SUMMIT FINANCIAL GROUP INC
Form 10-Q
August 07, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10 – Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2015
or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from ___________ to __________.

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)	(IRS Employer Identification No.)
300 North Main Street Moorefield, West Virginia	26836
(Address of principal executive offices)	(Zip Code)

(304) 530-1000
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities and 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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).
Yes þ No o

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

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 the number of shares outstanding of each of the issuer’s classes of Common Stock as of the latest practicable date.

Common Stock, $2.50 par value
10,843,676 shares outstanding as of August 6, 2015

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Consolidated Balance Sheets (unaudited)

Dollars in thousands	June 30, 2015 (unaudited)	December 31, 2014 (*)	June 30, 2014 (unaudited)
ASSETS			
Cash and due from banks	$3,988	$3,728	$3,749
Interest bearing deposits with other banks	9,274	8,782	9,970
Cash and cash equivalents	13,262	12,510	13,719
Securities available for sale	276,661	282,834	287,883
Other investments	8,583	6,183	7,436
Loans held for sale, net	—	527	413
Loans, net	1,064,472	1,019,842	992,816
Property held for sale	31,500	37,529	48,783
Premises and equipment, net	20,490	20,060	20,301
Accrued interest receivable	5,473	5,838	5,683
Intangible assets	7,598	7,698	7,798
Cash surrender value of life insurance policies	37,222	36,700	36,151
Other assets	14,708	13,847	14,975
Total assets	$1,479,969	$1,443,568	$1,435,958
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits			
Non interest bearing	$113,256	$115,427	$106,134
Interest bearing	940,054	945,887	951,661
Total deposits	1,053,310	1,061,314	1,057,795
Short-term borrowings	174,599	123,633	91,729
Long-term borrowings	76,536	77,490	121,942
Subordinated debentures	2,500	16,800	16,800
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589	19,589
Other liabilities	13,363	13,098	10,638
Total liabilities	1,339,897	1,311,924	1,318,493
Commitments and Contingencies			
Shareholders' Equity			
Preferred stock and related surplus - authorized 250,000 shares;			
Series 2009, 8% Non-cumulative convertible preferred stock, par value $1.00; issued December 2014 - 3,610 shares, and June 2014 - 3,710 shares	—	3,419	3,519
Series 2011, 8% Non-cumulative convertible preferred stock, par value $1.00; issued December 2014 - 11,914 shares, and June 2014 - 11,914 shares	—	5,764	5,764
Common stock and related surplus - authorized 20,000,000 shares; $2.50 par value; issued and outstanding 2015 - 10,843,676 shares, December 2014 - 8,301,746 shares, and June 2014 - 7,457,222	45,563	32,670	24,691

shares			
Retained earnings	94,318	87,719	81,569
Accumulated other comprehensive income	191	2,072	1,922
Total shareholders' equity	140,072	131,644	117,465
Total liabilities and shareholders' equity	$1,479,969	$1,443,568	$1,435,958

(*) - December 31, 2014 financial information has been extracted from audited consolidated financial statements
See Notes to Consolidated Financial Statements

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Consolidated Statements of Income (unaudited)

Dollars in thousands, except per share amounts	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Interest income				
Interest and fees on loans				
Taxable	$12,854	$12,428	$25,588	$24,572
Tax-exempt	118	87	233	159
Interest and dividends on securities				
Taxable	1,092	1,199	2,368	2,481
Tax-exempt	593	628	1,211	1,198
Interest on interest bearing deposits with other banks	1	2	2	4
Total interest income	14,658	14,344	29,402	28,414
Interest expense				
Interest on deposits	2,074	2,335	4,145	4,576
Interest on short-term borrowings	126	59	238	112
Interest on long-term borrowings and subordinated debentures	1,000	1,630	2,041	3,368
Total interest expense	3,200	4,024	6,424	8,056
Net interest income	11,458	10,320	22,978	20,358
Provision for loan losses	500	1,000	750	2,000
Net interest income after provision for loan losses	10,958	9,320	22,228	18,358
Other income				
Insurance commissions	1,080	1,091	2,208	2,273
Service fees related to deposit accounts	1,072	1,101	2,048	2,144
Realized securities gains (losses)	170	(43)	650	(64)
Bank owned life insurance income	261	270	522	539
Other	277	287	571	598
Total other-than-temporary impairment loss on securities	—	(1)	—	(1)
Portion of loss recognized in other comprehensive income	—	—	—	—
Net impairment loss recognized in earnings	—	(1)	—	(1)
Total other income	2,860	2,705	5,999	5,489
Other expense				
Salaries, commissions, and employee benefits	4,442	4,045	8,629	8,026
Net occupancy expense	489	505	988	1,046
Equipment expense	560	513	1,095	1,079
Professional fees	372	282	707	598
Amortization of intangibles	50	63	100	150
FDIC premiums	320	495	650	997
Foreclosed properties expense	158	229	366	482
Loss on sale of foreclosed properties	103	54	253	129
Write-down of foreclosed properties	160	962	732	1,891
Other	1,407	1,382	2,746	2,630
Total other expense	8,061	8,530	16,266	17,028
Income before income taxes	5,757	3,495	11,961	6,819

Income tax expense	1,747	1,063	3,667	1,997
Net Income	4,010	2,432	8,294	4,822
Dividends on preferred shares	—	193	—	387
Net Income applicable to common shares	$4,010	$2,239	$8,294	$4,435
Basic earnings per common share	$0.38	$0.30	$0.85	$0.59
Diluted earnings per common share	$0.38	$0.25	$0.78	$0.50

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Consolidated Statement of Comprehensive Income (unaudited)

	For the Three Months Ended June 30,	
Dollars in thousands	2015	2014
Net income	$4,010	$2,432
Other comprehensive income (loss):		
Net unrealized gain (loss) on cashflow hedge of:		
2015 - $379, net of deferred taxes of $140; 2014 - ($1,173), net of deferred taxes of ($434)	239	(739)
Net unrealized gain (loss) on available for sale debt securities of:		
2015 - ($2,683), net of deferred taxes of ($993) and reclassification adjustment for net realized gains included in net income of $170; 2014 - $2,282, net of deferred taxes of $844 and reclassification adjustment for net realized (losses) included in net income of ($43)	(1,690)	1,438
Total comprehensive income	$2,559	$3,131

	For the Six Months Ended June 30,	
Dollars in thousands	2015	2014
Net income	$8,294	$4,822
Other comprehensive income (loss):		
Net unrealized (loss) on cashflow hedge of:		
2015 - ($1,030), net of deferred taxes of ($381); 2014 - ($2,384), net of deferred taxes of ($882)	(649)	(1,502)
Net unrealized gain (loss) on available for sale debt securities of:		
2015 - ($1,956), net of deferred taxes of ($724) and reclassification adjustment for net realized gains included in net income of $650; 2014 - $5,468, net of deferred taxes of $2,023 and reclassification adjustment for net realized (losses) included in net income of ($64)	(1,232)	3,445
Total comprehensive income	$6,413	$6,765

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Consolidated Statements of Shareholders’ Equity (unaudited)

Dollars in thousands, except per share amounts	Series 2009 Preferred Stock and Related Surplus	Series 2011 Preferred Stock and Related Surplus	Common Stock and Related Surplus	Retained Earnings	Accumulated Other Compre-hensive Income	Total Share-holders' Equity
Balance, December 31, 2014	$3,419	$5,764	$32,670	$87,719	$2,072	$131,644
Six Months Ended June 30, 2015						
Comprehensive income:						
Net income	—	—	—	8,294	—	8,294
Other comprehensive (loss)	—	—	—	—	(1,881)	(1,881)
Total comprehensive income						6,413
Stock compensation expense	—	—	50	—	—	50
Conversion of Series 2009 Preferred Stock to Common Stock	(3,419)	—	3,405	—	—	(14)
Conversion of Series 2011 Preferred Stock to Common Stock	—	(5,764)	5,749	—	—	(15)
Issuance of 496,335 shares of Common Stock	—	—	4,769	—	—	4,769
Retirement of 100,000 shares of Common Stock	—	—	(1,080)	—	—	(1,080)
Common Stock cash dividends declared ($0.16 per share)	—	—	—	(1,695)	—	(1,695)
Balance, June 30, 2015	$—	$—	$45,563	$94,318	$191	$140,072
Balance, December 31, 2013	$3,519	$5,776	$24,664	$77,134	$(21)	$111,072
Six Months Ended June 30, 2014						
Comprehensive income:						
Net income	—	—	—	4,822	—	4,822
Other comprehensive income	—	—	—	—	1,943	1,943
Total comprehensive income						6,765
Exercise of stock options	—	—	15	—	—	15
Conversion of Series 2011 Preferred Stock to Common Stock	—	(12)	12	—	—	—
Series 2009 Preferred Stock cash dividends declared ($40.00 per share)	—	—	—	(149)	—	(149)
Series 2011 Preferred Stock cash dividends declared ($20.00 per share)	—	—	—	(238)	—	(238)
Balance, June 30, 2014	$3,519	$5,764	$24,691	$81,569	$1,922	$117,465

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Consolidated Statements of Cash Flows (unaudited)

Dollars in thousands	Six Months Ended June 30, 2015	June 30, 2014
Cash Flows from Operating Activities		
Net income	$8,294	$4,822
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	523	547
Provision for loan losses	750	2,000
Stock compensation expense	50	—
Deferred income tax expense	360	494
Loans originated for sale	(1,417)	(960)
Proceeds from loans sold	1,944	868
Securities (gains) losses	(650)	64
Other-than-temporary impairment of securities	—	1
Loss on disposal of assets	255	129
Write down of foreclosed properties	732	1,891
Amortization of securities premiums (accretion of discounts), net	2,603	2,517
Amortization of intangibles, net	106	155
Decrease (increase) in accrued interest receivable	365	(15)
Increase in cash surrender value of bank owned life insurance	(522)	(539)
Increase in other assets	(847)	(492)
(Decrease) increase in other liabilities	(296)	388
Net cash provided by operating activities	12,250	11,870
Cash Flows from Investing Activities		
Proceeds from maturities and calls of securities available for sale	615	3,001
Proceeds from sales of securities available for sale	40,593	36,230
Principal payments received on securities available for sale	20,380	16,664
Purchases of securities available for sale	(59,324)	(52,110)
Purchases of other investments	(6,072)	(1,968)
Proceeds from sales & redemptions of other investments	3,672	2,347
Net principal payments received on loans	(46,372)	(59,716)
Purchases of premises and equipment	(954)	(224)
Proceeds from sales of other repossessed assets & property held for sale	6,482	4,846
Net cash (used in) investing activities	(40,980)	(50,930)
Cash Flows from Financing Activities		
Net increase (decrease) in demand deposit, NOW and savings accounts	(9,902)	64,451
Net increase (decrease) in time deposits	1,869	(10,468)
Net increase in short-term borrowings	50,966	28,960
Repayment of long-term borrowings	(954)	(41,574)
Repayment of subordinated debt	(14,300)	—
Net proceeds from issuance of common stock	4,741	—
Retirement of common stock	(1,080)	—
Exercise of stock options	—	15
Dividends paid on common stock	(1,667)	—
Dividends paid on preferred stock	(191)	(387)
Net cash provided by financing activities	29,482	40,997
Increase in cash and cash equivalents	752	1,937

Cash and cash equivalents:		
Beginning	12,510	11,782
Ending	$13,262	$13,719

(Continued)

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows (unaudited) - continued

Dollars in thousands	Six Months Ended June 30, 2015	June 30, 2014
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	$6,456	$8,294
Income taxes	$3,632	$1,459
Supplemental Schedule of Noncash Investing and Financing Activities		
Other assets acquired in settlement of loans	$713	$1,970

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NOTE 1. BASIS OF PRESENTATION

We, Summit Financial Group, Inc. and subsidiaries, prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America for interim financial information and with instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for annual year end financial statements. In our opinion, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature.

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these estimates.

The results of operations for the quarter ended June 30, 2015 are not necessarily indicative of the results to be expected for the full year. The consolidated financial statements and notes included herein should be read in conjunction with our 2014 audited financial statements and Annual Report on Form 10-K. Certain accounts in the consolidated financial statements for December 31, 2014 and June 30, 2014, as previously presented, have been reclassified to conform to current year classifications.

NOTE 2. SIGNIFICANT NEW AUTHORITATIVE ACCOUNTING GUIDANCE

ASU 2014-1, Investments (Topic 323) - Accounting for Investments in Affordable Housing Projects revises the necessary criteria that need to be met in order for an entity to account for investments in affordable housing projects net of the provision for income taxes. It also changes the method of recognition from an effective amortization approach to a proportional amortization approach. Additional disclosures were also set forth in this update. ASU 2014-1 was effective for us on January 1, 2015 and did not have a significant impact on our financial statements.

ASU 2014-4, Receivables (Topic 310) - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure clarifies that an in substance repossession or foreclosure occurs upon either the creditor obtaining legal title to the residential real estate property or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. ASU 2014-4 was effective for us on January 1, 2015 and did not have a significant impact on our financial statements.

ASU 2014-11, Transfers and Servicing (Topic 860) - Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures requires that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In addition, ASU 2014-11 requires separate accounting for repurchase financings, which entails the transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty. ASU 2014-11 requires entities to disclose certain information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements. In addition, ASU 2014-11 requires disclosures related to collateral, remaining contractual tenor and of the potential risks associated with repurchase agreements, securities lending transactions and repurchase-to-maturity transactions. ASU 2014-11 was effective for us on January 1, 2015 and did not have a significant impact on our financial statements.

ASU 2015-01, Income Statement - Extraordinary and Unusual Items (Subtopic 225-20) - Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items eliminates from U.S. GAAP the concept of extraordinary items, which, among other things, required an entity to segregate extraordinary items considered to be unusual and infrequent from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. ASU 2015-01 is effective for us beginning January 1, 2016, though early adoption is permitted, and is not expected to have a significant impact on our financial statements.

ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs specifies that debt issuance costs related to a recognized liability are to be reported in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. ASU 2015-03 is effective for years beginning after December 31, 2015 and is not expected to have a material impact on our financial statements.

NOTE 3. FAIR VALUE MEASUREMENTS

ASC Topic 820 defines fair value as 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. ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

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 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, 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 Securities: Investment 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 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.

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 market 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 in accordance with ASC Topic 310, Accounting by Creditors for Impairment of a Loan. The fair value of impaired loans is estimated 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. In accordance with ASC Topic 310, impaired loans where an allowance is established based on the fair value of collateral requires classification 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 generally are received 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.

Foreclosed properties: Foreclosed properties consists of real estate acquired in foreclosure or other settlement of loans. 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.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

	Balance at	Fair Value Measurements Using:		
Dollars in thousands	June 30, 2015	Level 1	Level 2	Level 3
Available for sale securities				
U.S. Government sponsored agencies	$25,389	$—	$25,389	$—
Mortgage backed securities:				
Government sponsored agencies	152,943	—	152,943	—
Nongovernment sponsored entities	9,962	—	9,962	—
State and political subdivisions	1,684	—	1,684	—
Corporate debt securities	11,806	—	8,003	3,803
Other equity securities	7	—	7	—
Tax-exempt state and political subdivisions	74,870	—	74,870	—
Total available for sale securities	$276,661	$—	$272,858	$3,803
Derivative financial liabilities				
Interest rate swaps	$3,664	$—	$3,664	$—

	Balance at	Fair Value Measurements Using:		
Dollars in thousands	December 31, 2014	Level 1	Level 2	Level 3
Available for sale securities				
U.S. Government sponsored agencies	$23,174	$—	$23,174	$—
Mortgage backed securities:				
Government sponsored agencies	149,777	—	149,777	—

Nongovernment sponsored entities	12,145	—	12,145	—
State and political subdivisions	8,694	—	8,694	—
Corporate debt securities	3,776	—	—	3,776
Other equity securities	7	—	7	—
Tax-exempt state and political subdivisions	85,261	—	85,261	—
Total available for sale securities	$282,834	$—	$279,058	$3,776
Derivative financial liabilities				
Interest rate swaps	$2,911	$—	$2,911	$—

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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 table below.

	Balance at	Fair Value Measurements Using:		
Dollars in thousands	June 30, 2015	Level 1	Level 2	Level 3
Residential mortgage loans held for sale	$—	$—	$—	$—
Collateral-dependent impaired loans				
Commercial	$—	$—	$—	$—
Commercial real estate	433	—	433	—
Construction and development	—	—	—	—
Residential real estate	1,274	—	1,140	134
Total collateral-dependent impaired loans	$1,707	$—	$1,573	$134
Foreclosed properties				
Commercial real estate	1,968	—	1,968	—
Construction and development	18,802	—	18,744	58
Residential real estate	1,240	—	1,240	—
Total foreclosed properties	$22,010	$—	$21,952	$58

	Balance at	Fair Value Measurements Using:		
Dollars in thousands	December 31, 2014	Level 1	Level 2	Level 3
Residential mortgage loans held for sale	$527	$—	$527	$—
Collateral-dependent impaired loans				
Commercial	$44	—	$—	$44
Commercial real estate	344	—	344	—
Construction and development	852	—	852	—
Residential real estate	312	—	312	—
Total collateral-dependent impaired loans	$1,552	$—	$1,508	$44
Foreclosed properties				
Commercial real estate	3,892	—	3,892	—
Construction and development	20,952	—	20,841	111
Residential real estate	2,025	—	2,025	—
Total foreclosed properties	$26,869	$—	$26,758	$111

ASC Topic 825, Financial Instruments, requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The following summarizes the methods and significant assumptions we used in estimating our fair value disclosures for financial instruments.

Cash and cash equivalents: The carrying values of cash and cash equivalents approximate their estimated fair value.

Interest bearing deposits with other banks: The carrying values of interest bearing deposits with other banks approximate their estimated fair values.

Federal funds sold: The carrying values of Federal funds sold approximate their estimated fair values.

Securities: Estimated fair values of securities are based on quoted market prices, where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities.

Loans held for sale: The carrying values of loans held for sale approximate their estimated fair values.

Loans: The estimated fair values for loans are computed based on scheduled future cash flows of principal and interest, discounted at interest rates currently offered for loans with similar terms to borrowers of similar credit quality. No prepayments of principal are assumed.

Accrued interest receivable and payable: The carrying values of accrued interest receivable and payable approximate their estimated fair values.

Deposits: The estimated fair values of demand deposits (i.e. non-interest bearing checking, NOW, money market and savings accounts) and other variable rate deposits approximate their carrying values. Fair values of fixed maturity deposits are estimated using a discounted cash flow methodology at rates currently offered for deposits with similar remaining maturities. Any intangible value of long-term relationships with depositors is not considered in estimating the fair values disclosed.

Short-term borrowings: The carrying values of short-term borrowings approximate their estimated fair values.

Long-term borrowings: The fair values of long-term borrowings are estimated by discounting scheduled future payments of principal and interest at current rates available on borrowings with similar terms.

Subordinated debentures: The carrying values of subordinated debentures approximate their estimated fair values.

Subordinated debentures owed to unconsolidated subsidiary trusts: The carrying values of subordinated debentures owed to unconsolidated subsidiary trusts approximate their estimated fair values.

Derivative financial instruments: The fair value of the interest rate swaps is valued using independent pricing models.

Off-balance sheet instruments: The fair values of commitments to extend credit and standby letters of credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit standing of the counter parties. The amounts of fees currently charged on commitments and standby letters of credit are deemed insignificant, and therefore, the estimated fair values and carrying values are not shown below.

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

	June 30, 2015		December 31, 2014	
Dollars in thousands	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets				
Cash and cash equivalents	$13,262	$13,262	$12,510	$12,510
Securities available for sale	276,661	276,661	282,834	282,834
Other investments	8,583	8,583	6,183	6,183
Loans held for sale, net	—	—	527	527
Loans, net	1,064,472	1,069,508	1,019,842	1,033,890
Accrued interest receivable	5,473	5,473	5,838	5,838
	$1,368,451	$1,373,487	$1,327,734	$1,341,782
Financial liabilities				
Deposits	$1,053,310	$1,068,532	$1,061,314	$1,078,406
Short-term borrowings	174,599	174,599	123,633	123,633

Long-term borrowings	76,536	82,861	77,490	84,732
Subordinated debentures	2,500	2,500	16,800	16,800
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589	19,589	19,589
Accrued interest payable	812	812	812	812
Derivative financial liabilities	3,664	3,664	2,911	2,911
	$1,331,010	$1,352,557	$1,302,549	$1,326,883

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NOTE 4. EARNINGS PER SHARE

The computations of basic and diluted earnings per share follow:

	For the Three Months Ended June 30,					
	2015			2014		
Dollars in thousands, except per share amounts	Income (Numerator)	Common Shares (Denominator)	Per Share	Income (Numerator)	Common Shares (Denominator)	Per Share
Net income	$4,010			$2,432		
Less preferred stock dividends	—			(193)		
Basic EPS	$4,010	10,667,892	$0.38	$2,239	7,457,222	$0.30
Effect of dilutive securities:						
Stock options		8,582			9,607	
Series 2011 convertible preferred stock	—	—		119	1,489,250	
Series 2009 convertible preferred stock	—	—		74	674,545	
Diluted EPS	$4,010	10,676,474	$0.38	$2,432	9,630,624	$0.25

	For the Six Months Ended June 30,					
	2015			2014		
Dollars in thousands, except per share amounts	Income (Numerator)	Common Shares (Denominator)	Per Share	Income (Numerator)	Common Shares (Denominator)	Per Share
Net income	$8,294			$4,822		
Less preferred stock dividends	—			(387)		
Basic EPS	$8,294	9,747,042	$0.85	$4,435	7,455,307	$0.59
Effect of dilutive securities:						
Stock options		8,574			9,675	
Series 2011 convertible preferred stock	—	575,953		238	1,490,228	
Series 2009 convertible preferred stock	—	253,842		149	674,545	
Diluted EPS	$8,294	10,585,411	$0.78	$4,822	9,629,755	$0.50

Stock option and stock appreciation right (SAR) grants and the convertible preferred shares are disregarded in this computation if they are determined to be anti-dilutive. Our anti-dilutive stock options at June 30, 2015 and 2014 totaled 136,900 shares and 143,000 shares, respectively and our anti-dilutive SARs at June 30, 2015 were 166,717.

NOTE 5. SECURITIES

The amortized cost, unrealized gains, unrealized losses and estimated fair values of securities at June 30, 2015, December 31, 2014, and June 30, 2014 are summarized as follows:

	June 30, 2015			
	Amortized	Unrealized		Estimated
Dollars in thousands	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable debt securities				
U.S. Government and agencies and corporations	$24,336	$1,093	$40	$25,389
Residential mortgage-backed securities:				
Government-sponsored agencies	150,675	3,005	737	152,943
Nongovernment-sponsored entities	9,880	116	34	9,962
State and political subdivisions				
General obligations	—	—	—	—
Water and sewer revenues	500	3	—	503
Lottery/casino revenues	1,218	—	37	1,181
Other revenues	—	—	—	—
Corporate debt securities	11,896	—	90	11,806
Total taxable debt securities	198,505	4,217	938	201,784
Tax-exempt debt securities				
State and political subdivisions				
General obligations	49,067	1,463	586	49,944
Water and sewer revenues	7,982	52	33	8,001
Special tax revenues	4,548	30	72	4,506
Lottery/casino revenues	3,576	58	74	3,560
Other revenues	8,729	162	32	8,859
Total tax-exempt debt securities	73,902	1,765	797	74,870
Equity securities	7	—	—	7
Total available for sale securities	$272,414	$5,982	$1,735	$276,661

	December 31, 2014			
	Amortized	Unrealized		Estimated
Dollars in thousands	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable debt securities				
U.S. Government and agencies and corporations	$22,153	$1,073	$52	$23,174
Residential mortgage-backed securities:				
Government-sponsored agencies	147,951	2,599	773	149,777
Nongovernment-sponsored entities	12,051	142	48	12,145
State and political subdivisions				
General obligations	1,975	2	33	1,944
Water and sewer revenues	1,976	14	7	1,983
Other revenues	4,696	73	2	4,767
Corporate debt securities	3,776	—	—	3,776
Total taxable debt securities	194,578	3,903	915	197,566
Tax-exempt debt securities				
State and political subdivisions				
General obligations	49,515	2,338	12	51,841

Water and sewer revenues	11,258	244	3	11,499
Lease revenues	4,617	75	10	4,682
Lottery/casino revenues	3,811	206	9	4,008
Other revenues	12,845	404	18	13,231
Total tax-exempt debt securities	82,046	3,267	52	85,261
Equity securities	7	—	—	7
Total available for sale securities	$276,631	$7,170	$967	$282,834

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	June 30, 2014			
	Amortized	Unrealized		Estimated
Dollars in thousands	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable debt securities:				
U.S. Government and agencies and corporations	$24,998	$885	$53	$25,830
Residential mortgage-backed securities:				
Government-sponsored agencies	155,631	2,921	997	157,555
Nongovernment-sponsored agencies	9,555	385	9	9,931
State and political subdivisions:				
General obligations	4,532	9	144	4,397
Water and sewer revenues	2,382	7	44	2,345
Other revenues	3,319	7	33	3,293
Corporate debt securities	—	—	—	—
Total taxable debt securities	200,417	4,214	1,280	203,351
Tax-exempt debt securities:				
State and political subdivisions:				
General obligations	46,859	1,552	204	48,207
Water and sewer revenues	11,868	176	58	11,986
Lease revenues	7,990	54	68	7,976
Lottery/casino revenues	3,832	145	41	3,936
Other revenues	12,205	198	53	12,350
Total tax-exempt debt securities	82,754	2,125	424	84,455
Equity securities	77	—	—	77
Total available for sale securities	$283,248	$6,339	$1,704	$287,883

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.

	June 30, 2015			
	Amortized	Unrealized		Estimated
Dollars in thousands	Cost	Gains	Losses	Fair Value
West Virginia	$11,744	$104	$64	$11,784
Illinois	8,936	147	71	9,012
California	7,037	258	58	7,237
Ohio	7,594	19	181	7,432
Texas	6,226	334	64	6,496

Management performs pre-purchase and ongoing analysis to confirm that all investment securities meet applicable credit quality standards. Prior to July 1, 2013, we principally used 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. Beginning July 1, 2013, in addition to considering a security’s NRSRO rating, we now 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 maturities, amortized cost and estimated fair values of securities at June 30, 2015, are summarized as follows:

Dollars in thousands	Amortized	Estimated

	Cost	Fair Value
Due in one year or less	$62,419	$63,555
Due from one to five years	100,922	102,208
Due from five to ten years	24,159	24,681
Due after ten years	84,907	86,210
Equity securities	7	7
	$272,414	$276,661

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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, for the six months ended June 30, 2015 are as follows:

	Proceeds from			Gross realized	
Dollars in thousands	Sales	Calls and Maturities	Principal Payments	Gains	Losses
Securities available for sale	$40,593	$615	$20,380	$852	$202

We held 83 available for sale securities having an unrealized loss at June 30, 2015. 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 additional other-than-temporary impairment charge to earnings is warranted at this time.

Provided below is a summary of securities available for sale which were in an unrealized loss position at June 30, 2015 and December 31, 2014, including debt securities for which a portion of other-than-temporary impairment has been recognized in other comprehensive income.

	June 30, 2015					
	Less than 12 months		12 months or more		Total	
Dollars in thousands	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Temporarily impaired securities						
Taxable debt securities						
U.S. Government agencies and corporations	$247	$—	$3,489	$(40)	$3,736	$(40)
Residential mortgage-backed securities:						
Government-sponsored agencies	42,805	(638)	5,906	(99)	48,711	(737)
Nongovernment-sponsored entities	6,278	(34)	—	—	6,278	(34)
State and political subdivisions:						
Lottery/casino revenues	1,181	(37)	—	—	1,181	(37)
Corporate debt securities	8,003	(90)	—	—	8,003	(90)
Tax-exempt debt securities						
State and political subdivisions:						
General obligations	25,066	(586)	—	—	25,066	(586)
Water and sewer revenues	3,463	(33)	—	—	3,463	(33)
Special tax revenues	2,541	(72)			2,541	(72)
Lottery/casino revenues	1,781	(74)	—	—	1,781	(74)
Other revenues	2,512	(32)	—	—	2,512	(32)
Total temporarily impaired securities	93,877	(1,596)	9,395	(139)	103,272	(1,735)
Total other-than-temporarily impaired securities	—	—	—	—	—	—
Total	$93,877	$(1,596)	$9,395	$(139)	$103,272	$(1,735)

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Dollars in thousands	December 31, 2014 Less than 12 months Estimated Fair Value	Unrealized Loss	12 months or more Estimated Fair Value	Unrealized Loss	Total Estimated Fair Value	Unrealized Loss
Temporarily impaired securities						
Taxable debt securities						
U.S. Government agencies and corporations	$—	$—	$3,912	$(52)	$3,912	$(52)
Residential mortgage-backed securities:						
Government-sponsored agencies	36,825	(535)	21,915	(238)	58,740	(773)
Nongovernment-sponsored entities	5,488	(44)	2,163	(4)	7,651	(48)
State and political subdivisions:						
General obligations	—	—	316	(33)	316	(33)
Water and sewer revenues	—	—	817	(7)	817	(7)
Other revenues	1,098	(2)	—	—	1,098	(2)
Tax-exempt debt securities						
State and political subdivisions:						
General obligations	3,708	(8)	438	(4)	4,146	(12)
Water and sewer revenues	721	(3)	—	—	721	(3)
Lease revenues	—	—	1,168	(10)	1,168	(10)
Lottery/casino revenues	—	—	1,126	(9)	1,126	(9)
Other revenues	1,247	(8)	846	(10)	2,093	(18)
Total temporarily impaired securities	49,087	(600)	32,701	(367)	81,788	(967)
Total other-than-temporarily impaired securities	—	—	—	—	—	—
Total	$49,087	$(600)	$32,701	$(367)	$81,788	$(967)

NOTE 6. 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 (which are risk-rated) 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 off 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), which ever 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.

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Loans are summarized as follows:

Dollars in thousands	June 30, 2015	December 31, 2014	June 30, 2014
Commercial	$97,284	$88,590	$90,096
Commercial real estate			
Owner-occupied	191,743	157,783	154,260
Non-owner occupied	331,056	317,136	314,439
Construction and development			
Land and land development	64,435	67,881	64,246
Construction	18,214	28,591	20,902
Residential real estate			
Non-jumbo	220,199	220,071	219,569
Jumbo	49,203	52,879	52,487
Home equity	72,504	67,115	61,248
Consumer	18,683	19,456	19,777
Other	12,423	11,507	6,798
Total loans, net of unearned fees	1,075,744	1,031,009	1,003,822
Less allowance for loan losses	11,272	11,167	11,006
Loans, net	$1,064,472	$1,019,842	$992,816

The following table presents the contractual aging of the recorded investment in past due loans by class as of June 30, 2015 and 2014 and December 31, 2014.

	At June 30, 2015					
	Past Due					> 90 days and Accruing
Dollars in thousands	30-59 days	60-89 days	> 90 days	Total	Current	
Commercial	$344	$—	$661	$1,005	$96,279	$—
Commercial real estate						
Owner-occupied	118	—	630	748	190,995	—
Non-owner occupied	320	5,629	309	6,258	324,798	—
Construction and development						
Land and land development	—	21	5,228	5,249	59,186	—
Construction	—	—	—	—	18,214	—
Residential mortgage						
Non-jumbo	2,263	1,335	2,137	5,735	214,464	—
Jumbo	—	1,111	724	1,835	47,368	—
Home equity	171	195	37	403	72,101	—
Consumer	204	27	34	265	18,410	8
Other	—	—	—	—	12,423	—
Total	$3,420	$8,318	$9,760	$21,498	$1,054,238	$8

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	At December 31, 2014					
	Past Due					
Dollars in thousands	30-59 days	60-89 days	> 90 days	Total	Current	> 90 days and Accruing
Commercial	$328	$117	$330	$775	$87,815	$—
Commercial real estate						
Owner-occupied	121	194	801	1,116	156,667	—
Non-owner occupied	146	—	406	552	316,584	—
Construction and development						
Land and land development	346	2,002	4,253	6,601	61,280	—
Construction	—	—	—	—	28,591	—
Residential mortgage						
Non-jumbo	4,104	2,719	1,498	8,321	211,750	—
Jumbo	—	—	2,626	2,626	50,253	—
Home equity	1,067	94	83	1,244	65,871	—
Consumer	260	42	63	365	19,091	—
Other	—	—	—	—	11,507	—
Total	$6,372	$5,168	$10,060	$21,600	$1,009,409	$—

	At June 30, 2014					
	Past Due					
Dollars in thousands	30-59 days	60-89 days	> 90 days	Total	Current	> 90 days and Accruing
Commercial	$33	$363	$396	$792	$89,304	$—
Commercial real estate						
Owner-occupied	642	348	759	1,749	152,511	—
Non-owner occupied	237	—	234	471	313,968	—
Construction and development						
Land and land development	142	14	4,860	5,016	59,230	—
Construction	—	—	—	—	20,902	—
Residential mortgage						
Non-jumbo	3,198	1,760	2,060	7,018	212,551	—
Jumbo	707	723	—	1,430	51,057	—
Home equity	196	36	143	375	60,873	—
Consumer	452	183	72	707	19,070	—
Other	—	—	—	—	6,798	—
Total	$5,607	$3,427	$8,524	$17,558	$986,264	$—

Nonaccrual loans: The following table presents the nonaccrual loans included in the net balance of loans at June 30, 2015, December 31, 2014 and June 30, 2014.

Dollars in thousands	June 30, 2015	2014	December 31, 2014
Commercial	$1,065	$416	$392
Commercial real estate			
Owner-occupied	880	953	1,218
Non-owner occupied	1,541	583	626
Construction and development			
Land & land development	5,627	8,849	4,619
Construction	—	—	—
Residential mortgage			

Non-jumbo	3,501	2,950	2,663
Jumbo	724	—	2,626
Home equity	208	339	267
Consumer	37	129	83
Total	$13,583	$14,219	$12,494

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Impaired loans: Impaired loans include the following:

Loans which we risk-rate (consisting of loan relationships having aggregate balances in excess of $2.0 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 in a troubled debt restructuring, 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.

The table below sets forth information about our impaired loans.

Method Used to Measure Impairment of Impaired Loans
Dollars in thousands

Loan Category	June 30, 2015	2014	December 31, 2014	Method used to measure impairment
Commercial	$41	$506	$132	Fair value of collateral
	302	—	362	Discounted cash flow
Commercial real estate				
Owner-occupied	5,654	1,924	1,683	Fair value of collateral
	9,015	8,969	9,124	Discounted cash flow
Non-owner occupied	1,607	513	508	Fair value of collateral
	6,140	5,236	5,999	Discounted cash flow
Construction and development				
Land & land development	9,002	14,023	11,998	Fair value of collateral
	2,270	1,446	2,310	Discounted cash flow
Residential mortgage				
Non-jumbo	1,791	3,440	1,676	Fair value of collateral
	4,475	2,592	5,252	Discounted cash flow
Jumbo	5,655	6,648	7,594	Fair value of collateral
	880	2,073	886	Discounted cash flow
Home equity	186	186	285	Fair value of collateral
	523	—	523	Discounted cash flow
Consumer	—	37	2	Fair value of collateral
	75	—	82	Discounted cash flow
Total	$47,616	$47,593	$48,416	

The following tables present loans individually evaluated for impairment at June 30, 2015, December 31, 2014 and June 30, 2014.

	June 30, 2015				
Dollars in thousands	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized while impaired
Without a related allowance					
Commercial	$343	$343	$—	$362	$42
Commercial real estate					
Owner-occupied	10,101	10,100	—	8,156	598
Non-owner occupied	6,938	6,940	—	6,333	566
Construction and development					
Land & land development	11,139	11,139	—	11,916	672
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	3,307	3,316	—	3,345	318
Jumbo	4,933	4,931	—	7,472	474
Home equity	710	709	—	709	61
Consumer	74	75	—	77	14
Total without a related allowance	$37,545	$37,553	$—	$38,370	$2,745
With a related allowance					
Commercial	$—	$—	$—	$—	$—
Commercial real estate					
Owner-occupied	4,569	4,569	232	4,577	378
Non-owner occupied	806	807	64	799	55
Construction and development					
Land & land development	133	133	133	534	63
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	2,948	2,950	331	2,959	239
Jumbo	1,600	1,604	71	1,600	89
Home equity	—	—	—	—	—
Consumer	—	—	—	—	—
Total with a related allowance	$10,056	$10,063	$831	$10,469	$824
Total					
Commercial	$34,029	$34,031	$429	$32,677	$2,374
Residential real estate	13,498	13,510	402	16,085	1,181
Consumer	74	75	—	77	14
Total	$47,601	$47,616	$831	$48,839	$3,569

Dollars in thousands	December 31, 2014 Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized while impaired
Without a related allowance					
Commercial	$370	$369	$—	$430	$27
Commercial real estate					
Owner-occupied	5,362	5,361	—	5,309	192
Non-owner occupied	3,645	3,647	—	4,420	199
Construction and development					
Land & land development	13,410	13,410	—	14,149	483
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	4,289	4,300	—	3,853	185
Jumbo	7,589	7,594	—	7,761	241
Home equity	809	808	—	265	14
Consumer	84	84	—	36	2
Total without a related allowance	$35,558	$35,573	$—	$36,223	$1,343
With a related allowance					
Commercial	$125	$125	$81	$38	$—
Commercial real estate					
Owner-occupied	5,446	5,446	287	5,461	216
Non-owner occupied	2,860	2,860	74	1,003	40
Construction and development					
Land & land development	898	898	46	933	42
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	2,627	2,628	282	2,093	98
Jumbo	885	886	46	892	45
Home equity	—	—	—	—	—
Consumer	—	—	—	—	—
Total with a related allowance	$12,841	$12,843	$816	$10,420	$441
Total					
Commercial	$32,116	$32,116	$488	$31,743	$1,199
Residential real estate	16,199	16,216	328	14,864	583
Consumer	84	84	—	36	2
Total	$48,399	$48,416	$816	$46,643	$1,784

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	June 30, 2014				
Dollars in thousands	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized while impaired
Without a related allowance					
Commercial	$506	$506	$—	$506	$35
Commercial real estate					
Owner-occupied	6,287	6,288	—	6,287	248
Non-owner occupied	5,012	5,014	—	5,012	249
Construction and development					
Land & land development	13,853	13,853	—	13,853	293
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	3,390	3,398	—	3,390	161
Jumbo	7,823	7,828	—	7,823	401
Home equity	186	186	—	186	11
Consumer	38	37	—	38	3
Total without a related allowance	$37,095	$37,110	$—	$37,095	$1,401
With a related allowance					
Commercial	$—	$—	$—	$—	$—
Commercial real estate					
Owner-occupied	4,605	4,605	266	4,605	213
Non-owner occupied	735	735	79	735	79
Construction and development					
Land & land development	1,616	1,616	898	1,616	40
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	2,633	2,634	299	2,633	107
Jumbo	893	893	53	893	44
Home equity	—	—	—	—	—
Consumer	—	—	—	—	—
Total with a related allowance	$10,482	$10,483	$1,595	$10,482	$483
Total					
Commercial	$32,614	$32,617	$1,243	$32,614	$1,157
Residential real estate	14,925	14,939	352	14,925	724
Consumer	38	37	—	38	3
Total	$47,577	$47,593	$1,595	$47,577	$1,884

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 $30.2 million, of which $28.6 million were current with respect to restructured contractual payments at June 30, 2015, and $34.7 million, of which $32.2 million were current with respect to restructured contractual payments at December 31,

2014. There were no commitments to lend additional funds under these restructurings at either balance sheet date.

There were no TDRs that were restructured during the three and six months ended June 30, 2015, and restructured TDRs during the three months and six months ended June 30, 2014 were insignificant. Generally, modifications are 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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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.

	For the Three Months Ended June 30, 2015		For the Six Months Ended June 30, 2015	
Dollars in thousands	Number of Defaults	Recorded Investment at Default Date	Number of Defaults	Recorded Investment at Default Date
Commercial	—	$—	—	$—
Commercial real estate				
Owner-occupied	—	—	—	—
Non-owner occupied	—	—	—	—
Construction and development				
Land & land development	—	—	—	—
Construction	—	—	—	—
Residential real estate				
Non-jumbo	3	833	3	833
Jumbo	—	—	—	—
Home equity	—	—	—	—
Consumer	—	—	1	17
Total	3	$833	4	$850

The following table details the activity regarding TDRs by loan type for the three months and six months ended June 30, 2015, and the related allowance on TDRs.

For the Three Months Ended June 30, 2015

	Construction & Land Development			Commercial Real Estate		Residential Real Estate					
Dollars in thousands	Land & Land Develop-ment	Construction	Commer-cial	Owner Occupied	Non-Owner Occupied	Non-jumbo	Jumbo	Home Equity	Con-sumer	Other	Total
Troubled debt restructurings											
Balance April 1, 2015	$5,758	$—	$381	$9,428	$6,184	$5,822	$4,731	$523	$46	$—	$32,873
Additions	—	—	—	—	—	—	—	—	—	—	—
Charge-offs	(168)	—	—	—	—	—	—	—	—	—	(168)
Net (paydowns) advances	(2,259)	—	(38)	(49)	(44)	(138)	(31)	—	(4)	—	(2,563)
Transfer into foreclosed properties	—	—	—	—	—	—	—	—	—	—	—
Refinance out of TDR status	—	—	—	—	—	—	—	—	—	—	—
Balance, June 30, 2015	$3,331	$—	$343	$9,379	$6,140	$5,684	$4,700	$523	$42	$—	$30,142
Allowance related to troubled debt	$—	$—	$—	$201	$16	$291	$40	$—	$—	$—	$548

restructurings

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For the Six Months Ended June 30, 2015

Dollars in thousands	Construction & Land Development: Land & Land Develop-ment	Construction & Land Development: Construction	Commercial Real Estate: Commer-cial	Commercial Real Estate: Owner Occupied	Commercial Real Estate: Non-Owner Occupied	Residential Real Estate: Non-jumbo	Residential Real Estate: Jumbo	Home Equity	Con-sumer	Other	Total
Troubled debt restructurings											
Balance January 1, 2015	$5,786	$—	$410	$9,501	$6,219	$6,245	$5,937	$523	$50	$—	$34,671
Additions	—	—	—	—	—	—	—	—	—	—	—
Charge-offs	(168)	—	—	—	—	—	—	—	—	—	(168)
Net (paydowns) advances	(2,287)	—	(67)	(122)	(79)	(561)	(1,237)	—	(8)	—	(4,361)
Transfer into OREO	—	—	—	—	—	—	—	—	—	—	—
Refinance out of TDR status	—	—	—	—	—	—	—	—	—	—	—
Balance, June 30, 2015	$3,331	$—	$343	$9,379	$6,140	$5,684	$4,700	$523	$42	$—	$30,142
Allowance related to troubled debt restructurings	$—	$—	$—	$201	$16	$291	$40	$—	$—	$—	$548

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 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 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 the 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	
Dollars in thousands	6/30/2015	12/31/2014	6/30/2015	12/31/2014	6/30/2015	12/31/2014	6/30/2015	12/31/2014	6/30/2015	12/31/2014
Pass	$52,702	$53,873	$18,214	$28,591	$95,056	$86,361	$190,028	$155,189	$320,719	$306,710
OLEM (Special Mention)	2,597	1,673	—	—	1,431	1,837	630	1,064	3,768	8,933
Substandard	9,136	12,335	—	—	797	392	1,085	1,530	6,569	1,493
Doubtful	—	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—	—
Total	$64,435	$67,881	$18,214	$28,591	$97,284	$88,590	$191,743	$157,783	$331,056	$317,136

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	6/30/2015	12/31/2014	6/30/2014	6/30/2015	12/31/2014	6/30/2014
Residential real estate						
Non-jumbo	$216,698	$217,408	$216,619	$3,501	$2,663	$2,950
Jumbo	48,479	50,253	52,487	724	2,626	—
Home Equity	72,296	66,848	60,909	208	267	339
Consumer	18,637	19,373	19,648	46	83	129
Other	12,423	11,507	6,798	—	—	—
Total	$368,533	$365,389	$356,461	$4,479	$5,639	$3,418

Loan commitments: ASC Topic 815, Derivatives and Hedging, requires that commitments to make mortgage loans should 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 7. ALLOWANCE FOR LOAN LOSSES

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 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 as follows:

Specific Reserve 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 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 reserve 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. Beginning in 2014, for purposes of loans that have been modified in a troubled debt restructuring and not internally graded as substandard, doubtful, or loss("performing TDRs") we began measuring impairment using the discounted cash flows method. Under this method, a specific reserve is established in an amount equal to the excess, if any, of the recorded investment in each impaired loan over its discounted cash flows.

Quantitative Reserve for Loans Collectively Evaluated

Second, we stratify the loan portfolio into the following ten loan pools: land and land development, construction, commercial, commercial real estate -- owner-occupied, commercial real estate -- non-owner occupied, conventional residential mortgage, jumbo residential mortgage, home equity, consumer, and other. Quantitative reserves relative to each loan pool are established as follows: for all loan segments detailed above 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.

Qualitative Reserve 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 ten 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 six month periods ended June 30, 2015 and 2014, and for the year ended December 31, 2014 is as follows:

	Six Months Ended June 30,		Year Ended December 31,
Dollars in thousands	2015	2014	2014
Balance, beginning of year	$11,167	$12,659	$12,659
Losses:			
Commercial	77	390	390
Commercial real estate			
Owner occupied	269	11	11
Non-owner occupied	—	—	—
Construction and development			
Land and land development	434	3,533	3,535
Construction	—	—	—
Residential real estate			
Non-jumbo	284	46	435
Jumbo	—	63	65
Home equity	76	—	14
Consumer	48	80	265
Other	56	51	118
Total	1,244	4,174	4,833
Recoveries:			
Commercial	4	17	34
Commercial real estate			
Owner occupied	5	31	40
Non-owner occupied	4	4	318
Construction and development			
Land and land development	322	165	298
Construction	—	—	—
Real estate - mortgage			
Non-jumbo	63	53	87
Jumbo	96	163	163
Home equity	2	3	4

Consumer	68	41	74
Other	35	44	73
Total	599	521	1,091
Net losses	645	3,653	3,742
Provision for loan losses	750	2,000	2,250
Balance, end of period	$11,272	$11,006	$11,167

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Activity in the allowance for loan losses by loan class during the first six months of 2015 is as follows:

	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	Con-sumer	Other	Total
Allowance for loan losses											
Beginning balance	$3,417	$427	$1,204	$927	$1,316	$1,280	$2,081	$187	$97	$231	$11,167
Charge-offs	434	—	77	269	—	284	—	76	48	56	1,244
Recoveries	322	—	4	5	4	63	96	2	68	35	599
Provision	(435)	(355)	40	795	522	548	(430)	149	(59)	(25)	750
Ending balance	$2,870	$72	$1,171	$1,458	$1,842	$1,607	$1,747	$262	$58	$185	$11,272
Allowance related to:											
Loans individually evaluated for impairment	$133	$—	$—	$232	$64	$331	$71	$—	$—	$—	$831
Loans collectively evaluated for impairment	2,737	72	1,171	1,226	1,778	1,276	1,676	262	58	185	10,441
Total	$2,870	$72	$1,171	$1,458	$1,842	$1,607	$1,747	$262	$58	$185	$11,272
Loans											
Loans individually evaluated for impairment	$11,272	$—	$343	$14,669	$7,747	$6,266	$6,535	$709	$75	$—	$47,616
Loans collectively evaluated for impairment	53,163	18,214	96,941	177,074	323,309	213,933	42,668	71,795	18,608	12,423	$1,028,128
Total	$64,435	$18,214	$97,284	$191,743	$331,056	$220,199	$49,203	$72,504	$18,683	$12,423	$1,075,744

NOTE 8. GOODWILL AND OTHER INTANGIBLE ASSETS

The following tables present our goodwill by reporting unit at June 30, 2015 and other intangible assets by reporting unit at June 30, 2015 and December 31, 2014.

	Goodwill Activity		
Dollars in thousands	Community Banking	Insurance Services	Total
Balance, January 1, 2015	$1,488	$4,710	$6,198
Acquired goodwill, net	—	—	—

Balance, June 30, 2015	$1,488	$4,710	$6,198

Other Intangible Assets

Dollars in thousands	June 30, 2015 Community Banking	Insurance Services	Total	December 31, 2014 Community Banking	Insurances Services	Total
Unidentifiable intangible assets						
Gross carrying amount	$2,268	$—	$2,268	$2,268	$—	$2,268
Less: accumulated amortization	2,268	—	2,268	2,268	—	2,268
Net carrying amount	$—	$—	$—	$—	$—	$—
Identifiable intangible assets						
Gross carrying amount	$—	$3,000	$3,000	$—	$3,000	$3,000
Less: accumulated amortization	—	1,600	1,600	—	1,500	1,500
Net carrying amount	$—	$1,400	$1,400	$—	$1,500	$1,500

We recorded amortization expense of approximately $100,000 for the six months ended June 30, 2015 relative to our other intangible assets. Annual amortization is expected to approximate $200,000 for each of the years ending 2015 through 2019.

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NOTE 9. DEPOSITS

The following is a summary of interest bearing deposits by type as of June 30, 2015 and 2014 and December 31, 2014:

Dollars in thousands	June 30, 2015	December 31, 2014	June 30, 2014
Demand deposits, interest bearing	$202,957	$204,030	$187,855
Savings deposits	246,949	253,578	243,323
Time deposits	490,148	488,279	520,483
Total	$940,054	$945,887	$951,661

Included in time deposits are deposits acquired through a third party ("brokered deposits") totaling $135.3 million, $146.9 million and $159.0 million at June 30, 2015, December 31, 2014, and June 30, 2014, respectively.

A summary of the scheduled maturities for all time deposits as of June 30, 2015 is as follows:

Dollars in thousands	
Nine month period ending December 31, 2015	$99,453
Year ending December 31, 2016	171,562
Year ending December 31, 2017	64,587
Year ending December 31, 2018	56,703
Year ending December 31, 2019	35,373
Thereafter	62,470
Total	$490,148

The following is a summary of the maturity distribution of all certificates of deposit in denominations of $100,000 or more as of June 30, 2015:

Dollars in thousands	Amount	Percent	
Three months or less	$28,470	7.9	%
Three through six months	36,853	10.2	%
Six through twelve months	76,657	21.1	%
Over twelve months	220,678	60.8	%
Total	$362,658	100.00	%

NOTE 10. BORROWED FUNDS

Short-term borrowings: A summary of short-term borrowings is presented below:

	Six Months Ended June 30,							
	2015				2014			
Dollars in thousands	Short-term FHLB Advances		Federal Funds Purchased and Lines of Credit		Short-term FHLB Advances		Federal Funds Purchased and Lines of Credit	
Balance at June 30	$171,160		$3,439		$86,050		$5,679	
Average balance outstanding for the period	143,781		5,988		69,108		8,336	
Maximum balance outstanding at any month end during period	171,160		7,438		87,550		8,976	
Weighted average interest rate for the period	0.32	%	0.25	%	0.31	%	0.25	%
Weighted average interest rate for balances outstanding at June 30	0.32	%	0.25	%	0.29	%	0.25	%

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Dollars in thousands	Year Ended December 31, 2014 Short-term FHLB Advances	Federal Funds Purchased and Lines of Credit
Balance at December 31	$120,950	$2,683
Average balance outstanding for the period	94,982	5,804
Maximum balance outstanding at any month end during period	136,800	8,976
Weighted average interest rate for the period	0.31 %	0.25 %
Weighted average interest rate for balances outstanding at December 31	0.31 %	0.25 %

Long-term borrowings: Our long-term borrowings of $76.5 million, $77.5 million and $121.9 million at June 30, 2015, December 31, 2014, and June 30, 2014 respectively, consisted primarily of advances from the Federal Home Loan Bank ("FHLB") and structured reverse repurchase agreements with two 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 June 30,		Balance at December 31,
Dollars in thousands	2015	2014	2014
Long-term FHLB advances	$925	$41,026	$977
Long-term reverse repurchase agreements	72,000	72,000	72,000
Term loan	3,611	8,916	4,513
Total	$76,536	$121,942	$77,490

The term loan at June 30, 2015 is secured by the common stock of our subsidiary bank and bears a variable interest rate of prime minus 50 basis points with a final maturity of 2017. Our long term FHLB borrowings and reverse repurchase agreements bear both fixed and variable rates and mature in varying amounts through the year 2026.

The average interest rate paid on long-term borrowings for the six month period ended June 30, 2015 was 4.34% compared to 4.01% for the first six months of 2014.

Subordinated debentures: We have subordinated debt totaling $2.5 million at June 30, 2015 and $16.8 million at December 31, 2014, and June 30, 2014. The subordinated debt qualifies as Tier 2 capital under Federal Reserve Board guidelines until the debt is within 5 years of its maturity; thereafter the amount qualifying as Tier 2 capital is reduced by 20 percent each year until maturity. During 2009, we issued $6.8 million in subordinated debt, of which $5 million was issued to an affiliate of a director of Summit. We also issued $1.0 million and $0.8 million to two unrelated parties. These three issuances bear an interest rate of 10 percent per annum, a term of 10 years, and are not prepayable by us within the first five years. During 2008, we issued $10 million of subordinated debt to an unrelated institution, which bears a variable interest rate of 1 month LIBOR plus 275 basis points and a term of 7.5 years.

During first six months of 2015, we prepaid in full the $6.8 million subordinated debentures issued in 2009 and prepaid $7.5 million of the subordinated debentures issued in 2008.

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 June 30, 2015, December 31, 2014, and June 30, 2014.

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 345basis points for SFG Capital Trust I, 3 month LIBOR plus 280basis points for SFG Capital Trust II, and 3 month LIBOR plus 145basis 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.

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	Subordinated debentures owed to unconsolidated subsidiary trusts
Year Ending December 31,	2015	$955	$2,500	$—
	2016	28,911	—	—
	2017	918	—	—
	2018	45,017	—	—
	2019	18	—	—
	Thereafter	717	—	19,589
		$76,536	$2,500	$19,589

NOTE 11. 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 stock-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 employee stock options to individual employees. During second quarter 2015, we granted 166,717 SARs 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 in 2015 and no grants of stock options or SARs in 2014.

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 issued during 2015 were a risk-free interest rate of 1.96%, an expected dividend yield of 2.75%, an expected common stock volatility of 61.84%, and an expected life of 10 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 the first six months of 2015 and 2014, our stock compensation expense and related deferred taxes were insignificant.

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A summary of activity in our Plans during the first six months of 2015 and 2014 is as follows:

	For the Six Months Ended June 30,			
	2015		2014	
	Options/SARs	Weighted-Average Exercise Price	Options/SARs	Weighted-Average Exercise Price
Outstanding, January 1	157,170	$20.43	185,410	$19.59
Granted	166,717	12.01	—	—
Exercised	—	—	(3,200)	4.63
Forfeited	—	—	—	—
Expired	—	—	(2,500)	17.43
Outstanding, June 30	323,887	$16.10	179,710	$19.88

Other information regarding options and SARs outstanding and exercisable at June 30, 2015 is as follows:

	Options/SARs Outstanding				Options/SARs Exercisable		
Range of exercise price	# of awards	WAEP	Wted. Avg. Remaining Contractual Life (yrs)	Aggregate Intrinsic Value (in thousands)	# of awards	WAEP	Aggregate Intrinsic Value (in thousands)
2.54 - $6.00	10,750	$4.36	4.46	$73	9,750	$4.55	$65
6.01 - 10.00	17,520	8.93	2.65	40	17,520	8.93	40
10.01 - 17.50	166,717	12.01	9.82	—	—	—	—
17.51 - 20.00	30,900	17.80	2.26	—	30,900	17.80	—
20.01 - 25.93	98,000	25.08	1.54	—	98,000	25.08	—
	323,887	16.10		$113	156,170	20.54	$105

NOTE 12. 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	June 30, 2015
Commitments to extend credit:	
Revolving home equity and credit card lines	$54,758
Construction loans	27,018
Other loans	46,217
Standby letters of credit	5,909
Total	$133,902

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 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.

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.

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, in the United States Bankruptcy Court for the Southern District of New York and subsequently amended its complaint on July 25, 2014. The Amended Complaint asserts the following three causes of action related to Summit Mortgage’s origination and subsequent sale of mortgage loans to Residential Funding Corporation: 1) Summit Mortgage breached its representations and warranties made in the contract governing the sale of the mortgage loans to RFC; 2) an indemnification claim against Summit Mortgage for damages paid by ResCap to settle claims in RFC’s bankruptcy proceeding which allegedly relate to mortgage loans Summit Mortgage sold to RFC; 3) a claim for damages against Summit Community Bank, Inc., former parent of Summit Mortgage, arising out of a guaranty in which the Bank guaranteed Summit Mortgage’s full performance under the contract governing the sale of mortgage loans to RFC. Summit has filed a motion to dismiss the case. Based upon the applicable statute of limitations, the Court granted our motion to dismiss the breach of contract claim with respect to loans Summit sold to RFC prior to March 14, 2006. The court otherwise denied our motion to dismiss on the grounds that the other arguments raised factual questions that could not be decided on a motion to dismiss. An estimate as to possible loss resulting from the Amended Complaint cannot be provided at this time because such an estimate cannot be made. Summit intends to defend these claims vigorously.

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 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 13. PREFERRED STOCK

On March 12, 2015, we converted all outstanding shares of our 8% Non-Cumulative Convertible Preferred Stock, Series 2009, $1.00 par value, with a liquidation preference of $1,000 per share (the “Series 2009 Preferred Stock”) and our 8% Non-Cumulative Convertible Preferred Stock, Series 2011, $1.00 par value, with a liquidation preference of $500 per share (the “Series 2011 Preferred Stock”) to common shares.

NOTE 14. COMMON STOCK ISSUANCES

We entered into a Securities Purchase Agreement ("SPA") with Castle Creek Capital Partners V, LP ("Castle Creek") on August 25, 2014. In accordance with the terms of the SPA, we agreed to sell 1,057,137 shares of common stock (representing approximately 9.9% of our outstanding common stock) at the price of $9.75 per share to Castle Creek in a private placement. The private placement with Castle Creek consisted of two (2) closings. The first closing for the purchase of 819,384 shares of common stock at an aggregate price of $7,988,994 was consummated on November 25, 2014. The second closing for the purchase of 237,753 shares of common stock at an aggregate price of $2,318,092 was consummated on March 17, 2015 and was conditioned upon, among other things, the conversion into shares of common stock of all of the outstanding shares of our 8% Non-Cumulative Convertible Preferred Stock, Series 2009 and our 8% Non-Cumulative Convertible Preferred Stock, Series 2011 ("the Conversions"), in accordance with the terms of our Articles of Incorporation, as amended.

We also agreed under the terms of the SPA to commence, following the second closing of the sale of Common Stock to Castle Creek under the SPA, a rights offering (the “Rights Offering”) to the holders of record of the Common Stock as of a date selected by Summit’s Board of Directors. In the Rights Offering, all holders of Common Stock as of the record date, excluding Castle Creek, were offered non-transferable rights (“Rights”) to purchase shares of Common Stock at the same per share purchase price of $9.75 used in the Private Placement to Castle Creek. The aggregate number of shares that offered for sale in connection with the Rights Offering was 256,410 with 256,167 shares being issued yielding total gross proceeds of approximately $2.5 million, prior to any fees and expenses associated with the sale. The Rights were distributed to all of the holders of the Common Stock, excluding Castle Creek, on a pro rata basis, based on the number of shares of Common Stock

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owned by each shareholder as of April 10, 2015, the record date used in connection with the Rights Offering. The Rights Offering expired May 29, 2015.

NOTE 15. REGULATORY MATTERS

We and our subsidiaries are subject to various regulatory capital requirements administered by the banking regulatory agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we and each of our subsidiaries must meet specific capital guidelines that involve quantitative measures of our and our subsidiaries' assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. We and each of our subsidiaries' 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 us and each of our subsidiaries to maintain minimum amounts and ratios of total 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 June 30, 2015, that we and each of our subsidiaries met all capital adequacy requirements to which they were subject.

The most recent notifications from the banking regulatory agencies categorized us and each of our subsidiaries as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, we and each of our subsidiaries must maintain minimum 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 June 30, 2015, our capital levels remained characterized as "well-capitalized" under the new rules. See the Capital Requirements section included in Part I Item 1 Business of our 2014 Annual Report on Form 10-K for further discussion of Basel III.

The following table presents Summit's, as well as our subsidiary, Summit Community Bank's ("Summit Community"), actual and required minimum capital amounts and ratios as of June 30, 2015 under the Basel III Capital Rules. The minimum required capital levels presented below as of June 30, 2015 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.

	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 June 30, 2015									
CET1 (to risk weighted assets)									
Summit	$133,498	11.6	%	$80,559	7.0	%	$74,805	6.5	%
Summit Community	154,024	13.4	%	80,460	7.0	%	74,713	6.5	%
Tier I Capital (to risk weighted assets)									
Summit	152,498	13.2	%	98,199	8.5	%	92,423	8.0	%
Summit Community	154,024	13.4	%	97,702	8.5	%	91,955	8.0	%
Total Capital (to risk weighted assets)									
Summit	163,770	14.2	%	121,098	10.5	%	115,331	10.0	%
Summit Community	165,296	14.4	%	120,528	10.5	%	114,789	10.0	%
Tier I Capital (to average assets)									
Summit	152,498	10.4	%	58,653	4.0	%	73,316	5.0	%
Summit Community	154,024	10.6	%	58,122	4.0	%	72,653	5.0	%

Summit's, as well as Summit Community's, actual capital amounts and ratios as of December 31, 2014, as computed under the regulatory capital rules then in effect, are presented in the following table.

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Dollars in thousands	Actual Amount	Ratio	Minimum Required Capital Amount	Ratio	Minimum Required To Be Well Capitalized Amount	Ratio
As of December 31, 2014						
Tier I Capital (to risk weighted assets)						
Summit	141,589	13.3 %	42,583	4.0 %	63,875	6.0 %
Summit Community	150,653	14.2 %	42,437	4.0 %	63,656	6.0 %
Total Capital (to risk weighted assets)						
Summit	158,196	14.9 %	84,937	8.0 %	106,172	10.0 %
Summit Community	161,820	15.3 %	84,612	8.0 %	105,765	10.0 %
Tier I Capital (to average assets)						
Summit	141,589	9.9 %	57,208	4.0 %	71,510	5.0 %
Summit Community	150,653	10.6 %	56,850	4.0 %	71,063	5.0 %

NOTE 16. SEGMENT INFORMATION

We operate two business segments: community banking and insurance & financial 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 & financial services segment includes three insurance agency offices that sell insurance 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 and the insurance & financial services 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:

	Six Months Ended June 30, 2015				
Dollars in thousands	Community Banking	Insurance & Financial Services	Parent	Eliminations	Total
Net interest income	$23,392	$—	$(414)	$—	$22,978
Provision for loan losses	750	—	—	—	750
Net interest income after provision for loan losses	22,642	—	(414)	—	22,228
Other income	3,818	2,181	566	(566)	5,999
Other expenses	13,676	1,928	1,228	(566)	16,266
Income (loss) before income taxes	12,784	253	(1,076)	—	11,961
Income tax expense (benefit)	3,939	100	(372)	—	3,667
Net income (loss)	8,845	153	(704)	—	8,294
Dividends on preferred shares	—	—	—	—	—
Net income (loss) applicable to common shares	$8,845	$153	$(704)	$—	$8,294
Inter-segment revenue (expense)	$(523)	$(43)	$566	$—	$—
Average assets	$1,493,162	$5,924	$168,146	$(206,859)	$1,460,373

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	Six Months Ended June 30, 2014				
Dollars in thousands	Community Banking	Insurance & Financial Services	Parent	Eliminations	Total
Net interest income	$21,311	$—	$(953)	$—	$20,358
Provision for loan losses	2,000	—	—	—	2,000
Net interest income after provision for loan losses	19,311	—	(953)	—	18,358
Other income	2,901	2,588	590	(590)	5,489
Other expenses	14,672	2,089	857	(590)	17,028
Income (loss) before income taxes	7,540	499	(1,220)	—	6,819
Income tax expense (benefit)	2,187	172	(362)	—	1,997
Net income (loss)	5,353	327	(858)	—	4,822
Dividends on preferred shares	—	—	387	—	387
Net income (loss) applicable to common shares	$5,353	$327	$(1,245)	$—	$4,435
Inter-segment revenue (expense)	$(532)	$(58)	$590	$—	$—
Average assets	$1,454,597	$6,064	$162,023	$(217,039)	$1,405,645

	Three Months Ended June 30, 2015				
Dollars in thousands	Community Banking	Insurance & Financial Services	Parent	Eliminations	Total
Net interest income	$11,641	$—	$(183)	$—	$11,458
Provision for loan losses	500	—	—	—	500
Net interest income after provision for loan losses	11,141	—	(183)	—	10,958
Other income	1,969	891	283	(283)	2,860
Other expenses	6,820	872	652	(283)	8,061
Income (loss) before income taxes	6,290	19	(552)	—	5,757
Income tax expense (benefit)	1,903	36	(192)	—	1,747
Net income (loss)	4,387	(17)	(360)	—	4,010
Dividends on preferred shares	—	—	—	—	—
Net income (loss) applicable to common shares	$4,387	$(17)	$(360)	$—	$4,010
Inter-segment revenue (expense)	$(268)	$(15)	$283	$—	$—
Average assets	$1,498,161	$5,954	$167,348	$(204,860)	$1,466,603

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	Three Months Ended June 30, 2014				
Dollars in thousands	Community Banking	Insurance & Financial Services	Parent	Eliminations	Total
Net interest income	$10,800	$—	$(480)	$—	$10,320
Provision for loan losses	1,000	—	—	—	1,000
Net interest income after provision for loan losses	9,800	—	(480)	—	9,320
Other income	1,491	1,214	297	(297)	2,705
Other expenses	7,323	1,061	443	(297)	8,530
Income (loss) before income taxes	3,968	153	(626)	—	3,495
Income tax expense (benefit)	1,205	50	(192)	—	1,063
Net income (loss)	2,763	103	(434)	—	2,432
Dividends on preferred shares	—	—	193	—	193
Net income (loss) applicable to common shares	$2,763	$103	$(627)	$—	$2,239
Inter-segment revenue (expense)	$(268)	$(29)	$297	$—	$—
Average assets	$1,467,261	$6,149	$163,682	$(218,027)	$1,419,065

NOTE 17. 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 and the fair values of certain assets. 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.

In accordance with ASC 815, Derivatives and Hedging, all derivative instruments are recorded on the balance sheet at fair value. 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, if it is, depending on 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.

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Other derivative instruments – For risk management purposes that do not meet the hedge accounting criteria and, therefore, do not qualify for hedge accounting. These derivative instruments are accounted for at fair value with changes in fair value recorded in the income statement.

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 the swap we will pay a fixed rate of 2.84% for a 3 year period.

On January 15, 2015, we entered into a $9.95 million notional pay fixed/receive variable interest rate swap to hedge the fair value variability of a commercial fixed rate loan with the same principal, amortization, and maturity terms of the underlying loan, which is designated as a fair value hedge. Under the terms of the swap, we will pay a fixed rate of 4.33% for a 10 year period.

A summary of our derivative financial instruments as of June 30, 2015 and December 31, 2014 follows:

	June 30, 2015			
		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				
Long term borrowings	$110,000	$—	$3,943	$—
FAIR VALUE HEDGES				
Pay-fixed/receive-variable interest rate swaps				
Commercial Loan	$9,950	$279	$—	$—

	December 31, 2014			
		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				
Long term borrowings	$110,000	$—	$2,911	$—

NOTE 18. SUBSEQUENT EVENT

On July 21, 2015, our Board of Directors approved the company lending to our Employee Stock Ownership Plan ("ESOP") $2,250,000 to partially finance the ESOP's purchase of 225,000 shares of Summit Financial Group Inc. common stock in a privately negotiated transaction, at $10.80 per share for a total purchase price of $2,430,000. This transaction closed on July 30, 2015.

In accordance with ASC 718, Compensation - Stock Compensation, this purchase of unallocated ESOP shares will be 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. Unallocated shares owned by the Company’s ESOP are not considered to be outstanding for the purpose of computing earnings per share.

Management's Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

The following discussion and analysis focuses on significant changes in our financial condition and results of operations of Summit Financial Group, Inc. ("Company" or "Summit") and our operating segments, Summit Community Bank ("Summit Community"), and Summit Insurance Services, LLC for the periods indicated. See Note 14 of the accompanying consolidated financial statements for our segment information. This discussion and analysis should be read in conjunction with our 2014 audited financial statements and Annual Report on Form 10-K.

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. Our following discussion and analysis of financial condition and results of operations contains certain forward-looking statements that involve risk and uncertainty. 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.

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.

Interest earning assets increased by 5.63% for the first six months in 2015 compared to the same period of 2014 while our net interest earnings on a tax equivalent basis increased 12.66%. Our tax equivalent net interest margin increased 22 basis points as our reduced cost of interest bearing funds continues to positively impact our net interest earnings.

BUSINESS SEGMENT RESULTS

We are organized and managed along two major business segments, as described in Note 14 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
Dollars in thousands	2015	2014	2015	2014
Community banking	$4,387	$2,763	$8,845	$5,353
Insurance & financial services	(17)	103	153	327
Parent	(360)	(627)	(704)	(1,245)
Consolidated net income	$4,010	$2,239	$8,294	$4,435

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 consolidated financial statements of our 2014 Annual Report on Form 10-K. 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 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

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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 6 to the consolidated financial statements of our 2014 Annual Report on Form 10-K 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 the financial review of the 2014 Annual Report on Form 10-K.

Goodwill: Goodwill is subject to an analysis by reporting unit at least annually to determine whether write-downs of the recorded balances are necessary. Initially, an assessment of qualitative factors (Step 0) is performed to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, we determine it is not more likely than not that the fair value of a reporting unit is less than its carrying value, then performing the two-step impairment test is unnecessary. However, if we conclude otherwise, then we are required to perform the first step (Step 1) of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. 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. Step 2 of impairment testing, which is necessary only if the reporting unit does not pass Step 1, compares the implied fair value of the reporting unit goodwill with the carrying amount of the goodwill for the reporting unit. The implied fair value of goodwill is determined in the same manner as goodwill that is recognized in a business combination.

Community Banking – During third quarter 2014, we performed the Step 0 assessment of our goodwill of our community banking reporting unit and determined that it was not more likely than not that the fair value was less than its carrying value. In performing the qualitative Step 0 assessments, we considered certain events and circumstances 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 value is less than its carrying amount. No indicators of impairment were noted as of September 30, 2014.

Insurance Services – During third quarter 2014, we performed the Step 0 assessment of our goodwill of our insurance services reporting unit. We considered certain events and circumstances specific to the 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 value of our insurance services reporting unit is less than its carrying value and deemed it necessary to perform the further 2-step impairment test. We performed an internal valuation utilizing the income approach to determine the fair value of our insurance services reporting unit. This methodology consisted of discounting the expected future cash flows of this unit based upon a forecast of its operations considering long-term key business drivers such as anticipated commission revenue growth. The long term growth rate used in determining the terminal value was estimated at 2%, and a discount rate of 10.0% was applied to the insurance services unit's estimated future cash flows. We did not fail this Step 1 test as of September 30, 2014, therefore Step 2 testing was not necessary.

We cannot assure you that future goodwill impairment tests will not result in a charge to earnings. See Note 9 of the consolidated financial statements of our Annual Report on Form 10-K for further discussion of our intangible assets, which include goodwill.

Fair Value Measurements: ASC Topic 820 Fair Value Measurements and Disclosures provides a definition of fair value, establishes a framework for measuring fair value, and requires expanded disclosures about fair value measurements. Fair value is the price that could be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. 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 the three-level hierarchy (e.g., Level 1, Level 2 and Level 3) established under ASC Topic 820. Fair value determination in accordance with this guidance 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 in accordance with ASC Topic 825 Financial Instruments.

Deferred Income Tax Assets: At June 30, 2015, we had net deferred tax assets of $11.1 million. Based on our ability to offset the net deferred tax asset against taxable income in carryback years and expected future taxable income in carryforward years, there was no impairment of the deferred tax asset at June 30, 2015. All available evidence, both positive and negative, was considered to determine whether, based on the weight of that evidence, impairment should be recognized. However, our forecast process includes judgmental and quantitative elements that may be subject to significant change. If our forecast of taxable income within the carryback/carryforward periods available under applicable law is not sufficient to cover the amount of net deferred tax assets, such assets may become impaired.

RESULTS OF OPERATIONS

Earnings Summary

Net income applicable to common shares for the six months ended June 30, 2015 increased to $8.3 million, or $0.78 per diluted share as compared to $4.44 million or $0.50 per diluted share for the same period of 2014. Net income applicable to common shares for the quarter ended June 30, 2015 increased to $4.0 million, or $0.38 per diluted share as compared to $2.2 million or $0.25 per diluted share for the same period of 2014. Earnings for both the quarter and six months ended June 30, 2015 were positively impacted by increased net interest income, lower provisions for loan losses, and lower write-downs of foreclosed properties to their fair values. Included in earnings for the six months ended June 30, 2015 was $253,000 in losses on the sales of foreclosed properties, and $732,000 of charges resulting from the write-down of a portion of our foreclosed properties to fair value. Returns on average equity and assets for the first six months of 2015 were 12.22% and 1.14%, respectively, compared with 8.42% and 0.69% for the same period of 2014.

Net Interest Income

Net interest income is the principal component of our earnings and represents the difference between interest and fee income generated from earning assets and the interest expense paid on deposits and borrowed funds. Fluctuations in interest rates as well as changes in the volume and mix of earning assets and interest bearing liabilities can materially impact net interest income.

Our net interest income on a fully tax-equivalent basis totaled $23.7 million for the six months ended June 30, 2015, or $2.7 million or 12.7% more than the $21.1 million for the same period of 2014. Our tax-equivalent earnings on interest earning assets increased $1.0 million, while the cost of interest bearing liabilities declined $1.6 million (see Table II).

Average interest earning assets increased 5.6% from $1.28 billion during the first six months of 2014 to $1.35 billion for the first six months of 2015, while average interest bearing liabilities increased only 1.0% from $1.18 billion at June 30, 2014 to $1.20 billion at June 30, 2015. The growth in interest earning assets outpaced the growth in interest bearing liabilities, and was funded primarily by reductions in property held for sale, growth in noninterest bearing deposits, increased short term borrowings, and growth in equity.

Our consolidated net interest margin increased to 3.54% for the six months ended June 30, 2015, compared to 3.32% for the same period in 2014. For the six months ended June 30, 2015 compared to June 30, 2014, the yields on earning assets decreased 9 basis points, while the cost of our interest bearing funds decreased by 29 basis points.

Assuming no significant change in market interest rates, we anticipate modest growth in our net interest income to continue over the near term due to growth in the volume of interest earning assets, primarily loans, coupled with expected moderate improvement in net interest margin over the same period. 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 further 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 Balance Sheet and Net Interest Income Analysis

Dollars in thousands	June 30, 2015 Average Balance	Earnings/ Expense	Yield/ Rate		June 30, 2014 Average Balance	Earnings/ Expense	Yield/ Rate	
Interest earning assets								
Loans, net of unearned fees (1)								
Taxable	$1,040,935	$25,588	4.96	%	$968,221	$24,572	5.12	%
Tax-exempt (2)	12,516	353	5.69	%	6,719	241	7.23	%
Securities								
Taxable	213,252	2,368	2.24	%	215,220	2,480	2.32	%
Tax-exempt (2)	75,744	1,835	4.89	%	79,218	1,815	4.62	%
Federal funds sold and interest bearing deposits with other banks	7,504	2	0.05	%	8,666	4	0.09	%
Total interest earning assets	1,349,951	30,146	4.50	%	1,278,044	29,112	4.59	%
Noninterest earning assets								
Cash & due from banks	3,827				3,841			
Premises and equipment	20,307				20,506			
Property held for sale	35,257				52,492			
Other assets	62,197				62,962			
Allowance for loan losses	(11,166)				(12,200)			
Total assets	$1,460,373				$1,405,645			
Interest bearing liabilities								
Interest bearing demand deposits	$203,237	$118	0.12	%	188,573	106	0.11	%
Savings deposits	253,093	857	0.68	%	223,240	707	0.64	%
Time deposits	486,187	3,169	1.31	%	527,097	3,763	1.44	%
Short-term borrowings	149,769	238	0.32	%	77,444	111	0.29	%
Long-term borrowings and capital trust securities	103,148	2,041	3.99	%	167,013	3,368	4.07	%
Total interest bearing liabilities	1,195,434	6,423	1.08	%	1,183,367	8,055	1.37	%
Noninterest bearing liabilities and shareholders' equity								
Demand deposits	114,761				98,525			
Other liabilities	14,435				9,155			
Total liabilities	1,324,630				1,291,047			
Shareholders' equity - preferred	3,602				9,287			
Shareholders' equity - common	132,141				105,311			
Total liabilities and shareholders' equity	$1,460,373				$1,405,645			
Net interest earnings		$23,723				$21,057		
Net yield on interest earning assets			3.54	%			3.32	%

(1) - For purposes of this table, nonaccrual loans are included in average loan balances.

(2) - Interest income on tax-exempt securities and loans has been adjusted assuming an effective tax rate of 34% for all periods presented. The tax equivalent adjustment resulted in an increase in interest income of $744,000 and $698,000 for the periods ended June 30, 2015 and June 30, 2014, respectively.

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

	For the Six Months Ended June 30, 2015 versus June 30, 2014 Increase (Decrease) Due to Change in:		
Dollars in thousands	Volume	Rate	Net
Interest earned on:			
Loans			
Taxable	$1,804	$(788)	$1,016
Tax-exempt	172	(60)	112
Securities			
Taxable	(23)	(89)	(112)
Tax-exempt	(82)	102	20
Federal funds sold and interest bearing deposits with other banks	(1)	(1)	(2)
Total interest earned on interest earning assets	1,870	(836)	1,034
Interest paid on:			
Interest bearing demand deposits	8	4	12
Savings deposits	99	51	150
Time deposits	(280)	(314)	(594)
Short-term borrowings	114	13	127
Long-term borrowings and capital trust securities	(1,265)	(62)	(1,327)
Total interest paid on interest bearing liabilities	(1,324)	(308)	(1,632)
Net interest income	$3,194	$(528)	$2,666

Noninterest Income

Total noninterest income increased to $6.0 million for the first six months of 2015, compared to $5.5 million for the same period of 2014. Further detail regarding noninterest income is reflected in the following table.

Table III - Noninterest Income

	For the Quarter Ended June 30,		For the Six Months Ended June 30,	
Dollars in thousands	2015	2014	2015	2014
Insurance commissions	$1,080	$1,091	$2,208	$2,273
Service fees related to deposit accounts	1,072	1,101	2,048	2,144
Realized securities gains (losses)	170	(43)	650	(64)
Bank owned life insurance income	261	270	522	539
Other	277	286	571	596
Total	$2,860	$2,705	$5,999	$5,488

Noninterest Expense

Total noninterest expense decreased 4.5% for the six months ended June 30, 2015, as compared to the same period in 2014, with lower write-downs of foreclosed properties and lower FDIC premiums having the largest positive impacts. Table IV below shows the breakdown of the changes.

Table IV - Noninterest Expense

	For the Quarter Ended June 30,				For the Six Months Ended June 30,			
		Change				Change		
Dollars in thousands	2015	$	%	2014	2015	$	%	2014
Salaries, commissions, and employee benefits	$4,442	$397	9.8 %	$4,045	$8,629	$603	7.5 %	$8,026
Net occupancy expense	489	(16)	(3.2)%	505	988	(58)	(5.5)%	1,046
Equipment expense	560	47	9.2 %	513	1,095	16	1.5 %	1,079
Professional fees	372	90	31.9 %	282	707	109	18.2 %	598
Amortization of intangibles	50	(13)	(20.6)%	63	100	(50)	(33.3)%	150
FDIC premiums	320	(175)	(35.4)%	495	650	(347)	(34.8)%	997
Foreclosed properties expense	158	(71)	(31.0)%	229	366	(116)	(24.1)%	482
Loss on sales of foreclosed properties	103	49	90.7 %	54	253	124	96.1 %	129
Write-downs of foreclosed properties	160	(802)	(83.4)%	962	732	(1,159)	(61.3)%	1,891
Other	1,407	25	1.8 %	1,382	2,746	116	4.4 %	2,630
Total	$8,061	$(469)	(3.5)%	$8,530	$16,266	$(762)	(4.5)%	$17,028

Salaries, commissions, and employee benefits: These expenses are 7.5% higher in first six months of 2015 compared to first six months of 2014 due to an increase in number of employees, general merit raises, and increased incentive accruals based upon performance. In accordance with our policies, substantially all salary and wage merit raises are awarded at the beginning of the second quarter of each year.

FDIC premiums: FDIC premiums decreased 34.8% during the first six months of 2015, reflecting a reduction in rate due to Summit Community's release from its MOU in late 2014. These lower levels will continue throughout 2015.

Write-downs of foreclosed properties: Management anticipates write-downs of foreclosed properties to their fair values to trend lower in 2015 than in recent years.

Credit Experience

As a result of a historically slow economic recovery, our foreclosed properties portfolio remains elevated. Prior elevated levels of nonperforming loans have returned to acceptable levels. Management expects a net reduction in foreclosed properties at a percentage similar to that experienced during 2014.

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 TDRs are excluded from nonperforming loans.

The provision for loan losses represents charges to earnings necessary to maintain an adequate allowance for probable credit losses inherent in the loan portfolio. Our determination of the appropriate level of the allowance is based on an ongoing analysis of credit quality and loss potential in the loan portfolio, change in the composition and risk characteristics of the loan portfolio, and the anticipated influence of national and local economic conditions. The adequacy of the allowance for loan losses is reviewed quarterly and adjustments are made as considered necessary.

We recorded $750,000 and $2.0 million provisions for loan losses for the first six months of 2015 and 2014, respectively. This decline is a result of lower average loan losses experienced over the past twelve quarters. Lower losses cause our historical charge-off factor of the quantitative reserve calculation to decline, thus requiring fewer quantitative reserves.

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As illustrated in Table V below, our non-performing assets have decreased since year end 2014.

Table V - Summary of Non-Performing Assets

Dollars in thousands	June 30, 2015	2014	December 31, 2014
Accruing loans past due 90 days or more	$8	$—	$—
Nonaccrual loans			
Commercial	1,065	415	392
Commercial real estate	2,421	1,537	1,844
Commercial construction and development	—	3,601	—
Residential construction and development	5,627	5,248	4,619
Residential real estate	4,433	3,289	5,556
Consumer	37	129	83
Total nonaccrual loans	13,583	14,219	12,494
Foreclosed properties			
Commercial	—	110	110
Commercial real estate	3,279	5,762	5,204
Commercial construction and development	10,179	10,363	10,179
Residential construction and development	15,839	20,557	19,267
Residential real estate	2,203	11,991	2,769
Total foreclosed properties	31,500	48,783	37,529
Repossessed assets	55	—	221
Total nonperforming assets	$45,146	$63,002	$50,244
Total nonperforming loans as a percentage of total loans	1.26%	1.42%	1.21%
Total nonperforming assets as a percentage of total assets	3.05%	4.39%	3.48%
Allowance for loan losses as a percentage of nonperforming loans	82.99%	77.40%	89.38%
Allowance for loan losses as a percentage of period end loans	1.05%	1.10%	1.08%

The following table details the activity regarding our foreclosed properties for the three and six months ended June 30, 2015 and 2014.

Table VI - Foreclosed Property Activity

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
Dollars in thousands	2015	2014	2015	2014
Beginning balance	$34,367	$52,241	$37,529	$53,392
Acquisitions	—	672	713	1,949
Improvements	7	39	23	39
Disposals	(2,714)	(3,207)	(6,033)	(4,706)
Writedowns to fair value	(160)	(962)	(732)	(1,891)
Balance June 30	$31,500	$48,783	$31,500	$48,783

Refer to Note 6 of the accompanying consolidated financial statements for information regarding our past due loans, impaired loans, nonaccrual loans, and troubled debt restructurings and to Note 7 for a summary of the methodology we employ on a quarterly basis to evaluate the overall adequacy of our allowance for loan losses.

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

In analyzing the relationship between 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 they deteriorate over time. Reserves for loans are established at origination through the quantitative and qualitative reserve process discussed in the accompanying Note 7 to the financial statements.

Charge-offs, if necessary, are typically recognized in a period after the reserves were established. If the previously established reserves exceed that needed to satisfactorily resolve the problem credit, a reduction in the overall level of the reserve could be

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recognized. In summary, if loan quality deteriorates, the typical credit sequence is periods of reserve building, followed by periods of higher net charge-offs.

Consumer loans are generally charged off 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 off to the allowance for loan losses when the loss has been confirmed. This determination includes 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.

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. 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 reserve allocation is required.

At June 30, 2015, December 31, 2014, and June 30, 2014, our allowance for loan losses totaled $11.3 million, or 1.05% of total loans, $11.2 million, or 1.08% of total loans and $11.0 million, or 1.10% of total loans, respectively, and is considered adequate to cover our estimate of probable credit losses inherent in our loan portfolio.

At June 30, 2015, December 31, 2014, and June 30, 2014, we had approximately $31.5 million, $37.5 million and $48.8 million, respectively, in other real estate owned which was obtained as the result of foreclosure proceedings. Although foreclosed property is recorded at fair value less estimated costs to sell, the prices ultimately realized upon their sale may or may not result in us recognizing loss.

FINANCIAL CONDITION

Our total assets were $1.480 billion at June 30, 2015, compared to $1.444 billion at December 31, 2014, representing a 2.5% increase. Table VIII below serves to illustrate significant changes in our financial position between December 31, 2014 and June 30, 2015.

Table VIII - Summary of Significant Changes in Financial Position

Dollars in thousands	Balance December 31, 2014	Increase (Decrease) Amount	Percentage	Balance June 30, 2015
Assets				
Securities available for sale	$282,834	(6,173)	(2.2)%	$276,661
Loans, net of unearned interest	1,019,842	44,630	4.4%	1,064,472
Liabilities				
Deposits	$1,061,314	(8,004)	(0.8)%	$1,053,310
Short-term borrowings	123,633	50,966	41.2%	174,599
Long-term borrowings	77,490	(954)	(1.2)%	76,536
Subordinated debentures	16,800	(14,300)	(85.1)%	2,500

Loan growth of 4.4% during the first six months of 2015 occurred principally in the commercial real estate portfolio, and was funded primarily with short-term borrowings.

Deposits decreased approximately $8.0 million during the first six months of 2015; checking deposits and savings deposits decreased approximately $3.2 million and $6.6 million, respectively, while time deposits increased $1.9 million.

The decrease in subordinated debentures is attributable to the prepayment of subordinated debentures during the first six months of 2015.

Refer to Notes 5, 6, 9, and 10 of the notes to the accompanying consolidated financial statements for additional information with regard to changes in the composition of our securities, loans, deposits and borrowings between June 30, 2015 and December 31, 2014.

LIQUIDITY AND CAPITAL RESOURCES

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 funds invested in cash and due from banks (net of float and reserves), Federal funds sold, non-pledged securities, and available lines of credit with the Federal Home Loan Bank of Pittsburgh (“FHLB”) and Federal Reserve Bank of Richmond, which totaled approximately $637 million or 43.0% of total consolidated assets at June 30, 2015.

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 approximately $523 million. As of June 30, 2015 and December 31, 2014, these advances totaled approximately $172 million and $122 million, respectively. At June 30, 2015, we had additional borrowing capacity of $351 million through FHLB programs. We have established a line with the Federal Reserve Bank to be used as a contingency liquidity vehicle. The amount available on this line at June 30, 2015 was approximately $95 million, which is secured by a pledge of our consumer 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.

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
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.

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.

One of our continuous goals is maintenance of a strong capital position. Through management of our capital resources, we seek to provide an attractive financial return to our shareholders while retaining sufficient capital to support future growth. Shareholders’ equity at June 30, 2015 totaled $140.1 million compared to $131.6 million at December 31, 2014.

Summit had outstanding $3.7 million of 8% non-cumulative convertible preferred stock issued in 2009 and an additional $5.8 million of 8% non-cumulative convertible preferred stock issued in 2011 that was fully converted to common stock on March 12, 2015.

On August 25, 2014, we agreed to sell 1,057,137 shares of common stock (representing approximately 9.9% of our outstanding common stock) at the price of $9.75 per share to Castle Creek Capital Partners V, LP ("Castle Creek") in a private placement. The private placement with Castle Creek consisted of two (2) closings. The first closing for the purchase of 819,384 shares of common stock at an aggregate price of $7,988,994 was consummated on November 25, 2014. The second closing for the purchase of 237,753 shares of common stock at an aggregate price of $2,318,092 was consummated on March 17, 2015 and was conditioned upon, among other things, the conversion into shares of common stock of all of the outstanding shares of our 8% Non-Cumulative Convertible Preferred Stock, Series 2009 and our 8% Non-Cumulative Convertible Preferred Stock, Series 2011 ("the Conversions"), in accordance with the terms of our Articles of Incorporation, as amended.

We also agreed under the terms of the SPA to commence, following the second closing of the sale of Common Stock to Castle Creek under the SPA, a rights offering (the “Rights Offering”) to the holders of record of the Common Stock as of a date selected by Summit’s Board of Directors. In the Rights Offering, all holders of Common Stock as of the record date, excluding Castle Creek, were offered non-transferable rights (“Rights”) to purchase shares of Common Stock at the same per share purchase price of $9.75 used in the Private Placement to Castle Creek. The aggregate number of shares offered for sale in connection with the Rights Offering was 256,410 shares, with 256,167 shares being issued yielding total gross proceeds of approximately $2.5 million, prior to any fees and expenses associated with the sale. The Rights were distributed to all of the holders of the Common Stock, excluding Castle Creek, on a pro rata basis, based on the number of shares of Common Stock owned by each shareholder as of April 10, 2015, the record date used in connection with the Rights Offering. The Rights Offering expired May 29, 2015.

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On March 30, 2015, we repurchased 100,000 shares of our common stock from First Bank of Charleston, Inc. in a privately negotiated transaction for an aggregate purchase price of $1,080,000 and retired the shares.

Refer to Note 15 of the notes to the accompanying consolidated financial statements for additional information regarding regulatory restrictions on our capital as well as our subsidiaries' capital.

CONTRACTUAL CASH OBLIGATIONS

During our normal course of business, we incur contractual cash obligations. The following table summarizes our contractual cash obligations at June 30, 2015.

Table IX - Contractual Cash Obligations

Dollars in thousands	Long Term Debt	Capital Trust Securities	Operating Leases
2015	$ 3,455	$ —	$ 127
2016	28,911	—	256
2017	918	—	215
2018	45,017	—	162
2019	18	—	136
Thereafter	717	19,589	23
Total	$ 79,036	$ 19,589	$ 919

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 June 30, 2015 are presented in the following table.

Table X - Off-Balance Sheet Arrangements Dollars in thousands	June 30, 2015
Commitments to extend credit:	
Revolving home equity and credit card lines	$ 54,758
Construction loans	27,018
Other loans	46,217
Standby letters of credit	5,909
Total	$ 133,902

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 imbedded 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"), which is comprised of members of senior management and members of the Board of Directors. 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 is liability sensitive. The nature of our lending and funding activities tends to drive our interest rate risk position to being liability sensitive. That is, absent any changes in the volumes of our interest earning assets or interest bearing liabilities, liabilities are likely to reprice faster than assets, resulting in a decrease in net income in a rising rate environment. Net income would increase in a falling interest rate environment. Net income is also subject to changes in the shape of the yield curve. In general, a flattening yield curve would result 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 interest rates is assumed to gradually take place over the next 12 months, 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 June 30, 2015. 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 for the down 100 and the up 200 scenarios, and gradual change over 24 months for the up 400 scenario) 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 and are well within our ALCO policy limits shown below relative to reductions in net interest income over the ensuing twelve month period.

			Estimated % Change in Net Interest Income over:			
Change in Interest Rates	Policy		0 - 12 Months Actual		13 - 24 Months Actual	
Down 100 basis points (1)	-7	%	-0.03	%	-2.90	%
Up 200 basis points (1)	-10	%	-5.03	%	-8.09	%
Up 400 basis points (2)	-15	%	-4.47	%	-10.64	%

(1) assumes a parallel shift in the yield curve over 12 months
(2) assumes a parallel shift in the yield curve over 24 months

CONTROLS AND PROCEDURES

Our management, including the Chief Executive Officer and Chief Financial Officer, has conducted as of June 30, 2015, 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 June 30, 2015 were effective. There were no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

Part II. Other Information

Item 1. Legal Proceedings

Refer to Note 12 of the Notes to the Consolidated Financial Statements in Part I, Item 1 for information regarding legal proceedings not reportable under this Item.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014.

Item 6. Exhibits

Exhibit 3.i	Amended and Restated Articles of Incorporation of Summit Financial Group, Inc.
Exhibit 3.ii	Articles of Amendment 2009
Exhibit 3.iii	Articles of Amendment 2011
Exhibit 3.iv	Amended and Restated By-Laws of Summit Financial Group, Inc.
Exhibit 11	Statement re: Computation of Earnings per Share – Information contained in Note 4 to the Consolidated Financial Statements on page 15 of this Quarterly Report is incorporated herein by reference.
Exhibit 31.1	Sarbanes-Oxley Act Section 302 Certification of Chief Executive Officer
Exhibit 31.2	Sarbanes-Oxley Act Section 302 Certification of Chief Financial Officer
Exhibit 32.1	Sarbanes-Oxley Act Section 906 Certification of Chief Executive Officer
Exhibit 32.2	Sarbanes-Oxley Act Section 906 Certification of Chief Financial Officer
Exhibit 101	Interactive Data File (XBRL)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SUMMIT FINANCIAL GROUP, INC.
(registrant)

By: /s/ H. Charles Maddy, III
H. Charles Maddy, III,
President and Chief Executive Officer

By: /s/ Robert S. Tissue
Robert S. Tissue,
Senior Vice President and Chief Financial Officer

By: /s/ Julie R. Markwood
Julie R. Markwood
Vice President and Chief Accounting Officer

Date: August 6, 2015

EXHIBIT INDEX

Exhibit No.	Description	Page Number
(3)	Articles of Incorporation and By-laws:	
	(i) Amended and Restated Articles of Incorporation of Summit Financial Group, Inc.	(a)
	(ii) Articles of Amendment 2009	(b)
	(iii) Articles of Amendment 2011	(c)
	(iv) Amended and Restated By-laws of Summit Financial Group, Inc.	(d)
11	Statement re: Computation of Earnings per Share	15
31.1	Sarbanes-Oxley Act Section 302 Certification of Chief Executive Officer	
31.2	Sarbanes-Oxley Act Section 302 Certification of Chief Financial Officer	
32.1*	Sarbanes-Oxley Act Section 906 Certification of Chief Executive Officer	
32.2*	Sarbanes-Oxley Act Section 906 Certification of Chief Financial Officer	
101**	Interactive data file (XBRL)	

*Furnished, not filed.
** As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

(a) Incorporated by reference to Exhibit 3.i of Summit Financial Group, Inc.'s filing on Form 10-Q dated March 31, 2006.
(b) Incorporated by reference to Exhibit 3.1 of Summit Financial Group, Inc.'s filing on Form 8-K dated September 30, 2009.
(c) Incorporated by reference to Exhibit 3.1 of Summit Financial Group, Inc.'s filing on Form 8-K dated November 3, 2011.
(d) Incorporated by reference to Exhibit 3.2 of Summit Financial Group, Inc.'s filing on Form 10-Q dated June 30, 2006.