SUMMIT FINANCIAL GROUP INC
Form 10-K
March 01, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

Commission File Number 0-16587
Summit Financial Group, Inc.
(Exact name of registrant as specified in its charter)

West Virginia	55-0672148
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

300 N. Main Street Moorefield, West Virginia (Address of principal executive offices)	26836 (Zip Code)

(304) 530-1000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common
(Title of Class)

The NASDAQ Capital Market
(Name of Exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ¨ No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ¨ No þ

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for

such shorter period that the registrant was required to submit such files). Yes þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. ¨

Indicate by check mark whether the registrant is large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of “large accelerated filer”, “accelerated filer”, “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer o Accelerated filer þ
Non-accelerated filer o Smaller reporting company o
Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No þ

The aggregate market value of the voting common equity held by non-affiliates of the registrant at June 30, 2018, was approximately $290,798,000. Registrant has assumed that all of its executive officers and directors are affiliates. Such assumption shall not be deemed to be conclusive for any other purpose.

The number of shares of the Registrant’s Common Stock outstanding on February 28, 2019 was 12,803,918.

Documents Incorporated by Reference

The following lists the documents which are incorporated by reference in the Annual Report Form 10-K and the Parts and Items of the Form 10-K into which the documents are incorporated.

Document	Part of Form 10-K into which document is incorporated
Portions of the Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held May 21, 2019	Part III - Items 10, 11, 12, 13 and 14

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PART I.

Item 1. Business

Summit Financial Group, Inc. (“Company” or “Summit”) is a $2.20 billion financial holding company headquartered in Moorefield, West Virginia incorporated on March 5, 1987. We provide community banking services primarily in the Eastern Panhandle and Southern regions of West Virginia and the Northern, Shenandoah Valley and Southwestern regions of Virginia. We provide these services through our community bank subsidiary, Summit Community Bank (“Summit Community” or “Bank”). We also operate Summit Insurance Services, LLC in Moorefield, West Virginia and Leesburg, Virginia, which provides insurance brokerage services to individuals and businesses covering corporate and personal property and casualty insurance products, as well as group health and life insurance products and consulting services.

Community Banking

We provide a wide range of community banking services, including demand, savings and time deposits; commercial, real estate and consumer loans; trust and wealth management services; and cash management services. The deposits of Summit Community are insured by the Federal Deposit Insurance Corporation ("FDIC").

In order to compete with other financial service providers, we principally rely upon personal relationships established by our officers, directors and employees with our clients and specialized services tailored to meet our clients’ needs. We have maintained a strong community orientation by, among other things, supporting the active participation of staff members in local charitable, civic, school, religious and community development activities. We also have a marketing program that primarily utilizes local radio and newspapers to advertise. Banking, like most industries, is becoming more dependent on technology as a means of marketing to customers, including the Internet, which we also utilize. This approach, coupled with continuity of service by the same staff members, enables Summit Community to develop long-term customer relationships, maintain high quality service and respond quickly to customer needs. We believe that our emphasis on local relationship banking, together with a prudent approach to lending, are important factors in our success and growth.

All operational and support functions that are transparent to clients are centralized in order to achieve consistency and cost efficiencies in the delivery of products and services by each banking office. The central office provides services such as data processing, deposit operations, accounting, treasury management, loan administration, loan review, compliance, risk management and internal auditing to enhance our delivery of quality service. We also provide overall direction in the areas of credit policy and administration, strategic planning, marketing, investment portfolio management, human resources administration and other financial and administrative services. The banking offices work closely with us to develop new products and services needed by their customers and to introduce enhancements to existing products and services.

Lending

Our primary lending focus is providing commercial loans to local businesses with annual sales generally up to $75 million and providing owner-occupied real estate loans to individuals. We typically do not seek credit relationships of more than $25 million but will consider larger lending relationships exhibiting above-average credit quality. Under our commercial banking strategy, we focus on offering a broad line of financial products and services to small and medium-sized businesses through full service banking offices. Summit Community Bank has senior management with extensive lending experience. These managers exercise substantial authority over credit and pricing decisions, subject to loan committee approval for larger credits.

We segment our loan portfolio in to the following major lending categories: commercial, commercial real estate, construction and land development, residential real estate, consumer and mortgage warehouse lines of credit. Commercial loans are loans made to commercial borrowers that are not secured by real estate. These encompass loans secured by accounts receivable, inventory and equipment, as well as unsecured loans. Commercial real estate loans consist of commercial mortgages, which generally are secured by nonresidential and multi-family residential properties. Commercial real estate loans are made to many of the same customers and carry similar industry risks as the commercial loan portfolio. Construction and development loans are loans made for the purpose of financing construction or development projects. This portfolio includes commercial and residential land development loans, one-to-four family housing construction, both pre-sold and speculative in nature, multi-family housing construction, non-residential building construction and undeveloped land. Residential real estate loans are mortgage loans to consumers and are secured primarily by a first lien deed of trust. These loans are traditional one-to-four family residential mortgages. Also included in this category of loans are second liens on one-to-four family properties, commercial loans secured by one-to-four family residence and home equity loans. Consumer loans are loans that establish consumer credit that is granted for the consumer’s personal use. These loans include automobile loans and recreational vehicle loans, as well as personal secured and unsecured loans. Our mortgage warehouse lines of credit result solely from a

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participation arrangement with a regional bank to fund residential mortgage warehouse lines of medium- and large-sized mortgage originators located throughout the United States.

Our loan underwriting guidelines and standards are consistent with the prudent banking practices applicable to the relevant exposure and are updated periodically and presented to the Board of Directors for approval. The purpose of these standards and guidelines are: to grant loans on a sound and collectible basis; to invest available funds in a safe and profitable manner; to serve the legitimate credit needs of our primary market area; and to ensure that all loan applicants receive fair and equal treatment in the lending process. It is the intent of the underwriting guidelines and standards to: minimize losses by carefully investigating the credit history of each applicant; verify the source of repayment and the ability of the applicant to repay; collateralize those loans in which collateral is deemed to be required; exercise care in the documentation of the application, review, approval and origination process; and administer a comprehensive loan collection program.

Our real estate underwriting loan-to-value ("LTV") policy limits are at or below current bank regulatory guidelines, as follows:

	Regulatory LTV Guideline	Summit LTV Policy Limit
Undeveloped land	65%	65%
Land development	75%	70%
Land development - Finished building lots	85%	85%
Construction:		
Commercial, multifamily and other non-residential	80%	80%
1-4 family residential, consumer borrower	85%	85%
1-4 family residential, pre-sold commercial borrower	80%	80%
1-4 family residential, spec, commercial borrower	80%	70%
Improved property:		
Residential real estate - nonowner occupied	85%	85%
Commercial real estate - owner occupied	85%	85%
Commercial real estate - nonowner occupied	85%	85%
Owner occupied 1-4 family	90%	90%
Home equity	90%	90%

Exceptions are permitted to these regulatory guidelines as long as such exceptions are identified, monitored and reported to the Board of Directors at least quarterly and the total of such exceptions do not exceed 100% of Summit Community's total regulatory capital, which totaled $227.0 million as of December 31, 2018. As of this date, we had loans approximating $94.5 million which exceeded the above regulatory LTV guidelines, as follows:

Undeveloped land	$4.5	million
Land development	$4.8	million
Land development - Finished building lots	$3.4	million
Construction:		
Commercial, multifamily and other non-residential	$4.3	million
1-4 family residential, consumer borrower	$—	
1-4 family residential, pre-sold, commercial borrower	$0.3	million
1-4 family residential, spec, commercial borrower	$3.5	million
Improved property:		
Residential real estate - nonowner occupied	$13.5	million
Commercial real estate - owner occupied	$13.8	million
Commercial real estate - nonowner occupied	$31.5	million
Owner occupied 1-4 family	$14.1	million

Home equity	$0.8 million

Our underwriting standards and practice are designed to originate both fixed and variable rate loan products, consistent with the underwriting guidelines discussed above. Adjustable rate and variable rate loans are underwritten, giving consideration both to the loan's initial rate and to higher assumed rates, commensurate with reasonably anticipated market conditions. Accordingly, we want to insure that adequate primary repayment capacity exists to address both future increases in interest rates and fluctuations in the underlying cash flows available for repayment. Historically, we have not offered "payment option ARM"

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loans. Further, we have had no loan portfolio products which were specifically designed for “sub-prime” borrowers (defined as consumers with a credit score of less than 599).

Supervision and Regulation

General

We are subject to regulation by the Board of Governors of the Federal Reserve System (“FRB”), the West Virginia Division of Financial Institutions, the Securities and Exchange Commission (the “SEC”) and other federal and state regulators. As a financial holding company, we are subject to the restrictions of the Bank Holding Company Act of 1956, as amended (“BHCA”), are registered pursuant to its provisions and are subject to examination by the FRB. As a financial holding company doing business in West Virginia, we are also subject to regulation by and must submit annual reports to the West Virginia Division of Financial Institutions.

The BHCA prohibits the acquisition by a financial holding company of direct or indirect ownership of more than five percent (5%) of the voting shares of any bank within the United States without prior approval of the FRB. With certain exceptions, a financial holding company is prohibited from acquiring direct or indirect ownership or control of more than five percent (5%) of the voting shares of any company that is not a bank and from engaging directly or indirectly in business unrelated to the business of banking or managing or controlling banks.

The FRB, in its Regulation Y, permits financial holding companies to engage in non-banking activities closely related to banking or managing or controlling banks. Approval of the FRB is necessary to engage in these activities or to make acquisitions of corporations engaging in these activities as the FRB determines whether these acquisitions or activities are in the public interest. In addition, by order, and on a case by case basis, the FRB may approve other non-banking activities.

The BHCA permits us to purchase or redeem our own securities. However, Regulation Y provides that prior notice must be given to the FRB if the total consideration for such purchase or consideration, when aggregated with the net consideration paid by us for all such purchases or redemptions during the preceding 12 months is equal to ten percent (10%) or more of our consolidated net worth. Prior notice is not required if (i) both before and immediately after the redemption, the financial holding company is well capitalized; (ii) the financial holding company is well managed and (iii) the financial holding company is not the subject of any unresolved supervisory issues.

The FRB has broad authority to prohibit activities of bank holding companies and their non-banking subsidiaries that represent unsafe and unsound banking practices or which constitute violations of laws or regulations. The FRB also can assess civil money penalties for certain activities conducted on a knowing and reckless basis, if those activities caused a substantial loss to a depository institution. The penalties can be as high as $1 million for each day the activity continues.

Summit Community, our only bank subsidiary, is subject to West Virginia banking statutes and regulations, and is primarily regulated by the West Virginia Division of Financial Institutions and the FDIC. The Bank is also subject to regulations promulgated by the FRB. As a member of the FDIC, Summit Community’s deposits are insured as required by federal law. Bank regulatory authorities regularly examine revenues, loans, investments, management practices and other aspects of Summit Community. These examinations are conducted primarily to protect depositors and not shareholders. In addition to these regular examinations, the Bank must furnish to regulatory authorities quarterly reports containing full and accurate statements of its affairs.

Because we are a public company, we are subject to regulation by the SEC. SEC regulations require us to disclose certain types of business and financial data on a regular basis to the SEC and to our shareholders. We are required to file annual, quarterly and current reports with the SEC. We prepare and file an annual report on Form 10-K with the

SEC that contains detailed financial and operating information, as well as a management response to specific questions about our operations. SEC regulations require that our annual reports to shareholders contain certified financial statements and other specific items such as management's discussion and analysis of our financial condition and results of operations. We must also file quarterly reports with the SEC on Form 10-Q that contain detailed financial and operating information for the prior quarter and we must file current reports on Form 8-K to provide the pubic with information on recent material events.

In addition to periodic reporting to the SEC, we are subject to proxy rules and tender offer rules issued by the SEC. Our officers, directors and principal shareholders (holding 10% or more of our stock) must also submit reports to the SEC regarding their holdings of our stock and any changes to such holdings and they are subject to short-swing profit liability. Because we are traded on the NASDAQ, we are also subject to the listing standards of NASDAQ.

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Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

The “Dodd-Frank Wall Street Reform and Consumer Protection Act” (the “Dodd-Frank Act”), which is complex and broad in scope, established the Bureau of Consumer Financial Protection (the “CFPB”), which has extensive regulatory and enforcement powers over consumer financial products and services, and the Financial Stability Oversight Council, which has oversight authority for monitoring systemic risk. We will be required to comply with the Consumer Financial Protection Act and the CFPB’s rules; however, these rules will be enforced by our primary regulator, the FRB, not the CFPB. In addition, the Dodd-Frank Act alters the authority and duties of the federal banking and securities regulatory agencies, implements certain corporate governance requirements for all public companies, including financial institutions with regard to executive compensation, proxy access by shareholders and certain whistleblower provisions and restricts certain proprietary trading and hedge fund and private equity activities of banks and their affiliates. Although the regulations that directly affect our business have been adopted, many of the provisions of the Dodd-Frank Act are subject to final rulemaking by the U.S. financial regulatory agencies and the implications of the Dodd-Frank Act for our business will depend to some extent on how such rules are adopted and implemented by the primary U.S. financial regulatory agencies.

Bank Holding Company Activities

In general, the BHC Act limits the business of bank holding companies to banking, managing or controlling banks and other activities that the FRB has determined to be so closely related to banking as to be a proper incident thereto. In addition, bank holding companies that qualify and elect to be financial holding companies may engage in any activity, or acquire and retain the shares of a company engaged in any activity, that is either (i) financial in nature or incidental to such financial activity (as determined by the FRB in consultation with the Secretary of the Treasury) or (ii) complementary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally (as solely determined by the FRB), without prior approval of the FRB.

Activities that are financial in nature include securities underwriting and dealing, insurance underwriting and making merchant banking investments. Some examples of non-banking activities which presently may be performed by a financial holding company are: making or acquiring, for its own account or the account of others, loans and other extensions of credit; operating as an industrial bank, or industrial loan company, in the manner authorized by state law; servicing loans and other extensions of credit; performing or carrying on any one or more of the functions or activities that may be performed or carried on by a trust company in the manner authorized by federal or state law; acting as an investment or financial advisor; leasing real or personal property; making equity or debt investments in corporations or projects designed primarily to promote community welfare, such as the economic rehabilitation and the development of low income areas; providing bookkeeping services or financially oriented data processing services for the holding company and its subsidiaries; acting as an insurance agent or a broker; acting as an underwriter for credit life insurance, which is directly related to extensions of credit by the financial holding company system; providing courier services for certain financial documents; providing management consulting advice to non-affiliated banks; selling retail money orders having a face value of not more than $1,000, traveler’s checks and U.S. savings bonds; performing appraisals of real estate; arranging commercial real estate equity financing under certain limited circumstances; providing securities brokerage services related to securities credit activities; underwriting and dealing in government obligations and money market instruments; providing foreign exchange advisory and transactional services; and acting, under certain circumstances, as futures commission merchant for non-affiliated persons in the execution and clearance on major commodity exchanges of futures contracts and options.

To maintain financial holding company status, a financial holding company and all of its depository institution subsidiaries must be “well capitalized” and “well managed.” A depository institution subsidiary is considered to be “well capitalized” if it satisfies the requirements for this status discussed in the section captioned “Capital Requirements” included elsewhere in this item. A depository institution subsidiary is considered “well managed” if it received a composite rating and management rating of at least “satisfactory” in its most recent examination. A financial holding

company’s status will also depend upon it maintaining its status as “well capitalized” and “well managed’ under applicable FRB regulations. If a financial holding company ceases to meet these capital and management requirements, the FRB’s regulations provide that the financial holding company must enter into an agreement with the FRB to comply with all applicable capital and management requirements. Until the financial holding company returns to compliance, the FRB may impose limitations or conditions on the conduct of its activities and the company may not commence any of the broader financial activities permissible for financial holding companies or acquire a company engaged in such financial activities without prior approval of the FRB. If the company does not return to compliance within 180 days, the FRB may require divestiture of the holding company’s depository institutions. Bank holding companies and banks must also be both well capitalized and well managed in order to acquire banks located outside their home state.

In order for a financial holding company to commence any new activity permitted by the BHC Act or to acquire a company engaged in any new activity permitted by the BHC Act, each insured depository institution subsidiary of the financial holding company must have received a rating of at least “satisfactory” in its most recent examination under the Community Reinvestment Act. See the section captioned “Community Reinvestment Act” included elsewhere in this item.

The FRB has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the FRB has reasonable grounds to believe that continuation of such activity or such ownership or control constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company.

The Dodd-Frank Act amends the BHC Act to require the federal financial regulatory agencies to adopt rules that prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds). The statutory provision is commonly called the “Volcker Rule”. The Volcker Rule has not had a material impact on our operations as we do not generally engage in activities prohibited by the Volcker Rule.

The BHC Act, the Bank Merger Act, the West Virginia Banking Code and other federal and state statutes regulate acquisitions of commercial banks. The BHC Act requires the prior approval of the FRB for the direct or indirect acquisition by a bank holding company of more than 5.0% of the voting shares of a commercial bank or its parent holding company. Under the Bank Merger Act, the prior approval of the FRB or other appropriate bank regulatory authority is required for a member bank to merge with another bank or purchase the assets or assume the deposits of another bank. In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities will consider, among other things, the competitive effect and public benefits of the transactions, the capital position of the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant’s performance record under the Community Reinvestment Act (see the section captioned “Community Reinvestment Act” included elsewhere in this item) and its compliance with fair housing and other consumer protection laws and the effectiveness of the subject organizations in combating money laundering activities.

Dividends

The principal source of our liquidity is dividends from Summit Community. The prior approval of the Federal Reserve is required if the total of all dividends declared by a state-chartered member bank in any calendar year would exceed the sum of the bank’s net profits for that year and its retained net profits for the preceding two calendar years, less any required transfers to surplus or to fund the retirement of preferred stock. Federal law also prohibits a state-chartered, member bank from paying dividends that would be greater than the bank’s undivided profits. Summit Community is also subject to limitations under West Virginia state law regarding the level of dividends that may be paid.

In addition, the Company and Summit Community are subject to other regulatory policies and requirements relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The appropriate federal regulatory authority is authorized to determine under certain circumstances relating to the financial condition of a bank holding company or a bank that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. The appropriate federal regulatory authorities have stated that paying dividends that deplete a bank’s capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only out of current operating earnings.

Credit and Monetary Policies and Related Matters

Summit Community is affected by the fiscal and monetary policies of the federal government and its agencies, including the FRB. An important function of these policies is to curb inflation and control recessions through control

of the supply of money and credit. The operations of Summit Community are affected by the policies of government regulatory authorities, including the FRB, which regulates money and credit conditions through open-market operations in United States Government and Federal agency securities, adjustments in the discount rate on member bank borrowings and requirements against deposits and regulation of interest rates payable by member banks on time and savings deposits. These policies have a significant influence on the growth and distribution of loans, investments and deposits, and interest rates charged on loans, or paid for time and savings deposits, as well as yields on investments. The FRB has had a significant effect on the operating results of commercial banks in the past and is expected to continue to do so in the future. Future policies of the FRB and other authorities and their effect on future earnings cannot be predicted.

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The FRB has a policy that a financial holding company is expected to act as a source of financial and managerial strength to each of its subsidiary banks and to commit resources to support each such subsidiary bank. Under the source of strength doctrine, the FRB may require a financial holding company to contribute capital to a troubled subsidiary bank and may charge the financial holding company with engaging in unsafe and unsound practices for failure to commit resources to such a subsidiary bank. This capital injection may be required at times when Summit may not have the resources to provide it. Any capital loans by a holding company to any subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In addition, the Crime Control Act of 1990 provides that in the event of a financial holding company's bankruptcy, any commitment by such holding company to a Federal bank or thrift regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Capital Requirements

Our bank subsidiary, Summit Community, is subject to various regulatory capital requirements administered by the banking regulatory agencies. Under the capital adequacy guidelines and the regulatory framework for prompt corrective action, Summit Community must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Summit Community’s capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Quantitative measures established by regulation to ensure capital adequacy require Summit Community to maintain minimum amounts and ratios of Common Equity Tier 1("CET1"), Total capital and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Summit Community’s regulatory capital ratios as of December 31, 2018 are set forth in the table in Note 18 of the notes to the consolidated financial statements beginning on page 85. We believe, as of December 31, 2018, that our bank subsidiary met all capital adequacy requirements to which it was subject.

The most recent notifications from the banking regulatory agencies categorized Summit Community as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, Summit Community must maintain minimum CET1, Total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table below.

The Basel III Capital Rules became effective for us on January 1, 2015, with full compliance with all of the final rule's requirements phased-in over a multi-year schedule, to be fully phased-in by January 1, 2019. As of December 31, 2018, Summit Community’s capital levels remained characterized as "well-capitalized" under the new rules.

On August 28, 2018, the FRB issued an interim final rule expanding the applicability of the FRB's small bank holding company policy statement, as required by the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018. The interim final rule raises the small bank holding company policy statement's asset threshold from $1 billion to $3 billion in total consolidated assets, and as a result, the Company was exempted from all regulatory capital guidelines, to which it previously had been subject, until such time as its consolidated assets exceed $3 billion.

Prompt Corrective Action. The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") establishes a new regulatory scheme, which ties the level of supervisory intervention by bank regulatory authorities primarily to a depository institution's capital category. Among other things, FDICIA authorizes regulatory authorities to take "prompt corrective action" with respect to depository institutions that do not meet minimum capital requirements. FDICIA establishes five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. The relevant capital measures, which reflect changes under the Basel III Capital Rules, are the total capital ratio, the CET1 capital ratio, the Tier 1 capital ratio and the leverage ratio.

A bank will be (i) “well capitalized” if the institution has a total risk-based capital ratio of 10.0% or greater, a CET1 capital ratio of 6.5% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater and a leverage ratio of 5.0% or greater and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (ii) “adequately capitalized” if the institution has a total risk-based capital

ratio of 8.0% or greater, a CET1 capital ratio of 4.5% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater and a leverage ratio of 4.0% or greater and is not “well capitalized”; (iii) “undercapitalized” if the institution has a total risk-based capital ratio that is less than 8.0%, a CET1 capital ratio less than 4.5%, a Tier 1 risk-based capital ratio of less than 6.0% or a leverage ratio of less than 4.0%; (iv) “significantly undercapitalized” if the institution has a total risk-based capital ratio of less than 6.0%, a CET1 capital ratio less than 3.0%, a Tier 1 risk-based capital ratio of less than 4.0% or a leverage ratio of less than 3.0%; and (v) “critically undercapitalized” if the institution’s tangible equity is equal to or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank’s capital category is determined solely for the purpose of applying prompt corrective action regulations and the

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capital category may not constitute an accurate representation of the bank's overall financial condition or prospects for other purposes."

Community Reinvestment Act

Financial holding companies and their subsidiary banks are also subject to the provisions of the Community Reinvestment Act of 1977 ("CRA"). Under the CRA, the FRB (or other appropriate bank regulatory agency) is required, in connection with its examination of a bank, to assess such bank's record in meeting the credit needs of the communities served by that bank, including low and moderate income neighborhoods. Further, such assessment is also required of any financial holding company that has applied to (i) charter a national bank, (ii) obtain deposit insurance coverage for a newly chartered institution, (iii) establish a new branch office that will accept deposits, (iv) relocate an office, or (v) merge or consolidate with, or acquire the assets or assume the liabilities of a federally-regulated financial institution. In the case of a financial holding company applying for approval to acquire a bank or other financial holding company, the FRB will assess the record of each subsidiary of the applicant financial holding company and such records may be the basis for denying the application or imposing conditions in connection with approval of the application.

In the most recent CRA examination by the bank regulatory authorities, Summit Community was given a "satisfactory" CRA rating.

Graham-Leach-Bliley Act of 1999

The enactment of the Graham-Leach-Bliley Act of 1999 (the "GLB Act") represents a pivotal point in the history of the financial services industry. The GLB Act swept away large parts of a regulatory framework that had its origins in the Depression Era of the 1930s. New opportunities were available for banks, other depository institutions, insurance companies and securities firms to enter into combinations that permit a single financial services organization to offer customers a more complete array of financial products and services. The GLB Act provides a new regulatory framework through the financial holding company, which has as its "umbrella regulator" the FRB. Functional regulation of the financial holding company's separately regulated subsidiaries is conducted by their primary functional regulators. The GLB Act makes a CRA rating of satisfactory or above necessary for insured depository institutions and their financial holding companies to engage in new financial activities. The GLB Act specifically gives the FRB the authority, by regulation or order, to expand the list of "financial" or "incidental" activities, but requires consultation with the U.S. Treasury Department, and gives the FRB authority to allow a financial holding company to engage in any activity that is "complementary" to a financial activity and does not "pose a substantial risk to the safety and soundness of depository institutions or the financial system generally."

Under the GLB Act, all financial institutions are required to adopt privacy policies, restrict the sharing of nonpublic customer data with nonaffiliated parties at the customer's request and establish procedures and practices to protect customer data from unauthorized access. We have established policies and procedures to assure our compliance with all privacy provisions of the GLB Act. Pursuant to Title V of the GLB Act, we, like all other financial institutions, are required to:

- provide notice to our customers regarding privacy policies and practices,
- inform our customers regarding the conditions under which their non-public personal information may be disclosed to non-affiliated third parties and
- give our customers an option to prevent certain disclosure of such information to non-affiliated third parties.

Deposit Acquisition Limitation

Under West Virginia banking law, an acquisition or merger is not permitted if the resulting depository institution or its holding company, including its affiliated depository institutions, would assume additional deposits to cause it to

control deposits in the State of West Virginia in excess of twenty five percent (25%) of such total amount of all deposits held by insured depository institutions in West Virginia. This limitation may be waived by the Commissioner of Banking by showing good cause.

Consumer Laws and Regulations

In addition to the banking laws and regulations discussed above, bank subsidiaries are also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. Among the more prominent of such laws and regulations are the Truth in Lending Act, the Home Mortgage Disclosure Act and Regulation C, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Fair Debt Collection Act, the Right to Financial Privacy Act and the Fair Housing Act. These laws and regulations mandate certain

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disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans to such customers. Bank subsidiaries must comply with the applicable provisions of these consumer protection laws and regulations as part of their ongoing customer relations.

Dodd-Frank centralized responsibility for consumer financial protection by creating the CFPB and giving it responsibility for implementing, examining and enforcing compliance with federal consumer protection laws. The CFPB has broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards. The CFPB's functions include investigating consumer complaints, rulemaking, supervising and examining banks' consumer transactions and enforcing rules related to consumer financial products and services including mortgage lending and servicing, fair lending requirements, and automotive finance. Summit Community Bank, as a bank with less than $10 billion in assets, is subject to these federal consumer financial laws, but continues to be examined for compliance by the FDIC, its primary federal banking regulator.

The CFPB has issued final regulations implementing provisions of the Dodd-Frank Act that require all creditors to determine a consumer's ability to repay a mortgage loan before making a loan. The final rule, referred to as the Ability-to Repay (ATR)/Qualified Mortgage (QM) standards, provide that a lender making a special type of loan, known as a Qualified Mortgage, is entitled to presume that the loan complies with the ATR safe harbor requirements. The rule establishes different types of Qualified Mortgages that are generally identified as loans with restrictions on loan features, limits on fees being charged and underwriting requirements.

USA Patriot Act of 2001

The USA Patriot Act of 2001 and its related regulations require insured depository institutions, broker-dealers and certain other financial institutions to have policies, procedures and controls to detect, prevent and report money laundering and terrorist financing. The statute and its regulations also provide for information sharing, subject to conditions, between federal law enforcement agencies and financial institutions, as well as among financial institutions, for counter-terrorism purposes. Federal banking regulators are required, when reviewing bank holding company acquisition and bank merger applications, to take into account the effectiveness of the anti-money laundering activities of the applicants. Summit expects to continue to devote significant resources to its Bank Secrecy Act/anti-money laundering program, particularly as risks persistently emerge and evolve and as regulatory expectations escalate.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 ("SOA") addresses, among other issues, corporate governance, auditing and accounting, executive compensation and enhanced and timely disclosure of corporate information. SOA requires our Chief Executive Officer and Chief Financial Officer each to certify that Summit's Quarterly and Annual Reports do not contain any untrue statement of a material fact. The rules have several requirements, including requiring these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal controls; they have made certain disclosures to our auditors and the audit committee of the Board of Directors about our internal controls; and they have included information in Summit's Quarterly and Annual Reports about their evaluation and whether there have been significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the evaluation.

Furthermore, in response to the directives of the SOA, NASDAQ adopted substantially expanded corporate governance criteria for the issuers of securities quoted on the NASDAQ Capital Market (the market on which our common stock is listed for trading). The new NASDAQ rules govern, among other things, the enhancement and regulation of corporate disclosure and internal governance of listed companies and of the authority, role and responsibilities of their boards of directors and, in particular, of "independent" members of such boards of directors, in

the areas of nominations, corporate governance, compensation and the monitoring of the audit and internal financial control processes.

Cybersecurity

In 2015, federal regulators issued two related statements regarding cybersecurity. One statement indicates that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the financial institution. The other statement indicates that a financial institution's management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring

data if the institution or its critical service providers fall victim to this type of cyber-attack. If we fail to observe the regulatory guidance, we could be subject to various regulatory sanctions, including financial penalties.

In the ordinary course of business, we rely on electronic communications and information systems to conduct our operations and to store sensitive data. We employ an in-depth, layered, defensive approach that leverages people, processes and technology to manage and maintain cybersecurity controls. We employ a variety of preventative and detective tools to monitor, block and provide alerts regarding suspicious activity, as well as to report on any suspected advanced persistent threats. Notwithstanding the strength of our defensive measures, the threat from cyber attacks is severe, attacks are sophisticated and increasing in volume and attackers respond rapidly to changes in defensive measures. While to date, we have not experienced a significant compromise, significant data loss or any material financial losses related to cybersecurity attacks, our systems and those of our customers and third-party service providers are under constant threat and it is possible that we could experience a significant event in the future. Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of Internet banking, mobile banking and other technology-based products and services by us and our customers. See Item 1A. Risk Factors for a further discussion of risks related to cybersecurity.

Transactions with Affiliates

Federal law restricts subsidiary banks of a financial holding company from making certain extensions of credit to the parent financial holding company or to any of its subsidiaries; from investing in the holding company stock; and limits the ability of a subsidiary bank to take its parent company stock as collateral for the loans of any borrower. Additionally, federal law prohibits a financial holding company and its subsidiaries from engaging in certain tie-in arrangements in conjunction with the extension of credit or furnishing of services.

There are various statutory and regulatory limitations, including those set forth in sections 23A and 23B of the Federal Reserve Act and the related Federal Reserve Regulation W, governing the extent to which the bank will be able to purchase assets from or securities of or otherwise finance or transfer funds to us or our non-banking affiliates. Among other restrictions, such transactions between the bank and any one affiliate (including Summit) generally will be limited to ten percent (10%) of the bank’s capital and surplus and transactions between the bank and all affiliates will be limited to twenty percent (20%) of the bank’s capital and surplus. Furthermore, loans and extensions of credit are required to be secured in specified amounts and are required to be on terms and conditions consistent with safe and sound banking practices.

In addition, any transaction by a bank with an affiliate and any sale of assets or provisions of services to an affiliate generally must be on terms that are substantially the same, or at least as favorable, to the bank as those prevailing at the time for comparable transactions with non-affiliated companies.

Incentive Compensation

The Federal Reserve Board reviews, as part of its regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as Summit, that are not “large, complex banking organizations.” These reviews are tailored to each organization based on the scope and complexity of the organization’s activities and the prevalence of incentive compensation arrangements. The scope and content of the U.S. banking regulators’ policies on incentive compensation are continuing to develop.
The federal bank regulatory agencies have issued joint guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. In addition, the Dodd-Frank Act requires the federal bank regulatory agencies and the SEC to issue regulations or guidelines requiring covered financial institutions, including the Company and Summit Community, to prohibit incentive-based payment arrangements that encourage

inappropriate risks by providing compensation that is excessive or that could lead to material financial loss to the institution. A proposed rule was issued in 2016. Also, pursuant to the Dodd-Frank Act, in 2015, the SEC proposed rules that would direct stock exchanges to require listed companies to implement clawback policies to recover incentive-based compensation from current or former executive officers in the event of certain financial restatements and would also require companies to disclose their clawback policies and their actions under those policies. The Company continues to evaluate the proposed rules, both of which are subject to further rulemaking procedures.

Competition

We engage in highly competitive activities. Each activity and market served involves competition with other banks and savings institutions, as well as with non-banking and non-financial enterprises that offer financial products and services that compete

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directly with our products and services. We actively compete with other banks, mortgage companies and other financial service companies in our efforts to obtain deposits and make loans, in the scope and types of services offered, in interest rates paid on time deposits and charged on loans and in other aspects of banking.

Of particular note, banking laws limit the total amount we can lend to any one borrower generally to 15 percent of Summit Community's Tier 1 capital plus its allowance for loan losses. Summit Community evaluated the risks and rewards of lending up to this legal lending limit and established a self-imposed lending limit equal to 85 percent of its legal lending limit. Accordingly, institutions larger than Summit Community have a natural competitive advantage to serve the loan needs of larger clients as their legal lending limits are proportionally greater than ours.

In addition to competing with other banks and mortgage companies, we compete with other financial institutions engaged in the business of making loans or accepting deposits, such as savings and loan associations, credit unions, industrial loan associations, insurance companies, small loan companies, finance companies, real estate investment trusts, certain governmental agencies, credit card organizations and other enterprises. In addition, competition for money market accounts from securities brokers has also intensified. Additional competition for deposits comes from government and private issues of debt obligations and other investment alternatives for depositors, such as money market funds. We take an aggressive competitive posture and intend to continue vigorously competing for market share within our service areas by offering competitive rates and terms on both loans and deposits.

Employees

At February 28, 2019, we employed 371 full-time equivalent employees.

Available Information

Our Internet website address is www.summitfgi.com and our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K and amendments to such filed reports with the SEC are accessible through this website free of charge as soon as reasonably practicable after we electronically file such reports with the SEC. The information on our website is not and shall not be deemed to be, a part of this report or incorporated into any other filing with the SEC.

These reports are available at the SEC's website at www.sec.gov that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

Statistical Information

The information noted below is provided pursuant to Guide 3 – Statistical Disclosure by Bank Holding Companies.

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Item 1A. Risk Factors

We, like other financial holding companies, are subject to a number of risks that may adversely affect our financial condition or results of operation, many of which are outside of our direct control, though efforts are made to manage those risks while optimizing returns. Among the risks assumed are: (i) credit risk, which is the risk of loss due to loan clients or other counterparties not being able to meet their financial obligations under agreed upon terms, (ii) market risk, which is the risk of loss due to changes in the market value of assets and liabilities due to changes in market interest rates, equity prices and credit spreads, (iii) liquidity risk, which is the risk of loss due to the possibility that funds may not be available to satisfy current or future commitments based on external market issues, investor and customer perception of financial strength and events unrelated to the Company such as war, terrorism, or financial institution market specific issues and (iv) operational risk, which is the risk of loss due to human error, inadequate or failed internal systems and controls, violations of, or noncompliance with, laws, rules, regulations, prescribed practices, or ethical standards and external influences such as market conditions, fraudulent activities, disasters and security risks.

In addition to the other information included or incorporated by reference into this report, readers should carefully consider that the following important factors, among others, could materially impact our business, future results of operations and future cash flows.

RISKS RELATING TO THE ECONOMIC ENVIRONMENT

Our business may be adversely affected by conditions in financial markets and economic conditions generally.

Our business is concentrated in West Virginia and the Northern, Shenandoah Valley and Southwestern regions of Virginia. As a result, our financial condition, results of operations and cash flows are subject to changes if there are changes in the economic conditions in these areas. A prolonged period of economic recession or other adverse economic conditions in these areas could have a negative impact on Summit. A significant decline in general economic conditions nationally, caused by inflation, recession, acts of terrorism, outbreak of hostilities or other international or domestic occurrences, unemployment, changes in securities markets, declines in the housing market, a tightening credit environment or other factors could impact these local economic conditions and, in turn, have a material adverse effect on our financial condition and results of operations.

The soundness of other financial institutions could adversely affect us.

Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties and routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, or other institutional firms. Defaults by financial services institutions and even rumors or questions about a financial institution or the financial services industry in general, have led to market wide liquidity problems and could lead to losses or defaults by us or other institutions. Any such losses could adversely affect our financial condition or results of operations.

The value of certain investment securities is volatile and future declines or other-than-temporary impairments could have a materially adverse effect on future earnings and regulatory capital.

Volatility in the fair value for certain investment securities, whether caused by changes in market conditions, interest rates, credit risk of the issuer, the expected yield of the security, or actual defaults in the portfolio could result in significant fluctuations in the value of the securities as well as any regulatory rulemaking which could exclude or limit the holdings of certain investment securities. This could have a material adverse impact on our accumulated other comprehensive income and shareholders’ equity depending on the direction of the fluctuations. Furthermore, future

downgrades, defaults or prepayments, including the liquidation of the underlying collateral in certain securities, could result in future classifications as other-than-temporarily impaired. This could have a material impact on our future earnings, although the impact on shareholders' equity will be offset by any amount already included in other comprehensive income for securities that were temporarily impaired.

RISKS RELATING TO OUR BUSINESS

We are subject to extensive government regulation and supervision.

The Company and Summit Community are subject to extensive federal and state regulation and supervision, which vests a significant amount of discretion in the various regulatory authorities. Banking regulations are primarily intended to protect depositors and customers, the Federal Deposit Insurance fund and the banking system as a whole, not security holders. These regulations and supervisory guidance affect our lending practices, capital structure, investment practices, dividend policy and

growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. The Dodd-Frank Act instituted major changes to the banking and financial institutions regulatory regimes. Other changes to statutes, regulations or regulatory policies or supervisory guidance, including changes in interpretation or implementation of statutes, regulations, policies or supervisory guidance, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations, policies or supervisory guidance could result in enforcement and other legal actions by Federal or state authorities, including criminal and civil penalties, the loss of FDIC insurance, the revocation of a banking charter, other sanctions by regulatory agencies, civil money penalties and/or reputation damage. In this regard, government authorities, including the bank regulatory agencies, are pursuing aggressive enforcement actions with respect to compliance and other legal matters involving financial activities, which heightens the risks associated with actual and perceived compliance failures. Any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

See the section captioned “Supervision and Regulation” included in Item 1. Business on page 1.

We may become subject to additional regulatory restrictions in the event that our regulatory capital levels decline.

Although the Bank is qualified as “well capitalized” under the regulatory framework for prompt corrective action as of December 31, 2018, there is no guarantee that we will not have a decline in our capital category in the future. In the event of such a capital category decline, we would be subject to increased regulatory restrictions that could have a material adverse effect on our business, financial condition, results of operations, cash flows and/or future prospects.

If a bank is classified as undercapitalized, the bank is required to submit a capital restoration plan to the FDIC. Pursuant to FDICIA, an undercapitalized bank is prohibited from increasing its assets, engaging in a new line of business, acquiring any interest in any company or insured depository institution, or opening or acquiring a new branch office, except under certain circumstances, including the acceptance by the FDIC of a capital restoration plan for the bank. Furthermore, if a state non-member bank is classified as undercapitalized, the FDIC may take certain actions to correct the capital position of the bank; if a bank is classified as significantly undercapitalized or critically undercapitalized, the FDIC would be required to take one or more prompt corrective actions. These actions would include, among other things, requiring sales of new securities to bolster capital; improvements in management; limits on interest rates paid; prohibitions on transactions with affiliates; termination of certain risky activities and restrictions on compensation paid to executive officers. If a bank is classified as critically undercapitalized, FDICIA requires the bank to be placed into conservatorship or receivership within ninety (90) days, unless the Federal Reserve determines that other action would better achieve the purposes of FDICIA regarding prompt corrective action with respect to undercapitalized banks.

Under FDICIA, banks may be restricted in their ability to accept brokered deposits, depending on their capital classification. “Well capitalized” banks are permitted to accept brokered deposits, but all banks that are not well capitalized could be restricted from accepting such deposits. The FDIC may, on a case-by-case basis, permit banks that are adequately capitalized to accept brokered deposits if the FDIC determines that acceptance of such deposits would not constitute an unsafe or unsound banking practice with respect to the bank. These restrictions could materially and adversely affect our ability to access lower costs funds and thereby decrease our future earnings capacity.

Our financial flexibility could be severely constrained if we are unable to renew our wholesale funding or if adequate financing is not available in the future at acceptable rates of interest. We may not have sufficient liquidity to continue to fund new loan originations and we may need to liquidate loans or other assets unexpectedly in order to repay obligations as they mature. Our inability to obtain regulatory consent to accept or renew brokered deposits could have a material adverse effect on our business, financial condition, results of operations, cash flows and/or future prospects

and our ability to continue as a going concern.
Finally, the capital classification of a bank affects the frequency of examinations of the bank, the deposit insurance premiums paid by such bank and the ability of the bank to engage in certain activities, all of which could have a material adverse effect on our business, financial condition, results of operations, cash flows and/or future prospects. Under FDICIA, the FDIC is required to conduct a full-scope, on-site examination of every bank at least once every twelve (12) months.

Our decisions regarding credit risk could be inaccurate and our allowance for loan losses may be inadequate, which could materially and adversely affect our business, financial condition, results of operations, cash flows and/or future prospects.

Our loan portfolio subjects us to credit risk. Inherent risks in lending also include fluctuations in collateral values and economic downturns. Making loans is an essential element of our business and there is a risk that our loans will not be repaid.

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We attempt to maintain an appropriate allowance for loan losses to provide for estimated probable credit losses inherent in our loan portfolio. As of December 31, 2018, our allowance for loan losses totaled $13.0 million, which represents approximately 0.77% of our total loans. There is no precise method of predicting loan losses and therefore, we always face the risk that losses in future periods will exceed our allowance for loan losses and that we would need to make additional provisions to our allowance for loan losses. Our methodology for the determination of the adequacy of the allowance for loan losses is set forth in Note 8 of the accompanying consolidated financial statements.

The FDIC and the West Virginia Division of Financial Institutions review our allowance for loan and lease losses and may require us to establish additional allowances. Additions to the allowance for loan and lease losses will result in a decrease in our net earnings and capital and could hinder our ability to grow our assets.

We do business with other financial institutions that could experience financial difficulty.

We do business through check clearing and the purchase and sale of loan participations with other financial institutions. Because these financial institutions have many risks, as do we, we could be adversely affected should one of these financial institutions experience significant financial difficulties or fail to comply with our agreements with them.

We may elect or be compelled to seek additional capital in the future, but capital may not be available when it is needed.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. In addition, we may elect to raise additional capital to support our business or to finance acquisitions, if any, or we may otherwise elect to raise additional capital. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets, economic conditions and a number of other factors, many of which are outside our control and on our financial performance. Accordingly, we cannot be assured of our ability to raise additional capital, if needed or on terms acceptable to us. If we cannot raise additional capital when needed, it may have a material adverse effect on our financial condition, results of operations and prospects.

We rely on funding sources to meet our liquidity needs, such as brokered deposits and FHLB borrowings, which are generally more sensitive to changes in interest rates and can be adversely affected by general economic conditions.

We have frequently utilized, as a source of funds, certificates of deposit obtained through third parties that solicit funds from their customers for deposit with us, or brokered deposits. Brokered deposits, when compared to retail deposits attracted through a branch network, are generally more sensitive to changes in interest rates and volatility in the capital markets and could reduce our net interest spread and net interest margin. In addition, brokered deposit funding sources may be more sensitive to significant changes in our financial condition. As of December 31, 2018, brokered deposits totaled $220.5 million, or approximately 13.5% of our total deposits, compared to brokered deposits in the amount of $216.9 million or approximately 13.6% of our total deposits at December 31, 2017. As of December 31, 2018, approximately $73.0 million in brokered deposits, or approximately 33.1% of our total brokered deposits, mature within one year. Our ability to continue to acquire brokered deposits is subject to our ability to price these deposits at competitive levels, which may increase our funding costs and the confidence of the market. In addition, if our capital ratios fall below the levels necessary to be considered "well capitalized" under current regulatory guidelines, we could be restricted from using brokered deposits as a funding source.

We also have borrowings with the Federal Home Loan Bank of Pittsburgh, or the FHLB. As of December 31, 2018, our FHLB borrowings maturing within one year totaled $304.0 million. If we were unable to borrow from the FHLB in the future, we may be required to seek higher cost funding sources, which could materially and adversely affect our net interest income.

One aspect of our liquidity management process is establishing contingent liquidity funding plans under various scenarios in order to prepare for unexpected liquidity shortages or events. Page 40 of Management's Discussion and Analysis of Financial Condition and Results of Operations shows three "stressed" liquidity circumstances and our related contingency plans with respect to each.

We pursue a strategy of supplementing internal growth by acquiring other financial companies or their assets and liabilities that we believe will help us fulfill our strategic objectives and enhance our earnings. There are risks associated with this strategy.

As part of our general growth strategy, we have partially expanded our business through acquisitions. We completed the acquisition of Peoples Bankshares, Inc. ("Peoples") on January 1, 2019, the First Century Bankshares, Inc. ("FCB") acquisition in April 2017 and the acquisition of Highland County Bankshares, Inc. ("HCB") in October 2016. Although our business strategy emphasizes organic expansion, we continue, from time to time in the ordinary course of business, to engage in

preliminary discussions with potential acquisition targets. There can be no assurance that, in the future, we will successfully identify suitable acquisition candidates, complete acquisitions and successfully integrate acquired operations into our existing operations or expand into new markets. The consummation of any future acquisitions may dilute shareholder value or may have an adverse effect upon our operating results while the operations of the acquired business are being integrated into our operations. In addition, once integrated, acquired operations may not achieve levels of profitability comparable to those achieved by our existing operations, or otherwise perform as expected. Further, transaction-related expenses may adversely affect our earnings. These adverse effects on our earnings and results of operations may have a negative impact on the value of our common stock. Acquiring banks, bank branches or other businesses involves risks commonly associated with acquisitions, including:

- We may be exposed to potential asset quality issues or unknown or contingent liabilities of the banks, businesses, assets, and liabilities we acquire. If these issues or liabilities exceed our estimates, our results of operations and financial condition may be materially negatively affected;
- Prices at which acquisitions can be made fluctuate with market conditions. We have experienced times during which acquisitions could not be made in specific markets at prices we considered acceptable and expect that we will experience this condition in the future;
- The acquisition of other entities generally requires integration of systems, procedures and personnel of the acquired entity into our company to make the transaction economically successful. This integration process is complicated and time consuming and can also be disruptive to the customers of the acquired business. If the integration process is not conducted successfully and with minimal effect on the acquired business and its customers, we may not realize the anticipated economic benefits of particular acquisitions within the expected time frame, and we may lose customers or employees of the acquired business. We may also experience greater than anticipated customer losses even if the integration process is successful.
- To the extent our costs of an acquisition exceed the fair value of the net assets acquired, the acquisition will generate goodwill. As discussed below, we are required to assess our goodwill for impairment at least annually, and any goodwill impairment charge could have a material adverse effect on our results of operations and financial condition; and
- To finance an acquisition, we may borrow funds, thereby increasing our leverage and diminishing our liquidity, or issue additional shares, which could dilute the interests of our existing stockholders.

The value of our goodwill and other intangible assets may decline.

Goodwill and other intangible assets are subject to a decline, perhaps even significantly, for several reasons including if there is a significant decline in our expected future cash flows, change in the business environment, or a material and sustained decline in the market value of our stock, which may require us to take future charges related to the impairment of that goodwill and other intangible assets in the future, which could have a material adverse effect on our financial condition and results of our operations.

We operate in a very competitive industry and market.

We face aggressive competition not only from banks, but also from other financial services companies, including finance companies and credit unions and, to a limited degree, from other providers of financial services, such as money market mutual funds, brokerage firms and consumer finance companies. A number of competitors in our market areas are larger than we are and have substantially greater access to capital and other resources, as well as larger lending limits and branch systems and offer a wider array of banking services. Many of our non-bank competitors are not subject to the same extensive regulations that govern us. As a result, these non-bank competitors have advantages over us in providing certain services. Our profitability depends upon our ability to attract loans and deposits. There is a risk that aggressive competition could result in our controlling a smaller share of our markets. A decline in market share could adversely affect our results of operations and financial condition.

We are subject to environmental liability risk associated with lending activities.

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on those properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent

interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations.

Changes in interest rates could negatively impact our future earnings.

Changes in interest rates could reduce income and cash flow. Our income and cash flow depend primarily on the difference between the interest earned on loans and investment securities and the interest paid on deposits and other borrowings. Interest rates are beyond our control and they fluctuate in response to general economic conditions and the policies of various governmental and regulatory agencies, in particular, the FRB. Changes in monetary policy, including changes in interest rates, will influence loan originations, purchases of investments, volumes of deposits and rates received on loans and investment securities and paid on deposits. Our results of operations may be adversely affected by increases or decreases in interest rates or by the shape of the yield curve.

The repeal of Federal prohibitions on payment of interest on demand deposits could increase our interest expense as interest rates rise.

All federal prohibitions on the ability of financial institutions to pay interest on demand deposit accounts were repealed as part of the Dodd-Frank Act. We do not yet know what interest rates other institutions may offer as market interest rates begin to increase. Our interest expense will increase and our net interest margin will decrease if we begin offering interest on demand deposits to attract additional customers or maintain current customers, which could have a material adverse effect on our business, financial condition and results of operations.
We rely heavily on our management team and the unexpected loss of key officers could adversely affect our business, financial condition, results of operations, cash flows and/or future prospects.

Our success has been and will continue to be greatly influenced by our ability to retain the services of existing senior management and, as we expand, to attract and retain qualified additional senior and middle management. Our senior executive officers have been instrumental in the development and management of our business. The loss of the services of any of our senior executive officers could have an adverse effect on our business, financial condition, results of operations, cash flows and/or future prospects.

Our business may be adversely affected by increasing prevalence of fraud and other financial crimes.

As a financial institution, we are subject to risk of loss due to fraud and other financial crimes. Nationally, reported incidents of fraud and other financial crimes have increased. We believe we have controls in place to detect and prevent such losses but in some cases multi-party collusion or other sophisticated methods of hiding fraud, may not be readily detected or detectable, and could result in losses that affect our financial condition and results of our operations.

Financial crime is not limited to the financial services industry. Our customers could experience fraud in their businesses, which could materially impact their ability to repay their loans, and deposit customers in all financial institutions are constantly and unwittingly solicited by others in fraud schemes that vary from easily detectable and obvious attempts to high-level and very complex international schemes that could drain an account of a significant amount and require detailed financial forensics to unravel. While we have controls in place, contractual agreements with our customers partitioning liability, and insurance to help mitigate the risk, none of these are guarantees that we will not experience a loss, potentially a loss that could have a material adverse effect on our financial condition, reputation and results of our operations.

Our information systems may experience failure, interruption or breach in security.

In the ordinary course of business, we rely on electronic communications and information systems to conduct our operations and to store sensitive data. Any failure, interruption or breach in security of these systems could result in significant disruption to our operations. Information security breaches and cybersecurity-related incidents may include, but are not limited to, attempts to access information, including customer and company information, malicious code, computer viruses and denial of service attacks that could result in unauthorized access, misuse, loss or destruction of data (including confidential customer information), account takeovers, unavailability of service or other events. These types of threats may derive from human error, fraud or malice on the part of external or internal parties, or may result from accidental technological failure. Further, to access our products and services our customers may use computers and mobile devices that are beyond our security control systems. Our technologies, systems, networks and software and those of other financial institutions have been and are likely to continue to be, the target of cybersecurity threats and attacks, which may range from uncoordinated individual attempts to sophisticated and targeted measures directed at

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us. The risk of a security breach or disruption, particularly through cyber attack or cyber intrusion, has increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased.

Our business requires the collection and retention of large volumes of customer data, including personally identifiable information in various information systems that we maintain and in those maintained by third parties with whom we contract to provide data services. We also maintain important internal company data such as personally identifiable information about our employees and information relating to our operations. The integrity and protection of that customer and company data is important to us. Our collection of such customer and company data is subject to extensive regulation and oversight.

Our customers and employees have been and will continue to be, targeted by parties using fraudulent e-mails and other communications in attempts to misappropriate passwords, bank account information or other personal information or to introduce viruses or other malware through "Trojan horse" programs to our information systems and/or our customers' computers. Though we endeavor to mitigate these threats through product improvements, use of encryption and authentication technology and customer and employee education, such cyber attacks against us or our merchants and our third party service providers remain a serious issue. The pervasiveness of cybersecurity incidents in general and the risks of cyber crime are complex and continue to evolve. More generally, publicized information concerning security and cyber-related problems could inhibit the use or growth of electronic or web-based applications or solutions as a means of conducting commercial transactions.

Although we make significant efforts to maintain the security and integrity of our information systems and have implemented various measures to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because attempted security breaches, particularly cyber attacks and intrusions, or disruptions will occur in the future and because the techniques used in such attempts are constantly evolving and generally are not recognized until launched against a target and in some cases are designed not to be detected and, in fact, may not be detected. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures and thus it is virtually impossible for us to entirely mitigate this risk. While we maintain specific “cyber” insurance coverage, which would apply in the event of various breach scenarios, the amount of coverage may not be adequate in any particular case. Furthermore, because cyber threat scenarios are inherently difficult to predict and can take many forms, some breaches may not be covered under our cyber insurance coverage.

A security breach or other significant disruption of our information systems or those related to our customers, merchants and our third party vendors, including as a result of cyber attacks, could (i) disrupt the proper functioning of our networks and systems and therefore our operations and/or those of certain of our customers; (ii) result in the unauthorized access to and destruction, loss, theft, misappropriation or release of confidential, sensitive or otherwise valuable information of ours or our customers; (iii) result in a violation of applicable privacy, data breach and other laws, subjecting us to additional regulatory scrutiny and expose the us to civil litigation, governmental fines and possible financial liability; (iv) require significant management attention and resources to remedy the damages that result; or (v) harm our reputation or cause a decrease in the number of customers that choose to do business with us. The occurrence of any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

The negative economic effects caused by terrorist attacks, including cyber attacks, potential attacks and other destabilizing events, would likely contribute to the deterioration of the quality of our loan portfolio and could reduce our customer base, level of deposits and demand for our financial products, such as loans.

High inflation, natural disasters, acts of terrorism, including cyber attacks, an escalation of hostilities or other international or domestic occurrences and other factors could have a negative impact on the economy of the Mid-Atlantic regions in which we operate. An additional economic downturn in our markets would likely contribute to the deterioration of the quality of our loan portfolio by impacting the ability of our customers to repay loans, the value of the collateral securing loans and may reduce the level of deposits in our bank and the stability of our deposit

funding sources. An additional economic downturn could also have a significant impact on the demand for our products and services. The cumulative effect of these matters on our results of operations and financial condition could be adverse and material.

We are dependent upon third parties for certain information system, data management and processing services and to provide key components of our business infrastructure.
We outsource certain information system and data management and processing functions to third party providers. These third party service providers are sources of operational and informational security risk to us, including risks associated with operational errors, information system interruptions or breaches and unauthorized disclosures of sensitive or confidential client or customer information. If third party service providers encounter any of these issues, or if we have difficulty communicating with them, we could be exposed to disruption of operations, loss of service or connectivity to customers, reputational damage and litigation risk that could have a material adverse effect on our results of operations or our business.

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Third party vendors provide key components of our business infrastructure such as internet connections, network access and core application processing. While we have selected these third party vendors carefully, we do not control their actions.

These services must be available on a continuous and timely basis and be in compliance with any regulatory requirements. Failure to do so could substantially harm our business.

We often purchase services from vendors under agreements that typically can be terminated on a periodic basis. There can be no assurance, however, that vendors will be able to meet their obligations under these agreements or that we will be able to compel them to do so. Risks of relying on vendors include the following:

- If an existing agreement expires or a certain service is discontinued by a vendor, then we may not be able to continue to offer our customers the same breadth of products and our operating results would likely suffer unless we are able to find an alternate supply of a similar service.
- Agreements we may negotiate in the future may commit us to certain minimum spending obligations. It is possible that we will not be able to create the market demand to meet such obligations.
- If market demand for our products increases suddenly, our current vendors might not be able to fulfill our commercial needs, which would require us to seek new arrangements or new sources of supply and may result in substantial delays in meeting market demand.
- We may not be able to control or adequately monitor the quality of services we receive from our vendors. Poor quality services could damage our reputation with our customers.

Potential problems with vendors such as those discussed above could have a significant adverse effect on our business, lead to higher costs and damage our reputation with our customers and, in turn, have a material adverse effect on our financial condition and results of operations.

Changes in accounting standards could impact reported earnings.

The accounting standard setting bodies, including the Financial Accounting Standards Board and other regulatory bodies, periodically change the financial accounting and reporting standards affecting the preparation of financial statements. These changes are not within our control and could materially impact our financial statements.

Our business is dependent on technology and our inability to invest in technological improvements may adversely affect our results of operations, financial condition and cash flows.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success depends in part upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience, as well as create additional efficiencies in its operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers, which may negatively affect our results of operations, financial condition and cash flows.

Our potential inability to integrate companies we may acquire in the future could have a negative effect on our expenses and results of operations.

On occasion, we may engage in a strategic acquisition when we believe there is an opportunity to strengthen and expand our business. To fully benefit from such acquisition, however, we must integrate the administrative, financial, sales, lending, collections and marketing functions of the acquired company. If we are unable to successfully integrate an acquired company, we may not realize the benefits of the acquisition and our financial results may be negatively affected. A completed acquisition may adversely affect our financial condition and results of operations, including our capital requirements and the accounting treatment of the acquisition. Completed acquisitions may also lead to significant unexpected liabilities after the consummation of these acquisitions.

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RISKS RELATING TO AN INVESTMENT IN OUR SECURITIES

Our ability to pay dividends is limited.

We are a separate and distinct legal entity from our subsidiaries. We receive substantially all of our revenue from dividends from our subsidiary bank, Summit Community. These dividends are the principal source of funds to pay dividends on our common stock and interest and principal on our debt. Various federal and/or state laws and regulations limit the amount of dividends that Summit Community may pay to Summit. Also, Summit's right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. In the event Summit Community is unable to pay dividends to us, we may not be able to service debt, pay obligations or pay dividends on our common stock. The inability to receive dividends from Summit Community could have a material adverse effect on our business, financial condition and results of operations.

Our stock price can be volatile.

Stock price volatility may make it more difficult for our shareholders to resell their common stock when they want and at prices they find attractive. Our stock price can fluctuate significantly in response to a variety of factors, including, but not limited to, general market fluctuations, industry factors and general economic and political conditions and events, interest rate changes, credit loss trends, or changes in government regulations.

The trading volume in our common stock is less than that of larger financial services companies.
Although our common stock is listed for trading on the NASDAQ, the trading volume in our common stock is less than that of larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors over which we have no control. Given the lower trading volume of our common stock, significant sales of our common stock, or the expectation of these sales, could cause our stock price to fluctuate.

Our executive officers and directors own shares of our common stock, allowing management to have an impact on our corporate affairs.

As of February 25, 2019 our executive officers and directors beneficially own 12.48% (computed in accordance with Exchange Act Rule 13d-3) of the outstanding shares of our common stock. Accordingly, these executive officers and directors will be able to impact the outcome of all matters required to be submitted to our shareholders for approval, including decisions relating to the election of directors, the determination of our day-to-day corporate and management policies and other significant corporate transactions.

There may be future sales of additional common stock or preferred stock or other dilution of our equity, which may adversely affect the market price of our common stock.

Our board of directors is authorized to cause us to issue additional classes or series of preferred shares without any action on the part of the shareholders. The board of directors also has the power, without shareholder approval, to set the terms of any such classes or series of preferred shares that may be issued, including voting rights, dividend rights and preferences over the common stock with respect to dividends or upon the liquidation, dissolution or winding-up of our business and other terms. If we issue preferred shares in the future that have a preference over the common stock with respect to the payment of dividends or upon liquidation, dissolution or winding-up, or if we issue preferred shares with voting rights that dilute the voting power of the common stock, the rights of holders of the common stock or the market price of the common stock could be adversely affected.

The market price of our common stock could decline as a result of sales of a large number of shares of common stock or preferred stock or similar securities in the market or the perception that such sales could occur.

Holders of our junior subordinated debentures have rights that are senior to those of our shareholders.

We have three statutory business trusts that were formed for the purpose of issuing mandatorily redeemable securities (the "capital securities") for which we are obligated to third-party investors and investing the proceeds from the sale of the capital securities in our junior subordinated debentures (the "debentures"). The debentures held by the trusts are their sole assets. Our subordinated debentures of these unconsolidated statutory trusts totaled approximately $19.6 million at December 31, 2018 and 2017.

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Distributions on the capital securities issued by the trusts are payable quarterly, at the variable interest rates specified in those certain securities. The capital securities are subject to mandatory redemption, in whole or in part, upon repayment of the debentures.

Payments of the principal and interest on the trust preferred securities of the statutory trusts are conditionally guaranteed by us. The junior subordinated debentures are senior to our shares of common stock. As a result, we must make payments on the junior subordinated debentures before any dividends can be paid on our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the junior subordinated debentures must be satisfied before any distributions can be made on our common stock. We have the right to defer distributions on the junior subordinated debentures (and the related trust preferred securities) for up to five (5) years, during which time no dividends may be paid on our common stock. In 2018, our total interest payments on these junior subordinated debentures approximated $875,000. Based on current rates, our quarterly interest payment obligation on our junior subordinated debentures is approximately $244,000.

The capital securities held by our three trust subsidiaries qualify as Tier 1 capital under FRB guidelines. In accordance with these guidelines, trust preferred securities generally are limited to twenty-five percent (25%) of Tier 1 capital elements, net of goodwill. The amount of trust preferred securities and certain other elements in excess of the limit can be included in Tier 2 capital.

Provisions of our amended and restated articles of incorporation could delay or prevent a takeover of us by a third party.

Our amended and restated articles of incorporation could delay, defer or prevent a third party from acquiring us, despite the possible benefit to our shareholders, or could otherwise adversely affect the price of our common stock. For example, our amended and restated articles of incorporation contain advance notice requirements for nominations for election to our Board of Directors. We also have a staggered board of directors, which means that only one-third (1/3) of our Board of Directors can be replaced by shareholders at any annual meeting.

OTHER RISKS

Additional factors could have a negative effect on our financial performance and the value of our common stock. These factors include, but are not limited to, general economic and financial market conditions, continuing consolidation in the financial services industry, new litigation or changes in existing litigation, regulatory actions and losses.

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Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our principal executive office is located at 300 North Main Street, Moorefield, West Virginia, in a building owned by Summit Community. Summit Community's headquarters and branch locations occupy offices which are either owned or operated under lease arrangements. At December 31, 2018, Summit Community operated 30 banking offices. Summit Insurance Services, LLC operates out of the Moorefield, West Virginia and Leesburg, Virginia, offices of Summit Community.

	Number of Offices		
Office Location	Owned	Leased	Total
Summit Community Bank			
Moorefield, West Virginia	1	—	1
Mathias, West Virginia	1	—	1
Franklin, West Virginia	1	—	1
Petersburg, West Virginia	1	—	1
Charleston, West Virginia	2	—	2
Rainelle, West Virginia	1	—	1
Rupert, West Virginia	1	—	1
Winchester, Virginia	1	1	2
Leesburg, Virginia	1	—	1
Harrisonburg, Virginia	1	1	2
Warrenton, Virginia	—	1	1
Martinsburg, West Virginia	1	—	1
Monterey, Virginia	1	—	1
Hot Springs, Virginia	1	—	1
Churchville, Virginia	—	1	1
Bluefield, West Virginia	2	—	2
Princeton, West Virginia	2	—	2
Oceana, West Virginia	1	—	1
Pineville, West Virginia	1	—	1
Bluefield, Virginia	1	—	1
Wytheville, Virginia	1	—	1
Max Meadows, Virginia	1	—	1
Hinton, West Virginia	1	—	1
Beckley, West Virginia	1	—	1
Christiansburg, Virginia	—	1	1

We believe that the premises occupied by us and our subsidiaries generally are well located and suitably equipped to serve as financial services facilities. See Notes 9 and 10 of our consolidated financial statements beginning on page 75.

Item 3. Legal Proceedings

Information required by this item is set forth under the caption "Legal Contingencies" in Note 17 of our consolidated financial statements beginning on page 84.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common Stock Dividend and Market Price Information: Our stock trades on the NASDAQ Capital Market under the symbol “SMMF.”

As of February 22, 2019, there were approximately 1,184 shareholders of record of Summit’s common stock.

Purchases of Summit Equity Securities: We have an Employee Stock Ownership Plan (“ESOP”), which enables eligible employees to acquire shares of our common stock. The cost of the ESOP is borne by us through annual contributions to an Employee Stock Ownership Trust in amounts determined by the Board of Directors.

In September 2018, the Board of Directors authorized the open market repurchase of up to 500,000 shares of the issued and outstanding shares of Summit's common stock ("September 2018 Repurchase Plan"). The timing and quantity of purchases under this stock repurchase plan are at the discretion of management. The plan will expire December 31, 2019, but may be discontinued, suspended, or restarted at any time at the Company's discretion.

The following table sets forth certain information regarding Summit’s purchase of its common stock under the Repurchase Plan for the quarter ended December 31, 2018.

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
October 1, 2018 - October 31, 2018	—	$ ——		—
November 1, 2018 - November 30, 2018	41,423	20.80	41,423	458,577
December 1, 2018 - December 31, 2018	41,000	20.00	41,000	417,577

(a) Shares purchased under the September 2018 Repurchase Plan.

Performance Graph: Set forth below is a line graph comparing the cumulative total return of Summit's common stock assuming reinvestment of dividends, with that of the NASDAQ Composite Index ("NASDAQ Composite"), and the SNL Small Cap U.S. Bank Index for the five year period ending December 31, 2018.

The cumulative total shareholder return assumes a $100 investment on December 31, 2013 in the common stock of Summit and each index and the cumulative return is measured as of each subsequent fiscal year-end. There is no assurance that Summit's common stock performance will continue in the future with the same or similar trends as depicted in the graph.

	For the Year Ended					
Index	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Summit Financial Group, Inc.	100.00	120.08	123.23	291.79	284.34	213.35
NASDAQ Composite	100.00	114.75	122.74	133.62	173.22	168.30
SNL Small Cap U.S. Bank	100.00	105.40	115.43	163.66	171.65	153.83

The Stock Performance Graph and related information shall not be deemed “soliciting material” or to be “filed” with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that Summit specifically incorporates it by reference into such filing.

Item 6. Selected Financial Data

The following consolidated selected financial data is derived from our audited financial statements as of and for each of the five (5) years ended December 31, 2018. The selected financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and related notes contained elsewhere in this report.

	For the Year Ended (unless otherwise noted)				
Dollars in thousands, except per share amounts	2018	2017	2016	2015	2014
Summary of Operations					
Interest income	$95,409	$84,527	$64,091	$58,883	$57,626
Interest expense	25,612	18,380	15,084	12,867	15,241
Net interest income	69,797	66,147	49,007	46,016	42,385
Provision for loan losses	2,250	1,250	500	1,250	2,250
Net interest income after provision for loan losses	67,547	64,897	48,507	44,766	40,135
Noninterest income	17,422	14,427	11,600	11,861	11,223
Noninterest expense	49,873	57,745	34,802	33,632	35,324
Income before income taxes	35,096	21,579	25,305	22,995	16,034
Income tax expense	7,024	9,664	8,008	6,893	4,678
Net income	28,072	11,915	17,297	16,102	11,356
Dividends on preferred shares	—	—	—	—	771
Net income applicable to common shares	$28,072	$11,915	$17,297	$16,102	$10,585
Balance Sheet Data (at year end)					
Assets	$2,200,586	$2,134,240	$1,758,647	$1,492,429	$1,443,568
Debt securities available for sale	293,147	328,586	266,405	280,715	282,827
Loans, net	1,682,005	1,593,744	1,307,862	1,079,331	1,019,842
Deposits	1,634,826	1,600,601	1,295,519	1,066,709	1,061,314
Short-term borrowings	309,084	250,499	224,461	171,394	123,633
Long-term borrowings	735	45,751	46,670	75,581	77,490
Shareholders' equity	219,830	201,505	155,360	143,744	131,644
Credit Quality					
Net loan charge-offs	$1,768	$359	$298	$945	$3,742
Nonperforming assets	36,462	36,861	39,090	41,340	50,244
Allowance for loan losses	13,047	12,565	11,674	11,472	11,167
Per Share Data					
Earnings per share					
Basic earnings	$2.27	$1.00	$1.62	$1.56	$1.40
Diluted earnings	2.26	1.00	1.61	1.50	1.17
Book value per common share (at year end) (A)	17.85	16.30	14.47	13.48	12.60
Tangible book value per common share (at year end) (A)	15.75	14.08	13.20	12.78	11.86
Cash dividends	$0.53	$0.44	$0.40	$0.32	$—
Performance Ratios					
Return on average equity	13.43 %	6.40 %	11.53 %	11.62 %	9.54 %
Return on average tangible equity	16.09 %	8.01 %	12.38 %	12.39 %	10.37 %
Return on average assets	1.32 %	0.59 %	1.08 %	1.10 %	0.80 %

Equity to assets	10.0	%	9.4	%	8.8	%	9.6	%	9.1	%
Tangible equity to tangible assets	8.9	%	8.3	%	8.1	%	9.2	%	8.6	%
Tangible common equity to tangible assets	8.9	%	8.3	%	8.1	%	9.2	%	8.0	%
Dividend payout ratio	23.3	%	44.0	%	24.7	%	21.1	%	—	%

(A)- Assumes conversion of outstanding convertible preferred stock in 2014.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD LOOKING STATEMENTS

This annual report contains comments or information that constitute forward looking statements (within the meaning of the Private Securities Litigation Act of 1995) that are based on current expectations that involve a number of risks and uncertainties. Words such as “expects”, “anticipates”, “believes”, “estimates” and other similar expressions or future or conditional verbs such as “will”, “should”, “would” and “could” are intended to identify such forward-looking statements. The Private Securities Litigation Act of 1995 indicates that the disclosure of forward-looking information is desirable for investors and encourages such disclosure by providing a safe harbor for forward-looking statements by us. In order to comply with the terms of the safe harbor, we note that a variety of factors could cause our actual results and experience to differ materially from the anticipated results or other expectations expressed in those forward-looking statements.

Although we believe the expectations reflected in such forward looking statements are reasonable, actual results may differ materially. Factors that might cause such a difference include changes in interest rates and interest rate relationships; demand for products and services; the degree of competition by traditional and non-traditional competitors; changes in banking laws and regulations; changes in tax laws; the impact of technological advances; the outcomes of contingencies; trends in customer behavior as well as their ability to repay loans; and changes in the national and local economy.

DESCRIPTION OF BUSINESS

We are a $2.20 billion community-based financial services company providing a full range of banking and other financial services to individuals and businesses through our three operating segments: community banking, trust and wealth management and insurance. Our community bank, Summit Community Bank, Inc. has a total of 33 banking offices located in West Virginia and Virginia. Our trust and wealth management division offers trust services and other non-bank financial products principally within our community bank's market area. In addition, we also operate Summit Insurance Services, LLC in Moorefield, West Virginia and Leesburg, Virginia, which provides insurance brokerage services to individuals and businesses covering corporate and personal property and casualty insurance products, as well as group health and life insurance products and consulting services. See Note 19 of the accompanying consolidated financial statements for our segment information. Summit Financial Group, Inc. employs approximately 371 full time equivalent employees.

OVERVIEW

Our primary source of income is net interest income from loans and deposits. Business volumes tend to be influenced by the overall economic factors including market interest rates, business spending and consumer confidence, as well as competitive conditions within the marketplace.

Key Items in 2018

- Our earnings per diluted share increased from $1.00 in 2017 to $2.26 in 2018.
- Our return on average equity and return on average tangible equity increased from 6.40% to 13.43% and 8.01% to 16.09%, respectively.
- 2018 net income was $28.07 million ($2.26 per diluted share) compared to $11.92 million ($1.00 per diluted share) in 2017. 2017 earnings were negatively impacted by a $9.9 million (or $6.2 million after-tax or $0.52 per diluted share) litigation settlement charge and a $3.5 million ($0.29 per diluted share) tax charge due to enactment of the Tax Cuts and Jobs Act ("TCJA").
- Net interest margin decreased 10 basis points in 2018, principally due to a 37 basis point increase in funding costs compared to a 21 basis point increase in our yield on interest earning assets.

- Net revenues increased $6.6 million, or 8.2 percent during 2018 primarily as result of the First Century Bankshares, Inc. ("FCB") acquisition.
- We achieved loan growth, excluding mortgage warehouse lines of credit, of 5.1 percent, or $80.4 million during 2018.
- Nonperforming assets declined to their lowest level since 2008, representing 1.66 percent of total assets at year end 2018 compared to 1.73 percent at the prior year end.
- During 2018, provisions for loan losses increased by $1.0 million, primarily due to higher levels of loan net charge-offs during 2018 and loan growth.

- Cash dividends paid on our common stock in 2018 totaled $0.53 per share compared to $0.44 paid per share in 2017.
- On July 24, 2018, we entered into a Definitive Merger Agreement with Mullens, West Virginia-based Peoples Bankshares, Inc. ("Peoples") and its subsidiary, First Peoples Bank. The transaction closed on January 1, 2019. At consummation, Peoples had total assets of $133.1 million, loans of $42.3 million and deposits of $112.9 million.

OUTLOOK

The year just concluded represents another significant milestone relative to Summit's goal to be a consistent growth, high-performing community banking institution. Our solid lending activity and strong core operating performance of the past year offer significant evidence of our progress. In addition, our acquisition strategy continued to present us with significant opportunities for ongoing performance enhancement. Looking forward to 2019, while we could be challenged by a variety of potential economic uncertainties, we anticipate sustaining our recent positive trends with respect to: revenue growth, loan portfolio growth, a relatively stable net interest margin, low overhead, and reductions in overall levels of problem assets.

CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and follow general practices within the financial services industry. Application of these principles requires us to make estimates, assumptions and judgments that affect the amounts reported in our financial statements and accompanying notes. These estimates, assumptions and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported.

Our most significant accounting policies are presented in the notes to the accompanying consolidated financial statements. These policies, along with the other disclosures presented in the financial statement notes and in this financial review, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined.

Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions and estimates underlying those amounts, we have identified the determination of the allowance for loan losses, the valuation of goodwill, fair value measurements, accounting for acquired loans and deferred tax assets to be the accounting areas that require the most subjective or complex judgments and as such could be most subject to revision as new information becomes available.

Allowance for Loan Losses: The allowance for loan losses represents our estimate of probable credit losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset type on our consolidated balance sheet. To the extent actual outcomes differ from our estimates, additional provisions for loan losses may be required that would negatively impact earnings in future periods. Note 8 to the accompanying consolidated financial statements describes the methodology used to determine the allowance for loan losses and a discussion of the factors driving changes in the amount of the allowance for loan losses is included in the Asset Quality section of this financial review.

Goodwill: Goodwill is subject to an analysis by reporting unit at least annually by comparing the fair value of a reporting unit with its carrying amount to determine whether write-downs of the recorded balances are necessary. An entity still has the option to perform a qualitative assessment for a reporting unit to determine if a quantitative

impairment test is necessary. If the fair value is less than the carrying value, an expense may be required on our books to write down the goodwill to the proper carrying value.

We cannot assure you that future goodwill impairment tests will not result in a charge to earnings. See Note 11 of the accompanying consolidated financial statements for further discussion of our intangible assets, which include goodwill.

Fair Value Measurements: Fair value is based upon the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants, including, but not limited to, property held for sale, impaired loans and derivatives. Based on the observability of the inputs used in the valuation techniques, we classify our financial assets and liabilities measured and disclosed at fair value in accordance with a three-level hierarchy (e.g., Level 1, Level 2 and Level 3) . Fair value determination

requires that we make a number of significant judgments. In determining the fair value of financial instruments, we use market prices of the same or similar instruments whenever such prices are available. We do not use prices involving distressed sellers in determining fair value. If observable market prices are unavailable or impracticable to obtain, then fair value is estimated using modeling techniques such as discounted cash flow analyses. These modeling techniques incorporate our assessments regarding assumptions that market participants would use in pricing the asset or the liability, including assumptions about the risks inherent in a particular valuation technique and the risk of nonperformance.

Fair value is used on a recurring basis for certain assets and liabilities in which fair value is the primary basis of accounting. Additionally, fair value is used on a non-recurring basis to evaluate assets or liabilities for impairment or for disclosure purposes.

Accounting for Acquired Loans: Loans acquired are initially recorded at their acquisition date fair values. The fair value of the acquired loans are based on the present value of the expected cash flows, including principal, interest and prepayments. Periodic principal and interest cash flows are adjusted for expected losses and prepayments, then discounted to determine the present value and summed to arrive at the estimated fair value. Fair value estimates involve assumptions and judgments as to credit risk, interest rate risk, prepayment risk, liquidity risk, default rates, loss severity, payment speeds, collateral values and discount rate.

Acquired loans are divided into loans with evidence of credit quality deterioration (acquired impaired) and loans that do not meet this criteria (acquired performing). Acquired impaired loans have experienced a deterioration of credit quality from origination to acquisition for which it is probable that we will be unable to collect all contractually required payments receivable, including both principal and interest. In the assessment of credit quality, numerous assumptions, interpretations and judgments must be made, based on internal and third-party credit quality information and ultimately the determination as to the probability that all contractual cash flows will not be able to be collected. This is a point in time assessment and inherently subjective due to the nature of the available information and judgment involved.

Subsequent to the acquisition date, we continue to estimate the amount and timing of cash flows expected to be collected on acquired impaired loans. Increases in expected cash flows will generally result in a recovery of any previously recorded allowance for loan losses, to the extent applicable, and/or a reclassification from the nonaccretable difference to accretable yield, which will be recognized prospectively. The present value of any decreases in expected cash flows after the acquisition date will generally result in an impairment charge recorded as a provision for loan losses, resulting in an increase to the allowance for loan losses.

For acquired performing loans, the difference between the acquisition date fair value and the contractual amounts due at the acquisition date represents the fair value adjustment. Fair value adjustments may be discounts (or premiums) to a loan’s cost basis and are accreted (or amortized) to interest income over the loan’s remaining life using the level yield method. Subsequent to the acquisition date, the methods utilized to estimate the required allowance for loan losses for these loans is similar to originated loans.

See Note 3 and Note 7 of the accompanying consolidated financial statements for additional information regarding our acquired loans.

BUSINESS SEGMENT RESULTS

We are organized and managed along three major business segments, as described in Note 19 of the accompanying consolidated financial statements. The results of each business segment are intended to reflect each segment as if it were a stand alone business. Net income by segment follows:

Dollars in thousands	2018	2017	2016

Community banking	$28,701	$12,365	$18,314
Trust and wealth management	417	95	21
Insurance services	461	514	169
Parent	(1,507)	(1,059)	(1,207)
Consolidated net income	$28,072	$11,915	$17,297

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RESULTS OF OPERATIONS

Earnings Summary

Net income increased 135.6% during 2018 to $28.1 million, compared to $11.9 million in 2017, which was 31.1% less than 2016's $17.3 million. Net income was $2.26, $1.00 and $1.61 per diluted share for 2018, 2017 and 2016, respectively, representing a 126.0% increase in 2018 and a 37.9% decrease in 2017. Return on average equity was 13.43% in 2018 compared to 6.40% in 2017 and 11.53% in 2016. Return on average assets for the year ended December 31, 2018 was 1.32% compared to 0.59% in 2017 and 1.08% in 2016.

Included in 2017's net income were a $9.9 million pre-tax ($6.2 million after-tax or $0.52 per diluted share) litigation settlement charge, $3.5 million ($0.29 per diluted share) preliminary income tax charge due to enactment of the TCJA, and $1.6 million ($0.08 per diluted share) of merger related expenses. A summary of the significant factors influencing our results of operations and related ratios is included in the following discussion.

2018 net income was positively impacted by higher net interest income of $3.7 million (or $0.29 per diluted share), $790,000 growth in trust and wealth management fees ($0.06 per diluted share), $522,000 increased deposit account-related fees ($0.08 per diluted share) and $2.6 million ($0.25 per diluted share) in lower income tax expense as result of TCJA's lower income tax rates. Excluding 2017's litigation charge, higher total noninterest expense of $2.0 million ($0.16 per diluted share) partially offset these positive impacts.

Net Interest Income

The major component of our net earnings is net interest income, which is the excess of interest earned on earning assets over the interest expense incurred on interest bearing sources of funds. Net interest income is affected by changes in volume, resulting from growth and alterations of the balance sheet's composition, fluctuations in interest rates and maturities of sources and uses of funds. We seek to maximize net interest income through management of our balance sheet components. This is accomplished by determining the optimal product mix with respect to yields on assets and costs of funds in light of projected economic conditions, while maintaining portfolio risk at an acceptable level.

Net interest income on a fully tax equivalent basis, average balance sheet amounts and corresponding average yields on interest earning assets and costs of interest bearing liabilities for the years 2014 through 2018 are presented in Table I. Table II presents, for the periods indicated, the changes in interest income and expense attributable to (a) changes in volume (changes in volume multiplied by prior period rate) and (b) changes in rate (change in rate multiplied by prior period volume). Changes in interest income and expense attributable to both rate and volume have been allocated between the factors in proportion to the relationship of the absolute dollar amounts of the change in each.

Net interest income on a fully tax equivalent basis totaled $71.1 million, $68.6 million and $50.6 million for the years ended December 31, 2018, 2017 and 2016, respectively, representing an increase of 3.7% in 2018 and 35.5% in 2017. During 2018, 2017 and 2016, the volumes of both interest earning assets and interest bearing liabilities increased.

During 2018, our earnings on interest earning assets increased $9.7 million due to both higher volumes and higher yields, while the cost of interest bearing liabilities increased $7.2 million due to higher cost of funds.

During 2017, our earnings on interest earning assets increased $21.3 million due to both higher volumes and higher yields, while the cost of interest bearing liabilities increased $3.3 million due to higher volumes of interest bearing deposits.

During 2016, our earnings on interest earning assets increased $5.3 million as the increase in earnings due to higher volumes, primarily loans, more than offset reductions in yield, while the cost of interest bearing liabilities increased $2.2 million primarily due to both higher cost of funds, principally on short-term borrowings, and higher volumes of interest bearing deposits.

Total average earning assets increased 6.4% to $1.99 billion for 2018 from $1.87 billion in 2017. Total average interest bearing liabilities increased 5.2% to $1.69 billion at December 31, 2018, compared to $1.60 billion at December 31, 2017.

Our net interest margin was 3.57% for 2018 compared to 3.67% and 3.39% for 2017 and 2016, respectively. Our net interest margin decreased 10 basis points during 2018 as the cost of funds increased 37 basis points while yields on interest earning assets increased 21 basis points. The 2018 increase in yields on interest earning assets was negatively impacted by lower taxable equivalent adjustments to interest earned on tax-exempt securities and loans as a result of enactment of the TCJA in late

2017, which lowered our statutory corporate Federal income tax rate effective January 1, 2018, from 35% to 21%. Our net interest margin increased 28 basis points in 2017 primarily due to the 25 basis point increase in yield on interest earning assets. See Tables I and II for further details regarding changes in volumes and rates of average assets and liabilities and how those changes affect our net interest income.

Assuming no significant unanticipated changes in market interest rates, we expect growth in our net interest income to continue over the near term primarily due to continuing expected growth in earning assets, primarily loans. We continue to monitor the net interest margin through net interest income simulation to minimize the potential for any significant negative impact.
See the "Market Risk Management" section for discussion of the impact changes in market interest rates could have on us. Further analysis of our yields on interest earning assets and interest bearing liabilities are presented in Tables I and II below.

Table I - Average Balances - Assets, Liabilities and Shareholders' Equity,
Interest Earnings & Expenses and Average Yields/Rates

	Average Balances				
Dollars in thousands	2018	2017	2016	2015	2014
ASSETS					
Interest earning assets					
Loans, net of unearned interest (1)					
Taxable	$1,626,725	$1,480,601	$1,177,445	$1,049,172	$984,723
Tax-exempt (2)	15,776	14,899	14,628	13,706	7,823
Securities					
Taxable	170,912	200,596	202,795	209,316	211,700
Tax-exempt (2)	136,913	129,342	79,571	77,280	81,549
Interest bearing deposits with other banks	38,148	43,400	19,211	8,878	9,325
	1,988,474	1,868,838	1,493,650	1,358,352	1,295,120
Noninterest earning assets					
Cash and due from banks	9,517	8,492	3,968	3,839	3,756
Premises and equipment	36,025	31,750	21,858	20,707	20,346
Other assets	107,856	109,456	90,957	94,996	112,504
Allowance for loan losses	(12,830)	(12,196)	(10,836)	(11,307)	(11,724)
Total assets	$2,129,042	$2,006,340	$1,599,597	$1,466,587	$1,420,002
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities					
Interest bearing liabilities					
Interest bearing demand deposits	$471,725	$358,225	$220,708	$208,160	$192,190
Savings deposits	320,184	363,949	306,312	255,186	238,340
Time deposits	621,659	609,156	491,652	481,732	513,110
Short-term borrowings	228,142	205,743	190,876	151,102	100,786
Long-term borrowings and subordinated debentures	44,132	65,629	92,343	99,805	142,213
	1,685,842	1,602,702	1,301,891	1,195,985	1,186,639
Noninterest bearing liabilities					
Demand deposits	218,541	200,707	128,894	116,995	104,262
Other liabilities	15,574	16,669	18,795	15,024	10,119
Total liabilities	1,919,957	1,820,078	1,449,580	1,328,004	1,301,020
Shareholders' equity - preferred	—	—	—	1,786	9,276
Shareholders' equity - common	209,085	186,262	150,017	136,797	109,706
Total shareholders' equity	209,085	186,262	150,017	138,583	118,982
Total liabilities and shareholders' equity	$2,129,042	$2,006,340	$1,599,597	$1,466,587	$1,420,002
Net Interest Earnings					
Net Interest Margin					

(1) For purposes of this table, nonaccrual loans are included in average loan balances. Included in interest and fees on loans are loan fees of $839,000, $998,000 and $528,000 for the years ended December 31, 2018, 2017 and 2016, respectively.

(2) For purposes of this table, interest income on tax-exempt securities and loans has been adjusted assuming a Federal tax rate of 21% for 2018 , 35% for 2017 and 34% for all other years presented. The taxable equivalent adjustment results in an increase in interest income of $1,280,000, $2,413,000, $1,589,000, $1,542,000 and $1,465,000 for the years ended December 31, 2018, 2017, 2016, 2015 and 2014 respectively.

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	Interest Earnings/Expense					Average Yield/Rate				
Dollars in thousands	2018	2017	2016	2015	2014	2018	2017	2016	2015	2014
ASSETS										
Interest earning assets										
Loans, net of unearned interest (1)										
Taxable	$84,716	$74,365	$56,439	$51,554	$50,078	5.21%	5.02%	4.79%	4.91%	5.09%
Tax-exempt (2)	718	835	820	779	533	4.55%	5.60%	5.61%	5.68%	6.81%
Securities										
Taxable	5,341	5,071	4,395	4,328	4,692	3.13%	2.53%	2.17%	2.07%	2.22%
Tax-exempt (2)	5,375	6,060	3,853	3,756	3,780	3.93%	4.69%	4.84%	4.86%	4.64%
Interest bearing deposits with other banks	539	609	173	8	8	1.41%	1.40%	0.90%	0.09%	0.09%
Total assets	96,689	86,940	65,680	60,425	59,091	4.86%	4.65%	4.40%	4.45%	4.56%
LIABILITIES AND SHAREHOLDERS' EQUITY										
Liabilities										
Interest bearing liabilities										
Interest bearing demand deposits	$4,205	$1,169	$376	$251	$222	0.89%	0.33%	0.17%	0.12%	0.12%
Savings deposits	3,233	2,563	2,296	1,781	1,580	1.01%	0.70%	0.75%	0.70%	0.66%
Time deposits	10,237	7,478	6,292	6,304	7,193	1.65%	1.23%	1.28%	1.31%	1.40%
Short-term borrowings	5,993	4,473	2,288	525	306	2.63%	2.17%	1.20%	0.35%	0.30%
Long-term borrowings subordinated debentures	1,944	2,697	3,832	4,007	5,940	4.40%	4.11%	4.15%	4.01%	4.18%
Total interest bearing liabilities	25,612	18,380	15,084	12,868	15,241	1.52%	1.15%	1.16%	1.08%	1.28%
Net Interest Earnings	$71,077	$68,560	$50,596	$47,557	$43,850					
Net Interest Margin						3.57%	3.67%	3.39%	3.50%	3.39%

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Table II - Changes in Interest Margin Attributable to Rate and Volume

	2018 Versus 2017 Increase (Decrease) Due to Change in:			2017 Versus 2016 Increase (Decrease) Due to Change in:		
Dollars in thousands	Volume	Rate	Net	Volume	Rate	Net
Interest earned on						
Loans						
Taxable	$7,536	$2,815	$10,351	$15,117	$2,809	$17,926
Tax-exempt	47	(164)	(117)	15	—	15
Securities						
Taxable	(818)	1,088	270	(48)	724	676
Tax-exempt	340	(1,025)	(685)	2,336	(129)	2,207
Interest bearing deposits with other banks	(74)	4	(70)	302	134	436
Total interest earned on interest earning assets	7,031	2,718	9,749	17,722	3,538	21,260
Interest paid on						
Interest bearing demand deposits	469	2,567	3,036	321	472	793
Savings deposits	(337)	1,007	670	412	(145)	267
Time deposits	156	2,603	2,759	1,452	(266)	1,186
Short-term borrowings	522	998	1,520	191	1,994	2,185
Long-term borrowings and subordinated debentures	(935)	182	(753)	(1,099)	(36)	(1,135)
Total interest paid on interest bearing liabilities	(125)	7,357	7,232	1,277	2,019	3,296
Net interest income	$7,156	$(4,639)	$2,517	$16,445	$1,519	$17,964

Noninterest Income

Noninterest income totaled 0.82%, 0.72% and 0.73%, of average assets in 2018, 2017 and 2016, respectively. Noninterest income totaled $17.4 million in 2018 compared to $14.4 million in 2017 and $11.6 million in 2016. The 2018 and 2017 increases are principally due to higher trust and wealth management fees and service fees related to deposit accounts as a result of the FCB acquisition in Q2 2017. Further detail regarding noninterest income is reflected in the following table.

Table III - Noninterest Income

Dollars in thousands	2018	2017	2016
Insurance commissions	$4,320	$4,005	$4,022
Trust and wealth management fees	2,653	1,863	449
Service charges on deposit accounts	4,631	4,109	2,656
Bank card revenue	3,152	2,697	1,869
Realized securities gains (losses), net	622	(14)	1,127
Bank owned life insurance income	1,022	1,017	1,054
Other	1,022	750	423
Total	$17,422	$14,427	$11,600

Noninterest Expense

Noninterest expense totaled $49.9 million, $57.7 million and $34.8 million, or 2.3%, 2.9% and 2.2% of average assets for each of the years ended December 31, 2018, 2017 and 2016. Total noninterest expense decreased $7.9 million in 2018 compared to 2017 and increased $22.9 million in 2017 compared to 2016. Our most notable changes in noninterest expense during 2018 were increased salaries, commissions and employee benefits and decreases in merger related expenses and the litigation settlement charge. Table IV below presents a summary of our noninterest expenses

for the past 3 years and the related year-over-year changes in each such expense.

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Table IV - Noninterest Expense

Dollars in thousands	2018	Change $	%	2017	Change $	%	2016
Salaries, commissions and employee benefits	$27,478	$2,403	9.6 %	$25,075	$5,502	28.1 %	$19,573
Net occupancy expense	3,364	353	11.7 %	3,011	913	43.5 %	2,098
Equipment expense	4,411	457	11.6 %	3,954	1,195	43.3 %	2,759
Professional fees	1,607	240	17.6 %	1,367	(148)	(9.8)%	1,515
Advertising and public relations	654	76	13.1 %	578	133	29.9 %	445
Amortization of intangibles	1,671	261	18.5 %	1,410	1,163	470.9 %	247
FDIC premiums	830	(235)	(22.1)%	1,065	190	21.7 %	875
Bank card expense	1,475	43	3.0 %	1,432	190	15.3 %	1,242
Foreclosed properties expense, net of gains/losses	1,350	11	0.8 %	1,339	1,173	706.6 %	166
Litigation settlement	—	(9,900)	(100.0)%	9,900	9,900	n/a	—
Merger-related expense	144	(1,445)	(90.9)%	1,589	656	70.3 %	933
Other	6,889	(136)	(1.9)%	7,025	2,076	41.9 %	4,949
Total	$49,873	$(7,872)	(13.6)%	$57,745	$22,943	65.9 %	$34,802

Salaries, commissions and employee benefits: These expenses are 10% higher in 2018 compared to 2017 primarily due to general merit increases and the increased average number of annual full-time equivalent employees related to the FCB acquisition in Q2 2017. These expenses are 28% higher in 2017 compared to 2016 primarily due to general merit increases and an increase in our average annual full-time equivalent employees, primarily those in conjunction with the FCB and HCB acquisitions.

Net occupancy expense: The 43.5% increase in 2017 is primarily due to the acquired FCB locations.

Equipment: The 2017 increase in equipment expense is primarily increased depreciation and amortization related to various technological upgrades, both hardware and software, made during the past two years and also the FCB acquisition.

Amortization of intangibles: Amortization of intangibles increased during 2018 and 2017 as a result of the additional amortization of the core deposit intangibles associated with the FCB and HCB acquisitions.

FDIC premiums: FDIC premiums decreased 22% during 2018 primarily due to improvement in earnings and performance. FDIC premiums increased 21.7% during 2017 as a result of the significant increase in our balance sheet due to recent acquisitions, partially offset by lower premium rates caused by the FDIC's change in the factors used to compute its deposit insurance rates, effective the second half of 2016. These lower effective premium rates are expected to continue.

Merger-related expense: These 2017 and 2016 expenses are comprised of data processing conversion costs, employee severance costs, write-downs of equipment and legal fees related to the FCB and HCB acquisitions. Such costs are expected to approximate $500,000 in 2019 relative to the Peoples acquisition.

Foreclosed properties expense, net of gains/losses: Foreclosed properties expense, net of gains/losses increased for 2017 as a result of higher repairs and maintenance of foreclosed properties, as well as the expenses attributable to the properties acquired in conjunction with the FCB acquisition and 2016 also included gains of $1.1 million related to sales of lots in two foreclosed residential subdivisions.

Litigation settlement: During 2017, we recorded a $9.9 million pre-tax charge as full resolution of the ResCap Litigation which had been pending since 2014. See the Legal Contingencies section of Note 17 Commitments and Contingencies in the accompanying notes to consolidated financial statements.

Other: Other expenses increased $2.1 million during 2017 primarily due to increased general operating costs due to the acquisitions of FCB and HCB.

Income Tax Expense

Income tax expense for the years ended December 31, 2018, 2017 and 2016 totaled $7.0 million, $9.7 million and $8.0 million, respectively. Our effective tax rate (income tax expense as a percentage of income before taxes) for 2018, 2017 and 2016 were 20.0%, 44.8% and 31.6%, respectively. The 2018 decreased effective tax rate is due to the lower corporate income tax rates

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enacted late 2017 in conjunction with the Tax Cuts and Jobs Act ("TCJA"), which permanently lowered the federal corporate income tax rate to 21% from the prior maximum rate of 35%, effective January 1, 2018. As a result of the reduction of the federal corporate income tax rate, U.S. generally accepted accounting principles required companies to remeasure their deferred tax assets and deferred tax liabilities, including those accounted for in accumulated other comprehensive income, as of the date of TCJA's enactment and record the effects as income tax expense in the reporting period of enactment. We remeasured our deferred tax assets and deferred tax liabilities as of December 22, 2017, at the new federal corporate income tax rate of 21%, and recorded additional income tax expense of $3.5 million to reduce our net deferred tax assets, thus causing a higher effective tax rate for 2017. Refer to Note 15 of the accompanying consolidated financial statements for further information and additional discussion of the significant components influencing our effective income tax rates.

CHANGES IN FINANCIAL POSITION

Our average assets increased during 2018 to $2.13 billion, an increase of 6.1% above 2017's average of $2.01 billion, and our year end December 31, 2018 assets were $66.3 million more than December 31, 2017. Average assets increased 25.4% in 2017, from $1.60 billion in 2016. Significant changes in the components of our balance sheet in 2018 and 2017 are discussed below.

Table V - Summary of Significant Changes in Financial Position 2018 versus 2017

Dollars in thousands	Balance December 31, 2017	Increase (Decrease)	Balance December 31, 2018
Assets			
Cash and cash equivalents	$52,631	$ 6,909	$59,540
Debt securities available for sale	328,586	(35,439)	293,147
Other investments	15,071	1,564	16,635
Loans, net	1,593,744	88,261	1,682,005
Property held for sale	21,470	(38)	21,432
Premises and equipment	34,209	3,344	37,553
Goodwill and other intangibles	27,513	(1,671)	25,842
Cash surrender value of life insurance policies	41,358	1,028	42,386
Other assets	19,658	2,354	22,012
Total Assets	$2,134,240	$ 66,312	$2,200,552
Liabilities			
Deposits	$1,600,601	$ 34,225	$1,634,826
Short-term borrowings	250,499	58,585	309,084
Long-term borrowings	45,751	(45,016)	735
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	—	19,589
Other liabilities	16,295	227	16,522
Shareholders' Equity	201,505	18,325	219,830
Total liabilities and shareholders' equity	$2,134,240	$ 66,346	$2,200,586

Table VI - Summary of Significant Changes in Financial Position 2017 versus 2016

		Increase (Decrease)		
Dollars in thousands	Balance December 31, 2016	Impact of FCB Acquisition	Other Changes	Balance December 31, 2017
Assets				
Cash and cash equivalents	$46,616	$39,053	$(33,038)	$52,631
Debt securities available for sale	266,405	100,735	(38,554)	328,586
Other investments	13,079	582	1,410	15,071
Loans, net	1,307,862	225,743	60,139	1,593,744
Property held for sale	24,504	2,377	(5,411)	21,470
Premises and equipment	23,737	6,174	4,298	34,209
Goodwill and other intangibles	13,652	15,056	(1,195)	27,513
Cash surrender value of life insurance policies	39,143	1,509	706	41,358
Other assets	23,649	3,593	(7,584)	19,658
Total Assets	$1,758,647	$394,822	$(19,229)	$2,134,240
Liabilities				
Deposits	$1,295,519	$350,533	$(45,451)	$1,600,601
Short-term borrowings	224,461	7,309	18,729	250,499
Long-term borrowings	46,670	—	(919)	45,751
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	—	—	19,589
Other liabilities	17,048	3,853	(4,606)	16,295
Shareholders' Equity	155,360	33,127	13,018	201,505
Total liabilities and shareholders' equity	$1,758,647	$394,822	$(19,229)	$2,134,240

Cash and Cash Equivalents

Included in the $33.0 million decrease in cash and cash equivalents during 2017 was the cash consideration of $15.0 million paid in conjunction with the FCB acquisition.

Loan Portfolio

Table VII depicts gross loan balances by type and the respective percentage of each to total loans at December 31, as follows:

Table VII - Loans by Type

	2018		2017		2016		2015		2014	
Dollars in thousands	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Commercial	$194,527	11.5 %	$190,270	11.8 %	$119,256	9.0 %	$97,324	8.9 %	$88,688	8.6 %
Commercial real estate	833,392	49.1 %	737,961	45.8 %	586,014	44.3 %	541,388	49.6 %	475,343	46.0 %
Construction and development	94,155	5.5 %	101,022	6.3 %	89,069	6.7 %	75,648	6.9 %	96,630	9.4 %
	491,441	28.9 %	500,720	31.1 %	406,293	30.7 %	346,380	31.7 %	340,269	33.0 %

Residential mortgage										
Mortgage warehouse lines	39,140	2.3 %	30,757	1.9 %	85,963	6.5 %	—	— %	—	— %
Consumer	32,569	1.9 %	36,302	2.3 %	25,524	1.9 %	19,297	1.8 %	19,500	1.9 %
Other	12,903	0.8 %	13,245	0.8 %	9,499	0.7 %	11,683	1.1 %	11,522	1.1 %
Total loans	$1,698,127	100.0%	$1,610,277	100.0%	$1,321,618	100.0%	$1,091,720	100.0%	$1,031,952	100.0%

Total net loans averaged $1.6 billion in 2018, which represented 77% of total average assets compared to $1.5 billion in 2017, or 75% of total average assets. A continued improving economic environment in our market area contributed to 5.1% organic

loan growth, excluding mortgage warehouse lines, which increased $8.4 million in 2018, primarily in the commercial real estate portfolio, following 2017's growth of 9.6% and 2016's growth of 7.9%.

Refer to Note 7 of the accompanying consolidated financial statements for our loan maturities and a discussion of our adjustable rate loans as of December 31, 2018.

In the normal course of business, we make various commitments and incur certain contingent liabilities, which are disclosed in Note 17 of the accompanying consolidated financial statements but not reflected in the accompanying consolidated financial statements. There have been no significant changes in these types of commitments and contingent liabilities and we do not anticipate any material losses as a result of these commitments.

Securities

Securities comprised approximately 13.3% of total assets at December 31, 2018 compared to 15.4% at December 31, 2017. Average securities approximated $307.8 million for 2018 or 6.7% less than 2017's average of $329.9 million. The $38.6 million decrease in securities during 2018 was used to fund loan growth. In 2017, we obtained $100.7 million of available for sale securities in the FCB acquisition; the portfolio was restructured by selling $94 million of those securities and only $54 million of the proceeds were reinvested. Refer to Note 5 of the accompanying consolidated financial statements for details of amortized cost, the estimated fair values, unrealized gains and losses as well as the security classifications by type.

The following table presents the fair value of our securities portfolio by type at December 31, 2018, 2017 and 2016.

Table VIII - Fair Value of Securities	December 31		
Dollars in thousands	2018	2017	2016
Available for Sale			
Taxable debt securities			
U.S. Government and agencies and corporations	$26,140	$31,613	$15,174
Residential mortgage-backed securities:			
Government-sponsored agencies	80,309	121,321	138,846
Nongovernment-sponsored entities	614	2,077	4,653
State and political subdivisions	19,243	17,677	—
Corporate debt securities	14,512	16,245	18,170
Asset-backed securities	25,175	—	—
Total taxable debt securities	165,993	188,933	176,843
Tax-exempt debt securities			
State and political subdivisions	127,154	139,653	89,562
Total tax-exempt debt securities	127,154	139,653	89,562
Total available for sale securities	$293,147	$328,586	$266,405

All of our securities are classified as available for sale to provide us with flexibility to better manage our balance sheet structure and react to asset/liability management issues as they arise. Anytime that we carry a security with an unrealized loss that has been determined to be “other-than-temporary”, we must recognize that loss in income in the period of such determination.

At December 31, 2018, we did not own securities of any one issuer that were not issued by the U.S. Treasury or a U.S. Government agency that exceeded ten percent of shareholders’ equity. The maturity distribution of the securities portfolio at December 31, 2018, together with the weighted average yields for each range of maturity, is summarized in Table VI. The stated average yields are stated on a tax equivalent basis.

Table IX - Securities Maturity Analysis

	Within one year		After one but within five years		After five but within ten years		After ten years	
(At amortized cost, dollars in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U. S. Government agencies and corporations	$2,361	6.2%	$4,550	3.6%	$10,209	2.9%	$9,183	2.8%
Residential mortgage backed securities:								
Government sponsored agencies	24,279	3.5%	48,128	3.4%	6,853	3.0%	1,623	2.7%
Nongovernment sponsored entities	279	3.8%	303	4.3%	29	5.3%	—	— %
State and political subdivisions	760	3.3%	3,736	3.5%	23,340	3.1%	118,523	3.6%
Corporate debt securities	—	—	1,000	4.5%	7,654	4.2%	6,153	5.9%
Asset-backed securities	4,682	3.2%	12,196	3.0%	8,410	3.0%	—	— %
Total	$32,361	3.7%	$69,913	3.4%	$56,495	3.2%	$135,482	3.6%

Deposits

Total deposits at December 31, 2018 increased $34.2 million or 2.1% compared to December 31, 2017. Total deposits at December 31, 2017 increased $305.1 million or 23.5% compared to December 31, 2016. Deposits acquired in conjunction with the purchase of FCB totaled $350.0 million. We have strengthened our focus on growing core transaction accounts. During 2018, core transaction accounts grew $118.5 million or 18.8% while our internet-only high yielding savings product declined $38.1 million and direct CDs decreased $30.1 million as we were less aggressive on the pricing of these funds as there was more than ample funding and liquidity as result of the FCB acquisition.

Table X - Deposits

Dollars in thousands	2018	2017	2016	2015	2014
Noninterest bearing demand	$222,120	$217,493	$149,737	$119,010	$115,427
Interest bearing demand	523,257	410,606	262,591	215,721	204,030
Savings	284,173	358,168	337,348	266,825	253,578
Time deposits	605,276	614,334	545,843	465,153	488,279
Total deposits	$1,634,826	$1,600,601	$1,295,519	$1,066,709	$1,061,314

See Table I for average deposit balance and rate information by deposit type for the past five years and Note 12 of the accompanying consolidated financial statements for a maturity distribution of time deposits as of December 31, 2018.

Borrowings

Lines of Credit: We have a remaining available line of credit from the Federal Home Loan Bank of Pittsburgh ("FHLB") totaling $462.8 million at December 31, 2018. We use this line primarily to fund loans to customers. Funds acquired through this program are reflected on the consolidated balance sheet in short-term borrowings or long-term borrowings, depending on the repayment terms of the debt agreement. We also had $159.3 million available on a short term line of credit with the Federal Reserve Bank at December 31, 2018, which is primarily secured by consumer loans, construction loans and commercial and industrial loans and a $6 million available line of credit with a correspondent bank.

Short-term Borrowings: Total short-term borrowings consisting primarily of advances from the FHLB having original maturities of 30 days or less increased $58.6 million from $250.5 million at December 31, 2017 to $309.1 million at December 31, 2018. See Note 13 of the accompanying consolidated financial statements for additional disclosures regarding our short-term borrowings.

Long-term Borrowings: Long-term borrowings historically have been used to fund our loan growth, however, as a result of prolonged low short-term interest rates following the economic downturn of 2008, long-term borrowings have been reduced significantly as we have replaced maturing long-term borrowings with short-term funding. Total long-term borrowings of $735,000 at December 31, 2018 consisted of a long-term FHLB advance and the $45.8 million at December 31, 2017 consisted primarily of structured repurchase agreements with unaffiliated institutions, which matured in 2018. Long-term borrowings from the FHLB totaled $751,000 at December 31, 2017. During 2007, we entered into $110 million of structured repurchase agreements, with terms ranging from 5 to 10 years and call features ranging from 2 to 3.5 years in which they are callable by

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the purchaser. These structured repurchase agreements totaled $45.0 million at December 31, 2017 and matured during 2018. Refer to Note 13 of the accompanying consolidated financial statements for additional information regarding our long-term borrowings.

ASSET QUALITY

For purposes of this discussion, we define nonperforming assets to include foreclosed properties, other repossessed assets and nonperforming loans, which is comprised of loans 90 days or more past due and still accruing interest and nonaccrual loans. Performing troubled debt restructurings ("TDRs") are excluded from nonperforming loans.

Table XI presents a summary of nonperforming assets at December 31, as follows:

Table XI - Nonperforming Assets

Dollars in thousands	2018		2017		2016		2015		2014	
Accruing loans past due 90 days or more										
Commercial	$—		$—		$—		$—		$—	
Commercial real estate	—		237		—		—		—	
Residential construction & development	—		—		—		—		—	
Residential real estate	—		—		—		—		—	
Consumer	36		37		—		9		—	
Other	—		—		—		—		—	
Total accruing loans 90+ days past due	36		274		—		9		—	
Nonaccrual loans										
Commercial	935		696		298		853		392	
Commercial real estate	3,238		2,927		4,845		5,955		1,844	
Commercial construction & development	—		—		—		—		—	
Residential construction & development	3,198		3,569		4,465		5,623		4,619	
Residential real estate	7,506		7,656		4,815		3,245		5,556	
Consumer	112		201		151		83		83	
Total nonaccrual loans	14,989		15,049		14,574		15,759		12,494	
Foreclosed properties										
Commercial	—		—		—		—		110	
Commercial real estate	1,762		1,789		1,749		1,300		5,204	
Commercial construction & development	6,479		7,392		8,610		8,717		10,179	
Residential construction & development	11,543		11,182		13,265		14,069		19,267	
Residential real estate	1,648		1,107		880		1,481		2,769	
Total foreclosed properties	21,432		21,470		24,504		25,567		37,529	
Repossessed assets	5		68		12		5		221	
Total nonperforming assets	$36,462		$36,861		$39,090		$41,340		$50,244	
Total nonperforming loans as a percentage of total loans	0.89	%	0.95	%	1.10	%	1.45	%	1.21	%
Total nonperforming assets as a percentage of total assets	1.66	%	1.73	%	2.22	%	2.77	%	3.48	%
Allowance for loan losses as a percentage of nonperforming loans	86.84	%	82.00	%	80.10	%	72.75	%	89.38	%
Allowance for loan losses as a percentage of period end loans	0.77	%	0.78	%	0.88	%	1.05	%	1.08	%

Refer to Note 7 for information regarding our past due loans, impaired loans, nonaccrual loans and troubled debt restructurings.

We monitor our concentrations in higher-risk lending areas in accordance with the Interagency Guidance for Concentrations in Commercial Real Estate Lending issued in 2006. This guidance establishes concentration guidelines of 100% of Tier 1 Capital plus the allowance for loan and lease loss for lending in construction, land development and other land loans. It further establishes a guideline of 300% of Tier 1 Capital plus the allowance for loan and lease loss for lending in construction, land development and other land loans plus loans secured by non-owner occupied non-farm non-residential properties. As of December 31, 2018, Summit Community Bank was within the recommended limits of 100% and 300%, respectively.

We maintain the allowance for loan losses at a level considered adequate to provide for estimated probable credit losses inherent in the loan portfolio. The allowance is comprised of three distinct reserve components: (1) specific reserves related to

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loans individually evaluated, (2) quantitative reserves related to loans collectively evaluated and (3) qualitative reserves related to loans collectively evaluated. A summary of the methodology we employ on a quarterly basis with respect to each of these components in order to evaluate the overall adequacy of our allowance for loan losses is provided in Note 8 of the accompanying financial statements.

Relationship between Allowance for Loan Losses, Net Charge-offs and Nonperforming Loans

In analyzing the relationship among the allowance for loan losses, net loan charge-offs and nonperforming loans, it is helpful to understand the process of how loans are treated as the probability of collection changes over time. Allowances are established at origination through the quantitative and qualitative assessment process discussed above based upon credit quality.

Charge-offs, if necessary, are typically recognized in a period after the allowances were established. If the previously established allowance exceeds that needed to satisfactorily resolve the problem credit, a reduction in the overall level of the allowance could be recognized. In summary, if loan quality deteriorates, the typical credit sequence consists of periods of expense recognition, followed by periods of charge-offs.

Consumer loans are generally charged to the allowance for loan losses upon reaching specified stages of delinquency, in accordance with the Federal Financial Institutions Examination Council policy. For example, credit card loans are charged off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification about a specified event (e.g., bankruptcy of the borrower), whichever is earlier. Residential mortgage loans are generally charged off to net realizable value no later than when the account becomes 180 days past due. Other consumer loans, if collateralized, are generally charged off to net realizable value at 120 days past due.

Commercial-related loans (which are risk-rated) are charged to the allowance for loan losses when the loss has been confirmed. This determination includes many factors, including among others, the prioritization of our claim in bankruptcy, expectations of the workout/restructuring of the loan and valuation of the borrower’s equity.

Substantially all of our nonperforming loans are secured by real estate. The majority of these loans were underwritten in accordance with our loan-to-value policy guidelines which range from 70-85% at the time of origination. Although $8.0 million of our nonperforming loans have a related allowance of $1.5 million, the fair values of the underlying collateral value or the discounted cash flows remain in excess of the recorded investment in many of our nonperforming loans and therefore, no specific allocation of the allowance is required.

At December 31, 2018 and 2017, our allowance for loan losses totaled $13.0 million, or 0.77% of total loans and $12.6 million, or 0.78% of total loans, respectively. If the acquired FCB and HCB loans are excluded, the allowance for loan losses to total loans ratio at December 31, 2018 and 2017 would have been 0.84% and 0.91%, respectively. The allowance for loan losses is considered adequate to cover our estimate of probable credit losses inherent in our loan portfolio.

Table XII presents an allocation of the allowance for loan losses by loan type at each respective year end date, as follows:

Table XII - Allocation of the Allowance for Loan Losses

	2018		2017		2016		2015		2014	
Dollars in thousands	Amount	% of loans in each category to total	Amount	% of loans in each category to total	Amount	% of loans in each category to total	Amount	% of loans in each category to total	Amount	% of loans in each category to total

		loans			loans			loans			loans			loans	
Commercial	$1,705	11.5	%	$1,303	11.8	%	$934	9.0	%	$781	8.9	%	$1,204	8.6	%
Commercial real estate	7,956	49.1	%	7,374	45.8	%	5,547	44.4	%	4,566	49.6	%	2,244	46.0	%
Construction and development	403	5.5	%	794	6.3	%	2,287	6.7	%	2,867	6.9	%	3,844	9.4	%
Residential real estate	2,636	28.9	%	2,621	31.1	%	2,682	30.8	%	3,099	31.7	%	3,547	33.0	%
Mortgage warehouse lines	—	2.3	%	—	1.9	%	—	6.5	%	—	—	%	—	—	%
Consumer	79	1.9	%	210	2.3	%	121	1.9	%	59	1.8	%	97	1.9	%
Other	268	0.8	%	263	0.8	%	103	0.7	%	100	1.1	%	231	1.1	%
Total	$13,047	100.0	%	$12,565	100.0	%	$11,674	100.0	%	$11,472	100.0	%	$11,167	100.0	%

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A reconciliation of the activity in the allowance for loan losses follows:

Table XIII - Allowance for Loan Losses

Dollars in thousands	2018	2017	2016	2015	2014
Balance, beginning of year	$12,565	$11,674	$11,472	$11,167	$12,659
Losses					
Commercial	248	23	489	77	390
Commercial real estate	657	70	303	737	11
Construction and development	259	36	136	457	3,535
Residential real estate	913	519	344	701	514
Mortgage warehouse lines	—	—	—	—	—
Consumer	244	389	98	69	265
Other	282	251	185	110	118
Total	2,603	1,288	1,555	2,151	4,833
Recoveries					
Commercial	16	124	73	10	34
Commercial real estate	23	180	48	303	358
Construction and development	270	278	840	456	298
Residential real estate	263	164	145	206	254
Mortgage warehouse lines	—	—	—	—	—
Consumer	141	82	76	105	74
Other	122	101	75	126	73
Total	835	929	1,257	1,206	1,091
Net losses	1,768	359	298	945	3,742
Provision for loan losses	2,250	1,250	500	1,250	2,250
Balance, end of year	$13,047	$12,565	$11,674	$11,472	$11,167
Net losses as a % of average loans	0.11 %	0.02 %	0.02 %	0.09 %	0.38 %

At December 31, 2018 and 2017, we had approximately $21.4 million and $21.5 million, respectively, in property held for sale which was obtained as the result of foreclosure proceedings. Although foreclosed property is recorded at the lower of investment in the real estate or fair value less estimated costs to sell, the prices ultimately realized upon their sale may or may not result in us recognizing additional loss.

LIQUIDITY AND CAPITAL RESOURCES

Bank Liquidity: Liquidity reflects our ability to ensure the availability of adequate funds to meet loan commitments and deposit withdrawals, as well as provide for other transactional requirements. Liquidity is provided primarily by excess funds at correspondent banks, non-pledged securities and available lines of credit with the FHLB, Federal Reserve Bank of Richmond and correspondent banks, which totaled approximately $871.4 million or 39.6% of total consolidated assets at December 31, 2018.

Our liquidity strategy is to fund loan growth with deposits and other borrowed funds while maintaining an adequate level of short- and medium-term investments to meet normal daily loan and deposit activity. As a member of the FHLB, we have access to borrow approximately $767.5 million. At December 31, 2018, we had available borrowing capacity of $462.8 million on our FHLB line. We also maintain a credit line with the Federal Reserve Bank of Richmond as a contingency liquidity vehicle. The amount available on this line at December 31, 2018 was approximately $159 million, which is secured by a pledge of our consumer loans, construction loans and commercial and industrial loan portfolios. We have a $6 million unsecured line of credit with a correspondent bank. Also, we classify all of our securities as available for sale to enable us to liquidate them if the need arises. During 2018, our loan growth was funded primarily by mortgage backed securities paydowns and deposits as our loans increased

approximately $88.7 million, while securities decreased $35.4 million and total deposits increased $34.2 million.

Liquidity risk represents the risk of loss due to the possibility that funds may not be available to satisfy current or future commitments based on external market issues, customer or creditor perception of financial strength and events unrelated to Summit such as war, terrorism, or financial institution market specific issues. The Asset/Liability Management Committee ("ALCO"), comprised of members of senior management and certain members of the Board of Directors, oversees our liquidity risk management process. The ALCO develops and recommends policies and limits governing our liquidity to the Board of

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Directors for approval with the objective of ensuring that we can obtain cost-effective funding to meet current and future obligations, as well as maintain sufficient levels of on-hand liquidity, under both normal and “stressed” circumstances.

One aspect of our liquidity management process is establishing contingent liquidity funding plans under various scenarios in order to prepare for unexpected liquidity shortages or events. The following represents three “stressed” liquidity circumstances and our related contingency plans with respect to each.

Scenario 1 – Summit Community’s capital status becomes less than “well capitalized”. Banks which are less than “well capitalized” in accordance with regulatory capital guidelines are prohibited from issuing new brokered deposits without first obtaining a waiver from the FDIC to do so. In the event Summit Community’s capital status were to fall below well capitalized and was not successful in obtaining the FDIC’s waiver to issue new brokered deposits, Summit Community:

- Would have limited amounts of maturing brokered deposits to replace in the short-term, as we have limited our brokered deposits maturing in any one quarter to no more than $50 million.
- Presently has $871 million in available sources of liquid funds which could be drawn upon to fund maturing brokered deposits until Summit Community had restored its capital to well capitalized status.
- Would first seek to restore its capital to well capitalized status through capital contributions from Summit, its parent holding company.
- Would generally have no more than $100 million in brokered deposits maturing in any one year time frame, which is well within its presently available sources of liquid funds, if in the event Summit does not have the capital resources to restore Summit Community’s capital to well capitalized status. One year would give Summit Community ample time to raise alternative funds either through retail deposits or the sale of assets and obtain capital resources to restore it to well capitalized status.

Scenario 2 – Summit Community’s credit quality deteriorates such that the FHLB restricts further advances. If in the event that the Bank’s credit quality deteriorated to the point that further advances under its line with the FHLB were restricted, Summit Community:

- Would severely curtail lending and other growth activities until such time as access to this line could be restored, thus eliminating the need for net new advances.
- Would still have available current liquid funding sources secured by unemcumbered loans and securities totaling $468 million aside from its FHLB line, which would result in a funding source of approximately $366 million.

Scenario 3 – A competitive financial institution offers a retail deposit program at interest rates significantly above current market rates in Summit Community’s market areas. If a competitive financial institution offered a retail deposit program at rates well in excess of current market rates in Summit Community’s market area, the Bank:

- Presently has $871 million in available sources of liquid funds which could be drawn upon immediately to fund any “net run off” of deposits from this activity.
- Would severely curtail lending and other growth activities so as to preserve the availability of as much contingency funds as possible.
- Would begin offering its own competitive deposit program when deemed prudent so as to restore the retail deposits lost to the competition.

We continuously monitor our liquidity position to ensure that day-to-day as well as anticipated funding needs are met. We are not aware of any trends, commitments, events or uncertainties that have resulted in or are reasonably likely to result in a material change to our liquidity. Refer to page 13 of Item 1A. Risk Factors for further discussion of our liquidity risk.

Growth and Expansion: During 2018, we spent approximately $5.5 million on capital expenditures for premises and equipment. We expect our capital expenditures to approximate $7 - $8 million in 2019, primarily for new branch sites and construction and equipment and technological upgrades.

Absent an acquisition, management anticipates 5-6% organic asset growth in 2019.

Capital Compliance: Our capital position is strong. Stated as a percentage of total assets, our equity ratio was 10.0% at December 31, 2018 compared to 9.4% at December 31, 2017. Our subsidiary bank, Summit Community Bank, had Tier 1 risk-based, Total risk-based and Tier 1 leverage capital in excess of the minimum “well capitalized” levels of $71.3 million, $49.7 million and $107.0 million, respectively. We intend to maintain both Summit’s and its subsidiary bank’s capital ratios at levels

that would be considered to be "well capitalized" in accordance with regulatory capital guidelines. See Note 18 of the accompanying consolidated financial statements for further discussion of our regulatory capital.

During 2018, we retained $21.5 million of earnings and the net change in accumulated other comprehensive income was $2.7 million, principally resulting from $3.7 million unrealized net losses on securities available for sale and $1.2 million in net gains on cash flow hedges.

On July 30, 2015, our Employee Stock Ownership Plan ("ESOP") purchased 225,000 shares of Summit Financial Group Inc. common stock, which is shown as a reduction of shareholders' equity, similar to a purchase of treasury stock. When the shares are committed to be released and become available for allocation to plan participants, the then fair value of such shares will be charged to compensation expense. Unallocated shares owned by the Company's ESOP are not considered to be outstanding for the purpose of computing earnings per share.

Dividends: Cash dividends per share totaled $0.53 and $0.44 during 2018 and 2017, respectively, representing dividend payout ratios of 23.3% and 44.0%, respectively. It is our intention to continue to pay dividends on a quarterly basis during 2019. Future dividend amounts will depend on the earnings and financial condition of our subsidiary bank as well as general economic conditions.

The primary source of funds for the dividends paid to our shareholders is dividends received from our subsidiary bank. Dividends paid by our subsidiary bank are subject to restrictions by banking law and regulations and require approval by the bank's regulatory agency if dividends declared in any year exceed the bank's current year's net income, as defined, plus its retained net profits of the two preceding years. In addition, cash dividends depend on the earnings and financial condition of our subsidiary bank and our capital adequacy as well as general economic conditions. During 2019, the net retained profits available for distribution to Summit as dividends without regulatory approval are approximately $25.6 million.

Contractual Cash Obligations: During our normal course of business, we incur contractual cash obligations. The following table summarizes our contractual cash obligations at December 31, 2018.

Table XIV - Contractual Cash Obligations

Dollars in thousands	Long Term Debt and Subordinated Debentures	Operating Leases
2019	$ 18	$ 244
2020	18	97
2021	19	76
2022	21	78
2023	22	78
Thereafter	20,226	74
Total	$ 20,324	$ 647

Off-Balance Sheet Arrangements: We are involved with some off-balance sheet arrangements that have or are reasonably likely to have an effect on our financial condition, liquidity, or capital. These arrangements at December 31, 2018 are presented in the following table. Refer to Note 17 of the accompanying consolidated financial statements for further discussion of our off-balance sheet arrangements.

Table XV - Off-Balance Sheet Arrangements

Dollars in thousands	
Commitments to extend credit	
Revolving home equity and credit card lines	$69,893

Construction loans	85,392
Other loans	161,619
Standby letters of credit	6,366
Total	$323,270

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QUARTERLY FINANCIAL DATA

A summary of our selected quarterly financial data is as follows:

	2018			
Dollars in thousands, except per share amounts	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest income	$22,897	$23,399	$23,800	$25,313
Net interest income	17,257	17,275	17,213	18,052
Net income	7,443	6,280	6,899	7,450
Basic earnings per share	$0.60	$0.51	$0.56	$0.60
Diluted earnings per share	$0.60	$0.51	$0.55	$0.60

	2017			
Dollars in thousands, except per share amounts	First Quarter (A)	Second Quarter	Third Quarter	Fourth Quarter (B)
Interest income	$17,674	$22,231	$22,036	$22,587
Net interest income	13,630	17,848	17,232	17,438
Net income	(1,616)	5,278	5,930	2,323
Basic earnings per share	$(0.15)	$0.43	$0.48	$0.19
Diluted earnings per share	$(0.15)	$0.43	$0.48	$0.19

(A) Includes $6.2 million or $0.52 per diluted share after-tax charge related to litigation settlement.
(B) Includes $3.5 million or $0.29 per diluted share preliminary charge to income taxes due to enactment of TCJA.

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Item 7A. Quantitative and Qualitative Disclosures about Market Risk

MARKET RISK MANAGEMENT

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, exchange rates and equity prices. Interest rate risk is our primary market risk and results from timing differences in the repricing of assets, liabilities and off-balance sheet instruments, changes in relationships between rate indices and the potential exercise of embedded options. The principal objective of asset/liability management is to minimize interest rate risk and our actions in this regard are taken under the guidance of our Asset/Liability Management Committee ("ALCO"). The ALCO is comprised of members of the Board of Directors and of members of senior management. The ALCO actively formulates the economic assumptions that we use in our financial planning and budgeting process and establishes policies which control and monitor our sources, uses and prices of funds.

Some amount of interest rate risk is inherent and appropriate to the banking business. Our net income is affected by changes in the absolute level of interest rates. Our interest rate risk position at December 31, 2018 is slightly liability sensitive over the next twelve months, however we are asset sensitive thereafter. The nature of our lending and funding activities tends to drive our interest rate risk position to being liability sensitive. That is, liabilities are likely to reprice faster than assets, resulting in a decrease in net interest income in a rising rate environment, while a falling interest rate environment would produce an increase in net interest income. Net interest income is also subject to changes in the shape of the yield curve. In general, a flat yield curve results in a decline in our earnings due to the compression of earning asset yields and funding rates, while a steepening would result in increased earnings as margins widen.

Several techniques are available to monitor and control the level of interest rate risk. We primarily use earnings simulations modeling to monitor interest rate risk. The earnings simulation model forecasts the effects on net interest income under a variety of interest rate scenarios that incorporate changes in the absolute level of interest rates and changes in the shape of the yield curve. Each increase or decrease in rates is assumed to gradually take place over a 12 month period and then remain stable, except for the up 400 scenario, which assumes a gradual increase in rates over 24 months. Assumptions used to project yields and rates for new loans and deposits are derived from historical analysis. Securities portfolio maturities and prepayments are reinvested in like instruments. Mortgage loan prepayment assumptions are developed from industry estimates of prepayment speeds. Noncontractual deposit repricings are modeled on historical patterns.

The following table presents the estimated sensitivity of our net interest income to changes in interest rates, as measured by our earnings simulation model as of December 31, 2018. The sensitivity is measured as a percentage change in net interest income given the stated changes in interest rates (gradual change over 12 months, stable thereafter) compared to net interest income with rates unchanged in the same period. The estimated changes set forth below are dependent on the assumptions discussed above.

Change in Interest Rates	Estimated % Change in Net Interest Income over: 0 - 12 Months	13 - 24 Months
Down 100 basis points (1)	1.05 %	2.99 %
Up 100 basis points (1)	-1.00 %	1.27 %
Up 200 basis points (1)	-1.48 %	-0.29 %

(1) assumes a parallel shift in the yield curve
over 12 months

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REPORT OF MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

Summit Financial Group, Inc. is responsible for the preparation, integrity and fair presentation of the consolidated financial statements included in this annual report. The consolidated financial statements and notes included in this annual report have been prepared in conformity with United States generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgments.

We, as management of Summit Financial Group, Inc., are responsible for establishing and maintaining effective internal control over financial reporting that is designed to produce reliable financial statements in conformity with United States generally accepted accounting principles and in conformity with the Federal Financial Institutions Examination Council instructions for consolidated Reports of Condition and Income (call report instructions). The system of internal control over financial reporting as it relates to the financial statements is evaluated for effectiveness by management and tested for reliability through a program of internal audits. Actions are taken to correct potential deficiencies as they are identified. Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

The Audit Committee, consisting entirely of independent directors, meets regularly with management, internal auditors and the independent registered public accounting firm and reviews audit plans and results, as well as management's actions taken in discharging responsibilities for accounting, financial reporting and internal control. Yount, Hyde & Barbour, P.C., independent registered public accounting firm and the internal auditors have direct and confidential access to the Audit Committee at all times to discuss the results of their examinations.

Management assessed the Corporation's system of internal control over financial reporting as of December 31, 2018. In making this assessment, we used the criteria for effective internal control over financial reporting set forth in Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. Based on this assessment, management concludes that, as of December 31, 2018, its system of internal control over financial reporting is effective and meets the criteria of the Internal Control-Integrated Framework. Yount, Hyde & Barbour, P.C., independent registered public accounting firm, has issued an attestation report on the Corporation's internal control over financial reporting.

Management is also responsible for compliance with the federal and state laws and regulations concerning dividend restrictions and federal laws and regulations concerning loans to insiders designated by the FDIC as safety and soundness laws and regulations.

/s/ H. Charles Maddy, III	/s/ Robert S. Tissue	/s/ Julie R. Markwood
President and Chief Executive Officer	Senior Vice President and Chief Financial Officer	Vice President and Chief Accounting Officer

Moorefield, West Virginia
March 1, 2019

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Summit Financial Group, Inc.
Moorefield, West Virginia

Opinion on the Internal Control over Financial Reporting

We have audited Summit Financial Group, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2018 of the Company and our report dated March 1, 2019 expressed an unqualified opinion.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Report of Management’s Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ YOUNT, HYDE & BARBOUR, P.C.
Winchester, Virginia
March 1, 2019

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Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Summit Financial Group, Inc.
Moorefield, West Virginia

Opinion on the Financial Statements
We have audited the accompanying consolidated balance sheets of Summit Financial Group, Inc. and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 1, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion
These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ YOUNT, HYDE & BARBOUR, P.C.

We have served as the Company's auditor since 2016.

Winchester, Virginia
March 1, 2019

Consolidated Balance Sheets

	December 31,	
Dollars in thousands	2018	2017
ASSETS		
Cash and due from banks	$23,061	$9,641
Interest bearing deposits with other banks	36,479	42,990
Cash and cash equivalents	59,540	52,631
Debt securities available for sale	293,147	328,586
Other investments	16,635	15,071
Loans held for sale	400	—
Loans net of unearned income	1,695,052	1,606,309
Less: allowance for loan losses	(13,047)	(12,565)
Loans, net	1,682,005	1,593,744
Property held for sale	21,432	21,470
Premises and equipment, net	37,553	34,209
Accrued interest receivable	8,708	8,329
Goodwill and other intangible assets	25,842	27,513
Cash surrender value of life insurance policies	42,386	41,358
Other assets	12,938	11,329
Total assets	$2,200,586	$2,134,240
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Non-interest bearing	$222,120	$217,493
Interest bearing	1,412,706	1,383,108
Total deposits	1,634,826	1,600,601
Short-term borrowings	309,084	250,499
Long-term borrowings	735	45,751
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589
Other liabilities	16,522	16,295
Total liabilities	1,980,756	1,932,735
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, $1.00 par value, authorized 250,000 shares	—	—
Common stock and related surplus, $2.50 par value; authorized 20,000,000 shares; issued: 2018 - 12,399,887 shares, 2017 - 12,465,296 shares; outstanding: 2018 - 12,312,933 shares, 2017 - 12,358,562 shares	80,431	81,098
Unallocated common stock held by Employee Stock Ownership Plan - 2018 - 86,954 shares, 2017 - 106,734 shares	(939)	(1,152)
Retained earnings	141,354	119,827
Accumulated other comprehensive (loss) income	(1,016)	1,732
Total shareholders' equity	219,830	201,505
Total liabilities and shareholders' equity	$2,200,586	$2,134,240

See Notes to Consolidated Financial Statements

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Consolidated Statements of Income

Dollars in thousands (except per share amounts)	For the Year Ended December 31, 2018	2017	2016
Interest income			
Interest and fees on loans			
Taxable	$84,716	$74,365	$56,439
Tax-exempt	567	543	541
Interest and dividends on securities			
Taxable	5,341	5,071	4,395
Tax-exempt	4,246	3,939	2,543
Interest on interest bearing deposits with other banks	539	609	173
Total interest income	95,409	84,527	64,091
Interest expense			
Interest on deposits	17,675	11,210	8,964
Interest on short-term borrowings	5,993	4,473	2,288
Interest on long-term borrowings and subordinated debentures	1,944	2,697	3,832
Total interest expense	25,612	18,380	15,084
Net interest income	69,797	66,147	49,007
Provision for loan losses	2,250	1,250	500
Net interest income after provision for loan losses	67,547	64,897	48,507
Noninterest income			
Insurance commissions	4,320	4,005	4,022
Trust and wealth management fees	2,653	1,863	449
Service fees related to deposit accounts	4,631	4,109	2,656
Bank card revenue	3,152	2,697	1,869
Realized securities gains (losses), net	622	(14)	1,127
Bank owned life insurance income	1,022	1,017	1,054
Other	1,022	750	423
Total noninterest income	17,422	14,427	11,600
Noninterest expenses			
Salaries, commissions and employee benefits	27,478	25,075	19,573
Net occupancy expense	3,364	3,011	2,098
Equipment expense	4,411	3,954	2,759
Professional fees	1,607	1,367	1,515
Advertising and public relations	654	578	445
Amortization of intangibles	1,671	1,410	247
FDIC premiums	830	1,065	875
Bank card expense	1,475	1,432	1,242
Foreclosed properties expense, net of losses	1,350	1,339	166
Litigation settlement	—	9,900	—
Merger-related expenses	144	1,589	933
Other	6,889	7,025	4,949
Total noninterest expenses	49,873	57,745	34,802
Income before income tax expense	35,096	21,579	25,305
Income tax expense	7,024	9,664	8,008
Net income	$28,072	$11,915	$17,297
Basic earnings per common share	$2.27	$1.00	$1.62

Diluted earnings per common share	$2.26	$1.00	$1.61

See Notes to Consolidated Financial Statements

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Consolidated Statements of Comprehensive Income

	For the Year Ended December 31,		
Dollars in thousands	2018	2017	2016
Net income	$28,072	$11,915	$17,297
Other comprehensive (loss) income:			
Net unrealized gain on cashflow hedges of:			
2018 - $1,645, net of deferred taxes of $395; 2017 - $2,556, net of deferred taxes of $946; 2016 - $459, net of deferred taxes of $170	1,250	1,610	289
Net unrealized (loss) gain on securities available for sale of:			
2018 - ($4,920), net of deferred taxes of ($1,181) and reclassification adjustment for net realized gains included in net income of $622, net of tax of $149	(3,739)		
2017 - $4,378 net of deferred taxes of $1,620 and reclassification adjustment for net realized losses included in net income of ($14), net of tax of ($5)		2,758	
2016 - ($4,913), net of deferred taxes of ($1,818) and reclassification adjustment for net realized gains included in net income of $1,127, net of tax of $417			(3,095)
Net unrealized (loss) gain on other post-retirement benefits of:			
2018 - ($341), net of deferred taxes of ($82); 2017- $521, net of deferred taxes of $193	(259)	328	—
Total other comprehensive (loss) income	(2,748)	4,696	(2,806)
Total comprehensive income	$25,324	$16,611	$14,491

See Notes to Consolidated Financial Statements

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Consolidated Statements of Shareholders' Equity
For the Years Ended December 31, 2018, 2017 and 2016

Dollars in thousands (except per share amounts)	Common Stock and Related Surplus	Unallocated Common Stock Held by ESOP	Retained Earnings	Accumulated Other Compre-hensive (Loss) Income	Total Share-holders' Equity
Balance, December 31, 2015	$45,741	$ (1,964)	$100,423	$ (456)	$143,744
Net income	—	—	17,297	—	17,297
Other comprehensive loss				(2,806)	(2,806)
Exercise of stock options - 24,740 shares	447	—	—	—	447
Share-based compensation expense	200	—	—	—	200
Unallocated ESOP shares committed to be released - 35,283 shares	268	381	—	—	649
Common stock issuances from reinvested dividends - 5,203 shares	101	—	—	—	101
Common stock cash dividends declared ($0.40 per share)	—	—	(4,272)	—	(4,272)
Balance, December 31, 2016	46,757	(1,583)	113,448	(3,262)	155,360
Net income	—	—	11,915	—	11,915
Other comprehensive income				4,696	4,696
Reclassification of tax effects due to change in U.S. corporate tax rate	—	—	(298)	298	—
Exercise of stock options and SARs - 36,925 shares	304	—	—	—	304
Share-based compensation expense	385	—	—	—	385
Unallocated ESOP shares committed to be released - 39,805 shares	515	431	—	—	946
Acquisition of First Century Bankshares, Inc. - 1,537,912 shares, net of issuance costs	32,968	—	—	—	32,968
Common stock issuances from reinvested dividends - 6,950 shares	169	—	—	—	169
Common stock cash dividends declared ($0.44 per share)	—	—	(5,238)	—	(5,238)
Balance, December 31, 2017	81,098	(1,152)	119,827	1,732	201,505
Net income	—	—	28,072	—	28,072
Other comprehensive loss				(2,748)	(2,748)
Exercise of stock options - 6,800 shares	122	—	—	—	122
Share-based compensation expense	391	—	—	—	391
Unallocated ESOP shares committed to be released - 19,780 shares	272	213	—	—	485
Purchase and retirement of 82,423 shares of common stock	(1,689)	—	—	—	(1,689)
Common stock issuances from reinvested dividends - 10,214 shares	237	—	—	—	237
Common stock cash dividends declared ($0.53 per share)	—	—	(6,545)	—	(6,545)
Balance, December 31, 2018	$80,431	$ (939)	$141,354	$ (1,016)	$219,830

See Notes to Consolidated Financial Statements

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Consolidated Statements of Cash Flows

	For the Year Ended December 31,		
Dollars in thousands	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$28,072	$11,915	$17,297
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	2,168	1,887	1,224
Provision for loan losses	2,250	1,250	500
Share-based compensation expense	391	385	200
Deferred income tax (benefit) expense	(349)	4,076	(357)
Loans originated for sale	(15,939)	(16,248)	(10,593)
Proceeds from sale of loans	15,834	16,747	11,425
Gains on loans held for sale	(295)	(323)	(229)
Realized securities (gains) losses, net	(622)	14	(1,127)
Loss (gain) on disposal of assets	74	(133)	(946)
Write-downs of foreclosed properties	776	885	668
Amortization of securities premiums, net	3,412	4,190	4,325
Accretion related to acquisitions, net	(580)	(1,051)	(44)
Amortization of intangibles	1,671	1,410	247
Earnings on bank owned life insurance	(1,028)	(707)	(1,059)
Increase in accrued interest receivable	(378)	(1,102)	(254)
(Increase) decrease in other assets	(320)	668	(894)
Increase in other liabilities	3,384	510	2,827
Net cash provided by operating activities	38,521	24,373	23,210
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturities and calls of securities available for sale	1,145	2,700	3,235
Proceeds from sales of securities available for sale	107,559	152,882	72,453
Principal payments received on securities available for sale	24,814	31,902	35,881
Purchases of securities available for sale	(105,789)	(148,174)	(99,497)
Purchases of other investments	(14,550)	(18,604)	(18,273)
Proceeds from redemptions of other investments	11,717	15,932	14,066
Net loan originations	(92,189)	(61,104)	(170,716)
Purchases of premises and equipment	(5,545)	(6,185)	(1,857)
Proceeds from disposal of premises and equipment	42	—	43
Improvements to property held for sale	(1,304)	(316)	(463)
Proceeds from sale of repossessed assets & property held for sale	2,365	5,883	5,168
Cash and cash equivalents acquired in acquisition, net of $14,989 cash consideration paid - 2017, net of $21,826 cash consideration paid - 2016	—	39,053	31,409
Net cash (used in) provided by investing activities	(71,735)	13,969	(128,551)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in demand deposit, NOW and savings accounts	43,282	48	78,462
Net (decrease) increase in time deposits	(8,853)	(45,261)	43,575
Net increase in short-term borrowings	58,585	18,729	53,068
Repayment of long-term borrowings	(45,016)	(918)	(28,911)
Net proceeds from issuance of common stock	237	10	101
Purchase and retirement of common stock	(1,689)	—	—
Exercise of stock options	122	303	447
Dividends paid on common stock	(6,545)	(5,238)	(4,272)
Net cash provided by (used in) financing activities	40,123	(32,327)	142,470

Increase in cash and cash equivalents	6,909	6,015	37,129
Cash and cash equivalents:			
Beginning	52,631	46,616	9,487
Ending	$59,540	$52,631	$46,616

See Notes to Consolidated Financial Statements

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Consolidated Statements of Cash Flows - continued

	For the Year Ended December 31,		
Dollars in thousands	2018	2017	2016
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash payments for:			
Interest	$25,426	$18,201	$15,175
Income taxes	$7,539	$5,996	$8,022
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Real property and other assets acquired in settlement of loans	$1,822	$430	$2,394
SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS INCLUDED IN ACQUISITION			
Assets acquired	$—	$350,894	$70,894
Liabilities assumed	$—	$361,045	$107,094

See Notes to Consolidated Financial Statements

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NOTE 1. BASIS OF PRESENTATION

We are a financial holding company headquartered in Moorefield, West Virginia. We operate in three business segments: community banking, trust and wealth management services and insurance services. Our primary business is community banking. Our community bank subsidiary, Summit Community Bank ("Summit Community") provides commercial and retail banking services primarily in the Eastern Panhandle and Southern regions of West Virginia and the Northern, Shenandoah Valley and Southwestern regions of Virginia. We also operate Summit Insurance Services, LLC in Moorefield, West Virginia and Leesburg, Virginia.

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry.

Use of estimates: We must make estimates and assumptions that affect the reported amounts and disclosures in preparing our financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates.

Principles of consolidation: The accompanying consolidated financial statements include the accounts of Summit and its wholly-owned subsidiaries. All significant accounts and transactions among these entities have been eliminated.

Comprehensive income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, cash flow hedges and other post-retirement benefits, which are recognized as separate components of equity.

Cash and cash equivalents: Cash and cash equivalents includes cash on hand, amounts due from banks (including cash items in process of clearing), interest bearing deposits with other banks and federal funds sold.

Loans held for sale: Loans held for sale are valued at the lower of aggregate carrying cost or fair value. Gains or losses realized on the sales of loans are recognized in other income at the time of sale.

Cash surrender value of life insurance policies: We have purchased life insurance policies on certain employees. Company owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Presentation of cash flows: For purposes of reporting, cash flows from demand deposits, NOW accounts, savings accounts and short-term borrowings are reported on a net basis, since their original maturities are less than three months. Cash flows from loans and certificates of deposit and other time deposits are reported net.

Advertising: Advertising costs are expensed as incurred.

Trust services: Assets held in an agency or fiduciary capacity are not our assets and are not included in the accompanying consolidated balance sheets. Trust services income is recognized on the cash basis in accordance with customary banking practice. Reporting such income on a cash basis does not produce results that are materially different from those that would result from use of the accrual basis.

Unconsolidated subsidiary trusts: In accordance with accounting principles generally accepted in the United States, we do not consolidate subsidiary trusts which issue guaranteed preferred beneficial interests in subordinated debentures (Trust Preferred Securities). The Trust Preferred Securities qualify as Tier 1 capital for regulatory purposes. See Note 13 of our Notes to Consolidated Financial Statements for a discussion of our subordinated

debentures owed to unconsolidated subsidiary trusts.

Significant accounting policies: The following table identifies our other significant accounting policies and the Note and page where a detailed description of each policy can be found.

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NOTE 2. SIGNIFICANT NEW AUTHORITATIVE ACCOUNTING GUIDANCE

Recently Adopted
We adopted ASU 2014-09, Revenue from Contracts with Customers: Topic 606, and its related amendments on its required effective date of January 1, 2018 utilizing the modified retrospective approach. Since there was no net income impact upon adoption of the new guidance, a cumulative effect adjustment to opening retained earnings was not deemed necessary. We concluded that ASU 2014-09 did not materially change the method in which we currently recognize revenue for these revenue streams. We also completed our evaluation of certain costs related to these revenue streams to determine whether such costs should be presented as expenses or contra-revenue (i.e., gross vs. net). Based on our evaluation, we determined that any classification changes were immaterial to both revenue and expense.
ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (viii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. ASU 2016-01 was effective for us on January 1, 2018 and did not have a significant impact on our financial statements. In accordance with (iv) above, we measure the fair value of our loan portfolio using exit price notion (see Note 4. Fair Value Measurements).

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee's obligation to make lease payments arising

from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach.

The FASB made subsequent amendments to Topic 842 in July 2018 through ASU 2018-10 Codification Improvements to Topic 842, Leases. and ASU 2018-11 Leases (Topic 842): Targeted Improvements. Among these amendments is the provision in ASU 2018-11 that provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with current GAAP (Topic 840, Leases). The adoption of this standard on January 1, 2019 did not have a material effect on our consolidated financial statements. Our current minimum commitments under long-term operating leases are disclosed in Note 17, Commitments and Contingencies.

Pending Adoption

During June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments. The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this ASU are effective for SEC filers for fiscal years and interim periods within those fiscal years, beginning after December 15, 2019. Accordingly, we will adopt the guidance in the first quarter of 2020 with a cumulative-effect adjustment to retained earnings as of the beginning of the period. In this regard, we appointed a cross-functional implementation team comprised of personnel from risk management, operations and information technology, loan administration and finance and have engaged a third-party to assist us. The team has completed its preliminary implementation process and will test the model we developed to implement the standard using contemporaneous loan data throughout 2019. We continue to evaluate the impact the new standard will have on our consolidated financial statements as the final impact will be dependent upon, among other items, the loan portfolio composition and credit quality at the adoption date, as well as economic conditions, financial models used and forecasts at that time.

In March of 2017, the FASB issued ASU No. 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. This guidance shortens the amortization period for premiums on certain callable debt securities to the earliest call date (with an explicit, noncontingent call feature that is callable at a fixed price and on a preset date), rather than contractual maturity date as currently required under GAAP. The ASU does not impact instruments without preset call dates such as mortgage-backed securities. For instruments with contingent call features, once the contingency is resolved and the security is callable at a fixed price and preset date, the security is within the scope of the ASU. ASU 2017-08 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, and early adoption is permitted. The adoption of the new pronouncement will not have a significant impact on our consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, Targeted Improvements to Accounting for Hedging Activities which will make more financial and nonfinancial hedging strategies eligible for hedge accounting. It also amends the presentation and disclosure requirements and changes how companies assess effectiveness. It is intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. We do not expect it to have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement. The amendments modify the disclosure requirements in Topic 820 to add disclosures regarding changes in unrealized gains and losses, the range

and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty. Certain disclosure requirements in Topic 820 are also removed or modified. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Certain of the amendments are to be applied prospectively while others are to be applied retrospectively. Early adoption is permitted. We do not expect the adoption of ASU 2018-13 to have a material impact on our consolidated financial statements.

NOTE 3. ACQUISITIONS

Peoples Bankshares, Inc.

On January 1, 2019, Summit Community Bank, Inc., a wholly-owned subsidiary of Summit, acquired 100% of the ownership of Peoples Bankshares, Inc. ("PBI") and its subsidiary First Peoples Bank, Inc., headquartered in Mullens, West Virginia, for consideration of 465,931 shares of Summit common stock and $12.7 million cash. With this transaction, Summit expanded its footprint into Wyoming and Raleigh counties of West Virginia. PBI's assets and liabilities approximated $133 million and $113 million, respectively, at December 31, 2018 and 2018's total revenues, net of interest expense were $3.6 million and 2018 net income totaled $21,000. The acquisition is deemed immaterial to our financial statements.

The former First Peoples offices will continue to operate under that name until close of business on Friday, April 26, 2019, and will commence operating under the name Summit Community Bank on Monday, April 29, 2019.

First Century Bankshares, Inc.

On April 1, 2017, Summit Community Bank, Inc. ("SCB"), a wholly-owned subsidiary of Summit, acquired 100% of the ownership of First Century Bankshares, Inc. ("FCB") and its subsidiary First Century Bank, headquartered in Bluefield, West Virginia. FCB's assets and liabilities approximated $406 million and $361 million, respectively, at March 31, 2017.

The following presents the financial effects of adjustments recognized in the statements of income for the years ended December 31, 2018 and 2017 related to business combinations that occurred during 2016 and 2017.

	Income increase (decrease)	
Dollars in thousands	December 31, 2018	December 31, 2017
Interest and fees on loans	$386	$ 825
Interest expense on deposits	205	237
Amortization of intangibles	(1,471)	(1,210)
Income before income tax expense	$(880)	$ (148)

NOTE 4. FAIR VALUE MEASUREMENTS

Fair value is based upon the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A fair value hierarchy is utilized to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Accordingly, securities available-for-sale and derivative financial instruments are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record other assets at fair value on a nonrecurring basis, such as loans held for sale, property held for sale and impaired loans held for investment. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Available-for-Sale Debt Securities: Debt securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted

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for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Certain trust preferred securities classified as corporate debt securities are Level 3 due to limited market trades of these classes of securities.

Derivative Financial Instruments: Derivative financial instruments are recorded at fair value on a recurring basis. Fair value measurement is based on pricing models run by a third-party, utilizing observable market-based inputs. All future floating cash flows are projected and both floating and fixed cash flows are discounted to the valuation date. As a result, we classify interest rate swaps as Level 2.

Loans Held for Sale: Loans held for sale are carried at the lower of cost or fair value. The fair value of loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, we classify loans subject to nonrecurring fair value adjustments as Level 2.

Loans: We do not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan loss is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the original contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment using one of several methods, including collateral value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the discounted cash flows or collateral value exceeds the recorded investments in such loans. These loans are carried at recorded loan investment and therefore are not included in the following tables of loans measured at fair value. Impaired loans internally graded as substandard, doubtful, or loss are evaluated using the fair value of collateral method. All other impaired loans are measured for impairment using the discounted cash flows method. Impaired loans where an allowance is established based on the fair value of collateral are included in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, we record the impaired loan as nonrecurring Level 2. When a current appraised value is not available and there is no observable market price, we record the impaired loan as nonrecurring Level 3.

When impaired loans are deemed required to be included in the fair value hierarchy, management immediately begins the process of evaluating the estimated fair value of the underlying collateral to determine if a related specific allowance for loan losses or charge-off is necessary. Current appraisals are ordered once a loan is deemed impaired if the existing appraisal is more than twelve months old, or more frequently if there is known deterioration in value. For recently identified impaired loans, a current appraisal may not be available at the financial statement date. Until the current appraisal is obtained, the original appraised value is discounted, as appropriate, to compensate for the estimated depreciation in the value of the loan's underlying collateral since the date of the original appraisal. Such discounts are generally estimated based upon management's knowledge of sales of similar collateral within the applicable market area and its knowledge of other real estate market-related data as well as general economic trends. When a new appraisal is received (which is generally within 3 months of a loan being identified as impaired), management then re-evaluates the fair value of the collateral and adjusts any specific allocated allowance for loan losses, as appropriate. In addition, management also assigns a discount of 7–10% for the estimated costs to sell the collateral.

Property Held for Sale: Property held for sale consists of real estate acquired in foreclosure or other settlement of loans. Foreclosed assets are initially recorded at fair value, less estimated selling costs, when acquired establishing a new cost basis. Such assets are carried on the balance sheet at the lower of the investment in the real estate or its fair value less estimated selling costs. The fair value of foreclosed properties is determined on a nonrecurring basis generally utilizing current appraisals performed by an independent, licensed appraiser applying an income or market value approach using observable market data (Level 2). Updated appraisals of foreclosed properties are generally

obtained if the existing appraisal is more than 18 months old or more frequently if there is a known deterioration in value. However, if a current appraisal is not available, the original appraised value is discounted, as appropriate, to compensate for the estimated depreciation in the value of the real estate since the date of its original appraisal. Such discounts are generally estimated based upon management's knowledge of sales of similar property within the applicable market area and its knowledge of other real estate market-related data as well as general economic trends (Level 3). Upon foreclosure, any fair value adjustment is charged against the allowance for loan losses. Subsequent fair value adjustments are recorded in the period incurred and included in other noninterest expense in the consolidated statements of income.

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Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The tables below present the recorded amount of assets and liabilities measured at fair value on a recurring basis.

Dollars in thousands	Balance at December 31, 2018	Fair Value Measurements Using: Level 1	Level 2	Level 3
Available for sale securities				
U.S. Government sponsored agencies	$ 26,140	$ —	$ 26,140	$ —
Mortgage backed securities:				
Government sponsored agencies	80,309	—	80,309	—
Nongovernment sponsored entities	614	—	614	—
State and political subdivisions	19,243	—	19,243	—
Corporate debt securities	14,512	—	14,512	—
Asset-backed securities	25,175	—	25,175	—
Tax-exempt state and political subdivisions	127,154	—	127,154	—
Total available for sale securities	$ 293,147	$ —	$ 293,147	$ —
Derivative financial assets				
Interest rate swaps	$ 555	$ —	$ 555	$ —
Derivative financial liabilities				
Interest rate swaps	$ 411	$ —	$ 411	$ —

Dollars in thousands	Balance at December 31, 2017	Fair Value Measurements Using: Level 1	Level 2	Level 3
Available for sale securities				
U.S. Government sponsored agencies	$ 31,613	$ —	$ 31,613	$ —
Mortgage backed securities:				
Government sponsored agencies	121,321	—	121,321	—
Nongovernment sponsored entities	2,077	—	2,077	—
State and political subdivisions	17,677	—	17,677	—
Corporate debt securities	16,245	—	16,245	—
Tax-exempt state and political subdivisions	139,653	—	139,653	—
Total available for sale securities	$ 328,586	$ —	$ 328,586	$ —
Derivative financial assets				
Interest rate swaps	$ 312	$ —	$ 312	$ —
Derivative financial liabilities				
Interest rate swaps	$ 2,057	$ —	$ 2,057	$ —

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

We may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the tables below.

Dollars in thousands	Balance at December 31, 2018	Fair Value Measurements Using: Level 1	Level 2	Level 3
Residential mortgage loans held for sale	$ 400	$ —	$ 400	$ —
Collateral-dependent impaired loans				
Commercial	$ 2,660	$ —	$ 2,611	$ 49
Commercial real estate	420	—	420	—
Construction and development	759	—	759	—
Residential real estate	763	—	763	—
Total collateral-dependent impaired loans	$ 4,602	$ —	$ 4,553	$ 49
Property held for sale				
Commercial real estate	$ 1,677	$ —	$ 1,677	$ —
Construction and development	16,363	—	16,363	—
Residential real estate	403	—	403	—
Total property held for sale	$ 18,443	$ —	$ 18,443	$ —

Dollars in thousands	Balance at December 31, 2017	Fair Value Measurements Using: Level 1	Level 2	Level 3
Residential mortgage loans held for sale	$ —	$ —	$ —	$ —
Collateral-dependent impaired loans				
Commercial real estate	$ 518	$ —	$ 518	$ —
Construction and development	940	—	940	—
Residential real estate	203	—	203	—
Total collateral-dependent impaired loans	$ 1,661	$ —	$ 1,661	$ —
Property held for sale				
Commercial real estate	$ 1,493	$ —	$ 1,493	$ —
Construction and development	16,177	—	16,177	—
Residential real estate	322	—	322	—
Total property held for sale	$ 17,992	$ —	$ 17,992	$ —

The carrying values and estimated fair values of our financial instruments are summarized below:

	At December 31, 2018		Fair Value Measurements Using:		
Dollars in thousands	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$ 59,540	$ 59,540	$ 59,540	$ —	$ —
Securities available for sale	293,147	293,147	—	293,147	—
Other investments	16,635	16,635	—	16,635	—

Loans held for sale, net	400	400	—	400	—
Loans, net	1,682,005	1,666,834	—	4,553	1,662,281
Accrued interest receivable	8,708	8,708	—	8,708	—
Derivative financial assets	555	555	—	555	—
	$2,060,990	$2,045,819	$ —	$383,538	$1,662,281
Financial liabilities					
Deposits	$1,634,826	$1,631,456	$ —	$1,631,456	$—
Short-term borrowings	309,084	309,084	—	309,084	—
Long-term borrowings	735	843	—	843	—
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589	—	19,589	—
Accrued interest payable	1,102	1,102	—	1,102	—
Derivative financial liabilities	411	411	—	411	—
	$1,965,747	$1,962,485	$ —	$1,962,485	$—

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	At December 31				
	2017		Fair Value Measurements Using:		
Dollars in thousands	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$52,631	$52,631	$—	$52,631	$—
Securities available for sale	328,586	328,586	—	328,586	—
Other investments	15,071	15,071	—	15,071	—
Loans held for sale, net	—	—	—	—	—
Loans, net	1,593,744	1,592,821	—	1,661	1,591,160
Accrued interest receivable	8,329	8,329	—	8,329	—
Derivative financial assets	312	312	—	312	—
	$1,998,673	$1,997,750	$—	$406,590	$1,591,160
Financial liabilities					
Deposits	$1,600,601	$1,620,033	$—	$1,620,033	$—
Short-term borrowings	250,499	250,499	—	250,499	—
Long-term borrowings	45,751	46,530	—	46,530	—
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589	—	19,589	—
Accrued interest payable	987	987	—	987	—
Derivative financial liabilities	2,057	2,057	—	2,057	—
	$1,919,484	$1,939,695	$—	$1,939,695	$—

NOTE 5. DEBT SECURITIES

We classify debt securities as “held to maturity”, “available for sale” or “trading” according to management’s intent. The appropriate classification is determined at the time of purchase of each security and re-evaluated at each reporting date.

Securities held to maturity: Certain debt securities for which we have the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts. There are no securities classified as held to maturity in the accompanying financial statements.

Securities available for sale: Securities not classified as "held to maturity" or as "trading" are classified as "available for sale." Securities classified as "available for sale" are those securities that we intend to hold for an indefinite period of time, but not necessarily to maturity. "Available for sale" securities are reported at estimated fair value net of unrealized gains or losses, which are adjusted for applicable income taxes and reported as a separate component of shareholders' equity.

Trading securities: There are no securities classified as "trading" in the accompanying financial statements.

Impairment assessment: Impairment exists when the fair value of a security is less than its cost. Cost includes adjustments made to the cost basis of a security for accretion, amortization and previous other-than-temporary impairments. We perform a quarterly assessment of the debt securities in our investment portfolio that have an unrealized loss to determine whether the decline in the fair value of these securities below their cost is other-than-temporary. This determination requires significant judgment. Impairment is considered other-than-temporary when it becomes probable that we will be unable to recover the cost of an investment. This

assessment takes into consideration factors such as the length of time and the extent to which the market values have been less than cost, the financial condition and near term prospects of the issuer including events specific to the issuer or industry, defaults or deferrals of scheduled interest, principal or dividend payments, external credit ratings and recent downgrades and our intent and ability to hold the security for a period of time sufficient to allow for a recovery in fair value. If a decline in fair value is judged to be other than temporary, the cost basis of the individual security is written down to fair value which then becomes the new cost basis. The amount of the write down is included in other-than-temporary impairment of securities in the consolidated statements of income. The new cost basis is not adjusted for subsequent recoveries in fair value, if any.

Realized gains and losses on sales of securities are recognized on the specific identification method. Amortization of premiums and accretion of discounts are computed using the interest method.

The amortized cost, unrealized gains, unrealized losses and estimated fair values of securities at December 31, 2018 and 2017, are summarized as follows:

	December 31, 2018			
	Amortized	Unrealized		
Dollars in thousands	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable debt securities				
U.S. Government and agencies and corporations	$26,303	$203	$366	$26,140
Residential mortgage-backed securities:				
Government-sponsored agencies	80,883	603	1,177	80,309
Nongovernment-sponsored entities	611	4	1	614
State and political subdivisions				
General obligations	6,081	—	126	5,955
Other revenues	13,457	17	186	13,288
Corporate debt securities	14,807	9	304	14,512
Asset-backed securities	25,288	10	123	25,175
Total taxable debt securities	167,430	846	2,283	165,993
Tax-exempt debt securities				
State and political subdivisions				
General obligations	65,626	624	344	65,906
Water and sewer revenues	20,018	225	98	20,145
Lease revenues	10,980	135	7	11,108
Other revenues	30,197	77	279	29,995
Total tax-exempt debt securities	126,821	1,061	728	127,154
Total available for sale securities	$294,251	$1,907	$3,011	$293,147

	December 31, 2017			
	Amortized	Unrealized		
Dollars in thousands	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable debt securities				
U.S. Government and agencies and corporations	$31,260	$498	$145	$31,613
Residential mortgage-backed securities:				
Government-sponsored agencies	120,948	1,276	903	121,321
Nongovernment-sponsored entities	2,045	39	7	2,077
State and political subdivisions				
General obligations	6,090	—	55	6,035
Other revenues	11,657	47	62	11,642
Corporate debt securities	16,375	—	130	16,245
Total taxable debt securities	188,375	1,860	1,302	188,933
Tax-exempt debt securities				
State and political subdivisions				
General obligations	65,560	1,530	198	66,892
Water and sewer revenues	23,108	566	3	23,671
Lease revenues	13,024	451	2	13,473
Electric revenues	6,205	128	—	6,333
Sales tax revenues	4,126	140	—	4,266

University revenues	5,272	38	9	5,301
Other revenues	19,101	616	—	19,717
Total tax-exempt debt securities	136,396	3,469	212	139,653
Total available for sale securities	$324,771	$5,329	$1,514	$328,586

The below information is relative to the five states where issuers with the highest volume of state and political subdivision securities held in our portfolio are located. We own no such securities of any single issuer which we deem to be a concentration.

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	December 31, 2018			
	Amortized	Unrealized		
Dollars in thousands	Cost	Gains	Losses	Fair Value
California	$ 17,858	$ 208	$ 86	$ 17,980
Michigan	15,685	121	137	15,669
Texas	15,473	147	47	15,573
West Virginia	13,171	89	66	13,194
Illinois	12,342	94	114	12,322

Management performs pre-purchase and ongoing analysis to confirm that all investment securities meet applicable credit quality standards. We principally use credit ratings from Nationally Recognized Statistical Rating Organizations ("NRSROs") to support analyses of our portfolio of securities issued by state and political subdivisions, as we generally do not purchase securities that are rated below the six highest NRSRO rating categories. In addition to considering a security's NRSRO rating, we also assess or confirm through an internal review of an issuer's financial information and other applicable information that: 1) the issuer's risk of default is low; 2) the characteristics of the issuer's demographics and economic environment are satisfactory; and 3) the issuer's budgetary position and stability of tax or other revenue sources are sound.

The proceeds from sales, calls and maturities of available for sale securities, including principal payments received on mortgage-backed obligations, and the related gross gains and losses realized are as follows:

Dollars in thousands	Proceeds from			Gross realized	
		Calls and	Principal		
Years ended December 31,	Sales	Maturities	Payments	Gains	Losses
2018	$ 107,559	$ 1,145	$ 24,814	$ 1,785	$ 1,163
2017	152,882	2,700	31,902	685	699
2016	72,453	3,235	35,881	1,422	295

Residential mortgage-backed obligations having contractual maturities ranging from 1 to 50 years are included in the following maturity distribution schedules based on their anticipated average life to maturity, which ranges from 2 months to 34 years. Accordingly, discounts are accreted and premiums are amortized over the anticipated average life to maturity of the specific obligation.

The maturities, amortized cost and estimated fair values of securities at December 31, 2018, are summarized as follows:

Dollars in thousands	Amortized Cost	Fair Value
Due in one year or less	$ 27,679	$ 27,635
Due from one to five years	57,718	57,519
Due from five to ten years	48,085	47,205
Due after ten years	160,769	160,788
Total	$ 294,251	$ 293,147

At December 31, 2018 and 2017, securities with estimated fair values of $58.6 million and $113.1 million respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

We held 134 available for sale securities having an unrealized loss at December 31, 2018. We do not intend to sell these securities and it is more likely than not that we will not be required to sell these securities before recovery of their amortized cost bases. We believe that this decline in value is primarily attributable to the lack of market liquidity and to changes in market interest rates and not due to credit quality. Accordingly, no other-than-temporary impairment charge to earnings is warranted at this time.

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Provided below is a summary of securities available for sale which were in an unrealized loss position at December 31, 2018 and 2017.

	2018						
		Less than 12 months		12 months or more		Total	
Dollars in thousands	# of securities in loss position	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Temporarily impaired securities							
Taxable debt securities							
U.S. Government agencies and corporations	15	$12,185	$ 184	$7,464	$ 182	$19,649	$ 366
Residential mortgage-backed securities:							
Government-sponsored agencies	37	23,277	241	24,472	936	47,749	1,177
Nongovernment-sponsored entities	1	—	—	436	1	436	1
State and political subdivisions:							
General obligations	8	—	—	5,222	126	5,222	126
Other revenues	11	968	16	9,450	170	10,418	186
Corporate debt securities	7	2,759	109	4,587	195	7,346	304
Asset-backed securities	9	20,129	123	—	—	20,129	123
Tax-exempt debt securities							
State and political subdivisions:							
General obligations	25	7,273	50	16,830	294	24,103	344
Water and sewer revenues	7	989	6	4,311	92	5,300	98
Lease revenues	2	553	—	557	7	1,110	7
Other revenues	12	7,309	62	11,531	217	18,840	279
Total temporarily impaired securities	134	75,442	791	84,860	2,220	160,302	3,011

	2017						
		Less than 12 months		12 months or more		Total	
Dollars in thousands	# of securities in loss position	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Temporarily impaired securities							
Taxable debt securities							
U.S. Government agencies and corporations	9	$10,864	$ 91	$2,394	$ 54	$13,258	$ 145
Residential mortgage-backed securities:							
Government-sponsored agencies	35	32,156	269	22,584	634	54,740	903
Nongovernment-sponsored entities	1	5	—	810	7	815	7
State and political subdivisions:							
General obligations	9	6,035	55	—	—	6,035	55
Other revenues	9	7,532	62	—	—	7,532	62
Corporate debt securities	4	3,008	39	1,659	91	4,667	130
Tax-exempt debt securities							
State and political subdivisions:							
General obligations	12	2,999	20	9,937	178	12,936	198

Water and sewer revenues	1	282	3	—	—	282	3
Lease revenues	1	569	2	—	—	569	2
University revenues	1	1,749	9	—	—	1,749	9
Total temporarily impaired securities	82	65,199	550	37,384	964	102,583	1,514

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NOTE 6. OTHER INVESTMENTS

Equity securities are carried at fair value, with changes in fair value reported in net income. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment. Our equity securities totaled $137,000 at December 31, 2018 and 2017.

We are a member bank of the Federal Home Loan Bank ("FHLB") system. Members are required to own a certain amount of stock based on the level of borrowings from FHLB and other factors. FHLB stock is carried at cost and periodically evaluated for impairment based on ultimate recovery of par value. Dividends are reported as income as earned. This stock totaled $13.1 million and $11.00 million at December 31, 2018 and 2017.

We have invested in two limited partnerships which own interests in diversified portfolios of qualified affordable housing projects. Also, we have purchased substantially all the interest in a limited liability company owning a qualified rehabilitated multi-family housing project. As result of these investments, Summit is allocated its proportional share of each investees' operating losses and Federal Low-Income Housing and Rehabilitation Tax Credits. We use the proportional amortization method to account for each of these investments, whereby the cost of the investment is amortized in proportion to the amount of tax credits and other tax benefits received, and the net investment performance is recognized in the consolidated statement of income as a component of the provision for current income taxes. As of December 31, 2018 and 2017, our carrying value of these investments totaled $3.35 million and $3.89 million, respectively. For the years ended December 31, 2018, 2017 and 2016, we recognized $1,544,000, $927,000 and $269,000 in tax credits and other tax benefits, against which we amortized these investments $1.27 million, $680,000 and $214,000.

NOTE 7. LOANS

Loans are generally stated at the amount of unpaid principal, reduced by unearned discount and allowance for loan losses. Interest on loans is accrued daily on the outstanding balances. Loan origination fees and certain direct loan origination costs are deferred and amortized as adjustments of the related loan yield over its contractual life. We categorize residential real estate loans in excess of $600,000 as jumbo loans.

Generally, loans are placed on nonaccrual status when principal or interest is greater than 90 days past due based upon the loan's contractual terms. Interest is accrued daily on impaired loans unless the loan is placed on nonaccrual status. Impaired loans are placed on nonaccrual status when the payments of principal and interest are in default for a period of 90 days, unless the loan is both well-secured and in the process of collection. Interest on nonaccrual loans is recognized primarily using the cost-recovery method. Loans may be returned to accrual status when repayment is reasonably assured and there has been demonstrated performance under the terms of the loan or, if applicable, the terms of the restructured loans.

Commercial-related loans or portions thereof are charged off to the allowance for loan losses when the loss has been confirmed. This determination is made on a case by case basis considering many factors, including the prioritization of our claim in bankruptcy, expectations of the workout/restructuring of the loan and valuation of the borrower's equity. We deem a loss confirmed when a loan or a portion of a loan is classified "loss" in accordance with bank regulatory classification guidelines, which state, "Assets classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted".

Consumer-related loans are generally charged to the allowance for loan losses upon reaching specified stages of delinquency, in accordance with the Federal Financial Institutions Examination Council policy. For example, credit card loans are charged off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification about a specified event (e.g., bankruptcy of the borrower), whichever is

earlier. Residential mortgage loans are generally charged off to net realizable value no later than when the account becomes 180 days past due. Other consumer loans, if collateralized, are generally charged off to net realizable value at 120 days past due.

Loans are summarized as follows:

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Dollars in thousands	2018	2017
Commercial	$194,315	$189,981
Commercial real estate		
Owner-occupied	266,362	250,202
Non-owner occupied	564,826	484,902
Construction and development		
Land and land development	68,833	67,219
Construction	24,731	33,412
Residential real estate		
Non-jumbo	336,977	354,101
Jumbo	73,599	62,267
Home equity	80,910	84,028
Mortgage warehouse lines	39,140	30,757
Consumer	32,460	36,202
Other	12,899	13,238
Total loans, net of unearned fees	1,695,052	1,606,309
Less allowance for loan losses	13,047	12,565
Loans, net	$1,682,005	$1,593,744

The outstanding balance and the recorded investment of acquired loans included in the consolidated balance sheet at December 31, 2018 and 2017 are as follows:

	Acquired Loans					
	2018			2017		
Dollars in thousands	Purchased Credit Impaired	Purchased Performing	Total	Purchased Credit Impaired	Purchased Performing	Total
Outstanding balance	$4,275	$ 138,167	$142,442	$5,923	$ 220,131	$226,054
Recorded investment						
Commercial	$—	$ 3,934	$3,934	$9	$ 25,125	$25,134
Commercial real estate						
Owner-occupied	—	16,133	16,133	689	21,893	22,582
Non-owner occupied	1,162	23,431	24,593	1,837	33,293	35,130
Construction and development						
Land and land development	—	5,161	5,161	—	7,512	7,512
Construction	—	—	—	—	2,760	2,760
Residential real estate						
Non-jumbo	1,374	77,894	79,268	1,485	109,570	111,055
Jumbo	975	2,577	3,552	999	3,400	4,399
Home equity	—	2,805	2,805	—	3,311	3,311
Consumer	—	4,630	4,630	—	11,229	11,229
Other	—	122	122	—	211	211
Total recorded investment	$3,511	$ 136,687	$140,198	$5,019	$ 218,304	$223,323

The following table presents a summary of the change in the accretable yield of the purchased credit impaired ("PCI") loan portfolio during 2018 and 2017:

Dollars in thousands	2018	2017
Accretable yield, January 1	$745	$290
Additions for First Century Bankshares, Inc. acquisition	—	661
Accretion	(115)	(162)
Reclassification of nonaccretable difference due to improvement in expected cash flows	—	(31)
Other changes, net	2	(13)
Accretable yield, December 31	$632	$745

The following presents loan maturities at December 31, 2018:

Dollars in thousands	Within 1 Year	After 1 but within 5 Years	After 5 Years
Commercial	$96,076	$63,124	$35,115
Commercial real estate	37,675	113,790	679,723
Construction and development	29,718	23,207	40,639
Residential real estate	22,176	50,982	418,328
Mortgage warehouse lines	39,140	—	—
Consumer	5,181	23,172	4,107
Other	1,229	2,302	9,368
	$231,195	$276,577	$1,187,280
Loans due after one year with:			
Variable rates		$546,499	
Fixed rates		917,358	
		$1,463,857	

The following table presents the contractual aging of the recorded investment in past due loans by class as of December 31, 2018 and 2017.

	At December 31, 2018					
	Past Due					
Dollars in thousands	30-59 days	60-89 days	> 90 days	Total	Current	> 90 days and Accruing
Commercial	$254	$51	$483	$788	$193,527	$ —
Commercial real estate						
Owner-occupied	—	—	612	612	265,750	—
Non-owner occupied	156	255	1,756	2,167	562,659	—
Construction and development						
Land and land development	190	4	3,174	3,368	65,465	—
Construction	—	—	—	—	24,731	—
Residential mortgage						
Non-jumbo	4,120	2,235	3,753	10,108	326,869	—
Jumbo	—	—	675	675	72,924	—
Home equity	754	261	181	1,196	79,714	—
Mortgage warehouse lines	—	—	—	—	39,140	—
Consumer	502	121	125	748	31,712	36
Other	31	—	—	31	12,868	—
Total	$6,007	$2,927	$10,759	$19,693	$1,675,359	$ 36

	At December 31, 2017					
	Past Due					> 90 days
Dollars in thousands	30-59 days	60-89 days	> 90 days	Total	Current	and Accruing
Commercial	$488	$98	$229	$815	$189,166	$ —
Commercial real estate						
Owner-occupied	626	162	507	1,295	248,907	—
Non-owner occupied	369	150	2,065	2,584	482,318	237
Construction and development						
Land and land development	1,132	—	3,563	4,695	62,524	—
Construction	—	—	—	—	33,412	—
Residential mortgage						
Non-jumbo	4,220	2,379	4,451	11,050	343,051	—
Jumbo	—	—	—	—	62,267	—
Home equity	1,978	—	530	2,508	81,520	—
Mortgage warehouse lines	—	—	—	—	30,757	—
Consumer	417	196	167	780	35,422	37
Other	—	—	—	—	13,238	—
Total	$9,230	$2,985	$11,512	$23,727	$1,582,582	$ 274

Nonaccrual loans: The following table presents the nonaccrual loans included in the net balance of loans at December 31, 2018 and 2017.

Dollars in thousands	2018	2017
Commercial	$935	$696
Commercial real estate		
Owner-occupied	1,028	726
Non-owner occupied	2,210	2,201
Construction and development		
Land & land development	3,198	3,569
Construction	—	—
Residential mortgage		
Non-jumbo	6,532	6,944
Jumbo	675	—
Home equity	299	712
Mortgage warehouse lines	—	—
Consumer	112	201
Total	$14,989	$15,049

Impaired loans: Impaired loans include the following:

Loans which we risk-rate (consisting of loan relationships having aggregate balances in excess of $2.5 million, or loans exceeding $500,000 and exhibiting credit weakness) through our normal loan review procedures and which, based on current information and events, it is probable that we will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement. Risk-rated loans with insignificant delays or insignificant short falls in the amount of payments expected to be collected are not considered to be impaired.

Loans that have been modified in a troubled debt restructuring.

Both commercial and consumer loans are deemed impaired upon being contractually modified in a troubled debt restructuring. Troubled debt restructurings typically result from our loss mitigation activities and occur when we grant

a concession to a borrower who is experiencing financial difficulty in order to minimize our economic loss and to avoid foreclosure or repossession of collateral. Once restructured, a loan is generally considered impaired until its maturity, regardless of whether the borrower performs under the modified terms. Although such a loan may be returned to accrual status if the criteria set forth in our accounting policy are met, the loan would continue to be evaluated for an asset-specific allowance for loan losses and we would continue to report the loan in the impaired loan table below.

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The following tables present loans individually evaluated for impairment at December 31, 2018 and 2017.

	December 31, 2018				
Dollars in thousands	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized while impaired
Without a related allowance					
Commercial	$1,019	$1,253	$ —	$321	$ 16
Commercial real estate					
Owner-occupied	8,600	8,605	—	7,730	318
Non-owner occupied	9,666	9,673	—	9,753	493
Construction and development					
Land & land development	4,767	4,767	—	4,947	102
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	3,279	3,284	—	3,401	180
Jumbo	4,132	4,130	—	3,517	166
Home equity	523	523	—	523	30
Mortgage warehouse lines	—	—	—	—	—
Consumer	9	10	—	13	1
Total without a related allowance	$31,995	$32,245	$ —	$30,205	$ 1,306
With a related allowance					
Commercial	$3,343	$3,342	$ 682	$705	$ 39
Commercial real estate					
Owner-occupied	2,969	2,969	462	2,397	117
Non-owner occupied	189	191	9	226	16
Construction and development					
Land & land development	1,057	1,057	298	1,073	56
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	2,982	2,981	585	2,539	98
Jumbo	821	822	106	827	48
Home equity	—	—	—	—	—
Mortgage warehouse lines	—	—	—	—	—
Consumer	—	—	—	—	—
Total with a related allowance	$11,361	$11,362	$ 2,142	$7,767	$ 374
Total					
Commercial	$31,610	$31,857	$ 1,451	$27,152	$ 1,157
Residential real estate	11,737	11,740	691	10,807	522
Consumer	9	10	—	13	1
Total	$43,356	$43,607	$ 2,142	$37,972	$ 1,680

The above table does not include PCI loans.

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	December 31, 2017				
Dollars in thousands	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized while impaired
Without a related allowance					
Commercial	$243	$243	$ —	$259	$ 13
Commercial real estate					
Owner-occupied	7,109	7,111	—	5,149	265
Non-owner occupied	9,105	9,106	—	9,736	684
Construction and development					
Land & land development	5,018	5,018	—	4,743	329
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	4,190	4,199	—	4,214	240
Jumbo	3,555	3,554	—	3,592	228
Home equity	523	523	—	523	35
Mortgage warehouse lines	—	—	—	—	—
Consumer	17	17	—	28	3
Total without a related allowance	$29,760	$29,771	$ —	$28,244	$ 1,797
With a related allowance					
Commercial	$252	$252	$ 252	$262	$ —
Commercial real estate					
Owner-occupied	2,436	2,436	125	2,451	161
Non-owner occupied	1,338	1,344	517	676	43
Construction and development					
Land & land development	1,464	1,464	524	1,477	74
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	1,717	1,718	158	1,691	100
Jumbo	838	839	14	845	57
Home equity	—	—	—	—	—
Mortgage warehouse lines	—	—	—	—	—
Consumer	—	—	—	—	—
Total with a related allowance	$8,045	$8,053	$ 1,590	$7,402	$ 435
Total					
Commercial	$26,965	$26,974	$ 1,418	$24,753	$ 1,569
Residential real estate	10,823	10,833	172	10,865	660
Consumer	17	17	—	28	3
Total	$37,805	$37,824	$ 1,590	$35,646	$ 2,232

The above table does not include PCI loans.

The average recorded investment of impaired loans during 2016 was $37.9 million and $1.3 million interest income was recognized on those loans while impaired.

A modification of a loan is considered a troubled debt restructuring ("TDR") when a borrower is experiencing financial difficulty and the modification constitutes a concession that we would not otherwise consider. This may include a transfer of real estate or other assets from the borrower, a modification of loan terms, or a combination of both. A loan continues to be classified as a TDR for the life of the loan. Included in impaired loans are TDRs of $27 million, of which $26.6 million were current with respect to restructured contractual payments at December 31, 2018 and $28.4 million, all of which were current with respect to restructured contractual payments at December 31, 2017. There were no commitments to lend additional funds under these restructurings at either balance sheet date.

The following table presents by class the TDRs that were restructured during 2018 and 2017. Generally, the modifications were extensions of term, modifying the payment terms from principal and interest to interest only for an extended period, or reduction in interest rate. All TDRs are evaluated individually for allowance for loan loss purposes.

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Dollars in thousands	2018 Number of Modifications	2018 Pre-modification Recorded Investment	2018 Post-modification Recorded Investment	2017 Number of Modifications	2017 Pre-modification Recorded Investment	2017 Post-modification Recorded Investment
Commercial	2	$ 157	$ 157	—	$ —	$ —
Commercial real estate						
Owner-occupied	—	—	—	1	2,302	2,302
Non-owner occupied	2	183	183	2	489	489
Construction and development						
Land & land development	—	—	—	1	438	438
Residential real estate						
Non-jumbo	8	899	899	4	642	642
Total	12	$ 1,239	$ 1,239	8	$ 3,871	$ 3,871

The following table presents defaults during the stated period of TDRs that were restructured during the past twelve months. For purposes of these tables, a default is considered as either the loan was past due 30 days or more at any time during the period, or the loan was fully or partially charged off during the period.

Dollars in thousands	2018 Number of Defaults	2018 Recorded Investment at Default Date	2017 Number of Defaults	2017 Recorded Investment at Default Date
Commercial	2	$ 157	—	$ —
Commercial real estate				
Owner-occupied	—	—	1	2,291
Construction and development				
Land & land development	—	—	1	437
Residential real estate				
Non-jumbo	7	847	3	767
Total	9	$ 1,004	5	$ 3,495

The following table details the activity regarding TDRs by loan type during 2018 and the related allowance on TDRs.

2018

	Construction & Land Development			Commercial Real Estate		Residential Real Estate						
Dollars in thousands	Land & Land Develop-ment	Construc-tion	Commer-cial	Owner Occupied	Non-Owner Occupied	Non-jumbo	Jumbo	Home Equity	Mortgage Warehouse Lines	Con-sumer	Other	Total
Troubled debt restructurings												
Balance January 1, 2018	$ 3,043	$ —	$ 412	$ 9,545	$ 5,234	$ 5,195	$ 4,393	$ 523	$ —	$ 18	$ —	$ 28,363
Additions	—	—	157	—	183	899	—	—	—	—	—	1,239
Charge-offs	—	—	—	—	—	(55)	—	—	—	—	—	(55)
Net (paydowns) advances	(389)	—	(296)	(180)	(13)	(1,549)	(115)	—	—	(8)	—	(2,550)
Transfer into foreclosed properties	—	—	—	—	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—	—	—	—	—

Refinance out of TDR status												
Balance, December 31, 2018	$2,654	$ —	$273	$9,365	$5,404	$4,490	$4,278	$523	$ —	$10	$ —	$26,997
Allowance related to troubled debt restructurings	$298	$ —	$9	$270	$8	$189	$105	$—	$ —	$—	$ —	$879

We categorize loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. We analyze loans individually by classifying the loans as to credit risk. We internally grade all

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commercial loans at the time of loan origination. In addition, we perform an annual loan review on all non-homogenous commercial loan relationships with an aggregate exposure of $2.5 million, at which time these loans are re-graded. We use the following definitions for our risk grades:

Pass: Loans graded as Pass are loans to borrowers of acceptable credit quality and risk. They are higher quality loans that do not fit any of the other categories described below.

OLEM (Special Mention): Commercial loans categorized as OLEM are potentially weak. The credit risk may be relatively minor yet represent a risk given certain specific circumstances. If the potential weaknesses are not monitored or mitigated, the asset may weaken or inadequately protect our position in the future.

Substandard: Commercial loans categorized as Substandard are inadequately protected by the borrower's ability to repay, equity and/or the collateral pledged to secure the loan. These loans have identified weaknesses that could hinder normal repayment or collection of the debt. These loans are characterized by the distinct possibility that we will sustain some loss if the identified weaknesses are not mitigated.

Doubtful: Commercial loans categorized as Doubtful have all the weaknesses inherent in those loans classified as Substandard, with the added elements that the full collection of the loan is improbable and the possibility of loss is high.

Loss: Loans classified as loss are considered to be non-collectible and of such little value that their continuance as a bankable asset is not warranted. This does not mean that the loan has absolutely no recovery value, but rather it is neither practical nor desirable to defer writing off the loan, even though partial recovery may be obtained in the future.

The following table presents the recorded investment in construction and development, commercial and commercial real estate loans which are generally evaluated based upon our internal risk ratings defined above.

Loan Risk Profile by Internal Risk Rating

	Construction and Development						Commercial Real Estate					
	Land and Land Development		Construction		Commercial		Owner Occupied		Non-Owner Occupied		Mortgage Warehouse L	
Dollars in thousands	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	201
Pass	$63,743	$60,850	$24,589	$33,412	$182,651	$186,941	$259,360	$242,702	$556,609	$474,522	$39,140	$30
OLEM (Special Mention)	472	1,397	142	—	6,748	2,267	1,864	3,534	1,554	2,221	—	—
Substandard	4,618	4,972	—	—	4,916	773	5,138	3,966	6,663	8,159	—	—
Doubtful	—	—	—	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—	—	—	—
Total	$68,833	$67,219	$24,731	$33,412	$194,315	$189,981	$266,362	$250,202	$564,826	$484,902	$39,140	$30

The following table presents the recorded investment in consumer, residential real estate and home equity loans, which are generally evaluated based on the aging status of the loans, which was previously presented, and payment activity.

	Performing		Nonperforming	
Dollars in thousands	2018	2017	2018	2017
Residential real estate				
Non-jumbo	$330,445	$347,183	$6,532	$6,918
Jumbo	72,924	62,267	675	—
Home Equity	80,611	83,316	299	712

Consumer	32,312	35,932	148	270
Other	12,899	13,238	—	—
Total	$529,191	$541,936	$7,654	$7,900

Industry concentrations: At December 31, 2018 and 2017, we had no concentrations of loans to any single industry in excess of 10% of total loans.

Loans to related parties: We have had, and may be expected to have in the future, banking transactions in the ordinary course of business with our directors, principal officers, their immediate families and affiliated companies in which they are principal

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shareholders (commonly referred to as related parties). These transactions have been, in our opinion, on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others.

The following presents the activity with respect to related party loans aggregating $60,000 or more to any one related party (other changes represent additions to and changes in director and executive officer status):

Dollars in thousands	2018	2017
Balance, beginning	$45,698	$45,164
Additions	6,750	13,497
Amounts collected	(6,992)	(11,802)
Other changes, net	(1,557)	(1,161)
Balance, ending	$43,899	$45,698

NOTE 8. ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is maintained at a level considered adequate to provide for our estimate of probable credit losses inherent in the loan portfolio. The allowance is increased by provisions charged to operating expense and reduced by net charge-offs. Loans are charged against the allowance for loan losses when we believe that collectability is unlikely. While we use the best information available to make our evaluation, future adjustments may be necessary if there are significant changes in conditions.

The allowance is comprised of three distinct components: (1) specific allowances related to loans individually evaluated, (2) quantitative allowances related to loans collectively evaluated and (3) qualitative allowances related to loans collectively evaluated. A summary of the methodology we employ on a quarterly basis with respect to each of these components in order to evaluate the overall adequacy of our allowance for loan losses is as follows.

Specific Allowance for Loans Individually Evaluated

First, we identify loan relationships having aggregate balances in excess of $500,000 and that may also have credit weaknesses. Such loan relationships are identified primarily through our analysis of internal loan evaluations, past due loan reports and loans adversely classified internally or by regulatory authorities. Each loan so identified is then individually evaluated to determine whether it is impaired – that is, based on current information and events, it is probable that we will be unable to collect all amounts due in accordance with the contractual terms of the underlying loan agreement. Substantially all of our impaired loans historically have been collateral dependent, meaning repayment of the loan is expected or is considered to be provided solely from the sale of the loan's underlying collateral. For such loans, we measure impairment based on the fair value of the loan's collateral, which is generally determined utilizing current appraisals. A specific allowance is established in an amount equal to the excess, if any, of the recorded investment in each impaired loan over the fair value of its underlying collateral, less estimated costs to sell. Our policy is to re-evaluate the fair value of collateral dependent loans at least every twelve months unless there is a known deterioration in the collateral's value, in which case a new appraisal is obtained.

PCI loans are individually evaluated. The evaluation of the PCI loans requires continued quarterly assessment of key assumptions and estimates similar to the initial fair value estimate, including changes in the severity of loss, timing and speed of payments, collateral value changes, expected cash flows and other relevant factors. The quarterly assessment is compared to the initial fair value estimate and a determination is made if an adjustment to the allowance for loan loss is deemed necessary.

Quantitative Allowance for Loans Collectively Evaluated

Second, we stratify the loan portfolio into eleven loan pools. Quantitative allowances relative to each loan pool are established as follows: for all loan segments an allocation equaling 100% of the respective pool's average 12 month historical net loan charge-off rate (determined based upon the most recent twelve quarters) is applied to the aggregate recorded investment in the pool of loans. We believe that a twelve month historical loss rate is most indicative of the losses that can be expected. Purchased performing loans are collectively evaluated as their own separate category within each loan pool. The allowance on each pool is compared to the estimated fair value credit discount to determine if this discount remains adequate. If any credit discount is not adequate, additional allowances will be recognized.

Qualitative Allowance for Loans Collectively Evaluated

Third, we consider the necessity to adjust our average historical net loan charge-off rates relative to each of the above eleven loan pools for potential risks factors that could result in actual losses deviating from prior loss experience. For example, if we observe a significant increase in delinquencies within the conventional mortgage loan pool above historical trends, an additional allocation to the average historical loan charge-off rate is applied. Such qualitative risk factors considered are: (1) levels of and trends in delinquencies and impaired loans, (2) levels of and trends in charge-offs and recoveries, (3) trends in volume and term of loans, (4) effects of any changes in risk selection and underwriting standards and other changes in lending policies, procedures and practice, (5) experience, ability and depth of lending management and other relevant staff, (6) national and local economic trends and conditions, (7) industry conditions and (8) effects of changes in credit concentrations.

An analysis of the allowance for loan losses for the years ended December 31, 2018, 2017 and 2016 is as follows:

Dollars in thousands	2018	2017	2016
Balance, beginning of year	$12,565	$11,674	$11,472
Losses:			
Commercial	248	23	489
Commercial real estate			
Owner occupied	38	5	179
Non-owner occupied	619	65	124
Construction and development			
Land and land development	259	3	127
Construction	—	33	9
Residential real estate			
Non-jumbo	887	359	169
Jumbo	—	2	—
Home equity	26	158	175
Mortgage warehouse lines	—	—	—
Consumer	244	389	98
Other	282	251	185
Total	2,603	1,288	1,555
Recoveries:			
Commercial	16	124	73
Commercial real estate			
Owner occupied	23	89	31
Non-owner occupied	—	91	17
Construction and development			
Land and land development	270	278	840
Construction	—	—	—
Real estate - mortgage			
Non-jumbo	228	134	136
Jumbo	25	—	6
Home equity	10	30	3
Mortgage warehouse lines	—	—	—
Consumer	141	82	76
Other	122	101	75
Total	835	929	1,257
Net losses	1,768	359	298

Provision for loan losses	2,250	1,250	500
Balance, end of year	$13,047	$12,565	$11,674

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The following tables present the activity in the allowance for loan losses, balance in allowance for loan losses and recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2018 and 2017.

	For the Year Ended December 31, 2018 Allowance for loan losses					At December 31, 2018 Allowance related to:				At December 31, 2018 Loans			
Dollars in thousands	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	Loans acquired with deteriorated credit quality (PCI)	Total	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	Loans acquired with deteriorated credit quality (PCI)	Total
Commercial	$1,303	$(248)	$16	$634	$1,705	$682	$1,023	$—	$1,705	$4,362	$189,953	$—	$194,315
Commercial real estate													
Owner occupied	2,424	(38)	23	(195)	2,214	462	1,752	—	2,214	11,569	254,793	—	266,362
Non-owner occupied	4,950	(619)	—	1,411	5,742	9	5,729	4	5,742	9,855	553,809	1,162	564,826
Construction and development													
Land and land development	641	(259)	270	(313)	339	298	41	—	339	5,824	63,009	—	68,833
Construction	153	—	—	(89)	64	—	64	—	64	—	24,731	—	24,731
Residential real estate													
Non-jumbo	1,911	(887)	228	838	2,090	585	1,495	10	2,090	6,261	329,342	1,374	336,977
Jumbo	72	—	25	282	379	106	273	—	379	4,953	67,671	975	73,599
Home equity	638	(26)	10	(455)	167	—	167	—	167	523	80,387	—	80,910
Mortgage warehouse lines	—	—	—	—	—	—	—	—	—	—	39,140	—	39,140
Consumer	210	(244)	141	(28)	79	—	79	—	79	9	32,451	—	32,460
Other	263	(282)	122	165	268	—	268	—	268	—	12,899	—	12,899
Total	$12,565	$(2,603)	$835	$2,250	$13,047	$2,142	$10,891	$14	$13,047	$43,356	$1,648,185	$3,511	$1,695,052

	For the Year Ended December 31, 2017 Allowance for loan losses					At December 31, 2017 Allowance related to:				At December 31, 2017 Loans			
Dollars in thousands	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	Loans acquired with deteriorated credit quality (PCI)	Total	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	Loans acquired with deteriorated credit quality (PCI)	Total
Commercial	$934	$(23)	$124	$268	$1,303	$252	$1,051	$—	$1,303	$495	$189,477	$9	$189,981

Commercial real estate													
Owner occupied	2,109	(5)	89	231	2,424	125	2,299	—	2,424	9,545	239,968	689	250,202
Non-owner occupied	3,438	(65)	91	1,486	4,950	517	4,432	1	4,950	10,443	472,622	1,837	484,902
Construction and development													
Land and land development	2,263	(3)	278	(1,897)	641	524	117	—	641	6,482	60,737	—	67,219
Construction	24	(33)	—	162	153	—	153	—	153	—	33,412	—	33,412
Residential real estate													
Non-jumbo	2,174	(359)	134	(38)	1,911	158	1,747	6	1,911	5,907	346,709	1,485	354,101
Jumbo	95	(2)	—	(21)	72	14	58	—	72	4,393	56,875	999	62,267
Home equity	413	(158)	30	353	638	—	638	—	638	523	83,505	—	84,028
Mortgage warehouse lines	—	—	—	—	—	—	—	—	—	—	30,757	—	30,757
Consumer	121	(389)	82	396	210	—	210	—	210	17	36,185	—	36,202
Other	103	(251)	101	310	263	—	263	—	263	—	13,238	—	13,238
Total	$11,674	$(1,288)	$929	$1,250	$12,565	$1,590	$10,968	$7	$12,565	$37,805	$1,563,485	$5,019	$1,606,309

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NOTE 9. PROPERTY HELD FOR SALE

Property held for sale consists of premises held for sale and real estate acquired through foreclosure on loans secured by such real estate. Qualifying premises are transferred to property held for sale at estimated fair value less anticipated selling costs, establishing a new cost basis. Foreclosed properties are recorded at the lower of the investment in the real estate or estimated fair value less anticipated selling costs based upon the property's appraised value at the date of foreclosure, with any difference between the fair value of foreclosed property and the carrying value of the related loan charged to the allowance for loan losses. We perform periodic valuations of property held for sale subsequent to transfer. Changes in value subsequent to transfer are recorded in noninterest expense. Gains or losses resulting from the sale of property held for sale is recognized on the date of sale and is included in noninterest expense. Depreciation is not recorded on property held for sale. Expenses incurred in connection with operating foreclosed properties are charged to noninterest expense.

The following table presents the activity of property held for sale during 2018, 2017 and 2016.

Dollars in thousands	2018	2017	2016
Beginning balance	$21,470	$24,504	$25,567
Acquisitions	1,804	363	2,356
Acquisition of HCB	—	—	23
Acquisition of FCB	—	2,377	—
Capitalized improvements	1,304	316	463
Dispositions	(2,370)	(5,205)	(3,237)
Valuation adjustments	(776)	(885)	(668)
Balance at year end	$21,432	$21,470	$24,504

At December 31, 2018, our foreclosed properties of consumer residential real estate totaled $1.6 million.

NOTE 10. PREMISES AND EQUIPMENT

Land is carried at cost, while premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily by the straight-line method for premises and equipment over the estimated useful lives of the assets. The estimated useful lives employed are on average 30 years for premises and 3 to 10 years for furniture and equipment. Repairs and maintenance expenditures are charged to operating expenses as incurred. Major improvements and additions to premises and equipment, including construction period interest costs, are capitalized. No interest was capitalized during 2018, 2017, or 2016.

The major categories of premises and equipment and accumulated depreciation at December 31, 2018 and 2017 are summarized as follows:

Dollars in thousands	2018	2017
Land	$10,415	$10,061
Buildings and improvements	32,283	29,620
Furniture and equipment	19,783	17,842
	62,481	57,523
Less accumulated depreciation	24,928	23,314
Total premises and equipment, net	$37,553	$34,209

Depreciation expense for the years ended December 31, 2018, 2017 and 2016 approximated $2.17 million, $1.89 million and $1.22 million, respectively.

NOTE 11. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and certain other intangible assets with indefinite useful lives are not amortized into net income over an estimated life, but rather are tested at least annually for impairment. Intangible assets determined to have definite useful lives are amortized over their estimated useful lives and also are subject to impairment testing.

Effective July 1, 2017, we early adopted ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test
for Goodwill Impairment which simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from

the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Instead, under the amendments in this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The adoption of ASU 2017-04 had no impact on our consolidated financial statements.

During third quarter 2018, we performed the qualitative assessment of the goodwill of our community banking and insurance services reporting units and determined that the fair values of the reporting units were more likely than not greater than their carrying values. In performing the qualitative assessments, we considered certain events and circumstances specific to each reporting unit, such as macroeconomic conditions, industry and market considerations, overall financial performance and cost factors when evaluating whether it is more likely than not that the fair values of our community banking or insurance services reporting units are less than their carrying values. No indicators of impairment for either reporting unit were noted as of September 30, 2018.

The following table presents our goodwill activity by reporting unit for 2018.

	Goodwill Activity		
Dollars in thousands	Community Banking	Insurance Services	Total
Balance, January 1, 2018	$10,562	$ 4,710	$15,272
Reclassifications to goodwill	—	—	—
Acquired goodwill, net	—	—	—
Balance, December 31, 2018	$10,562	$ 4,710	$15,272

In addition, at December 31, 2018 and December 31, 2017, we had $10.57 million and $12.24 million in unamortized identified intangible assets comprised of $9.80 million core deposit intangible and $700,000 customer intangible at December 31, 2018 and $11.27 million core deposit intangible and $900,000 customer intangible at December 31, 2017.

	Other Intangible Assets					
	December 31, 2018			December 31, 2017		
Dollars in thousands	Community Banking	Insurance Services	Total	Community Banking	Insurances Services	Total
Identified intangible assets						
Gross carrying amount	$12,598	$ 3,000	$15,598	$12,598	$ 3,000	$15,598
Less: accumulated amortization	2,728	2,300	5,028	1,257	2,100	3,357
Net carrying amount	$9,870	$ 700	$10,570	$11,341	$ 900	$12,241

Amortization relative to our identified intangible assets is as follows:

Dollars in thousands	Core Deposit Intangible	Customer Intangible
Actual:		
2016	$ 47	$ 200
2017	1,210	200
2018	1,471	200
Expected:		
2019	1,368	200
2020	1,265	200
2021	1,162	200

2022	1,060	100
2023	957	—

NOTE 12. DEPOSITS

The following is a summary of interest bearing deposits by type as of December 31, 2018 and 2017:

Dollars in thousands	2018	2017
Demand deposits, interest bearing	$523,257	$410,606
Savings deposits	284,173	358,168
Time deposits	605,276	614,334
Total	$1,412,706	$1,383,108

Included in time deposits are deposits acquired through a third party ("brokered deposits") totaling $220.5 million and $216.9 million at December 31, 2018 and 2017, respectively.

A summary of the scheduled maturities for all time deposits as of December 31, 2018 is as follows:

Dollars in thousands	Amount
2019	$249,585
2020	175,665
2021	81,778
2022	34,397
2023	16,266
Thereafter	47,585
Total	$605,276

Time certificates of deposit in denominations of $100,000 or more totaled $417.3 million and $416.3 million at December 31, 2018 and 2017, respectively. The following is a summary of the maturity distribution of all certificates of deposit in denominations of $100,000 or more as of December 31, 2018:

Dollars in thousands	Amount	Percent
Three months or less	$41,752	10.0 %
Three through six months	52,370	12.5 %
Six through twelve months	70,479	16.9 %
Over twelve months	252,697	60.6 %
Total	$417,298	100.00%

The aggregate amount of time deposits in denominations that meet or exceed the FDIC insurance limit of $250,000 totaled $255.8 million and $239.6 million at December 31, 2018 and 2017.

At December 31, 2018 and 2017, our deposits of related parties including directors, executive officers and their related interests approximated $37.1 million and $16.0 million.

NOTE 13. BORROWED FUNDS

Our subsidiary bank is a member of the Federal Home Loan Bank ("FHLB"). Membership in the FHLB makes available short-term and long-term advances under collateralized borrowing arrangements with each subsidiary bank. All FHLB advances are collateralized primarily by similar amounts of residential mortgage loans, certain commercial loans, mortgage backed securities and securities of U. S. Government agencies and corporations. We had $159.3 million available on a short term line of credit with the Federal Reserve Bank at December 31, 2018, which is primarily secured by commercial and industrial loans and consumer loans. We also had $6 million available on an unsecured line of credit with a correspondent bank.

At December 31, 2018, our subsidiary bank had additional borrowings availability of $462.8 million from the FHLB. Short-term FHLB advances are granted for terms of 1 to 365 days and bear interest at a fixed or variable rate

set at the time of the funding request.

Short-term borrowings: At December 31, 2018, we had $165.3 million borrowing availability through credit lines and Federal funds purchased agreements. Federal funds purchased mature the next business day. A summary of short-term borrowings is presented below.

Dollars in thousands	2018 Short-term FHLB Advances	Federal Funds Purchased	2017 Short-term FHLB Advances	Short-term Repurchase Agreements	Federal Funds Purchased
Balance at December 31	$303,950	$5,134	$247,000	$ —	$3,499
Average balance outstanding for the period	223,764	4,378	201,712	519	3,512
Maximum balance outstanding at any month end during period	303,950	7,534	247,000	—	3,499
Weighted average interest rate for the period	2.18 %	1.95 %	1.19 %	0.12 %	1.10 %
Weighted average interest rate for balances outstanding at December 31	2.71 %	2.50 %	1.60 %	— %	1.50 %

Long-term borrowings: Our long-term borrowings of $735,000 and $45.8 million at December 31, 2018 and 2017, respectively, consisted primarily of advances from the FHLB and structured repurchase agreements with unaffiliated institutions. All FHLB advances are collateralized primarily by similar amounts of residential mortgage loans, certain commercial loans, mortgage backed securities and securities of U. S. Government agencies and corporations.

	Balance at December 31,	
Dollars in thousands	2018	2017
Long-term FHLB advances	$735	$751
Long-term repurchase agreements	—	45,000
Total	$735	$45,751

The average interest rate paid on long-term borrowings during 2018 was 4.26% compared to 4.33% in 2017. Our long term FHLB borrowings bear both fixed and variable rates and mature in varying amounts through the year 2026.

The securities underlying the repurchase agreements are under our control and secure the total outstanding balances. We generally account for securities sold under agreements to repurchase as collateralized financing transactions and record them at the amounts at which the securities were sold, plus accrued interest. Securities, generally U.S. government and Federal agency securities, pledged as collateral under these financing arrangements cannot be sold or repledged by the secured party. The fair value of collateral provided is continually monitored and additional collateral is provided as needed. At December 31, 2017, residential mortgage-backed securities issued by government sponsored agencies with a fair value of $50.0 million were pledged as collateral for the long-term repurchase agreements.

Subordinated debentures owed to unconsolidated subsidiary trusts: We have three statutory business trusts that were formed for the purpose of issuing mandatorily redeemable securities (the “capital securities”) for which we are obligated to third party investors and investing the proceeds from the sale of the capital securities in our junior subordinated debentures (the “debentures”). The debentures held by the trusts are their sole assets. Our subordinated debentures totaled $19.6 million at December 31, 2018 and 2017.

In October 2002, we sponsored SFG Capital Trust I, in March 2004, we sponsored SFG Capital Trust II and in December 2005, we sponsored SFG Capital Trust III, of which 100% of the common equity of each trust is owned by us. SFG Capital Trust I issued $3.5 million in capital securities and $109,000 in common securities and invested the proceeds in $3.61 million of debentures. SFG Capital Trust II issued $7.5 million in capital securities and $232,000 in common securities and invested the proceeds in $7.73 million of debentures. SFG Capital Trust III issued $8.0 million in capital securities and $248,000 in common securities and invested the proceeds in $8.25 million of debentures. Distributions on the capital securities issued by the trusts are payable quarterly at a variable interest rate equal to 3 month LIBOR plus 345 basis points for SFG Capital Trust I, 3 month LIBOR plus 280 basis points for SFG Capital Trust II and 3 month LIBOR plus 145 basis points for SFG Capital Trust III and equals the interest rate earned

on the debentures held by the trusts and is recorded as interest expense by us. The capital securities are subject to mandatory redemption in whole or in part, upon repayment of the debentures. We have entered into agreements which, taken collectively, fully and unconditionally guarantee the capital securities subject to the terms of the guarantee. The debentures of each Capital Trust are redeemable by us quarterly.

The capital securities held by SFG Capital Trust I, SFG Capital Trust II and SFG Capital Trust III qualify as Tier 1 capital under Federal Reserve Board guidelines. In accordance with these Guidelines, trust preferred securities generally are limited to 25% of Tier 1 capital elements, net of goodwill. The amount of trust preferred securities and certain other elements in excess of the limit can be included in Tier 2 capital.

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A summary of the maturities of all long-term borrowings and subordinated debentures for the next five years and thereafter is as follows:

Dollars in thousands	Long-term borrowings	Subordinated debentures owed to unconsolidated subsidiary trusts
2019	$ 18	$ —
2020	18	—
2021	19	—
2022	21	—
2023	22	—
Thereafter	637	19,589
Total	$ 735	$ 19,589

NOTE 14. DERIVATIVE FINANCIAL INSTRUMENTS

We use derivative instruments primarily to protect against the risk of adverse interest rate movements on the cash flows of certain liabilities. Derivative instruments represent contracts between parties that usually require little or no initial net investment and result in one party delivering cash or another type of asset to the other party based upon a notional amount and an underlying as specified in the contract. A notional amount represents the number of units of a specific item, such as currency units. An underlying represents a variable, such as an interest rate or price index. The amount of cash or other asset delivered from one party to the other is determined based upon the interaction of the notional amount of the contract with the underlying. Derivatives can also be implicit in certain contracts and commitments.

As with any financial instrument, derivative instruments have inherent risks, primarily market and credit risk. Market risk associated with changes in interest rates is managed by establishing and monitoring limits as to the degree of risk that may be undertaken as part of our overall market risk monitoring process. Credit risk occurs when a counterparty to a derivative contract with an unrealized gain fails to perform according to the terms of the agreement. Credit risk is managed by monitoring the size and maturity structure of the derivative portfolio and applying uniform credit standards to all activities with credit risk.

All derivative instruments are recorded on the balance sheet at fair value in either other assets or other liabilities. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction.

Fair value hedges – For transactions in which we are hedging changes in fair value of an asset, liability, or a firm commitment, changes in the fair value of the derivative instrument are generally offset in the income statement by changes in the hedged item's fair value.

Cash flow hedges – For transactions in which we are hedging the variability of cash flows related to a variable-rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative instrument are reported in other comprehensive income. The gains and losses on the derivative instrument, which are reported in comprehensive income, are reclassified to earnings in the periods in which earnings are impacted by the variability of cash flows of the hedged item.

The ineffective portion of all hedges is recognized in current period earnings.

Our derivatives are governed by the terms of ISDA Master netting agreements and Credit Support Annexes. The ISDA Master agreements allow counterparties to offset trades in a gain against trades in a loss to determine net exposure and allow for the right of offset in the event of either a default or an additional termination event. Credit Support Annexes govern the terms of daily collateral posting practices. Collateral practices mitigate the potential loss impact to affected parties by requiring liquid collateral to be posted on a scheduled basis to secure the aggregate net unsecured exposure. In addition to collateral, the right of offset allows counterparties to offset net derivative values with a defaulting party against certain other contractual receivables from other obligations due to the defaulting party in determining the net termination amount.

We have entered into three forward-starting, pay-fixed/receive LIBOR interest rate swaps. $40 million notional with an effective date of July 18, 2016, was designated as a cash flow hedge of $40 million of forecasted variable rate Federal Home Loan Bank advances. Under the terms of this swap we will pay a fixed rate of 2.98% for a 3 year period. $30 million notional with an effective date of April 18, 2016, was designated as a cash flow hedge of $30 million of forecasted variable rate Federal Home Loan Bank advances. Under the terms of this swap we will pay a fixed rate of 2.89% for a 4.5 year period. $40 million notional with an effective date of October 18, 2016, was designated as a cash flow hedge of $40 million of forecasted variable rate Federal Home Loan Bank advances. Under the terms of this swap we will pay a fixed rate of 2.84% for a 3 year period.

We have entered into two pay fixed/receive variable interest rate swaps to hedge the fair value variability of two commercial fixed rate loans with the same principal, amortization and maturity terms of the underlying loans, which are designated as fair value hedges. Under the terms of a $9.95 million original notional swap with an effective date of January 15, 2015, we will pay a fixed rate of 4.33% for a 10 year period. Under the terms of an $11.3 million original notional swap with an effective date of December 18, 2015, we will pay a fixed rate of 4.30% for a 10 year period.

A summary of our derivative financial instruments as of December 31, 2018 and 2017 follows:

	December 31, 2018			
		Derivative Fair Value		Net Ineffective
Dollars in thousands	Notional Amount	Asset	Liability	Hedge Gains/(Losses)
CASH FLOW HEDGES				
Pay-fixed/receive-variable interest rate swaps				
Short term borrowings	$110,000	$—	$ 411	$ —
FAIR VALUE HEDGES				
Pay-fixed/receive-variable interest rate swaps				
Commercial real estate loans	$19,399	$555	$ —	$ —

	December 31, 2017			
		Derivative Fair Value		Net Ineffective
Dollars in thousands	Notional Amount	Asset	Liability	Hedge Gains/(Losses)
CASH FLOW HEDGES				
Pay-fixed/receive-variable interest rate swaps				
Short term borrowings	$110,000	$—	$ 2,057	$ —
FAIR VALUE HEDGES				
Pay-fixed/receive-variable interest rate swaps				
Commercial real estate loans	$19,965	$312	$ —	$ —

Loan commitments: ASC Topic 815, Derivatives and Hedging, requires that commitments to make mortgage loans be accounted for as derivatives if the loans are to be held for sale, because the commitment represents a written option and accordingly is recorded at the fair value of the option liability.

NOTE 15. INCOME TAXES

Income taxes, computed on the separate return basis with the benefit of filing a consolidated return being recorded at the holding company, include Federal and state income taxes and are based on pretax net income reported in the

consolidated financial statements, adjusted for transactions that may never enter into the computation of income taxes payable (permanent differences). Deferred tax assets and liabilities are determined based on the differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Valuation allowances are established, when deemed necessary, to reduce deferred tax assets to the amount expected to be realized.

On December 22, 2017, the Tax Cuts and Jobs Act (“TCJA”) was signed into law. Among other things, the TCJA permanently lowered the federal corporate income tax rate to 21% from the prior maximum rate of 35%, effective January 1, 2018. As a result of the reduction of the federal corporate income tax rate, ASC 740 - Income Taxes, required us to remeasure our deferred

tax assets and deferred tax liabilities, including those accounted for in accumulated other comprehensive income, as of the date of TCJA's enactment and record the effects as income tax expense in the reporting period of enactment.

We remeasured our deferred tax assets and deferred tax liabilities as of December 22, 2017, at the new federal corporate income tax rate of 21%, and recorded additional deferred federal income tax expense of $3.5 million to reduce our net deferred tax assets.

A tax position that meets a "probable recognition threshold" for the benefit of the uncertain tax position is recognized in the financial statements. A tax position that fails to meet the probable recognition threshold will result in either reduction of a current or deferred tax asset or receivable, or recording a current or deferred tax liability. We concluded that there were no significant uncertain tax positions requiring recognition in the consolidated financial statements. The evaluation was performed for the years ended 2015 through 2018, the tax years which remain subject to examination by major tax jurisdictions.

The components of applicable income tax expense for the years ended December 31, 2018, 2017 and 2016, are as follows:

Dollars in thousands	2018	2017	2016
Current			
Federal	$6,400	$5,092	$7,738
State	973	496	627
	7,373	5,588	8,365
Deferred			
Federal	(304)	4,027	(353)
State	(45)	49	(4)
	(349)	4,076	(357)
Total	$7,024	$9,664	$8,008

Reconciliation between the amount of reported income tax expense and the amount computed by multiplying the statutory income tax rates by book pretax income for the years ended December 31, 2018, 2017 and 2016 is as follows:

	2018		2017		2016	
Dollars in thousands	Amount	Percent	Amount	Percent	Amount	Percent
Computed tax at applicable statutory rate	$7,370	21	$7,553	35	$8,857	35
Increase (decrease) in taxes resulting from:						
Tax-exempt interest and dividends, net	(1,011)	(3)	(1,569)	(7)	(1,080)	(4)
Non-deductible merger-related expenses	—	—	—	—	108	—
Low-income housing and rehabilitation tax credits	(286)	(1)	(247)	(1)	(55)	—
Impact of enacted income tax rate change	—	—	3,461	16	—	—
State income taxes, net of Federal income tax benefit	734	2	354	2	405	2
Other, net	217	1	112	—	(227)	(1)
Applicable income taxes	$7,024	20	$9,664	45	$8,008	32

Deferred income taxes reflect the impact of "temporary differences" between amounts of assets and liabilities for financial reporting purposes and such amounts as measured for tax purposes. Deferred tax assets and liabilities represent the future tax return consequences of temporary differences, which will either be taxable or deductible when

the related assets and liabilities are recovered or settled.

The tax effects of temporary differences, which give rise to our deferred tax assets and liabilities as of December 31, 2018 and 2017, are as follows:

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Dollars in thousands	2018	2017
Deferred tax assets		
Allowance for loan losses	$2,921	$2,753
Depreciation	405	523
Foreclosed properties	2,951	2,964
Deferred revenue	18	39
Deferred compensation	2,490	2,325
Other deferred costs and accrued expenses	645	551
Net unrealized loss on securities available for sale	265	—
Net unrealized loss on interest rate swaps	99	494
Capital loss carryforwards	166	166
Total	9,960	9,815
Deferred tax liabilities		
Accretion on tax-exempt securities	29	—
Net unrealized gain on securities available for sale	—	916
Other post-retirement benefits	44	125
Purchase accounting adjustments and goodwill	2,253	2,357
Total	2,326	3,398
Net deferred tax assets	$7,634	$6,417

We may from time to time be assessed interest or penalties associated with tax liabilities by major tax jurisdictions, although any such assessments are estimated to be minimal and immaterial. To the extent we have received an assessment for interest and/or penalties; it has been classified in the consolidated statements of income as a component of other noninterest expense.

We are currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2015 through 2017. Tax years 2016 through 2017 remain subject to West Virginia State examination.

NOTE 16. EMPLOYEE BENEFITS

Retirement Plans: We have defined contribution profit-sharing plans with 401(k) provisions covering substantially all employees. Contributions to the plans are at the discretion of the Board of Directors. Contributions made to the plans and charged to expense were $622,000, $556,000 and $381,000 for the years ended December 31, 2018, 2017 and 2016, respectively.

Employee Stock Ownership Plan: We have an Employee Stock Ownership Plan ("ESOP"), which enables eligible employees to acquire shares of our common stock. The cost of the ESOP is borne by us through annual contributions to an Employee Stock Ownership Trust in amounts determined by the Board of Directors.

The expense recognized by us is based on cash contributed or committed to be contributed by us to the ESOP during the year. Contributions to the ESOP for the years ended December 31, 2018, 2017 and 2016 were $646,000, $525,000 and $484,000 respectively. Dividends paid by us to the ESOP are reported as a reduction of retained earnings. The ESOP owned 588,193 shares of our common stock at December 31, 2018 and 2017, all of which were purchased at the prevailing market price. All but 86,954 unallocated shares at December 31, 2018 are considered outstanding for earnings per share computations.

The purchase of unallocated ESOP shares is shown as a reduction of shareholders' equity, similar to a purchase of treasury stock. The loan receivable from the ESOP to the Company is not reported as an asset nor is the debt of the ESOP reported as a liability on the Company's Consolidated Balance Sheets. Cash dividends on allocated shares (those credited to ESOP participants' accounts) are recorded as a reduction of shareholders' equity and distributed

directly to participants' accounts. Cash dividends on unallocated shares (those held by the ESOP not yet credited to participants' accounts) are used to pay a portion of the ESOPs debt service requirements.

Unallocated ESOP shares will be allocated to ESOP participants ratably as the ESOP's loan is repaid. When the shares are committed to be released and become available for allocation to plan participants, the then fair value of such shares will be charged to compensation expense.

The ESOP shares as of December 31 are as follows:

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ESOP Shares	At December 31,	
	2018	2017
Allocated shares	481,459	441,654
Shares committed to be released	19,780	39,805
Unallocated shares	86,954	106,734
Total ESOP shares	588,193	588,193
Market value of unallocated shares (in thousands)	$ 1,679	$ 2,809

Supplemental Executive Retirement Plan: We have certain non-qualified Supplemental Executive Retirement Plans ("SERP") with certain senior officers, which provide participating officers with an income benefit payable at retirement age or death. The liabilities accrued for the SERP's at December 31, 2018 and 2017 were $6.1 million and $5.5 million, respectively, which are included in other liabilities. Included in salaries, commissions and employee benefits was $669,000, $707,000 and $575,000 expense related to these SERPS for the years December 31, 2018, 2017 and 2016, respectively.

Share-Based Compensation: The 2014 Long-Term Incentive Plan ("2014 LTIP") was adopted by our shareholders in May 2014 to enhance the ability of the Company to attract and retain exceptionally qualified individuals to serve as key employees. The LTIP provides for the issuance of up to 500,000 shares of common stock, in the form of equity awards including stock options, restricted stock, restricted stock units, stock appreciation rights ("SARs"), performance units, other share-based awards or any combination thereof, to our key employees.

Stock options awarded under the 2009 Officer Stock Option Plan and the 1998 Officer Stock Option Plan (collectively, the "Plans") were not altered by the 2014 LTIP and remain subject to the terms of the Plans. However, under the terms of the 2014 LTIP, all shares of common stock remaining issuable under the Plans at the time the 2014 LTIP was adopted ceased to be available for future issuance.

Under the 2014 LTIP and the Plans, stock options and SARs have generally been granted with an exercise price equal to the fair value of Summit's common stock on the grant date. We periodically grant share based compensation to individual employees. There were no grants of stock options or SARs in 2018. During first quarter 2017, we granted 34,306 SARs with a $14.06 grant date fair value per SAR that become exercisable ratably over seven years (14.3% per year) and expire ten years after the grant date. Also during first quarter 2017, we granted 53,309 SARs with a $14.10 grant date fair value per SAR that become exercisable ratably over five years (20% per year) and expire ten years after the grant date. There were no grants of stock options or SARs in 2016.

The fair value of our employee stock options and SARs granted under the Plans is estimated at the date of grant using the Black-Scholes option-pricing model. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. Additionally, there may be other factors that would otherwise have a significant effect on the value of employee stock options and SARs granted but are not considered by the model. Because our employee stock options and SARs have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options and SARs at the time of grant. The assumptions used to value SARs are as follows:

	2017 grant with 7 year expiration	2017 grant with 5 year expiration
Risk-free interest rate	2.24 %	2.16 %
Expected dividend yield	1.45 %	1.45 %

Expected common stock volatility	59.60 %	60.05 %
Expected life	7 years	6.5 years

We recognize compensation expense based on the estimated number of stock awards expected to actually vest, exclusive of the awards expected to be forfeited. During 2018, 2017 and 2016, our stock compensation expense totaled $391,000, $385,000 and $200,000, respectively, and the related income tax benefits recognized in 2018, 2017 and 2016 were $94,000, $142,000 and $74,000 respectively.

A summary of activity in our Plans during 2016, 2017 and 2018 is as follows:

Dollars in thousands, except per share amounts	Options / SARs	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (Yrs.)	Exercise Price
Outstanding, December 31, 2015	244,147			$ 14.05
Granted	—			—
Exercised	(24,740)			18.08
Forfeited	—			—
Expired	(1,550)			18.79
Outstanding, December 31, 2016	217,857			$ 13.56
Granted	87,615			26.01
Exercised	(51,781)			13.62
Forfeited	—			—
Expired	(3,400)			24.97
Outstanding, December 31, 2017	250,291			$ 17.75
Granted	—			—
Exercised	(6,800)			17.79
Forfeited	(3,200)			25.50
Expired	(8,200)			25.54
Outstanding, December 31, 2018	232,091	$ 1,070	6.74	$ 17.36
Exercisable Options/SARs:				
December 31, 2018	95,924	$ 583	6.04	$ 14.82
December 31, 2017	62,646	687	4.92	$ 15.35
December 31, 2016	84,483	974	4.73	$ 16.00

The total intrinsic value of options and SARs exercised in 2018, 2017 and 2016 was $24,000, $694,000 and $240,000, respectively. The total fair value of options and SARs vested during 2018, 2017 and 2016 was $396,000, $200,000 and $200,000, respectively.

NOTE 17. COMMITMENTS AND CONTINGENCIES

Off-Balance Sheet Arrangements

We are a party to certain financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of our customers. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statement of financial position. The contract amounts of these instruments reflect the extent of involvement that we have in this class of financial instruments.

Many of our lending relationships contain both funded and unfunded elements. The funded portion is reflected on our balance sheet. The unfunded portion of these commitments is not recorded on our balance sheet until a draw is made under the loan facility. Since many of the commitments to extend credit may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash flow requirements.

A summary of the total unfunded, or off-balance sheet, credit extension commitments follows:

Dollars in thousands	December 31, 2018	December 31, 2017
Commitments to extend credit:		
Revolving home equity and credit card lines	$ 69,893	$ 69,187
Construction loans	85,392	44,323

Other loans	161,619	112,193
Standby letters of credit	6,366	3,870
Total	$ 323,270	$ 229,573

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. We evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if we deem

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necessary upon extension of credit, is based on our credit evaluation. Collateral held varies but may include accounts receivable, inventory, equipment or real estate.

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party and generally are of a term of no greater than one year.

Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance sheet instruments.

Operating leases

We occupy certain facilities under long-term operating leases. The aggregate minimum annual rental commitments under those leases total approximately $200,000 in 2019 and $53,000 in 2020. Total net rent expense included in the accompanying consolidated financial statements was $305,000 in 2018, $284,000 in 2017 and $256,000 in 2016.

Employment Agreements

We have various employment agreements with our executive officers and other key employees. These agreements contain change in control provisions that would entitle the officers to receive compensation in the event there is a change in control in the Company (as defined) and a termination of their employment without cause (as defined).

Legal Contingencies

On May 13, 2014, the ResCap Liquidating Trust (“ResCap”), as successor to Residential Funding Company, LLC f/k/a Residential Funding Corporation (“RFC”), filed a complaint against Summit Financial Mortgage, LLC (“Summit Mortgage”), a former residential mortgage subsidiary of Summit whose operations were discontinued in 2007.

On January 23, 2017, ResCap, as successor to RFC, filed a complaint against Summit Community Bank, Inc., as successor to Shenandoah Valley Community Bank (“Summit”), in the United States District Court for the District of Minnesota.

On April 24, 2017, Summit entered into a Settlement and Release Agreement (the “Settlement Agreement”) with the RFC parties with respect to both of the above reference ResCap lawsuits. Under the Settlement Agreement, Summit paid $9.9 million to fully resolve all claims by ResCap, and to avoid the further costs, disruption, and distraction of defending the ResCap lawsuits. Summit recorded a charge to noninterest expense in its consolidated statement of income for the year December 31, 2017 to recognize this settlement.

We are not a party to any other litigation except for matters that arise in the normal course of business. While it is impossible to ascertain the ultimate resolution or range of financial liability, if any, with respect to these contingent matters, in the opinion of management, the outcome of these matters will not have a significant adverse effect on the consolidated financial statements.

NOTE 18. REGULATORY MATTERS

The primary source of funds for our dividends paid to our shareholders is dividends received from our subsidiaries. Dividends paid by the subsidiary bank are subject to restrictions by banking law and regulations and require approval by the bank’s regulatory agency if dividends declared in any year exceed the bank’s current year's net income, as defined, plus its retained net profits of the two preceding years. During 2019, the Bank will have $25.6

million plus net income for the interim periods through the date of declaration, available for dividends for distribution to us.

Our subsidiary bank is required to maintain reserve balances with the Federal Reserve Bank. The required reserve balance was $1,603,000 at December 31, 2018.

Our bank subsidiary, Summit Community Bank, Inc. ("Summit Community"), is subject to various regulatory capital requirements administered by the banking regulatory agencies. Under the capital adequacy guidelines and the regulatory framework for prompt corrective action, Summit Community must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Our bank subsidiary's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Quantitative measures established by regulation to ensure capital adequacy

require Summit Community to maintain minimum amounts and ratios of Common Equity Tier 1("CET1"), Total capital and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). We believe, as of December 31, 2018, that our bank subsidiary met all capital adequacy requirements to which they were subject.

The most recent notifications from the banking regulatory agencies categorized Summit Community as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, Summit Community must maintain minimum CET1, Total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table below.

The Basel III Capital Rules became effective for us on January 1, 2015, with full compliance with all of the final rule's requirements phased-in over a multi-year schedule, to be fully phased-in by January 1, 2019. As of December 31, 2018, Summit Community's capital levels remained characterized as "well-capitalized" under the new rules. See the Capital Requirements section included in Part I, Item 1 -- Business for further discussion of Basel III.

On August 28, 2018, the Federal Reserve Board (the "Board") issued an interim final rule expanding the applicability of the Board's small bank holding company policy statement, as required by the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018. The interim final rule raises the small bank holding company policy statement's asset threshold from $1 billion to $3 billion in total consolidated assets, and as a result, our holding company was exempted from all regulatory capital guidelines, to which it previously had been subject, until such time as its consolidated assets exceed $3 billion.

The following table presents Summit's, as well as Summit Community's, actual and required minimum capital amounts and ratios as of December 31, 2018 and 2017 under the Basel III Capital Rules. The minimum required capital levels presented below reflect the minimum required capital levels (inclusive of the full capital conservation buffers) that will be effective as of January 1, 2019 when the Basel III Capital Rules have been fully phased-in. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

Our actual capital amounts and ratios as well as our subsidiary, Summit Community Bank's ("Summit Community") are presented in the following table.

	Actual		Minimum Required Capital - Basel III Fully Phased-in		Minimum Required To Be Well Capitalized	
Dollars in thousands	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2018						
CET1 (to risk weighted assets)						
Summit	$197,551	11.1%	N/A	N/A	N/A	N/A
Summit Community	213,930	12.0%	124,793	7.0 %	115,879	6.5 %
Tier I Capital (to risk weighted assets)						
Summit	216,551	12.2%	N/A	N/A	N/A	N/A
Summit Community	213,930	12.0%	151,534	8.5 %	142,620	8.0 %
Total Capital (to risk weighted assets)						
Summit	229,598	12.9%	N/A	N/A	N/A	N/A
Summit Community	226,977	12.8%	186,192	10.5%	177,326	10.0%
Tier I Capital (to average assets)						
Summit	216,551	10.1%	N/A	N/A	N/A	N/A
Summit Community	213,930	10.0%	85,572	4.0 %	106,965	5.0 %

As of December 31, 2017						
CET1 (to risk weighted assets)						
Summit	177,010	10.6%	116,893	7.0 %	108,544	6.5 %
Summit Community	195,008	11.7%	116,671	7.0 %	108,338	6.5 %
Tier I Capital (to risk weighted assets)						
Summit	196,010	11.8%	141,194	8.5 %	132,888	8.0 %
Summit Community	195,008	11.7%	141,672	8.5 %	133,339	8.0 %
Total Capital (to risk weighted assets)						
Summit	208,575	12.5%	175,203	10.5%	166,860	10.0%
Summit Community	207,573	12.5%	174,361	10.5%	166,058	10.0%
Tier I Capital (to average assets)						
Summit	196,010	9.4 %	83,409	4.0 %	104,261	5.0 %
Summit Community	195,008	9.4 %	82,982	4.0 %	103,728	5.0 %

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NOTE 19. SEGMENT INFORMATION

We operate three business segments: community banking, insurance services and trust and wealth management services. These segments are primarily identified by the products or services offered. The community banking segment consists of our full service banks which offer customers traditional banking products and services through various delivery channels. The insurance services segment includes two insurance agency offices that sell insurance products. The trust and wealth management segment includes Summit Community Bank's trust division and other non-bank investment products. The accounting policies discussed throughout the notes to the consolidated financial statements apply to each of our business segments.

Inter-segment revenue and expense consists of management fees allocated to the community banking, insurance services and trust and wealth management segments for all centralized functions that are performed by the parent, including overall direction in the areas of strategic planning, investment portfolio management, asset/liability management, financial reporting and other financial and administrative services. Information for each of our segments is included below:

	December 31, 2018					
Dollars in thousands	Community Banking	Trust and Wealth Management	Insurance Services	Parent	Eliminations	Total
Net interest income	$70,668	$ —	$ —	$(871)	$—	$69,797
Provision for loan losses	2,250	—	—	—	—	2,250
Net interest income after provision for loan losses	68,418	—	—	(871)	—	67,547
Other income	10,559	2,653	4,210	1,555	(1,555)	17,422
Other expenses	43,165	2,104	3,594	2,565	(1,555)	49,873
Income (loss) before income taxes	35,812	549	616	(1,881)	—	35,096
Income tax expense (benefit)	7,111	132	155	(374)	—	7,024
Net income (loss)	$28,701	417	$461	$(1,507)	$—	$28,072
Inter-segment revenue (expense)	$(1,436)	$ —	$(119)	$1,555	$—	$—
Average assets	$2,146,357	$ —	$6,085	$231,737	$(255,137)	$2,129,042
Capital expenditures	$5,435	$ —	$24	$86	$—	$5,545

	December 31, 2017					
Dollars in thousands	Community Banking	Trust and Wealth Management	Insurance Services	Parent	Eliminations	Total
Net interest income	$66,837	$ —	$ —	$(690)	$—	$66,147
Provision for loan losses	1,250	—	—	—	—	1,250
Net interest income after provision for loan losses	65,587	—	—	(690)	—	64,897
Other income	8,671	1,863	3,893	1,964	(1,964)	14,427
Other expenses	52,221	1,712	3,314	2,462	(1,964)	57,745
Income (loss) before income taxes	22,037	151	579	(1,188)	—	21,579
Income tax expense (benefit)	9,672	56	65	(129)	—	9,664
Net income (loss)	$12,365	95	$514	$(1,059)	$—	$11,915
Inter-segment revenue (expense)	$(1,804)	$ —	$(160)	$1,964	$—	$—
Average assets	$2,028,054	$ —	$6,200	$208,468	$(236,382)	$2,006,340
Capital expenditures	$6,054	$ —	$39	$92	$—	$6,185

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Dollars in thousands	December 31, 2016 Community Banking	Trust and Wealth Management	Insurance Services	Parent	Eliminations	Total
Net interest income	$49,649	—	$—	$(642)	$—	$49,007
Provision for loan losses	500	—	—	—	—	500
Net interest income after provision for loan losses	49,149	—	—	(642)	—	48,507
Other income	7,213	449	3,951	1,541	(1,554)	11,600
Other expenses	29,482	415	3,638	2,821	(1,554)	34,802
Income (loss) before income taxes	26,880	34	313	(1,922)	—	25,305
Income tax expense (benefit)	8,566	13	144	(715)	—	8,008
Net income (loss)	18,314	21	169	(1,207)	—	17,297
Inter-segment revenue (expense)	$(1,441)	$ —	$(113)	$1,554	$—	$—
Average assets	$1,620,723	$ —	$5,984	$173,999	$(201,109)	$1,599,597
Capital expenditures	$1,730	$ —	$36	$91	$—	$1,857

NOTE 20. EARNINGS PER SHARE

The computations of basic and diluted earnings per share follow:

	For the Year Ended December 31,								
	2018			2017			2016		
Dollars in thousands, except per share amounts	Income (Numerator)	Common Shares (Denominator)	Per Share	Income (Numerator)	Common Shares (Denominator)	Per Share	Income (Numerator)	Common Shares (Denominator)	Per Share
Net income	$28,072			$11,915			$17,297		
Basic EPS	$28,072	12,364,468	$2.27	$11,915	11,918,390	$1.00	$17,297	10,689,224	$1.62
Effect of dilutive securities:									
Stock options		7,071			11,338			11,612	
Stock appreciation rights (SARs)		53,034			19,517			16,035	
Diluted EPS	$28,072	12,424,573	$2.26	$11,915	11,949,245	$1.00	$17,297	10,716,871	$1.61

Stock option and SAR grants and the convertible preferred shares are disregarded in this computation if they are determined to be anti-dilutive. At December 31, 2018, our anti-dilutive stock options were 7,700 shares and anti-dilutive SARs totaled 87,615. All outstanding stock options and SARs were dilutive at December 31, 2017. At December 31, 2016, anti-dilutive options totaled 23,400 shares.

NOTE 21. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The following are the changes in accumulated other comprehensive (loss) income by component, net of tax, for the years ended December 31, 2018 and 2017.

Dollars in thousands	December 31, 2018 Gains on Other Post-Retirement Benefits	Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Available-for-Sale Securities	Total
Beginning balance	$398	$(1,564)	$ 2,898	$1,732

Other comprehensive income (loss) before reclassification	(259)	1,250	(3,266)	(2,275)
Amounts reclassified from accumulated other comprehensive income	—	—	(473)	(473)
Net current period other comprehensive income (loss)	(259)	1,250	(3,739)	(2,748)
Ending balance	$139	$(314)	$ (841)	$(1,016)

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	December 31, 2017			
Dollars in thousands	Gains on Other Post-Retirement Benefits	Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Available-for-Sale Securities	Total
Beginning balance	$—	$(2,906)	$ (356)	$(3,262)
Other comprehensive income (loss) before reclassification	328	1,610	2,749	4,687
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	9	9
Net current period other comprehensive income (loss)	328	1,610	2,758	4,696
AOCI reclass related to TCJA enactment	70	(268)	496	298
Ending balance	398	$(1,564)	$ 2,898	$1,732

NOTE 22. REVENUE FROM CONTRACTS WITH CUSTOMERS

Interest income, loan fees, realized securities gains and losses, bank owned life insurance income and mortgage banking revenue are not in the scope of ASC Topic 606, Revenue from Contracts with Customers. With the exception of gains or losses on sales of foreclosed properties, all of our revenue from contracts with customers in the scope of ASC 606 is recognized within Noninterest Income in the Consolidated Statements of Income. Incremental costs of obtaining a contract are expensed when incurred when the amortization period is one year or less.

As of December 31, 2018, remaining performance obligations consisted of insurance products with an original expected length of one year or less.

A description of our significant sources of revenue accounted for under ASC 606 follows:

Service fees on deposit accounts are fees we charge our deposit customers for transaction-based, account maintenance and overdraft services. Transaction-based fees, which are earned based on specific transactions or customer activity within a customer’s deposit account, are recognized at the time the related transaction or activity occurs, as it is at this point when we fulfill the customer’s request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which Summit satisfied the performance obligation. Overdraft fees are recognized when the overdraft occurs. Service fees on deposit accounts are paid through a direct charge to the customer’s account.

Bank card revenue is comprised of interchange revenue and ATM fees. Interchange revenue is earned when Summit’s debit and credit cardholders conduct transactions through Mastercard and other payment networks. Interchange fees represent a percentage of the underlying cardholder’s transaction value and are generally recognized daily, concurrent with the transaction processing services provided to the cardholder. ATM fees are earned when a non-Summit cardholder uses a Summit ATM. ATM fees are recognized daily, as the related ATM transactions are settled.

Trust and wealth management fees consist of 1) trust fees and 2) commissions earned from an independent, third-party broker-dealer. We earn trust fees from our contracts with trust clients to administer or manage assets for investment. Trust fees are earned over time (generally monthly) as Summit provides the contracted services and are assessed based on the value of assets under management at each month-end. We earn commissions from investment brokerage services provided to our clients by an independent, third-party broker-dealer. We receive monthly commissions from the third-party broker-dealer based upon client activity for the previous month.

Insurance commissions principally consist of commissions we earn as agents of insurers for selling group employee benefit and property and casualty insurance products to clients. Group employee benefit insurance commissions are recognized over time (generally monthly) as the related customary implied servicing obligations of group policyholders are fulfilled. Property and casualty insurance commissions are recognized using methods which approximate the time of placement of the underlying policy. We are paid insurance commissions ratably as the related policy premiums are paid by clients.

The following table illustrates our total non-interest income segregated by revenues within the scope of ASC Topic 606 and those which are within the scope of other ASC Topics:

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Dollars in thousands	For the Year Ended December 31, 2018	2017	2016
Service fees on deposit accounts	$4,631	$4,109	$2,656
Bank card revenue	3,152	2,697	1,869
Trust and wealth management fees	2,653	1,863	449
Insurance commissions	4,320	4,005	4,022
Other	246	227	137
Net revenue from contracts with customers	15,002	12,901	9,133
Non-interest income within the scope of other ASC topics	2,420	1,526	2,467
Total noninterest income	$17,422	$14,427	$11,600

Gain or loss on sale of foreclosed properties is recorded when control of the property transfers to the buyer, which generally occurs at the time of transfer of the deed. If Summit finances the sale of a foreclosed property to the buyer, we assess whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed property is derecognized and the gain or loss on sale is recorded upon transfer of control of the property to the buyer. For the years ended December 31, 2018, 2017 and 2016 net (losses)/gains on sales of foreclosed properties were ($82,000), $157,000 and $916,000, respectively.

NOTE 23. CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY

Information relative to our parent company balance sheets at December 31, 2018 and 2017 and the related statements of income and cash flows for the years ended December 31, 2018, 2017 and 2016, are presented as follows:

Balance Sheets

Dollars in thousands	December 31, 2018	2017
Assets		
Cash	$4,326	$2,299
Investment in subsidiaries	236,422	219,980
Other investments	77	77
Premises and equipment	126	94
Other assets	1,365	1,318
Total assets	$242,316	$223,768
Liabilities and Shareholders' Equity		
Subordinated debentures owed to unconsolidated subsidiary trusts	$19,589	$19,589
Other liabilities	2,897	2,674
Total liabilities	22,486	22,263
Preferred stock, $1.00 par value, authorized 250,000 shares	—	—
Common stock and related surplus, $2.50 par value, authorized 20,000,000 shares; issued: 12,399,887 shares 2018, 12,465,296 shares 2017; outstanding: 12,312,933 shares 2018, 12,358,562 shares 2017	80,431	81,098
Unallocated common stock held by Employee Stock Ownership Plan - 2018 - 86,954 shares, 2017 - 106,734 shares	(939)	(1,152)
Retained earnings	141,354	119,827
Accumulated other comprehensive (loss) income	(1,016)	1,732
Total shareholders' equity	219,830	201,505
Total liabilities and shareholders' equity	$242,316	$223,768

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Statements of Income

Dollars in thousands	For the Year Ended December 31, 2018	2017	2016
Income			
Dividends from subsidiaries	$10,600	$6,500	$5,070
Other dividends and interest income	28	24	21
Realized securities losses	—	—	(14)
Management and service fees from subsidiaries	1,555	1,964	1,554
Total income	12,183	8,488	6,631
Expense			
Interest expense	899	714	663
Operating expenses	2,565	2,462	2,820
Total expenses	3,464	3,176	3,483
Income before income taxes and equity in undistributed income of subsidiaries	8,719	5,312	3,148
Income tax (benefit)	(374)	(129)	(715)
Income before equity in undistributed income of subsidiaries	9,093	5,441	3,863
Equity in undistributed income of subsidiaries	18,979	6,474	13,434
Net income	$28,072	$11,915	$17,297

Statements of Cash Flows

Dollars in thousands	For the Year Ended December 31, 2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$28,072	$11,915	$17,297
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiaries	(18,979)	(6,474)	(13,434)
Deferred tax (benefit) expense	(8)	346	(214)
Depreciation	41	39	36
Realized securities losses	—	—	14
Share-based compensation expense	181	174	96
Earnings on bank owned life insurance	7	(1)	5
(Increase) decrease in other assets	(375)	535	(277)
Increase in other liabilities	1,036	512	1,104
Net cash provided by operating activities	9,975	7,046	4,627
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds sales of available for sale securities	—	—	86
Purchases of premises and equipment	(86)	(92)	(56)
Proceeds from sale of premises and equipment	13	60	—
Net cash (used in) provided by investing activities	(73)	(32)	30
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on common stock	(6,545)	(5,238)	(4,272)
Exercise of stock options	122	303	447
Repayment of long-term borrowings	—	(902)	(1,805)
Purchase and retirement of common stock	(1,689)	—	—
Net proceeds from issuance of common stock	237	10	101
Net cash used in financing activities	(7,875)	(5,827)	(5,529)
Increase (decrease) in cash	2,027	1,187	(872)
Cash:			

Beginning	2,299	1,112	1,984
Ending	$4,326	$2,299	$1,112
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash payments for:			
Interest	$875	$704	$654

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures: Our management, including the Chief Executive Officer and Chief Financial Officer, have conducted as of December 31, 2018, an evaluation of the effectiveness of disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures as of December 31, 2018 were effective.

Management’s Report on Internal Control Over Financial Reporting: Information required by this item is set forth on page 44.

Attestation Report of the Registered Public Accounting Firm: Information required by this item is set forth on page 45.

Changes in Internal Control Over Financial Reporting: There were no changes in our internal control over financial reporting during the quarter ended December 31, 2018, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None

PART III.

Item 10. Directors, Executive Officers and Corporate Governance

Information required by this item is set forth under the caption “Section 16(a) Beneficial Ownership Reporting Compliance”, under the headings "NOMINEES WHOSE TERMS EXPIRE IN 2021", “NOMINEES WHOSE TERMS EXPIRE IN 2022”, “DIRECTORS WHOSE TERMS EXPIRE IN 2021", “DIRECTORS WHOSE TERMS EXPIRE IN 2020” and “EXECUTIVE OFFICERS” and under the captions “Family Relationships”, “Director Qualifications and Review of Director Nominees”, “Compensation and Nominating Committee” and “Audit and Compliance Committee” in our 2019 Proxy Statement and is incorporated herein by reference.

We have adopted a Code of Ethics that applies to our chief executive officer, chief financial officer, chief accounting officer and all directors, officers and employees. We have posted this Code of Ethics on our internet website at www.summitfgi.com under “Governance Documents”. Any amendments to or waivers from any provision of the Code of Ethics applicable to the chief executive officer, chief financial officer, or chief accounting officer will be disclosed by timely posting such information on our internet website.

There have been no material changes to the procedures by which shareholders may recommend nominees since the disclosure of the procedures in our 2018 proxy statement.

Item 11. Executive Compensation

Information required by this item is set forth under the heading "COMPENSATION DISCUSSION AND ANALYSIS", “EXECUTIVE COMPENSATION” and "COMPENSATION AND NOMINATING COMMITTEE REPORT" in our 2019 Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table provides information on our equity compensation plans as of December 31, 2018.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (#) (1)	Weighted-average exercise price of outstanding options, warrants and rights ($)	Number of securities remaining available for future issuance under equity compensation plans (#) (2)
Equity compensation plans approved by stockholders	64,584	$ 17.36	245,668
Equity compensation plans not approved by stockholders	—	—	