,115,715	$ 7,322,404
Additions	176,335	118,192
Disposals	—	(520,603)
Valuation write downs and gains/(losses) on sales	—	4,686
Balance, end of period	$ 6,292,050	$ 6,924,679

Expenses related to other real estate owned include the following:

	Three Months Ended March 31,	
	2016	2015
Net (gain)/loss on sales of real estate	$ —	$ (4,686)
Valuation write downs	—	—
Operating expenses, net	17,591	3,172
	$ 17,591	$ (1,514)

Other real estate owned represents collateral property taken back from borrowers in partial or full satisfaction of their defaulted debt obligation to the Company. We track our historical experience of loans that ultimately convert to other real estate owned by collateral type and by geographic exposure as shown on the following tables:

	Book Value of Other Real Estate at March 31, 2016		
(In thousands)	Florida	South Carolina	Total
Residential	$ 157,650	$ —	$ 157,650
Commercial	2,276,838	1,044,946	3,321,784
Finished lots	226,812	663,326	890,138
Raw land	1,726,334	196,144	1,922,478
	$ 4,387,634	$ 1,904,416	$ 6,292,050

	Number of Parcels at March 31, 2016		
	Florida	South Carolina	Total
Residential	1	—	1
Commercial	3	8	11
Finished lots	4	40	44
Raw land	5	1	6
	13	49	62

	Book Value of Other Real Estate at December 31, 2015		
(In thousands)	Florida	South Carolina	Total
Residential	$ 158	$ —	$ 158
Commercial	2,277	961	3,238
Finished lots	227	571	798
Raw land	1,726	196	1,922
	$ 4,388	$ 1,728	$ 6,116

	Number of Parcels at December 31, 2015		
	Florida	South Carolina	Total
Residential	1	—	1
Commercial	3	7	10
Finished lots	4	37	41
Raw land	5	1	6
	13	45	58

During the three months ended March 31, 2016 there were no sales of other real estate owned properties. During the three months ended March 31, 2015 we sold a total of 3 other real estate owned properties with a total book value of $516,000. The net proceeds from these sales were $521,000 which resulted in a net recovery of approximately 74% of the original loan amounts and 101% of the book value of the other real estate sold.

The Bank's special asset group is charged with the administration and liquidation of other real estate owned. Our approach has been to manage each property individually in such a way as to maximize our net proceeds upon sale. Management continues to evaluate other methods to liquidate these properties more quickly, but such methods typically result in a much lower recovery relative to the original loan amount. Management attempts to balance the desire to aggressively drive down the level of nonperforming assets with the objective to maximize recovery levels from liquidation of these assets.

Note 13 — Deposits

Total deposits increased by $35,928,000 or 13%, to a total of $319,767,000 at March 31, 2016 from $283,839,000 at December 31, 2015. This increase was primarily from the addition of brokered deposits with terms of four to thirteen weeks that were used to fund the growth in the balance of mortgage loans available for sale and the related loan sales receivable. Noninterest-bearing demand deposits increased $1,722,000 or 4%, while interest-bearing deposits increased $8,969,000 or 8%. The Company has continued its use of brokered deposits, which typically carry interest rates that are comparable with rates offered for core retail deposits. Brokered deposits are issued in individual's names and in the names of trustees with balances participated out to others. Core retail deposits are deposits which are gathered in the normal course of business, without the use of a broker. Core reciprocal deposits are gathered in the same manner as core retail deposits, but the funds are participated out to other banks through use of the CDARS reciprocal transactions program. The CDARS program allows depositors to obtain FDIC insurance for deposits up to $50 million by exchanging the portions of their deposits in excess of FDIC insurance limitations with other financial institutions participating in the CDARS program. In return, we receive an equal amount of deposits back from other CDARS participating financial institutions, such that there is no net change in the level of total deposits on our balance sheet.

Balances and percentages within the major deposit categories are as follows:

(In thousands)	March 31, 2016 Core Retail Deposits	Core CDAR's Deposits	Brokered Deposits	Total Deposits
Noninterest-bearing demand deposits	$ 43,879	$ —	$ —	$ 43,879
Interest-bearing demand deposits	127,858	—	—	127,858
Savings deposits	5,262	—	—	5,262
Certificates of deposit $100,000 and over	37,690	28,569	27,933	94,192
Other time deposits	3,548	1,099	43,929	48,576
	$ 218,237	$ 29,668	$ 71,862	$ 319,767

(In thousands)	December 31, 2015 Core Retail Deposits	Core CDAR's Deposits	Brokered Deposits	Total Deposits
Noninterest-bearing demand deposits	$ 42,157	$ —	$ —	$ 42,157
Interest-bearing demand deposits	118,889	—	—	118,889
Savings deposits	5,180	—	—	5,180
Certificates of deposit $100,000 and over	38,355	28,759	2,848	69,962
Other time deposits	2,040	1,029	44,582	47,651
	$ 206,621	$ 29,788	$ 47,430	$ 283,839

Note 14 - Other Borrowings

Other Borrowings of $91,000,000 at March 31, 2016 are composed of advances from the Federal Home Loan Bank of Atlanta (FHLB) and represent a decrease of $29,500,000 from advances totaling $120,500,000 at December 31, 2015.

FHLB advances outstanding and related terms at March 31, 2016 and December 31, 2015 are shown in the following tables:

Type advance	Balance	FHLB Advances Outstanding March 31, 2016 Interest rate	Maturity date	Convertible date
Fixed rate	$ 15,000,000	0.42%	April 1, 2016	
Fixed rate	15,000,000	0.42%	April 22, 2016	
Fixed rate	5,000,000	1.95%	August 9, 2016	
Fixed rate	2,500,000	0.94%	July 28, 2017	
Fixed rate	2,000,000	2.84%	August 9, 2017	
Convertible fixed rate advance	2,000,000	3.69%	September 7, 2017	June 7, 2016
Fixed rate	2,500,000	1.32%	July 30, 2018	
Fixed rate	3,000,000	2.94%	August 9, 2018	
Fixed rate	2,500,000	1.70%	July 24, 2019	
Fixed rate	2,500,000	1.98%	July 24, 2020	
Variable rate overnight advance	39,000,000	0.51%		
Total	$ 91,000,000	0.87%		

Type advance	Balance	FHLB Advances Outstanding December 31, 2015 Interest rate	Maturity date	Convertible date
Fixed rate	$ 10,000,000	0.39%	January 15, 2016	
Fixed rate	15,000,000	0.40%	January 21, 2016	
Fixed rate	10,000,000	0.38%	January 29, 2016	
Fixed rate	5,000,000	1.95%	August 9, 2016	
Fixed rate	2,500,000	0.94%	July 28, 2017	
Fixed rate	2,000,000	2.84%	August 9, 2017	
Convertible fixed rate advance	2,000,000	3.69%	September 7, 2017	March 7, 2016
Fixed rate	2,500,000	1.32%	July 30, 2018	
Fixed rate	3,000,000	2.94%	August 9, 2018	
Fixed rate	2,500,000	1.70%	July 24, 2019	
Fixed rate	2,500,000	1.98%	July 24, 2020	
Variable rate overnight advance	63,500,000	0.49%		
Total	$ 120,500,000	0.76%		

Note 15 - Senior Note Payable

On November 15, 2015 the Company redeemed $9.95 million of its outstanding Cumulative Perpetual Preferred Stock, Series A(the "Preferred Stock") with the proceeds from a $10.0 million term loan. The term loan is due November 10, 2020 and has a floating rate equal to LIBOR plus 400 basis points. The current rate is 5.0%. The loan also requires fixed monthly principal payments equal to $83,333. The stated dividend rate on the Preferred Stock was 9.0%. Accordingly, the Company believes the redemption of the Preferred Stock will result in an increase in its net income available to common shareholders.

	March 31, 2016	December 31, 2015
Note payable to NexBank SSB with variable interest rate at 3-month LIBOR plus 4% subject to a 5% floor, with principal and interest due monthly through maturity at November 2020.	$ 9,666,667	$ 9,916,667
	$ 9,666,667	$ 9,916,667

As of March 31, 2016 and December 31, 2015, the Company was in compliance with the covenants in this agreement.

The senior note payable is secured by 100% of the common stock of the Company's wholly-owned subsidiary, CBC National Bank.

Note 16 - Junior Subordinated Debentures

In May 2004, Coastal Banking Company Statutory Trust I issued $3.0 million of trust preferred securities with a maturity of July 23, 2034. The proceeds from the issuance of the trust preferred securities were used by the Trust to purchase $3,093,000 of the Company's junior subordinated debentures, which pay interest at a floating rate equal to 3 month LIBOR plus 275 basis points. The Company used the proceeds from the sale of the junior subordinated debentures to strengthen the capital position of the Bank and to accommodate current and future growth. The current regulatory rules allow certain amounts of junior subordinated debentures to be included in the calculation of regulatory capital, and have been included in the Tier I calculation accordingly. The debentures and related accrued interest represent the sole asset of the Trust.

The Company has entered into contractual arrangements which, taken collectively, fully and unconditionally guarantee payment of: (i) accrued and unpaid distributions required to be paid on the trust preferred securities; (ii) the redemption price with respect to any trust preferred securities called for redemption by Trust I, and (iii) payments due upon a voluntary or involuntary dissolution, winding up, or liquidation of the Trust I. The trust preferred securities must be redeemed upon maturity of the debentures on July 23, 2034, or upon earlier redemption as provided in the indenture. The Company has the right to redeem the debentures purchased by the Trust I in whole or in part, on or after July 23, 2009. As specified in the indentures, if the debentures are redeemed prior to maturity, the redemption price will be the unpaid principal amount, plus any accrued unpaid interest.

In June 2006, Coastal Banking Company Statutory Trust II issued $4.0 million of trust preferred securities with a maturity of September 30, 2036. The proceeds from the issuance of the trust preferred securities were used by the Trust to purchase $4,124,000 of the Company's junior subordinated debentures, which pay interest at a floating rate equal to 3 month LIBOR plus 160 basis points. The Company used the proceeds from the sale of the junior subordinated debentures to strengthen the capital position of the Bank and to accommodate current and future growth. The current regulatory rules allow certain amounts of junior subordinated debentures to be included in the calculation of regulatory capital, and have been included in the Tier I calculation accordingly. The debentures and related accrued interest represent the sole asset of the Trust.

The Company has entered into contractual arrangements which, taken collectively, fully and unconditionally guarantee payment of: (i) accrued and unpaid distributions required to be paid on the trust preferred securities; (ii) the redemption price with respect to any trust preferred securities called for redemption by Trust II, and (iii) payments due upon a voluntary or involuntary dissolution, winding up, or liquidation of the Trust II. The trust preferred securities must be redeemed upon maturity of the debentures on September 30, 2036, or upon earlier redemption as provided in the indenture. The Company has the right to redeem the debentures purchased by the Trust II in whole or in part, on or after September 30, 2011. As specified in the indentures, if the debentures are redeemed prior to maturity, the redemption price will be the unpaid principal amount, plus any accrued unpaid interest.

As of March 31, 2016, the Company has paid all interest payments due on all trust preferred securities.

Note 17 – Employee Stock Purchase Plan

On February 27, 2013 the Board of Directors approved the adoption of the Coastal Banking Company Employee Stock Purchase Plan (the "Plan") effective April 1, 2013, and set aside 250,000 shares of common stock for issuance under the Plan. The Plan allows eligible full time employees to direct an after-tax deduction from their pay to be accumulated and disbursed once per quarter to purchase newly issued common stock in the Company at a 5% discount to fair market value on the final day of each calendar quarter. Total shares purchased through the plan were 8,910 for the three month period ending March 31, 2016 and 30,053 for the year ending December 31, 2015. The 5% discount to fair market value is considered compensation cost to the Company and it was $5,346 for the three month period ended March 31, 2016 and $15,233 for the year ended December 31, 2015.

Note 18 – Reclassifications

Certain amounts reported as of December 31, 2015, or the periods ended March 31, 2015, have been reclassified to conform with the presentation of March 31, 2016. These reclassifications had no effect on previously reported net income or shareholders' equity.

Note 19 – Subsequent Events

The Company announced on November 23, 2015 that it had entered into a definitive agreement to acquire First Avenue National Bank of Ocala, Florida. The terms of the agreement require that the Company issue up to 885,447 shares of common stock in exchange for all outstanding common shares of First Avenue National Bank based on an exchange ratio of 0.4848 shares of Coastal Banking Company for each share of First Avenue. On February 16, 2016, the Company's primary regulator, the Office of the Comptroller of the Currency, approved the Company's application to acquire First Avenue. On February 29, 2016, the Securities and Exchange Commission issued a notice of qualification of the Regulation A Offering Statement for the common shares to be issued in exchange for the First Avenue shares. The acquisition was approved by both the shareholders of First Avenue on April 5, 2016 and the shareholders of the Company on April 6, 2016 and the transaction effectively closed at 11:59 pm on April 8, 2016. As of April 8, 2016 the First Avenue merger will add $82,277,000 in net portfolio loans and $97,997,000 in deposits to the Company's balance sheet before giving effect to any applicable purchase accounting fair value adjustments.