Coastal Banking Company, Inc.

Management's Additional Commentary related to
Financial Condition and Results of Operations
December 31, 2014

COASTAL BANKING
Company, Inc.

Management's Additional Commentary related to Financial Condition and Results of Operations General

The corporate history of Coastal Banking Company, Inc. (the "Company") is available at www.coastalbanking.com/history.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. Management intends to continue to prepare and publish quarterly and annual financial reports with similar information as previously reported to the SEC to ensure investors have access to timely, meaningful information related to the Company's results. These financial reports will be published on the Company's web site at intervals consistent with the comparable SEC filing deadlines.

The following discussion describes our results of operations for 2014 as compared to 2013 and also analyzes our financial condition as of December 31, 2014 as compared to December 31, 2013. Like most community banks, we derive a significant portion of our income from interest we receive on our loans and investments. Our primary source of funds for making these loans and investments is our deposits, on which we pay interest. Consequently, one of the key measures of our success is our amount of net interest income, or the difference between the income on our interest-earning assets, such as loans and investments, and the expense on our interest-bearing liabilities, such as deposits. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities.

We have included a number of tables to assist in our description of these measures. For example, the "Average Balances" table shows the average balance during 2014 and 2013 of each category of our assets and liabilities, as well as the yield we earned or the rate we paid with respect to each category. A review of this table shows that our loans typically provide higher interest yields than do other types of interest earning assets, which is why we intend to continue to direct a substantial percentage of our earning assets into our loan portfolio. Similarly, the "Volume/Rate Analysis" table helps demonstrate the impact of changing interest rates and changing volume of assets and liabilities during the years shown. We also track the sensitivity of our various categories of assets and liabilities to changes in interest rates, and to help demonstrate this sensitivity we have included a "Sensitivity Analysis Table." In addition, we have included a number of tables in the notes to the audited consolidated financial statements, which provide details about our investment securities, our loans, and our deposits.

Of course, there are risks inherent in all loans, so we maintain an allowance for loan losses to absorb possible losses on existing loans that may become uncollectible. We establish and maintain this allowance by charging a provision for loan losses against our operating earnings. In the following section we have included a detailed discussion of this process, as well as several tables describing our allowance for loan losses. See comments in the section entitled "Provision and Allowance for Loan Losses."

In addition to earning interest on our loans and investments, we earn income through fees, gains on sales of loans and marketable securities, cash surrender value of life insurance, and other service charges to our customers. We describe the various components of this noninterest income, as well as our noninterest expense, in the following discussion.

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

Management's Additional Commentary related to Financial Condition and Results of Operations General (Continued)

Forward-Looking Statements

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

Results of Operations

Overview

Net income for 2014 was $3,118,000 or $0.86 per basic common share after adjusting for preferred stock dividends, compared to net income of $1,587,000, or $0.40 per basic common share in 2013. Our operating results are significantly impacted by the level of net interest income, which is the difference between the interest income received from our investments, such as loans, investment securities, and federal funds sold, and interest expense, paid on deposit liabilities and other borrowings. Net interest income was $15,204,000 for the year ended December 31, 2014 compared to net interest income of $12,861,000 for the year ended December 31, 2013, a year over year increase of 18.2%.

The provision for loan losses in 2014 was $1,218,000 compared to $342,000 in 2013. The significant year over year increase to the provision for loan losses reflects the 11.5% or $28,214,000 growth in the balance of portfolio loans, as well as increases in expected future losses from the deterioration of a few legacy credit relationships. Overall new loan performance and real estate values in our markets continue to strengthen. Additionally, the Bank has significantly reduced its concentration in residential single family construction loans and residential development loans which were responsible for a large portion of loan losses incurred over the last several years. The provision for loan losses reflects the amount calculated by our allowance for loan losses methodology, which takes into account current economic conditions and the underlying collateral value securing many of our loans. Of the $1,218,000 provision expense for 2014, 57% was sourced to the core community bank branches, 26% was sourced to the residential mortgage banking division, and 17% was sourced to the SBA lending division.

Noninterest income for the year ended December 31, 2014 totaled $36,613,000, representing a $9,029,000 or 33% increase from the year ended December 31, 2013. This increase was driven primarily by a higher level of mortgage banking income at $31,550,000, a year over year increase of $9,719,000 or 45%, which was partially offset by a decline in SBA loan income of $1,243,000 or 27%. Long term interest rates trended down through much of 2014 which had a favorable impact on demand for residential mortgage lending, stimulating this increase in mortgage banking income.

Noninterest expenses in 2014 were $45,533,000, a $6,967,000 or 18% year over year increase as a result of increased mortgage banking related activity. The largest contributor to this increase was salaries and benefits, which increased by $9,773,000 due to higher commission and incentive costs in the mortgage banking division on higher loan funding levels. Direct mortgage loan expense also increased; up by 45% or $778,000 during 2014 on higher mortgage banking activity. The noninterest expense increases were partially offset by the $1,681,000 or 83% decline in advertising fees of $353,000 in 2014, reflecting the drop in the level of purchasing loan application leads by the mortgage division. Improving asset quality also resulted in a reduction of other real estate expenses, typically associated with the maintenance and disposition of Other Real Estate Owned, which was $1,227,000 for 2014 for a year over year decline of $1,306,000 or 52%. The Company's efficiency ratio, which is a measure of total noninterest expenses as a percentage of net interest income and noninterest income, decreased to 88.39% in 2014 from 96.07% in 2013 due previously discussed increases in net interest income and noninterest income exceeding the rise in noninterest expense.

In 2014 we incurred an income tax expense of $1,647,000 compared to an income tax benefit of $351,000 in 2013. Our effective tax rate was 34.6% in 2014 and (28.4%) in 2013. The fluctuation in effective tax rates reflects a normalized tax provision in 2014 versus the negative tax provision in 2013 related to the reversal of the valuation allowances on deferred tax assets.

Management's Additional Commentary related to Financial Condition and Results of Operations General (Continued)

Net Interest Income

For the year ended December 31, 2014, net interest income totaled $15,204,000, up by 9.7% or $1,469,000 from $12,861,000 in 2013. This increase to net interest income was largely driven by a $21,813,000 or 6% increase in the average balance of earning assets, partially offset by an $11,549,000 or 3.6% increase in interest bearing liabilities. The mix of earning assets also impacted year over year results favorably, as the average balance of lower yielding deposits in other bank declined while the average balance of higher yielding loans grew. Interest income from loans, including fees, increased $1,706,000 to $16,662,000 for the year ended December 31, 2014. The average balance of loans was $346,377,000 in 2014 compared to $315,233,000 in 2013 for a year over year rise of 9.9% on increasing balances of 1 to 4 family residential mortgage loans. The weighted average rate earned on loans was largely unchanged at 4.81% for 2014 compared to 4.82% in 2013. Interest income from securities increased $286,000 in 2014 on a tax equivalent basis. The average balance of investments was $36,578,000 in 2014, an increase of 34.3% from the average balance of $27,228,000 in 2013. The weighted average rate earned on investments declined slightly at 3.22% for 2014 compared to 3.27% in 2013. The favorable impact of the year over year increase to interest income was enhanced by a corresponding decrease to interest expense, which totaled $2,528,000 for the year ended December 31, 2014, compared to $3,213,000 in 2012. The net interest margin realized on earning assets and the interest rate spread were 3.97% and 3.88%, respectively, for the year ended December 31, 2014. For the year ended December 31, 2013, the net interest margin was 3.55% and the interest rate spread was 3.45%. Yields on interest earning assets increased during the year by 19 basis points while the average rate paid on interest bearing liabilities fell by 24 basis points during the year.

Average Balances and Interest Rates

The table below shows the average balance outstanding for each category of interest-earning assets and interest-bearing liabilities for 2014, 2013 and 2012, and the average rate of interest earned or paid thereon. Average balances have been derived from the daily balances throughout the period indicated. Non-accrual loans and the interest income recorded on these loans, if any, are included in the yield calculation for loans in all periods reported. Amounts are presented on a tax equivalent basis.

	For the Years Ended December 31,								
	2014			2013			2012		
(In thousands)	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets:									
Interest-earning assets:									
Loans (including loan fees)	$ 346,377	$ 16,662	4.81%	$ 315,233	$ 15,193	4.82%	$ 356,720	$ 16,336	4.58%
Taxable investments	30,179	842	2.79%	23,315	698	2.99%	21,627	711	3.29%
Tax-free investments	6,399	334	5.21%	3,913	192	4.91%	1,092	50	4.58%
Interest-bearing deposits in other banks	2,496	7	0.28%	21,189	56	0.26%	10,497	28	0.27%
Federal funds sold	171	<1	0.09%	159	<1	0.26%	135	<1	0.30%
Total interest-earning assets	385,622	17,845	4.63%	363,809	16,139	4.44%	390,071	17,125	4.39%
Other noninterest earning assets	27,240			32,546			32,885		
Total assets	$ 412,862			$ 396,355			$ 422,956		
Liabilities and shareholders' equity:									
Interest-bearing liabilities:									
Deposits:									
Interest-bearing demand and savings deposits	$ 123,274	$ 481	0.39%	$ 124,200	$ 561	0.45%	$ 122,363	$ 744	0.61%
Time deposits	130,699	1,297	0.99%	169,729	1,841	1.08%	204,927	2,425	1.18%
Other borrowings	82,048	750	0.91%	30,543	811	2.66%	35,570	1,055	2.97%
Total interest-bearing liabilities	336,021	2,528	0.75%	324,472	3,213	0.99%	362,860	4,224	1.16%
Other noninterest bearing liabilities	40,521			37,208			26,308		
Shareholders' equity	36,320			34,675			33,788		
Total liabilities and shareholders' equity	$ 412,862			$ 396,355			$ 422,956		
Excess of interest-earning assets over interest bearing liabilities	$ 49,601			$ 39,337			$ 27,211		
Ratio of interest-earning assets to interest-bearing liabilities	115%			112%			107%		
Tax equivalent adjustment		(113)			(65)			(17)	
Net interest income		$ 15,204			$ 12,861			$ 12,884	
Net interest spread			3.88%			3.45%			3.23%
Net interest margin			3.97%			3.55%			3.31%

Management's Additional Commentary related to Financial Condition and Results of Operations General (Continued)

Volume/Rate Analysis

Net interest income can also be analyzed in terms of the impact of changing rates and changing volume. The following table describes the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected our interest income and interest expense during the periods indicated. The effect of a change in average balance has been determined by applying the average rate in the earlier year to the change in average balance in the later year, as compared with the earlier year. The effect of a change in the average rate has been determined by applying the average balance in the earlier year to the change in the average rate in the later year, as compared with the earlier year.

	2014 Compared to 2013 Increase (decrease) due to changes in			2013 Compared to 2012 Increase (decrease) due to changes in		
(In thousands)	Volume	Rate	Net Change	Volume	Rate	Net Change
Interest income on:						
Loans (including loan fees)	$ 1,498	$ (30)	$ 1,468	$ (1,969)	$ 827	$ (1,142)
Taxable investments	194	(50)	144	53	(66)	(13)
Non-taxable investments	86	8	94	91	3	94
Interest bearing deposits in other banks	(52)	4	(48)	28	(1)	27
Federal funds sold	—	—	—	1	(1)	—
Total interest income	1,726	(68)	1,658	(1,796)	762	(1,034)
Interest expense on:						
Interest-bearing demand and savings deposits	(4)	(76)	(80)	11	(194)	(183)
Time deposits	(397)	(147)	(544)	(393)	(191)	(584)
Other borrowings	722	(783)	(61)	(140)	(104)	(244)
Total interest expense	321	(1,006)	(685)	(522)	(489)	(1,011)
Net interest income	$ 1,405	$ 938	$ 2,343	$ (1,274)	$ 1,251	$ (23)

Interest Rate Sensitivity and Asset Liability Management

Interest rate sensitivity measures the timing and magnitude of the repricing of assets compared with the repricing of liabilities and is an important part of asset/liability management of a financial institution. The objective of interest rate sensitivity management is to generate stable growth in net interest income, and to manage the risks associated with interest rate movements. Management constantly reviews interest rate risk exposure under various interest rate scenarios so that adjustments in interest rate sensitivity can be made on a timely basis. Since the assets and liabilities of the Company are primarily monetary in nature (receivable or payable in fixed, determinable amounts), the performance of the Company is affected more by changes in interest rates than by inflation. Interest rates generally increase as the rate of inflation increases, but the magnitude of the change in rates may not be the same.

Net interest income is the primary component of recurring net income for financial institutions, frequently referred to as core earnings. Net interest income is affected by the timing and magnitude of repricing of as well as the mix of interest sensitive and noninterest sensitive assets and liabilities. "Gap" is a static measurement of the difference between the contractual maturities or repricing dates of interest sensitive assets and interest sensitive liabilities for a given time period. This projected Gap exposure is expressed as a ratio of interest sensitive assets to interest sensitive liabilities in an attempt to predict the behavior of the Company's net interest income in general terms during periods of movement in interest rates. In general, if the Company is asset sensitive the projected Gap exposure will be 1.0 or higher, indicating that more of its interest sensitive assets are expected to reprice than its interest sensitive liabilities over the same period. By example, a projected Gap ratio of 1.20 indicates that $1.20 of interest sensitive assets are expected to reprice for every $1.00 of interest sensitive liabilities expected to reprice over a given time period. In a rising interest rate environment, assets repricing more quickly are expected to enhance net interest income. Alternatively, decreasing interest rates would be expected to have the opposite effect on net interest income since assets would theoretically be repricing at lower interest rates more quickly than interest sensitive liabilities. Although it can be used as a general predictor, Gap as a predictor of movements in net interest income has limitations due to the static nature of its definition and due to its inherent assumption that all assets and liabilities will reprice immediately and fully at the contractually designated time.

Management's Additional Commentary related to Financial Condition and Results of Operations General (Continued)

Interest Rate Sensitivity and Asset Liability Management (Continued)

The following table summarizes the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2014, that are expected to mature, prepay, or reprice in each of the future time periods shown. Except as stated below, the amount of assets or liabilities that mature or reprice during a particular period was determined in accordance with the contractual terms of the asset or liability. Adjustable rate loans are included in the period in which interest rates are next scheduled to adjust rather than in the period in which they are due, and fixed-rate loans and mortgage-backed securities are included in the periods in which they are anticipated to be repaid based on scheduled maturities. The Bank's savings accounts and interest-bearing demand accounts (NOW and money market deposit accounts) that are not contractually tied to an adjusting index are grouped into categories based on the Company's historical repricing practices. Money market accounts which are contractually tied to repricing indexes reprice monthly and are grouped in the three month or less category. Many of these money market accounts are tied to a Treasury index.

	At December 31, 2014 Maturing or Repricing in				
(In thousands)	3 Months or Less	4 Months to 12 Months	1 to 5 Years	Over 5 Years	Total
Interest-earning assets:					
Federal funds sold	$ 88	$ —	$ —	$ —	$ 88
Deposits in other banks	1,363	—	—	—	1,363
Investment securities	—	1,614	17,282	11,333	30,229
Loans held for sale and loan sales receivable	95,143	—	—	—	95,143
Loans	80,378	33,023	73,536	85,820	272,757
Total interest-earning assets	176,972	34,637	90,818	97,153	399,580
Interest-bearing liabilities:					
Deposits:					
Savings and demand deposits	3,228	9,682	41,881	67,470	122,261
Time deposits	24,268	72,222	29,448	2,535	128,473
Securities sold under agreements to repurchase	—	—	—	—	—
FHLB advances	68,500	5,000	10,000	—	83,500
Junior subordinated debentures	7,217	—	—	—	7,217
Total interest-bearing liabilities	103,213	86,904	81,329	70,005	341,451
Interest sensitive difference per period	$ 73,759	$ (52,267)	$ 9,489	$ 27,148	$ 58,129
Cumulative interest sensitivity difference	$ 73,759	$ 21,492	$ 30,981	$ 58,129	
Cumulative difference to total interest-earning assets	18.5%	5.4%	7.8%	14.5%	

At December 31, 2014, the Company, as measured by Gap, and adjusted for its expectations of changes in interest bearing categories that might not move completely in tandem with changing interest rates, is asset sensitive with a cumulative projected Gap ratio of 1.71 over a three month period and a cumulative projected Gap ratio of 1.11 over a one year period. At December 31, 2014, the Company had $73,759,000 more assets than liabilities repricing or maturing within three months, and $21,492,000 more assets than liabilities repricing over a one-year time period. Management has several tools available to evaluate and affect interest rate risk, including deposit pricing policies and changes in the mix of various types of assets and liabilities. The Company also forecasts its sensitivity to interest rate changes not less than quarterly using modeling software.

Certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods of repricing, they may reflect changes in market interest rates differently. Additionally, certain assets, such as adjustable-rate mortgages, have features that restrict changes in interest rates, both on a short-term basis and over the life of the asset. Other factors which may affect the assumptions made in the table include options to call a security or borrowing, pre-payment rates, early withdrawal levels, and the ability of borrowers to service their debt. Management uses modeling techniques which attempt to quantify the impacts of interest rates on margin changes. These modeling techniques reflect the effects of these cited shortcomings including the effects of maturity changes that occur as a result of changes in interest rates. These modeling tools indicate that net interest margin would be slightly negatively impacted at twelve months given a 1% decrease in interest rates, and positively impacted at twelve months given a 1% increase in interest rates.

Management's Additional Commentary related to Financial Condition and Results of Operations General (Continued)

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.

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)	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
Portfolio loans, gross	$ 272,757	$ 267,393	$ 258,022	$ 253,803	$ 244,543	$ 232,872	$ 235,566	$ 232,592
Loans past due > 30 days and still accruing interest	$ 806	$ 455	$ 1,720	$ 152	$ 785	$ 261	$ 584	$ 388
Loans on nonaccrual	$ 4,330	$ 2,881	$ 2,787	$ 2,045	$ 2,116	$ 3,152	$ 3,673	$ 4,881
(as a % of loans, gross)	1.59%	1.08%	1.08%	0.81%	0.87%	1.35%	1.56%	2.10%
Net loan charge offs (recoveries)	$ 72	$ 256	$ 85	$ 249	$ 64	$ 92	$ 412	$ 180
(as a % of loans, gross)	0.03%	0.10%	0.03%	0.10%	0.03%	0.04%	0.18%	0.08%

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 $806,000 at December 31, 2014, an increase of $351,000, or 77% from the prior quarter end, but only $21,000 or 2.7% higher than the $785,000 level at December 31, 2013. As a leading indicator, this suggests that recent stable loan quality trends may be expected to continue in the current economic and interest rate environments. While the long term trend in credit quality over the last several years has improved, we continue to experience ups and downs throughout the process and so management will continue to carefully monitor past due loans and work aggressively to manage loan delinquency levels.

Management's Additional Commentary related to Financial Condition and Results of Operations General (Continued)

Provision and Allowance for Loan Losses (Continued)

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. From that high point, loans on nonaccrual has remained on a downward trend through the end of 2014. The December 31, 2014 level of $4,330,000 was up $1,449,000, or 50% from $2,881,000 at the prior quarter end and the highest level in two years. However, the entire current quarter increase in loans on nonaccrual was due to a single borrowing relationship that has been a long term legacy problem. As a result, the increase in loans on nonaccrual it is not reflective of new credit problems or general deterioration of overall portfolio credit quality. Management intends to remain vigilant in our loan monitoring and loss mitigation efforts to either rehabilitate these credits or maximize recovery if required.

Net loan charge offs or recoveries reflect our practice of charging recognized losses to the allowance and adding subsequent recoveries back to the allowance. During the three months ended December 31, 2014, we recorded charge offs net of recoveries of $72,000. This amount represented a decrease of $184,000, or 72%, from the $256,000 in net charge offs recorded during the prior quarter ended September 30, 2014, and an increase of $8,000 from the $64,000 net charge offs during the same quarter in the prior year. Net loan charge offs were $662,000 for the full year 2014, a decrease of $86,000, or 11%, from the $748,000 net charge offs in 2013.

Since 2009 charge off activity has been volatile, occasionally significant and difficult to predict with any reliability but we continue to assess the implications of trends in recent charge off activity on potential future losses. The ongoing 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 $266,000 for the three months ended December 31, 2014, as compared to $83,000 for the three months ended December 31, 2013. On a consecutive quarter basis, this provision level was $43,000, or 19%, higher than the $223,000 provision charged to expense during the quarter ended September 30, 2014.

(In thousands)	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
Provision during quarter ended	$ 266	$ 223	$ 473	$ 256	$ 83	$ 171	$ 57	$ 31
Provision added in excess of (less than) net charge-offs	$ 194	$ (33)	$ 388	$ 7	$ 19	$ 79	$ (355)	$ (149)
Allowance for loan losses	$ 4,829	$ 4,635	$ 4,668	$ 4,280	$ 4,273	$ 4,254	$ 4,175	$ 4,530
(as a % of loans, gross)	1.77%	1.73%	1.81%	1.69%	1.75%	1.83%	1.77%	1.95%

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 December 31, 2014 the current provision for loan losses of $266,000 was greater than net charge offs against the allowance of $72,000 by $194,000. The result was an increase to the allowance for loan losses to a level of $4,829,000, or 1.77% of gross loans outstanding at December 31, 2014, as compared to $4,635,000, or 1.73% of gross loans outstanding at September 30, 2014.

Management's Additional Commentary related to Financial Condition and Results of Operations General (Continued)

Provision and Allowance for Loan Losses (Continued)

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, 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 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 reduced our target allowance level to a range of 1.60% to 1.85% of gross loans outstanding. Management believes 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.

Noninterest Income

Noninterest income was $36,313,000 for the year ended December 31, 2014, which was an increase of $9,029,000, or 33%, from $27,284,000 earned during the year ended December 31, 2013. The largest factor in this year-over-year increase occurred in mortgage banking income, which was $31,550,000 for the year ended December 31, 2014 compared to $21,831,000 for the year ended December 31, 2013. This rise in mortgage banking income was driven by a combination of increasing residential lending activity as declining long term interest rates during 2014 increased the demand for residential purchase and refinance lending, and from expanded profit margins on more efficient loan sale execution.

SBA loan income decreased by 27% or $1,242,000 to $3,291,000 for 2014 compared to $4,533,000 during 2013 on decreasing lending activity by the SBA division. Service charges on deposit accounts decreased by 15% or $45,000 to a level of $249,000 for the year ended December 31, 2014. Other service charges increased by 19% or $67,000 to a level of $428,000 for 2014.

During 2014, we recorded net gains of $216,000 on sales of securities available for sale, compared to net gains of $119,000 during 2013. Other income in 2014 was $497,000, of which $437,000 was from the recapture of mortgage banking indemnification reserve during Q3/2014 based on analysis of reserve levels and claims experience.

Noninterest Expense

Total noninterest expense for the year ended December 31, 2014 was $45,533,000 as compared to $38,567,000 for 2013. The year-over-year increase in noninterest operating expense of $6,966,000 reflects costs associated with higher mortgage lending volume. Mortgage division expenses, excluding mortgage division salaries and benefits, decreased 6%, or $454,000, to $6,977,000 during 2014 compared to $7,431,000 during 2013. Other real estate expenses decreased by $1,306,000, or 52%, to $1,227,000 during 2014 compared to $2,533,000 during 2013.

Salaries and benefits totaled $33,354,000 for the year ended December 31, 2014, compared to $23,581,000 for the same period a year ago, for an increase of $9,773,000, reflecting higher commissions in mortgage banking and increases to mortgage administrative head count. Excluding the mortgage banking division, the Company experienced a decrease in salaries and benefits of $773,000 or 9% during 2014 compared to 2013.

Advertising expense declined significantly in 2014 at $353,000, representing an 83% decrease from the $2,034,000 expensed in 2013. This $1,681,000 year-over-year decrease reflects a significant reduction in the level of residential real estate loan application leads acquired through telemarketing, print advertising, mass mailings, and internet referrals.

Occupancy and equipment expense increased $294,000 to $2,946,000 for 2014 compared to $2,652,000 during 2013, reflecting an increase in office lease expenses from additional residential mortgage lending offices.

Management's Additional Commentary related to Financial Condition and Results of Operations General (Continued)

Mortgage Banking Activities

The Bank has operated a residential mortgage lending division headquartered in Atlanta, Georgia since September 2007. This group was formed to complement the existing retail residential mortgage lending activity conducted through other branch locations. This division originates and funds residential mortgage loans submitted by mortgage brokers, as well as loan applications submitted directly from borrowers, and then sells these mortgage loans in the secondary market. Beginning in 2011 we expanded this division by opening several retail residential loan production offices throughout the country. As of December 31, 2014, the mortgage banking division operates eight retail residential loan production offices in Arizona, Florida, Georgia, Illinois, Indiana, Maryland, Michigan, and Ohio. This lending channel subjects us to various risks, including credit, liquidity, and interest rate risks. We reduce unwanted credit and liquidity risks by selling virtually all the mortgage loans originated through this division. From time to time, we may decide to hold loans originated through this division as additions to our residential real estate loan portfolio. We determine whether the loans will be held in our portfolio or sold in the secondary market at the time of origination. We may subsequently change our intent to hold loans in portfolio and subsequently sell some or all of these loans from our portfolio as part of our corporate asset/liability management strategy.

While credit and liquidity risks have historically been relatively low for mortgage banking activities, interest rate risk can be substantial. Changes in interest rates will impact the value of mortgages held for sale ("MHFS") as well as the associated income and loss reflected in mortgage banking noninterest income, the income and expense associated with instruments used to hedge changes in the value of MHFS, and the value of derivative loan commitments extended to mortgage applicants.

Interest rates impact the amount and timing of loan origination activity because consumer demand for new mortgages and the level of refinancing activity are sensitive to changes in mortgage interest rates. Typically, a decline in mortgage interest rates will lead to an increase in mortgage origination activity. Given the time it takes for consumer behavior to fully react to interest rate changes, as well as the time required for processing a new application, providing the commitment, and selling the loan, loan origination activity will lag behind interest rate changes. The amount and timing of the impact on loan origination activity will depend on the magnitude, speed and duration of the change in interest rates.

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

Outstanding derivative loan commitments expose us to the risk that the value of the loans underlying the commitments might decline due to increases in mortgage interest rates from inception of the rate lock to the funding of the loan. To effectively hedge this risk, we enter into forward sale contracts with secondary market investors to sell the underlying loans by a future date at an agreed upon price. During 2008 and most of 2009 these forward sale contracts were primarily on a "best efforts flow" structure. Forward sales contracts are entered into concurrently with issuance of the derivative loan commitment and carry terms that match the terms of the underlying loan commitments. As a result, these forward sales commitments will experience changes in fair value that will fully offset the changes in fair value of the derivative loan commitments.

Management's Additional Commentary related to Financial Condition and Results of Operations General (Continued)

Mortgage Banking Activities (Continued)

In the latter half of 2009, we expanded our loan sales strategy from primarily best efforts, flow delivery to add the use of mandatory flow deliveries, mini bulk sales, and forward mortgage backed securities deliveries through assignment of trade transactions. These alternative loan sales strategies resulted in improved execution and thereby increased gain on sale of loans. These alternative sales strategies tend not to be as effective in hedging the interest rate risk as the concurrent flow forward sales commitments; however, the improved execution on loan sales is expected to more than compensate for the slight increase in interest rate risk from using less effective hedging techniques.

The primary source of direct income generated by this division is the gain on sale of mortgage loans which was $31,550,000 for 2014 compared to $21,831,000 during 2013. Attractive mortgage rates at the beginning of 2013 supported elevated levels of mortgage loan refinancing, however rates rose in the second quarter of 2013 and remained elevated throughout 2013 causing a significant drop in lending volume and profitability in the second half of 2013. In 2014 long term interest rates reversed and once again moved down, and again lending volume and profitability trended upward in 2014 reaching a peak in the final quarter of 2014. The result was a year over year reversal in the pattern of business volume and earnings, from a downward trend in 2013 to an upwards trend in 2014.

The direct noninterest expenses incurred by the division were $32,946,000 during 2014, an increase of $10,181,000 over the 2013 expenses of $22,765,000. The largest contributor to this increase was in salaries and benefits, which were $25,968,000 during 2014, compared to $15,334,000 during 2013, and largely reflect the higher commissions and incentive compensation paid as a result the increase volume of loan originations in 2014 as compared to 2013.

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 $89,629,000 during 2014 and $81,818,000 during 2013. The interest income earned on these loans available for sale was $3,964,000 and $3,095,000 during the years ended December 31, 2014 and 2013, respectively.

Income Taxes

During 2014, we recognized income tax expense of $1,647,000 compared to income tax benefit of $351,000 during 2013. Our effective tax rate was 34.6% in 2014 and (28.4%) in 2013. The fluctuation in effective tax rates reflects the impact of a normalized tax provision in 2014 versus the negative tax provision in 2013. The prior year negative tax provision reflects the impact of reversing a valuation allowance of $1,727,000 against our deferred tax assets. As a result of increasing taxable earnings, we fully utilized all federal net operating tax carryforward credit in 2014.

Financial Condition

Total assets increased to $421,931,000 at December 31, 2014 from $375,640,000 at December 31, 2013. The primary source of the increase in assets was in loans held for sale, when combined with loan sales receivable. Loans held for sale, when combined with loan sales receivable, increased $38,238,000, or 67%. Additionally, portfolio loans, net of allowance increased by $27,658,000 or 12% during 2014. These increases in loans were partially offset by decreases in investment securities, other real estate owned and cash. Securities available for sale declined by $13,918,000 or 36% during 2014 to a balance of $24,837,000 at December 31, 2014. Other real estate owned was down by 4,222,000, or 37% in 2014 to a balance of $7,322,000 at December 31, 2014. Cash, due from banks, and federal funds sold decreased $2,589,000, or 38% during 2014.

During 2014, total liabilities increased $43,337,000, or 13%, when compared to December 31, 2013. The increase in liabilities was driven by borrowings which rose by $47,150,000, or 130% in 2014, partially offset by a decline in total deposits of $6,328,000, or 2%. The increase in the level of borrowings reflects the increased liquidity demand to fund the rising balance of mortgage loans held for sale and was limited primarily to short term secured borrowings from the Federal Home Loan Bank.

Investment Securities

The rising balance of mortgage loans held for sale created a need for additional liquidity during 2014, some of which was obtained through the sale of Investment Securities. As a result, the balance of Investment securities declined to $24,837,000 at December 31, 2014 from $38,754,000 at December 31, 2013.

Management's Additional Commentary related to Financial Condition and Results of Operations General (Continued)

Investment Securities (Continued)

The following table presents the investments by category at the end of the last three years:

	December 31,					
	2014		2013		2012	
(In thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Available for sale						
State and municipal securities	$ 3,165	$ 3,459	$ 7,740	$ 7,654	$ 2,310	$ 2,347
Mortgage-backed securities	21,120	21,378	31,194	31,100	15,805	16,344
	$ 24,285	$ 24,837	$ 38,934	$ 38,754	$ 18,115	$ 18,691

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

Maturities at December 31, 2014 (In thousands)	State and Municipal Securities	Weighted Average Yields	Mortgage-Backed Securities	Weighted Average Yields
Within 1 year	$ —	—%	$ 1,614	2.53%
After 1 through 5 years	—	—%	11,890	2.23%
After 5 through 10 years	3,459	3.67%	5,979	2.49%
After 10 years	—	—%	1,895	1.98%
Totals	$ 3,459	%	$ 21,378	2.30%

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

Loans

Gross loans totaled $272,757,000 at December 31, 2014, an increase of $28,203,000, or 12%, since December 31, 2013. Balances within the major loans receivable categories and geographic concentration of the loan portfolio are presented below.

	Geographic Concentration of Loan Portfolio			
	December 31, 2014			
(In thousands)	Florida	Georgia	South Carolina	Other
Commercial and financial	$ 6,346	$ 2,333	$ 3,604	$ 984
Agricultural	—	—	4	—
Real estate – construction, commercial	9,025	2,232	11,511	1,653
Real estate – construction, residential	3,459	2,420	3,450	28
Real estate – mortgage, commercial	47,911	15,417	31,324	3,053
Real estate – mortgage, residential	48,560	41,045	28,599	8,214
Consumer installment loans	424	274	549	74
Real estate – mortgage, farmland	—	264	—	—
	$ 115,725	$ 63,985	$ 79,041	$ 14,006

	Geographic Concentration of Loan Portfolio			
	December 31, 2013			
(In thousands)	Florida	Georgia	South Carolina	Other
Commercial and financial	$ 4,256	$ 2,040	$ 5,453	$ 714
Agricultural	—	1	—	—
Real estate – construction, commercial	8,587	2,283	10,357	1,732
Real estate – construction, residential	4,600	1,424	3,144	188
Real estate – mortgage, commercial	47,076	15,027	34,143	2,464
Real estate – mortgage, residential	36,483	30,795	26,839	5,552
Consumer installment loans	512	282	504	87
Other	—	—	—	—
	$ 101,514	$ 51,852	$ 80,440	$ 10,737

Management's Additional Commentary related to Financial Condition and Results of Operations General (Continued)

Other Real Estate Owned

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 December 31, 2014			
(In thousands)	Florida	Georgia	South Carolina	Total
Residential	$ 223	$ —	$ 159	$ 382
Commercial	2,410	—	1,627	4,037
Finished lots	263	—	551	814
Raw land	1,834	—	255	2,089
	$ 4,730	$ —	$ 2,592	$ 7,322

	Number of Parcels at December 31, 2014			
	Florida	Georgia	South Carolina	Total
Residential	1	—	3	4
Commercial	2	—	9	11
Finished lots	6	—	38	44
Raw land	5	—	1	6
	14	—	51	65

	Book Value of Other Real Estate at December 31, 2013			
(In thousands)	Florida	Georgia	South Carolina	Total
Residential	$ 338	$ 392	$ 733	$ 1,463
Commercial	2,172	397	2,649	5,218
Finished lots	270	—	1,714	1,984
Raw land	2,053	394	433	2,880
	$ 4,833	$ 1,183	$ 5,529	$ 11,545

	Number of Parcels at December 31, 2013			
	Florida	Georgia	South Carolina	Total
Residential	2	1	3	6
Commercial	2	1	15	18
Finished lots	6	—	115	121
Raw land	7	2	3	12
	17	4	136	157

During the year ended December 31, 2014 we sold a total of 101 other real estate owned properties with a total book value of $4,883,000. The net proceeds from these sales were $4,452,000, which resulted in a net recovery of approximately 50.7% of the original loan amounts and 91.2% of the book value of the other real estate sold. During the year ended December 31, 2013 we sold a total of 64 other real estate owned properties with a total book value of $7,129,000. The net proceeds from these sales were $6,495,000, which resulted in a net recovery of approximately 51.4% of the original loan amounts and 91.1% of the book value of the other real estate sold.

Management's Additional Commentary related to Financial Condition and Results of Operations General (Continued)

Deposits

Balances within the major deposit categories are as follows:

	December 31, 2014			
(In thousands)	Core Retail Deposits	Core Reciprocal Deposits	Brokered Deposits	Total Deposits
Noninterest-bearing demand deposits	$ 34,930	$ —	$ —	$ 34,930
Interest-bearing demand deposits	117,750	—	—	117,750
Savings deposits	4,510	—	—	4,510
Certificates of deposit $100,000 and over	41,050	35,826	—	76,876
Other time deposits	36,589	1,168	13,840	51,597
	$ 234,829	$ 36,994	$ 13,840	$ 285,663

	December 31, 2013			
(In thousands)	Core Retail Deposits	Core Reciprocal Deposits	Brokered Deposits	Total Deposits
Noninterest-bearing demand deposits	$ 33,961	$ —	$ —	$ 33,961
Interest-bearing demand deposits	115,856	—	—	115,856
Savings deposits	4,301	—	—	4,301
Certificates of deposit $100,000 and over	52,414	33,533	—	85,947
Other time deposits	43,108	1,208	7,610	51,926
	$ 249,640	$ 34,741	$ 7,610	$ 291,991

Other Borrowings and Liquidity

FHLB borrowings totaled $83,500,000 at December 31, 2014, an increase of $47,150,000, or 130% from December 31, 2013. During 2014 the Federal Home Loan Bank of Atlanta expanded the terms of its secured lending program to allow for the inclusion of residential mortgage loans held for sale as eligible collateral subject to certain limitations. The inclusion of our residential mortgage loans available for sale in FHLB borrowing collateral has the impact of increasing our collateral levels and resultant borrowing capacity when needed to fund rising mortgage banking volume.

The Bank maintains relationships with correspondent banks that can provide funds on short notice, if needed. Presently, the Bank has arrangements with commercial banks for short term unsecured advances of overnight borrowings of up to $34,000,000, in addition to up to $4,000,000 available for day light overdraft. The Bank also has reverse repurchase accommodations with a term of up to one month for a maximum advance of $25,000,000, limited by the amount of eligible securities pledged, which was $11,427,000 at December 31, 2014. The reverse repurchase agreements are committed borrowing facilities granted by other commercial banks and are secured by securities in the Bank's investment portfolio.

As of December 31, 2014, the Company had $232,716,000 in total borrowing capacity, of which we had utilized $97,340,000 or 41.8%, leaving remaining available liquidity of $135,376,000. The following tables present available sources of liquidity at December 31, 2014 and December 31, 2013:

	December 31, 2014		
	Total Line of Credit	Funds Borrowed	Funds Available
Available sources of liquidity			
Federal funds purchased lines of credit	$ 34,000,000	$ —	$ 34,000,000
Available brokered certificates of deposit	28,573,749	13,840,246	14,733,503
Repurchase agreements secured by investment securities	11,427,000	—	11,427,000
Federal Reserve Borrowing Capacity at Discount Window	25,285,608	—	25,285,608
Federal Home Loan Bank Advance Availability	133,430,000	83,500,000	49,930,000
Total sources of liquidity	$ 232,716,357	$ 97,340,246	$ 135,376,111

Management's Additional Commentary related to Financial Condition and Results of Operations General (Continued)

Other Borrowings and Liquidity (Continued)

	December 31, 2013		
	Total Line of Credit	Funds Borrowed	Funds Available
Available sources of liquidity			
Federal funds purchased lines of credit	$ 25,000,000	$ —	$ 25,000,000
Available brokered certificates of deposit	29,226,187	7,610,000	21,616,187
Repurchase agreements secured by investment securities	19,088,712	—	19,088,712
Federal Reserve Borrowing Capacity at Discount Window	29,908,765	—	29,908,765
Federal Home Loan Bank Advance Availability*	76,991,704	37,350,000	39,641,704
Total sources of liquidity	$ 180,215,368	$ 44,960,000	$ 135,255,368

*Funds borrowed includes $1 million letter of credit issued on the Bank's behalf by Federal Home Loan Bank.

Regulatory Reporting Differences

As disclosed in Note 1 to the Financial Statements within the discussion of Loan Sales Receivable, we have consistently followed trade date accounting guidance for recognition of residential loan sales and the related gain or loss since 2007 for both regulatory and financial reporting purposes. During the final quarter of 2014 the Bank's primary regulator, the Office of the Comptroller of the Currency, instructed Bank management to adopt settlement date accounting for recognition of residential loan sales and related gain or loss when reporting financial results for regulatory purposes, specifically for preparation of the quarterly FFIEC 041 – Consolidated Reports of Condition and Income, commonly referred to as the Call Report. Management believes that application of trade date accounting guidance is consistent with Generally Accepted Accounting Principles and therefor intends to continue its application of trade date accounting guidance for non-regulatory financial reports while applying settlement date accounting for regulatory reports. As a result, residential loan sales and related gain or loss will be reflected in external financial reports based on trade date accounting guidance and in regulatory reports based on settlement date accounting guidance. This will result in differences between results reported for regulatory purposes and results reported in accordance with Generally Accepted Accounting Principles in external financial reports.

Settlement date accounting does not recognize a residential loan sale and related gain or loss until the sale proceeds have been received from the investor who has purchased the loans. Trade date accounting recognizes the loan sale and related gain or loss upon fulfillment of all material conditions precedent to completion of the loan sale agreement, typically upon delivery of all required loan documents to the investor purchasing the loan. The impact on the Consolidated Balance Sheets as presented in these financial statements from application of settlement date accounting would be to reclassify the loan sale receivable balance of $70,652,000 at December 31, 2014 to loans available for sale, reducing the loan sale receivable to zero and increasing the balance of Loans held for sale, at fair value to $95,143,000. As this change simply reclassifies accounts within the asset section of the balance sheet, there is no impact to the balance of total assets, total liabilities or total shareholder's equity as reported when settlement date accounting is applied for regulatory reporting purposes.

While there is an impact on earnings from application of settlement date accounting, it is not material. Trade date accounting results in the recognition of an accrual for the gain or loss from sale of residential mortgage loans. The accrued gain or loss is determined based on the contractual sales price less estimated sale delivery related charges. Settlement date accounting does not recognize the loans as sold, and so these loans and related forward sale commitments are marked to fair value. The fair value mark of the loans and related forward sale commitments are based on the contractual sales price of the loans, and so the resultant gain or loss from the fair value mark approximates the gain or loss upon sale excluding the estimated sale delivery charges. Settlement date accounting will therefor result in a slightly higher gain or slightly lower loss from the fair value mark than is recorded on the accrued gain or loss under trade date accounting. Both the gain or loss on sale and the gain or loss from the fair value mark on loans held for sale and related forward sale commitments are combined and reported as Mortgage banking income, so there is no impact on the Statement of Earnings from this change.