UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **September 30, 2020**
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

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 ☑ No ☐

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

Yes ☑ No ☐

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

Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐
Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☑

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, Par Value $2.50 per share	SMMF	NASDAQ Global Select Market

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

12,982,493 shares outstanding as of November 2, 2020

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Item 1. Financial Statements

Consolidated Balance Sheets (unaudited)

Dollars in thousands, except per share amounts	September 30, 2020 (unaudited)	December 31, 2019 (*)
ASSETS		
Cash and due from banks	$ **16,257**	$ 28,137
Interest bearing deposits with other banks	**92,729**	33,751
Cash and cash equivalents	**108,986**	61,888
Debt securities available for sale	**297,989**	276,355
Debt securities held to maturity (estimated fair value - $92,786)	**91,600**	—
Other investments	**10,766**	12,972
Loans held for sale	**2,538**	1,319
Loans, net of unearned income	**2,251,804**	1,913,499
Less: allowance for credit losses - loans	**(29,354)**	(13,074)
Loans, net	**2,222,450**	1,900,425
Property held for sale	**17,831**	19,276
Premises and equipment, net	**52,880**	44,168
Accrued interest receivable	**10,978**	8,439
Goodwill and other intangible assets	**48,101**	23,022
Cash surrender value of life insurance policies and annuities	**57,029**	43,603
Other assets	**25,714**	12,025
Total assets	$ **2,946,862**	$ 2,403,492
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Non-interest bearing	$ **420,070**	$ 260,553
Interest bearing	**2,031,821**	1,652,684
Total deposits	**2,451,891**	1,913,237
Short-term borrowings	**140,145**	199,345
Long-term borrowings	**703**	717
Subordinated debentures	**29,336**	—
Subordinated debentures owed to unconsolidated subsidiary trusts	**19,589**	19,589
Other liabilities	**33,235**	22,840
Total liabilities	**2,674,899**	2,155,728
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, $1.00 par value, authorized 250,000 shares	—	—
Common stock and related surplus, $2.50 par value; authorized 20,000,000 shares; issued: 2020 - 12,981,717 shares and 2019 - 12,474,641 shares; outstanding: 2020 - 12,932,415 shares and 2019 - 12,408,542	**94,717**	80,084
Unallocated common stock held by Employee Stock Ownership Plan - 2020 - 49,302 shares and 2019 - 66,099 shares	**(532)**	(714)
Retained earnings	**173,588**	165,859
Accumulated other comprehensive income	**4,190**	2,535
Total shareholders' equity	**271,963**	247,764
Total liabilities and shareholders' equity	$ **2,946,862**	$ 2,403,492

(*) - Derived 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	For the Three Months Ended September 30, 2020	For the Three Months Ended September 30, 2019	For the Nine Months Ended September 30, 2020	For the Nine Months Ended September 30, 2019
Interest income				
Interest and fees on loans				
Taxable	**$ 26,656**	$ 24,786	**$ 77,211**	$ 71,877
Tax-exempt	**151**	154	**455**	467
Interest and dividends on securities				
Taxable	**1,445**	1,566	**4,656**	4,859
Tax-exempt	**937**	618	**2,288**	2,307
Interest on interest bearing deposits with other banks	**57**	125	**216**	490
Total interest income	**29,246**	27,249	**84,826**	80,000
Interest expense				
Interest on deposits	**3,552**	6,214	**13,088**	17,745
Interest on short-term borrowings	**734**	1,371	**1,863**	4,240
Interest on long-term borrowings and subordinated debentures	**194**	244	**600**	758
Total interest expense	**4,480**	7,829	**15,551**	22,743
Net interest income	**24,766**	19,420	**69,275**	57,257
Provision for credit losses	**3,250**	500	**11,500**	1,050
Net interest income after provision for credit losses	**21,516**	18,920	**57,775**	56,207
Noninterest income				
Insurance commissions	**44**	40	**75**	1,821
Trust and wealth management fees	**622**	632	**1,870**	1,830
Mortgage origination revenue	**780**	77	**1,636**	392
Service charges on deposit accounts	**1,138**	1,312	**3,283**	3,716
Bank card revenue	**1,237**	924	**3,257**	2,631
Realized securities gains, net	**1,522**	453	**2,560**	1,535
Gain on sale of Summit Insurance Services, LLC	**—**	—	**—**	1,906
Bank owned life insurance and annuities income	**795**	247	**1,334**	733
Other	**69**	74	**292**	235
Total noninterest income	**6,207**	3,759	**14,307**	14,799
Noninterest expenses				
Salaries, commissions and employee benefits	**8,108**	7,044	**23,709**	21,966
Net occupancy expense	**1,057**	799	**2,917**	2,602
Equipment expense	**1,474**	1,296	**4,263**	3,694
Professional fees	**364**	388	**1,168**	1,266
Advertising and public relations	**145**	177	**389**	484
Amortization of intangibles	**412**	404	**1,251**	1,300
FDIC premiums	**320**	—	**595**	88
Bank card expense	**589**	455	**1,652**	1,367
Foreclosed properties expense, net	**607**	305	**1,815**	2,236
Merger-related expenses	**28**	74	**1,453**	519
Other	**2,405**	1,864	**6,493**	6,473
Total noninterest expenses	**15,509**	12,806	**45,705**	41,995
Income before income tax expense	**12,214**	9,873	**26,377**	29,011
Income tax expense	**2,594**	1,812	**5,302**	5,293
Net income	**$ 9,620**	$ 8,061	**$ 21,075**	$ 23,718
Basic earnings per common share	**$ 0.74**	$ 0.65	**$ 1.63**	$ 1.89
Diluted earnings per common share	**$ 0.74**	$ 0.65	**$ 1.62**	$ 1.88

See Notes to Consolidated Financial Statements

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Consolidated Statements of Comprehensive Income (unaudited)

Dollars in thousands	For the Three Months Ended September 30, 2020	2019
Net income	**$ 9,620**	$ 8,061
Other comprehensive income:		
Net unrealized gain on cashflow hedge of: 2020 - $555, net of deferred taxes of $133; 2019 - $70, net of deferred taxes of $17	**422**	53
Net unrealized gain on securities available for sale of: 2020 - $587, net of deferred taxes of $141 and reclassification adjustment for net realized gains included in net income of $1,522, net of tax of $365; 2019 - $2,068, net of deferred taxes of $496 and reclassification adjustment for net realized gains included in net income of $453, net of tax of $109	**446**	1,572
Total other comprehensive income	**868**	1,625
Total comprehensive income	**$ 10,488**	$ 9,686

Dollars in thousands	For the Nine Months Ended September 30, 2020	2019
Net income	**$ 21,075**	$ 23,718
Other comprehensive income:		
Net unrealized loss on cashflow hedge of: 2020 - $(1,943), net of deferred taxes of $(466); 2019 - $(487), net of deferred taxes of $(117)	**(1,477)**	(370)
Net unrealized gain on securities available for sale of: 2020 - $4,121 net of deferred taxes of $989 and reclassification adjustment for net realized gains included in net income of $2,560, net of tax of $614; 2019 - $7,315, net of deferred taxes of $1,755 and reclassification adjustment for net realized gains included in net income of $1,535, net of tax of $368	**3,132**	5,560
Net unrealized loss on pension plan of: 2019 - $(432), net of deferred taxes of $(104)	**—**	(328)
Total other comprehensive income	**1,655**	4,862
Total comprehensive income	**$ 22,730**	$ 28,580

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Consolidated Statements of Shareholders' Equity (unaudited)

Dollars in thousands, except per share amounts	Common Stock and Related Surplus	Unallocated Common Stock Held by ESOP	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at June 30, 2020	$ 94,539	$ (593)	$ 166,163	$ 3,322	$ 263,431
Three Months Ended September 30, 2020					
Net income	**—**	**—**	**9,620**	**—**	**9,620**
Other comprehensive income	**—**	**—**	**—**	**868**	**868**
Share-based compensation expense	**79**	**—**	**—**	**—**	**79**
Unallocated ESOP shares committed to be released - 5,599 shares	**27**	**61**	**—**	**—**	**88**
Common stock issuances from reinvested dividends - 4,771 shares	**72**	**—**	**—**	**—**	**72**
Common stock cash dividends declared ($0.17 per share)	**—**	**—**	**(2,195)**	**—**	**(2,195)**
Balance, September 30, 2020	**$ 94,717**	**$ (532)**	**$ 173,588**	**$ 4,190**	**$ 271,963**
Balance June 30, 2019	$ 80,946	$ (828)	$ 153,362	$ 2,221	$ 235,701
Three Months Ended September 30, 2019					
Net income	—	—	8,061	—	8,061
Other comprehensive income	—	—	—	1,625	1,625
Share-based compensation expense	149	—	—	—	149
Unallocated ESOP shares committed to be released - 5,251 shares	80	56	—	—	136
Retirement of 52,460 shares of common stock	(1,453)	—	—	—	(1,453)
Common stock issuances from reinvested dividends - 2,227 shares	58	—	—	—	58
Common stock cash dividends declared ($0.15 per share)	—	—	(1,855)	—	(1,855)
Balance, September 30, 2019	$ 79,780	$ (772)	$ 159,568	$ 3,846	$ 242,422

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Consolidated Statements of Shareholders' Equity (unaudited)

Dollars in thousands, except per share amounts	Common Stock and Related Surplus	Unallocated Common Stock Held by ESOP	Retained Earnings	Accumulated Other Compre-hensive Income (Loss)	Total Share-holders' Equity
Balance, December 31, 2019	$ 80,084	$ (714)	$ 165,859	$ 2,535	$ 247,764
Nine Months Ended September 30, 2020					
Impact of adoption of ASC 326	**—**	**—**	**(6,756)**	**—**	**(6,756)**
Net income	**—**	**—**	**21,075**	**—**	**21,075**
Other comprehensive income	**—**	**—**	**—**	**1,655**	**1,655**
Vesting of RSUs - 651 shares	**—**	**—**	**—**	**—**	**—**
Share-based compensation expense	**402**	**—**	**—**	**—**	**402**
Unallocated ESOP shares committed to be released - 16,797 shares	**128**	**182**	**—**	**—**	**310**
Retirement of 75,333 shares of common stock	**(1,444)**	**—**	**—**	**—**	**(1,444)**
Acquisition of Cornerstone Financial Services, Inc. - 570,000 shares, net of issuance costs	**15,354**	**—**	**—**	**—**	**15,354**
Common stock issuances from reinvested dividends - 11,758 shares	**193**	**—**	**—**	**—**	**193**
Common stock cash dividends declared ($0.51 per share)	**—**	**—**	**(6,590)**	**—**	**(6,590)**
Balance, September 30, 2020	**$ 94,717**	**$ (532)**	**$ 173,588**	**$ 4,190**	**$ 271,963**
Balance, December 31, 2018	$ 80,431	$ (939)	$ 141,354	$ (1,016)	$ 219,830
Nine Months Ended September 30, 2019					
Net income	—	—	23,718	—	23,718
Other comprehensive income	—	—	—	4,862	4,862
Exercise of stock options and SARs - 17,255 shares	7	—	—	—	7
Share-based compensation expense	430	—	—	—	430
Unallocated ESOP shares committed to be released - 15,481 shares	222	167	—	—	389
Retirement of 417,577 shares of common stock	(10,405)	—	—	—	(10,405)
Acquisition of Peoples Bankshares, Inc. - shares, net of 465,931 issuance costs	8,918	—	—	—	8,918
Common stock issuances from reinvested dividends - 6,781 shares	177	—	—	—	177
Common stock cash dividends declared ($0.44 per share)	—	—	(5,504)	—	(5,504)
Balance, September 30, 2019	$ 79,780	$ (772)	$ 159,568	$ 3,846	$ 242,422

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows (unaudited)

Dollars in thousands	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Cash Flows from Operating Activities		
Net income	**$ 21,075**	$ 23,718
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**2,359**	1,921
Provision for credit losses	**11,500**	1,050
Share-based compensation expense	**402**	430
Deferred income tax benefit	**(3,459)**	(336)
Loans originated for sale	**(64,279)**	(13,710)
Proceeds from sale of loans	**64,195**	13,292
Gains on loans held for sale	**(1,135)**	(270)
Realized securities gains, net	**(2,560)**	(1,535)
(Gain) loss on disposal of assets	**(167)**	213
Gain on sale of Summit Insurance Services, LLC	**—**	(1,906)
Write-downs of foreclosed properties	**1,719**	1,578
Amortization of securities premiums, net	**2,135**	1,826
Accretion related to acquisitions, net	**(1,133)**	(842)
Amortization of intangibles	**1,251**	1,300
Earnings on bank owned life insurance and annuities	**(1,413)**	(830)
(Increase) decrease in accrued interest receivable	**(1,617)**	434
(Increase) decrease in other assets	**(48)**	221
(Decrease) increase in other liabilities	**(1,225)**	2,935
Net cash provided by operating activities	**27,600**	29,489
Cash Flows from Investing Activities		
Proceeds from maturities and calls of securities available for sale	**2,810**	1,766
Proceeds from maturities and calls of held to maturity securities	**1,000**	—
Proceeds from sales of securities available for sale	**105,597**	133,174
Principal payments received on securities available for sale	**17,952**	18,501
Purchases of securities available for sale	**(52,783)**	(63,504)
Purchases of held to maturity securities	**(93,234)**	—
Purchases of other investments	**(14,245)**	(12,035)
Proceeds from redemptions of other investments	**16,461**	14,332
Net loan originations	**(264,600)**	(118,893)
Purchases of premises and equipment	**(8,077)**	(7,238)
Proceeds from disposal of premises and equipment	**9**	11
Improvements to property held for sale	**(1,249)**	(88)
Proceeds from sales of repossessed assets & property held for sale	**2,007**	2,789
Purchase of life insurance contracts and annuities	**(9,298)**	—
Proceeds from sale of Summit Insurance Services, LLC	**—**	7,117
Cash and cash equivalents from acquisitions, net of cash consideration paid 2020 - $27,215; 2019 - $12,740	**183,688**	20,589
Net cash used in investing activities	**(113,962)**	(3,479)
Cash Flows from Financing Activities		
Net increase in demand deposit, NOW and savings accounts	**307,957**	45,706
Net (decrease) increase in time deposits	**(130,841)**	39,621
Net decrease in short-term borrowings	**(59,199)**	(102,390)
Repayment of long-term borrowings	**(14)**	(13)
Proceeds from subordinated debt, net of issuance costs	**29,336**	—
Purchase of interest rate cap	**(5,850)**	—
Proceeds from issuance of common stock, net of issuance costs	**105**	98
Purchase and retirement of common stock	**(1,444)**	(10,405)
Exercise of stock options	**—**	7
Dividends paid on common stock	**(6,590)**	(5,504)
Net cash provided by (used in) financing activities	**133,460**	(32,880)
Increase (decrease) in cash and cash equivalents	**47,098**	(6,870)

continued

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows (unaudited) - continued

Dollars in thousands	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Cash and cash equivalents:		
Beginning	**61,888**	59,540
Ending	**$ 108,986**	$ 52,670
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	**$ 15,887**	$ 22,548
Income taxes	**$ 9,145**	$ 6,080
Supplemental Disclosures of Noncash Investing and Financing Activities		
Real property and other assets acquired in settlement of loans	**$ 902**	$ 4,060
Right of use assets obtained in exchange for lease obligations	**$ 3,293**	$ —
Supplemental Disclosures of Noncash Transactions Included in Acquisition		
Assets acquired	**$ 171,645**	$ 100,377
Liabilities assumed	**$ 365,379**	$ 114,151

See Notes to Consolidated Financial Statements

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. You should carefully consider each risk factor discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019 and the COVID-19 risk factor in Part II. Item 1A Risk Factors of this quarterly report on Form 10-Q.

The results of operations for the three and nine months ended September 30, 2020 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 2019 audited financial statements and Annual Report on Form 10-K.

NOTE 2. SIGNIFICANT NEW AUTHORITATIVE ACCOUNTING GUIDANCE

Recently Adopted

During June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments*. Accounting Standards Codification Topic 326 ("ASC 326"), *Financial Instruments - Credit Losses*, as amended, among other things, requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques previously applied are still permitted, although the inputs to those techniques have changed to reflect the full amount of expected credit losses. In addition, ASC 326 amends the accounting for credit losses on debt securities and purchased financial assets with credit deterioration.

We adopted ASC 326 on January 1, 2020 using the modified retrospective approach. Results for the periods beginning after January 1, 2020 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable US GAAP. We recorded a net reduction of retained earnings of $6.76 million upon adoption. The transition adjustment includes an increase in the allowance for credit losses for loans ("ACLL") of $6.93 million and an increase in the allowance for credit losses on off-balance sheet credit exposures of $2.43 million, net of the corresponding increases in deferred tax assets of $2.13 million. The adjustments to the allowance for credit losses ("ACL") for both loans and off-balance sheet credit exposures are combined and reported on our income statement as credit loss expense. Further information regarding our policies and methodology used to estimate the ACLL is presented in Note 6 - Loans and Allowance for Credit Losses for Loans. Further information regarding our policies and methodology used to estimate the ACL on off-balance-sheet credit exposures is presented in Note 11 - Commitments and Contingencies.

We adopted ASC 326 using the prospective transition approach for financial assets purchased with credit deterioration ("PCD") that were previously classified as purchased credit impaired ("PCI") and accounted for under ASC 310-30. In accordance with the standard, we did not reassess whether PCI assets met the criteria of PCD assets as of the date of adoption. The remaining credit discount on the PCI loans was recorded as an offset to the ACLL at the time of adoption and is netted in the above adjustment. The remaining adjustment for noncredit factors on these loans will be accreted into interest income on a level-yield method over the life of the loans.

Additionally, we evaluated each acquired loan for PCD status at the time of adoption. We identified loans with a net balance of $9.4 million that should be considered PCD. We considered the remaining discount at the time of adoption to be for noncredit factors on these loans and it will be accreted into interest income on a level-yield method over the life of the loans.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments modify the disclosure requirements in Topic 820 to add disclosures regarding changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty. Certain disclosure requirements in Topic 820 are also removed or modified. The amendments were effective for us January 1, 2020 and did not have a material impact on our consolidated financial statements.

In March 2020 (revised April 2020), various regulatory agencies, including the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation, ("the agencies") issued an interagency statement on loan modifications and reporting for financial institutions working with customers affected by the Coronavirus ("COVID-19"). The interagency statement was effective immediately and impacted accounting for loan modifications. Under ASC 310-40, *Receivables - Troubled Debt Restructurings by Creditors*, ("ASC 310-40"), a restructuring of debt constitutes a troubled debt restructuring ("TDR") if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The agencies confirmed with the staff of the FASB that short-term modifications made on a good faith basis in response to the COVID-19 crisis to borrowers who were current prior to any relief, are not to be considered TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented. This interagency guidance is expected to have a material impact on the Company's financial statements; however, this impact cannot be quantified at this time. See Note 6 of the accompanying consolidated financial statements for disclosure of the impact to date.

Pending Adoption

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes*. The ASU is expected to reduce cost and complexity related to the accounting for income taxes by removing specific exceptions to general principles in Topic 740 (eliminating the need for an organization to analyze whether certain exceptions apply in a given period) and improving financial statement preparers' application of certain income tax-related guidance. This ASU is part of the FASB's simplification initiative to make narrow-scope simplifications and improvements to accounting standards through a series of short-term projects. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted. We are currently assessing the impact that ASU 2019-12 will have on our consolidated financial statements.

In January 2020, the FASB issued ASU 2020-01, *Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) - Clarifying the Interactions between Topic 321, Topic 323, and Topic 815.* For public business entities, the amendments in the ASU are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted. We do not expect the adoption of ASU 2020-01 to have a material impact on our consolidated financial statements.

In March 2020, the Financial Accounting Standards Board (FASB) issued ASU 2020-04 *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* which provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. It is intended to help stakeholders during the global market-wide reference rate transition period. The guidance is effective for all entities as of March 12, 2020 through December 31, 2022. At this time, we do not anticipate any material adverse impact to our business operation or financial results during the period of transition.

In October 2020, the FASB issued ASU 2020-08 *Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable fees and Other Costs* which clarifies that an entity should reevaluate whether a callable debt security is within the scope of ASC paragraph 310-20-35-33 for each reporting period. For public business entities, the ASU is effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. Early adoption is not permitted. All entities should apply ASU No. 2020-08 on a prospective basis as of the beginning of the period of adoption for existing or newly purchased callable debt securities. We do not expect the adoption of ASU 2020-06 to have a material impact on our consolidated financial statements.

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NOTE 3. FAIR VALUE MEASUREMENTS

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

Dollars in thousands	Balance at September 30, 2020	Fair Value Measurements Using: Level 1	Level 2	Level 3
Securities available for sale				
U.S. Government sponsored agencies	$ 36,766	$ —	$ 36,766	$ —
Mortgage backed securities:				
Government sponsored agencies	62,351	—	62,351	—
Nongovernment sponsored entities	15,190	—	15,190	—
State and political subdivisions	52,300	—	52,300	—
Corporate debt securities	25,956	—	25,956	—
Asset-backed securities	46,035	—	46,035	—
Tax-exempt state and political subdivisions	59,391	—	59,391	—
Total securities available for sale	$ 297,989	$ —	$ 297,989	$ —
Derivative financial assets				
Interest rate cap	$ 4,611	$ —	$ 4,611	$ —
Derivative financial liabilities				
Interest rate swaps	$ 3,067	$ —	$ 3,067	$ —

Dollars in thousands	Balance at December 31, 2019	Fair Value Measurements Using: Level 1	Level 2	Level 3
Securities available for sale				
U.S. Government sponsored agencies	$ 20,864	$ —	$ 20,864	$ —
Mortgage backed securities:				
Government sponsored agencies	70,975	—	70,975	—
Nongovernment sponsored entities	10,229	—	10,229	—
State and political subdivisions	49,973	—	49,973	—
Corporate debt securities	18,200	—	18,200	—
Asset-backed securities	33,014	—	33,014	—
Tax-exempt state and political subdivisions	73,100	—	73,100	—
Total securities available for sale	$ 276,355	$ —	$ 276,355	$ —
Derivative financial liabilities				
Interest rate swaps	$ 988	$ —	$ 988	$ —

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.

Dollars in thousands	Balance at September 30, 2020	Fair Value Measurements Using: Level 1	Level 2	Level 3
Residential mortgage loans held for sale	$ 2,538	$ —	$ 2,538	$ —
Collateral-dependent loans with an ACLL				
Commercial	$ 8	$ —	$ 8	$ —
Commercial real estate	7,954	—	7,954	—
Construction and development	355	—	355	—
Residential real estate	90	—	90	—
Total collateral-dependent loans with an ACLL	$ 8,407	$ —	$ 8,407	$ —
Property held for sale				
Commercial real estate	$ 1,125	$ —	$ 1,125	$ —
Construction and development	14,049	—	13,428	621
Residential real estate	500	—	500	—
Total property held for sale	$ 15,674	$ —	$ 15,053	$ 621

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Collateral dependent loans with an ACLL were categorized as impaired loans with specific reserves prior to the adoption of ASC 326.

	Balance at	Fair Value Measurements Using:		
Dollars in thousands	December 31, 2019	Level 1	Level 2	Level 3
Residential mortgage loans held for sale	$ 1,319	$ —	$ 1,319	$ —
Collateral-dependent impaired loans				
Commercial	$ 4,831	$ —	$ 4,831	$ —
Commercial real estate	1,863	—	1,863	—
Construction and development	425	—	425	—
Residential real estate	692	—	566	126
Total collateral-dependent impaired loans	$ 7,811	$ —	$ 7,685	$ 126
Property held for sale				
Commercial real estate	$ 1,304	$ —	$ 1,304	$ —
Construction and development	12,182	—	12,182	—
Residential real estate	705	—	705	—
Total property held for sale	$ 14,191	$ —	$ 14,191	$ —

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

	September 30, 2020		Fair Value Measurements Using:		
Dollars in thousands	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$ 108,986	$ 108,986	$ —	$ 108,986	$ —
Securities available for sale	297,989	297,989	—	297,989	—
Securities held to maturity	91,600	92,786	—	92,786	—
Other investments	10,766	10,766	—	10,766	—
Loans held for sale, net	2,538	2,538	—	2,538	—
Loans, net	2,222,450	2,228,148	—	8,407	2,219,741
Accrued interest receivable	10,978	10,978	—	10,978	—
Derivative financial assets	4,611	4,611	—	4,611	—
Cash surrender value of life insurance policies and annuities	57,029	57,029	—	57,029	—
	$ 2,806,947	$ 2,813,831	$ —	$ 594,090	$ 2,219,741
Financial liabilities					
Deposits	$ 2,451,891	$ 2,456,247	$ —	$ 2,456,247	$ —
Short-term borrowings	140,145	140,145	—	140,145	—
Long-term borrowings	703	882	—	882	—
Subordinated debentures	29,336	29,336	—	29,336	—
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589	—	19,589	—
Accrued interest payable	898	898	—	898	—
Derivative financial liabilities	3,067	3,067	—	3,067	—
	$ 2,645,629	$ 2,650,164	$ —	$ 2,650,164	$ —

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Dollars in thousands	December 31, 2019 Carrying Value	December 31, 2019 Estimated Fair Value	Fair Value Measurements Using: Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$ 61,888	$ 61,888	$ —	$ 61,888	$ —
Securities available for sale	276,355	276,355	—	276,355	—
Other investments	12,972	12,972	—	12,972	—
Loans held for sale, net	1,319	1,319	—	1,319	—
Loans, net	1,900,425	1,901,020	—	7,685	1,893,335
Accrued interest receivable	8,439	8,439	—	8,439	—
Cash surrender value of life insurance policies	43,603	43,603	—	43,603	—
	$ 2,305,001	$ 2,305,596	$ —	$ 412,261	$ 1,893,335
Financial liabilities					
Deposits	$ 1,913,237	$ 1,918,610	$ —	$ 1,918,610	$ —
Short-term borrowings	199,345	199,345	—	199,345	—
Long-term borrowings	717	854	—	854	—
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589	—	19,589	—
Accrued interest payable	1,234	1,234	—	1,234	—
Derivative financial liabilities	988	988	—	988	—
	$ 2,135,110	$ 2,140,620	$ —	$ 2,140,620	$ —

NOTE 4. EARNINGS PER SHARE

The computations of basic and diluted earnings per share follow:

Dollars in thousands,except per share amounts	For the Three Months Ended September 30, 2020 Net Income (Numerator)	2020 Common Shares (Denominator)	2020 Per Share	2019 Net Income (Numerator)	2019 Common Shares (Denominator)	2019 Per Share
Net income	$ 9,620			$ 8,061		
Basic earnings per share	$ 9,620	12,922,158	$ 0.74	$ 8,061	12,412,982	$ 0.65
Effect of dilutive securities:						
Stock options		4,182			4,654	
Stock appreciation rights (SARs)		23,244			50,142	
Restricted stock units (RSUs)		—			—	
Diluted earnings per share	$ 9,620	12,949,584	$ 0.74	$ 8,061	12,467,778	$ 0.65

Dollars in thousands,except per share amounts	For the Nine Months Ended September 30, 2020 Income (Numerator)	2020 Common Shares (Denominator)	2020 Per Share	2019 Income (Numerator)	2019 Common Shares (Denominator)	2019 Per Share
Net income	$ 21,075			$ 23,718		
Basic earnings per share	$ 21,075	12,934,401	$ 1.63	$ 23,718	12,555,411	$ 1.89
Effect of dilutive securities:						
Stock options		4,308			5,006	
Stock appreciation rights (SARs)		33,082			53,965	
Restricted stock units (RSUs)		—			—	
Diluted earnings per share	$ 21,075	12,971,913	$ 1.62	$ 23,718	12,614,382	$ 1.88

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Stock option and stock appreciation right (SAR) grants are disregarded in this computation if they are determined to be anti-dilutive. All stock options were dilutive for the nine months ended September 30, 2020 and our anti-dilutive stock options for the quarter ended September 30, 2020 were 300 shares. Our anti-dilutive stock options for the three and nine months ended September 30, 2019 were 7,700 shares. Our anti-dilutive SARs for the three and nine months ended September 30, 2020 and September 30, 2019 were 222,740 and 84,615, respectively. Our anti-dilutive RSUs for the quarter and nine months ended September 30, 2020 were 15,082 and 13,780, respectively.

NOTE 5. DEBT SECURITIES

Debt Securities Available for Sale: The amortized cost, unrealized gains, unrealized losses and estimated fair values of debt securities available for sale at September 30, 2020 and December 31, 2019 are summarized as follows:

	September 30, 2020			
	Amortized	Unrealized		Estimated
Dollars in thousands	Cost	Gains	Losses	Fair Value
Available for Sale (carried at estimated fair value)				
Taxable debt securities				
U.S. Government and agencies and corporations	$ 36,818	$ 366	$ 418	$ 36,766
Residential mortgage-backed securities:				
Government-sponsored agencies	60,678	2,072	399	62,351
Nongovernment-sponsored entities	15,255	187	252	15,190
State and political subdivisions				
General obligations	12,756	749	—	13,505
Water and sewer revenues	9,602	667	—	10,269
Lease revenues	5,837	344	3	6,178
Income tax revenues	5,055	435	—	5,490
Other revenues	15,550	1,309	1	16,858
Corporate debt securities	26,438	42	524	25,956
Asset-backed securities	47,291	14	1,270	46,035
Total taxable debt securities	235,280	6,185	2,867	238,598
Tax-exempt debt securities				
State and political subdivisions				
General obligations	29,149	2,828	17	31,960
Water and sewer revenues	8,290	669	—	8,959
Lease revenues	7,283	743	—	8,026
Other revenues	9,725	733	12	10,446
Total tax-exempt debt securities	54,447	4,973	29	59,391
Total available for sale securities	$ 289,727	$ 11,158	$ 2,896	$ 297,989

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Dollars in thousands	December 31, 2019 Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Available for Sale (carried at estimated fair value)				
Taxable debt securities				
U.S. Government and agencies and corporations	$ 21,036	$ 212	$ 384	$ 20,864
Residential mortgage-backed securities:				
Government-sponsored agencies	70,379	1,031	435	70,975
Nongovernment-sponsored entities	10,253	17	41	10,229
State and political subdivisions				
General obligations	12,603	25	171	12,457
Water and sewer revenues	7,170	71	114	7,127
Lease revenues	5,310	25	77	5,258
University revenues	5,917	164	16	6,065
Other revenues	18,831	344	109	19,066
Corporate debt securities	18,268	81	149	18,200
Asset-backed securities	33,826	—	812	33,014
Total taxable debt securities	203,593	1,970	2,308	203,255
Tax-exempt debt securities				
State and political subdivisions				
General obligations	36,673	2,526	—	39,199
Water and sewer revenues	9,565	633	—	10,198
Lease revenues	8,455	598	—	9,053
Other revenues	13,929	728	7	14,650
Total tax-exempt debt securities	68,622	4,485	7	73,100
Total available for sale securities	$ 272,215	$ 6,455	$ 2,315	$ 276,355

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

Dollars in thousands	September 30, 2020 Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
California	$ 15,323	$ 1,426	$ —	$ 16,749
New York	10,455	959	—	11,414
Texas	9,887	844	—	10,731
Illinois	9,248	636	18	9,866
Florida	8,497	669	—	9,166

Management performs pre-purchase and ongoing analysis to confirm that all investment securities meet applicable credit quality standards.

The maturities, amortized cost and estimated fair values of securities available for sale at September 30, 2020, are summarized as follows:

Dollars in thousands	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 32,295	$ 32,637
Due from one to five years	84,789	86,143
Due from five to ten years	67,999	68,841
Due after ten years	104,644	110,368
Total	$ 289,727	$ 297,989

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The proceeds from sales, calls and maturities of securities available for sale, including principal payments received on mortgage-backed obligations, and the related gross gains and losses realized, for the nine months ended September 30, 2020 and 2019 are as follows:

	Proceeds from			Gross realized	
Dollars in thousands	Sales	Calls and Maturities	Principal Payments	Gains	Losses
For the Nine Months Ended September 30,					
2020					
Securities available for sale	$ 105,597	$ 2,810	$ 17,952	$ 2,560	$ —
2019					
Securities available for sale	$ 133,174	$ 1,766	$ 18,501	$ 1,867	$ 332

Provided below is a summary of debt securities available for sale which were in an unrealized loss position at September 30, 2020 and December 31, 2019.

	September 30, 2020						
		Less than 12 months		12 months or more		Total	
Dollars in thousands	# of securities in loss position	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Taxable debt securities							
U.S. Government agencies and corporations	34	$ 15,995	$ 61	$ 12,427	$ 357	$ 28,422	$ 418
Residential mortgage-backed securities:							
Government-sponsored agencies	12	6,031	49	9,327	350	15,358	399
Nongovernment-sponsored entities	4	3,492	22	2,726	230	6,218	252
State and political subdivisions:							
Lease revenues	1	1,515	3	—	—	1,515	3
Other revenues	1	1,513	1	—	—	1,513	1
Corporate debt securities	10	8,381	410	1,886	114	10,267	524
Asset-backed securities	21	11,391	204	31,930	1,066	43,321	1,270
Tax-exempt debt securities							
State and political subdivisions:							
General obligations	1	972	17	—	—	972	17
Other revenues	1	145	12	—	—	145	12
Total	85	$ 49,435	$ 779	$ 58,296	$ 2,117	$ 107,731	$ 2,896

Dollars in thousands	# of securities in loss position	December 31, 2019					
		Less than 12 months		12 months or more		Total	
		Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Taxable debt securities							
U.S. Government agencies and corporations	15	$ —	$ —	$ 14,903	$ 384	$ 14,903	$ 384
Residential mortgage-backed securities:							
Government-sponsored agencies	21	12,298	96	15,174	339	27,472	435
Nongovernment-sponsored entities	4	8,323	41	—	—	8,323	41
State and political subdivisions:							
General obligations	10	10,581	171	—	—	10,581	171
Water and sewer revenues	4	4,421	114	—	—	4,421	114
Lease revenues	4	4,235	77	—	—	4,235	77
University revenues	1	1,307	16	—	—	1,307	16
Other revenues	6	6,517	109	—	—	6,517	109
Corporate debt securities	6	1,686	3	3,739	146	5,425	149
Asset-backed securities	15	3,441	34	29,573	778	33,014	812
Tax-exempt debt securities							
State and political subdivisions:							
Other revenues	2	1,183	7	—	—	1,183	7
Total	88	$ 53,992	$ 668	$ 63,389	$ 1,647	$ 117,381	$ 2,315

We do not intend to sell the above 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 changes in market interest rates, and in some cases limited market liquidity and is not due to credit quality as none of these securities are in default and all carry above investment grade ratings. Accordingly, no allowance for credit losses has been recognized relative to these securities.

Debt Securities Held to Maturity: The amortized cost, unrealized gains, unrealized losses and estimated fair values of debt securities held to maturity at September 30, 2020 are summarized as follows:

Dollars in thousands	September 30, 2020			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Held to Maturity (carried at amortized cost)				
Tax-exempt debt securities				
State and political subdivisions				
General obligations	$ 69,731	$ 1,081	$ 37	$ 70,775
Water and sewer revenues	7,181	104	8	7,277
Sales tax revenues	4,665	28	45	4,648
Other revenues	10,023	154	91	10,086
Total tax-exempt debt securities	91,600	1,367	181	92,786
Total	$ 91,600	$ 1,367	$ 181	$ 92,786

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

	September 30, 2020			
	Amortized	Unrealized		Estimated
Dollars in thousands	Cost	Gains	Losses	Fair Value
Texas	$ 14,528	$ 182	$ —	$ 14,710
California	10,132	216	8	10,340
Pennsylvania	8,823	41	8	8,856
Michigan	7,191	25	43	7,173
Nevada	6,976	—	6	6,970

The maturities, amortized cost and estimated fair values of held to maturity securities at September 30, 2020, are summarized as follows:

Dollars in thousands	Amortized Cost	Estimated Fair Value
Due in one year or less	$ —	$ —
Due from one to five years	—	—
Due from five to ten years	2,048	2,090
Due after ten years	89,552	90,696
Held to Maturity	$ 91,600	$ 92,786

The proceeds from sales, calls and maturities of held to maturity securities, including principal payments received on mortgage-backed obligations, and the related gross gains and losses realized, for the nine months ended September 30, 2020 are as follows:

	Proceeds from			Gross realized	
Dollars in thousands	Sales	Calls and Maturities	Principal Payments	Gains	Losses
For the Nine Months Ended September 30,					
2020					
Securities held to maturity	$ —	$ 1,000	$ —	$ —	$ —

In accordance with ASC 326, an allowance for credit losses on held to maturity securities is a contra-asset valuation account, that is deducted from the amortized cost basis of securities carried at amortized cost to present management's best estimate of the net amount expected to be collected. Held to maturity securities are charged-off against the allowance when deemed uncollectible by management. Adjustments to the allowance are reported in our income statement as a component of the provision for credit losses. Management measures expected credit losses on held to maturity securities on a collective basis by major security type with each type sharing similar risk characteristics, and considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Management has made the accounting policy election to exclude accrued interest receivable on held to maturity securities from the estimate of credit losses. At September 30, 2020, no allowance for credit losses on held to maturity securities has been recognized.

NOTE 6. LOANS AND ALLOWANCE FOR CREDIT LOSSES FOR LOANS

Loans are generally stated at the amount of unpaid principal, reduced by unearned discount and the ACLL. 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.

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 on nonaccrual loans is recognized primarily using the cost-recovery method. Loans may be returned to accrual status when repayment is reasonably assured and there has been demonstrated performance under the terms of the loan or, if applicable, the terms of the restructured loans.

Commercial-related loans or portions thereof are charged off to the ACLL 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

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loan or a portion of a loan is classified “loss” in accordance with bank regulatory classification guidelines, which state, “Assets classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted”.

Consumer-related loans are generally charged to the ACLL 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 down to net realizable value at 120 days past due.
The following table presents the amortized cost of loans held for investment:

Dollars in thousands		**September 30, 2020**		**December 31, 2019**
Commercial	$	350,985	$	220,452
Commercial real estate - owner occupied				
Professional & medical		94,635		81,973
Retail		100,926		100,993
Other		116,941		93,253
Commercial real estate - non-owner occupied				
Hotels & motels		120,324		128,665
Mini-storage		57,601		50,913
Multifamily		152,561		164,398
Retail		108,326		102,989
Other		179,812		182,242
Construction and development				
Land & land development		97,343		84,112
Construction		66,878		37,523
Residential 1-4 family real estate				
Personal residence		263,315		260,843
Rental - small loan		104,694		101,080
Rental - large loan		73,836		63,986
Home equity		82,991		76,568
Mortgage warehouse lines		243,730		126,237
Consumer		34,655		35,021
Other				
Credit cards		1,637		1,453
Overdrafts		614		798
Total loans, net of unearned fees		2,251,804		1,913,499
Less allowance for credit losses - loans		29,354		13,074
Loans, net	$	2,222,450	$	1,900,425

Allowance for Credit Losses - Loans

The ACLL is a valuation allowance, estimated at each balance sheet date in accordance with ASC 326, that is deducted from the amortized cost basis of loans to present the net amount expected to be collected. The amount of the ACLL represents our best estimate of current expected credit losses on loans considering available information, from internal and external sources, relevant to assessing collectability over the loans’ contractual terms, adjusted for expected prepayments when appropriate (the “life-of-loan” concept). The contractual term excludes expected extensions, renewals and modifications unless (i) management has a reasonable expectation that a troubled debt restructuring will be executed with an individual borrower or (ii) such extension or renewal options are not unconditionally cancellable by us and, in such cases, the borrower is likely to meet applicable conditions and likely to request extension or renewal. Relevant available information includes historical credit loss experience, current conditions and reasonable and supportable forecasts. While historical credit loss experience provides the basis for the estimation of expected credit losses, adjustments to historical loss information may be made for differences in current portfolio-specific risk characteristics, environmental conditions or other relevant factors. The ACLL losses is measured on a collective basis for portfolios of loans when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated for expected credit losses on an individual basis and excluded from the collective evaluation. Expected credit losses for collateral dependent loans, including loans where the borrower is experiencing financial difficulty, but foreclosure is not probable, are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Expected credit losses are reflected in the ACLL through a charge to provision for credit losses. When we deem all or a portion of a financial asset to be uncollectible the appropriate amount is written off and the ACLL is reduced by the same amount. The Company applies judgment to determine when a financial asset is deemed uncollectible; however, generally speaking, an asset will be considered uncollectible no later than when all efforts at collection have been exhausted. Subsequent recoveries, if any, are credited to the ACLL when received.

Loan Pools. In calculating the ACLL, most loans are segmented into pools based upon similar characteristics and risk profiles. Common characteristics and risk profiles include the type/purpose of loan, underlying collateral, geographical similarity and historical/expected credit loss patterns. In developing these loan pools for the purposes of modeling expected credit losses, we also analyzed the degree of correlation in how loans within each portfolio respond when subjected to varying economic conditions and scenarios as well as other portfolio stress factors. We have identified the pools of financial assets with similar risk characteristics for measuring expected credit losses as presented in the table of amortized cost of loans held for investment above.

We periodically reassess each pool to ensure the loans within the pool continue to share similar characteristics and risk profiles and to determine whether further segmentation is necessary.

Residential 1-4 family rentals are classified as small loan if the original loan amount is less than $600,000 and classified as large loan if the original loan amount equals or exceeds $600,000.

The Company's methodology for estimating the ACLL considers available relevant information about the collectability of cash flows, including information about past events, current conditions, and reasonable and supportable forecasts. The methodology applies historical loss information, adjusted for asset-specific characteristics, economic conditions at the measurement date, and forecasts about future economic conditions expected to exist through the contractual lives of the financial assets that are reasonable and supportable, to the identified pools of financial assets with similar risk characteristics for which the historical loss experience was observed. Our methodology reverts to historical loss information immediately when it can no longer develop reasonable and supportable forecasts.

Loss-Rate Method. We use a loss-rate ("cohort") method to estimate expected credit losses for all loan pools. The cohort method identifies and captures the balances of pooled loans with similar risk characteristics, as of a point in time to form a cohort, then tracks the respective losses generated by that cohort of loans over their remaining lives, or until the loans are "exhausted" (reached an acceptable stage at which a significant majority of all losses are expected to have been recognized). This method encompasses loan balances for as long as the loans are outstanding, so while significant history is required to represent the life-of-loan concept, this method does not require as much history due to its inclusion of loan balances in multiple cohort periods.

Qualitative Factors. We qualitatively adjust our loan loss rates for risk factors that are not otherwise considered within our model but are nonetheless relevant in assessing the expected credit losses within our loan pools. These qualitative factor ("Q-Factor") adjustments may increase or decrease our estimate of expected credit losses by a calculated percentage or amount based upon the estimated level of risk.

One Q-Factor adjustment to our loss rates is consideration of reasonable and supportable forecasts of economic conditions. In arriving at a reasonable and supportable economic forecast, we primarily consider the forecasted unemployment rates for the U.S., West Virginia and Virginia as loss drivers for each segmented loan pool. Secondarily, we consider the following forecasted economic data for one or more of our segmented loan pools depending on the nature of the underlying loan pool: housing price indices (U.S., West Virginia & Virginia), single-family housing starts (West Virginia & Virginia), multi-family housing starts (West Virginia & Virginia), personal income growth (U.S., West Virginia & Virginia), U.S. consumer confidence, rental vacancy rates (U.S.), and U.S. % change in gross domestic product.

Other risks that we may consider in making Q-Factor adjustments include, among other things, the impact of (i) changes in lending policies and procedures, including changes in underwriting standards and practices for collections, write-offs, and recoveries, (ii) changes in the nature and volume of the loan pools and in the terms of the underlying loans, (iii) changes in the experience, ability, and depth of our lending management and staff, (iv) changes in volume and severity of past due financial assets, the volume of non-accrual assets, and the volume and severity of adversely classified or graded assets, (v) changes in the quality of our credit review function, (vi) changes in the value of the underlying collateral for loans that are non-collateral dependent, (vii) the existence, growth, and effect of any concentrations of credit and (viii) other external factors such as the regulatory, legal and technological environments; competition; and events such as natural disasters or health pandemics.

Collateral Dependent Loans. We may determine that an individual loan exhibits unique risk characteristics which differentiate it from other loans within our loan pools. In such cases, the loans are evaluated for expected credit losses on an individual basis

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and excluded from the collective evaluation. Specific allocations of the allowance for credit losses are determined by analyzing the borrower's ability to repay amounts owed, collateral deficiencies, the relative risk grade of the loan and economic conditions affecting the borrower's industry, among other things. A loan is considered to be collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. In such cases, expected credit losses are based on the fair value of the collateral at the measurement date, adjusted for estimated selling costs if satisfaction of the loan depends on the sale of the collateral. We reevaluate the fair value of collateral supporting collateral dependent loans on a quarterly basis. The fair value of real estate collateral supporting collateral dependent loans is evaluated by appraisal services using a methodology that is consistent with the Uniform Standards of Professional Appraisal Practice.

Troubled Debt Restructuring. A loan that has been modified or renewed is considered a troubled debt restructuring ("TDR") when two conditions are met: 1) the borrower is experiencing financial difficulty and 2) concessions are made for the borrower's benefit that would not otherwise be considered for a borrower or transaction with similar credit risk characteristics. The Company's ACLL reflects all effects of a TDR when an individual asset is specifically identified as a reasonably expected TDR. The Company has determined that a TDR is reasonably expected no later than the point when the lender concludes that modification is the best course of action and it is at least reasonably possible that the troubled borrower will accept some form of concession from the lender to avoid a default. TDRs that are considered material ($500,000 and greater) are evaluated individually to determine the required ACLL. TDRs that are not considered material may be included in the Company's existing pools based on the underlying risk characteristics of the loan to measure the ACLL.

The following table presents the activity in the ACLL by portfolio segment during the first nine months of 2020:

	For the Nine Months Ended September 30, 2020						
	Allowance for Credit Losses - Loans						
Dollars in thousands	**Beginning Balance Prior to Adoption of ASC 326**	**Impact of Adoption of ASC 326**	**Provision for Credit Losses - Loans**	**Adjustment for PCD Acquired Loans**	**Charge-offs**	**Recoveries**	**Ending Balance**
Commercial	$ 1,221	$ 1,064	$ 662	$ —	$ (99)	$ 27	$ 2,875
Commercial real estate - owner occupied							
Professional & medical	1,058	(390)	1,209	—	(1,005)	—	872
Retail	820	(272)	2,285	153	—	162	3,148
Other	821	(137)	(6)	—	—	—	678
Commercial real estate - non-owner occupied							
Hotels & motels	1,235	(936)	1,833	—	—	—	2,132
Mini-storage	485	(311)	58	—	—	—	232
Multifamily	1,534	8	(900)	—	—	38	680
Retail	964	279	403	—	(343)	2	1,305
Other	1,721	(1,394)	600	—	—	—	927
Construction and development							
Land & land development	600	2,136	1,334	111	(4)	39	4,216
Construction	242	996	2,150	—	—	—	3,388
Residential 1-4 family real estate							
Personal residence	1,275	1,282	(35)	146	(45)	49	2,672
Rental - small loan	532	1,453	283	—	(123)	127	2,272
Rental - large loan	49	2,884	(317)	—	—	—	2,616
Home equity	138	308	499	—	(23)	39	961
Mortgage warehouse lines	—	—	—	—	—	—	—
Consumer	379	(238)	194	—	(212)	101	224
Other							
Credit cards	—	12	28	—	(33)	9	16
Overdrafts	—	182	128	—	(288)	118	140
Total	$ 13,074	$ 6,926	$ 10,408	$ 410	$ (2,175)	$ 711	$ 29,354

The following table presents, as of September 30, 2020 segregated by loan portfolio segment, details of the loan portfolio and the ACLL calculated in accordance with our credit loss accounting methodology for loans described above.

	September 30, 2020					
	Loan Balances			Allowance for Credit Losses - Loans		
Dollars in thousands	Loans Individually Evaluated	Loans Collectively Evaluated (1)	Total	Loans Individually Evaluated	Loans Collectively Evaluated	Total
Commercial	$ 4,242	$ 346,743	$ 350,985	$ 20	$ 2,855	$ 2,875
Commercial real estate - owner occupied						
Professional & medical	2,197	92,438	94,635	230	642	872
Retail	16,220	84,706	100,926	2,142	1,006	3,148
Other	—	116,941	116,941	—	678	678
Commercial real estate - non-owner occupied						
Hotels & motels	—	120,324	120,324	—	2,132	2,132
Mini-storage	—	57,601	57,601	—	232	232
Multifamily	—	152,561	152,561	—	680	680
Retail	2,507	105,819	108,326	57	1,248	1,305
Other	5,229	174,583	179,812	—	927	927
Construction and development						
Land & land development	1,621	95,722	97,343	640	3,576	4,216
Construction	—	66,878	66,878	—	3,388	3,388
Residential 1-4 family real estate						
Personal residence	—	263,315	263,315	—	2,672	2,672
Rental - small loan	726	103,968	104,694	44	2,228	2,272
Rental - large loan	4,445	69,391	73,836	—	2,616	2,616
Home equity	523	82,468	82,991	—	961	961
Consumer	—	34,655	34,655	—	224	224
Other						
Credit cards	—	1,637	1,637	—	16	16
Overdrafts	—	614	614	—	140	140
Mortgage warehouse lines	—	243,730	243,730	—	—	—
Total	$ 37,710	$ 2,214,094	$ 2,251,804	$ 3,133	$ 26,221	$ 29,354

(1) Included in the loans collectively evaluated are $106.4 million in fully guaranteed or cash secured loans, which are excluded from the pools collectively evaluated and carry no reserve.

The following table presents the amortized cost basis of collateral dependent loans, which are individually evaluated to determine expected credit losses, and the related ACLL allocated to those loans:

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Dollars in thousands	September 30, 2020 Real Estate Secured Loans	Non-Real Estate Secured Loans	Total Loans	Allowance for Credit Losses - Loans
Commercial	$ —	$ 4,243	$ 4,243	$ 20
Commercial real estate - owner occupied				
Professional & medical	—	—	—	—
Retail	11,937	—	11,937	2,142
Other	—	—	—	—
Commercial real estate - non-owner occupied				
Hotels & motels	—	—	—	—
Mini-storage	—	—	—	—
Multifamily	—	—	—	—
Retail	653	—	653	57
Other	2,890	—	2,890	—
Construction and development				
Land & land development	995	—	995	640
Construction	—	—	—	—
Residential 1-4 family real estate				
Personal residence	—	—	—	—
Rental - small loan	726	—	726	44
Rental - large loan	4,444	—	4,444	—
Home equity	—	—	—	—
Consumer	—	—	—	—
Other				
Credit cards	—	—	—	—
Overdrafts	—	—	—	—
Total	$ 21,645	$ 4,243	$ 25,888	$ 2,903

The following table presents the activity in the ACLL by portfolio segment for the year ended December 31, 2019, as determined in accordance with ASC 310 prior to the January 1, 2020 adoption of ASC 326:

Dollars in thousands	For the Year Ended December 31, 2019 Allowance for Credit Losses - Loans Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
Commercial	$ 1,705	$ (281)	$ 17	$ (295)	$ 1,146
Commercial real estate					
Owner occupied	2,214	(2)	21	467	2,700
Non-owner occupied	5,742	(170)	1	366	5,939
Construction and development					
Land & land development	339	(2)	108	155	600
Construction	64	—	—	178	242
Residential real estate					
Non-jumbo	2,090	(979)	125	576	1,812
Jumbo	379	—	—	(368)	11
Home equity	167	(24)	19	(24)	138
Mortgage warehouse lines	—	—	—	—	—
Consumer	79	(285)	168	173	135
Other	268	(360)	121	322	351
Total	$ 13,047	$ (2,103)	$ 580	$ 1,550	$ 13,074

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The following table presents the contractual aging of the amortized cost basis of past due loans by class as of September 30, 2020 and December 31, 2019.

	At September 30, 2020					
	Past Due					
Dollars in thousands	**30-59 days**	**60-89 days**	**90 days or more**	**Total**	**Current**	**90 days or more and Accruing**
Commercial	$ 160	$ 42	$ 412	$ 614	$ 350,371	$ —
Commercial real estate - owner occupied						
Professional & medical	116	—	453	569	94,066	—
Retail	307	591	2,445	3,343	97,583	—
Other	—	—	149	149	116,792	—
Commercial real estate - non-owner occupied						
Hotels & motels	—	—	—	—	120,324	—
Mini-storage	—	—	—	—	57,601	—
Multifamily	—	417	—	417	152,144	—
Retail	—	—	821	821	107,505	—
Other	—	310	53	363	179,449	—
Construction and development						
Land & land development	93	329	2	424	96,919	—
Construction	—	—	—	—	66,878	—
Residential 1-4 family real estate						
Personal residence	3,062	579	1,112	4,753	258,562	—
Rental - small loan	243	—	794	1,037	103,657	—
Rental - large loan	—	—	1,127	1,127	72,709	—
Home equity	516	156	137	809	82,182	—
Mortgage warehouse lines	—	—	—	—	243,730	—
Consumer	128	32	27	187	34,468	—
Other						
Credit cards	1	—	2	3	1,634	2
Overdrafts	—	—	—	—	614	—
Total	$ 4,626	$ 2,456	$ 7,534	$ 14,616	$ 2,237,188	$ 2

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	At December 31, 2019					
	Past Due					
Dollars in thousands	30-59 days	60-89 days	90 days or more	Total	Current	90 days or more and Accruing
Commercial	$ 216	$ —	$ 483	$ 699	$ 219,753	$ —
Commercial real estate - owner occupied						
Professional & medical	—	137	1,602	1,739	80,234	—
Retail	118	—	2,434	2,552	98,441	—
Other	—	—	—	—	93,253	—
Commercial real estate - non-owner occupied						
Hotels & motels	—	—	—	—	128,665	—
Mini-storage	—	—	—	—	50,913	—
Multifamily	809	—	7	816	163,582	—
Retail	71	179	968	1,218	101,771	—
Other	—	—	387	387	181,855	—
Construction and development						
Land & land development	208	28	188	424	83,688	—
Construction	—	—	138	138	37,385	—
Residential 1-4 family real estate						
Personal residence	3,361	806	937	5,104	255,739	—
Rental - small loan	810	21	940	1,771	99,309	—
Rental - large loan	—	—	—	—	63,986	—
Home equity	760	—	223	983	75,585	—
Mortgage warehouse lines	—	—	—	—	126,237	—
Consumer	190	79	70	339	34,682	—
Other						
Credit cards	19	6	42	67	1,386	42
Overdrafts	—	—	—	—	798	—
Total	$ 6,562	$ 1,256	$ 8,419	$ 16,237	$ 1,897,262	$ 42

Nonaccrual loans: The following table presents the nonaccrual loans included in the net balance of loans at September 30, 2020 and December 31, 2019.

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Dollars in thousands	September 30, 2020 Nonaccrual	September 30, 2020 Nonaccrual with No Allowance for Credit Losses - Loans	December 31, 2019 Nonaccrual	December 31, 2019 Nonaccrual with No Allowance for Credit Losses - Loans
Commercial	$ 553	$ —	$ 864	$ 76
Commercial real estate - owner occupied				
Professional & medical	453	—	1,602	—
Retail	2,551	2,268	2,552	2,262
Other	383	—	43	—
Commercial real estate - non-owner occupied				
Hotels & motels	—	—	—	—
Mini-storage	52	—	57	—
Multifamily	—	—	38	31
Retail	821	168	1,120	527
Other	53	—	388	40
Construction and development				
Land & land development	2	—	188	—
Construction	—	—	138	—
Residential 1-4 family real estate				
Personal residence	2,093	—	2,485	423
Rental - small loan	1,702	105	1,635	150
Rental - large loan	1,127	1,127	—	—
Home equity	182	—	284	—
Mortgage warehouse lines	—	—	—	—
Consumer	29	—	74	—
Other				
Credit cards	—	—	—	—
Overdrafts	—	—	—	—
Total	$ 10,001	$ 3,668	$ 11,468	$ 3,509

Credit Quality Indicators: 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 $5.0 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.

Management considers the guidance in ASC 310-20 when determining whether a modification, extension, or renewal of loan constitutes a current period origination. Generally, current period renewals of credit are reunderwritten at the point of renewal and considered current period originations for purposes of the table below. As of September 30, 2020, based on the most recent analysis performed, the risk category of loans based on year of origination is as follows:

		September 30, 2020								
Dollars in thousands	**Risk Rating**	**2020**	**2019**	**2018**	**2017**	**2016**	**Prior**	**Revolving**	**Revolving-Term**	**Total**
Commercial	Pass	$ 152,812	$ 51,021	$ 23,084	$ 20,745	$ 13,647	$ 14,098	$ 67,155	$ —	$ **342,562**
	Special Mention	10	40	1,959	81	90	918	558	—	**3,656**
	Substandard	1,039	191	198	46	41	89	3,163	—	**4,767**
Total Commercial		**153,861**	**51,252**	**25,241**	**20,872**	**13,778**	**15,105**	**70,876**	—	**350,985**
Commercial Real Estate - Owner Occupied										
Professional & medical	Pass	7,435	14,460	2,580	27,117	3,370	30,154	2,689	—	**87,805**
	Special Mention	1,178	—	—	—	—	5,199	—	—	**6,377**
	Substandard	—	320	—	—	133	—	—	—	**453**
Total Professional & Medical		**8,613**	**14,780**	**2,580**	**27,117**	**3,503**	**35,353**	**2,689**	—	**94,635**
Retail	Pass	4,691	28,183	5,222	10,721	6,040	28,879	2,236	—	**85,972**
	Special Mention	—	1,239	—	591	6	848	50	—	**2,734**
	Substandard	—	9,669	—	—	—	2,551	—	—	**12,220**
Total Retail		**4,691**	**39,091**	**5,222**	**11,312**	**6,046**	**32,278**	**2,286**	—	**100,926**
Other	Pass	24,437	15,558	16,567	9,539	13,284	34,420	1,635	—	**115,440**
	Special Mention	—	—	—	—	—	760	—	—	**760**
	Substandard	—	—	—	358	—	342	41	—	**741**
Total Other		**24,437**	**15,558**	**16,567**	**9,897**	**13,284**	**35,522**	**1,676**	—	**116,941**
Total Commercial Real Estate - Owner Occupied		**37,741**	**69,429**	**24,369**	**48,326**	**22,833**	**103,153**	**6,651**	—	**312,502**
Commercial Real Estate - Non-Owner Occupied										
Hotels & motels	Pass	3,457	61,244	15,796	9,901	10,417	14,692	4,817	—	**120,324**
	Special Mention	—	—	—	—	—	—	—	—	**—**
	Substandard	—	—	—	—	—	—	—	—	**—**
Total Hotels & Motels		**3,457**	**61,244**	**15,796**	**9,901**	**10,417**	**14,692**	**4,817**	—	**120,324**
Mini-storage	Pass	6,200	19,974	14,971	4,029	7,239	4,869	267	—	**57,549**
	Special Mention	—	—	—	—	—	52	—	—	**52**
	Substandard	—	—	—	—	—	—	—	—	**—**
Total Mini-storage		**6,200**	**19,974**	**14,971**	**4,029**	**7,239**	**4,921**	**267**	—	**57,601**
Multifamily	Pass	17,022	26,957	26,917	18,556	11,271	49,091	2,648	—	**152,462**
	Special Mention	—	—	—	—	—	99	—	—	**99**
	Substandard	—	—	—	—	—	—	—	—	**—**
Total Multifamily		**17,022**	**26,957**	**26,917**	**18,556**	**11,271**	**49,190**	**2,648**	—	**152,561**

		September 30, 2020								
Dollars in thousands	Risk Rating	2020	2019	2018	2017	2016	Prior	Revolvi-ng	Revolving-Term	Total
Retail	Pass	13,044	23,808	9,980	8,399	5,410	40,150	6,158	—	**106,949**
	Special Mention	—	—	—	168	—	556	—	—	**724**
	Substandard	—	—	—	—	—	653	—	—	**653**
Total Retail		**13,044**	**23,808**	**9,980**	**8,567**	**5,410**	**41,359**	**6,158**	**—**	**108,326**
Other	Pass	34,265	20,985	51,645	11,077	27,276	29,466	1,697	—	**176,411**
	Special Mention	—	—	—	—	—	458	—	—	**458**
	Substandard	—	—	—	—	—	2,943	—	—	**2,943**
Total Other		**34,265**	**20,985**	**51,645**	**11,077**	**27,276**	**32,867**	**1,697**	**—**	**179,812**
Total Commercial Real Estate - Non-Owner Occupied		**73,988**	**152,968**	**119,309**	**52,130**	**61,613**	**143,029**	**15,587**	**—**	**618,624**
Construction and Development										
Land & land development	Pass	12,711	29,048	10,899	4,844	6,709	22,665	8,361	—	**95,237**
	Special Mention	—	—	13	—	—	955	—	—	**968**
	Substandard	—	—	6	—	14	1,118	—	—	**1,138**
Total Land & land development		**12,711**	**29,048**	**10,918**	**4,844**	**6,723**	**24,738**	**8,361**	**—**	**97,343**
Construction	Pass	31,366	30,661	1,959	895	—	—	1,997	—	**66,878**
	Special Mention	—	—	—	—	—	—	—	—	**—**
	Substandard	—	—	—	—	—	—	—	—	**—**
Total Construction		**31,366**	**30,661**	**1,959**	**895**	**—**	**—**	**1,997**	**—**	**66,878**
Total Construction and Development		**44,077**	**59,709**	**12,877**	**5,739**	**6,723**	**24,738**	**10,358**	**—**	**164,221**
Residential 1-4 Family Real Estate										
Personal residence	Pass	28,233	28,257	25,264	19,494	22,875	117,412	—	—	**241,535**
	Special Mention	—	187	63	352	76	12,908	—	—	**13,586**
	Substandard	—	46	463	213	186	7,286	—	—	**8,194**
Total Personal Residence		**28,233**	**28,490**	**25,790**	**20,059**	**23,137**	**137,606**	**—**	**—**	**263,315**
Rental - small loan	Pass	15,175	15,938	12,684	11,630	10,586	28,501	4,570	—	**99,084**
	Special Mention	111	491	251	3	196	1,789	163	—	**3,004**
	Substandard	—	—	—	—	45	2,561	—	—	**2,606**
Total Rental - Small Loan		**15,286**	**16,429**	**12,935**	**11,633**	**10,827**	**32,851**	**4,733**	**—**	**104,694**
Rental - large loan	Pass	13,396	6,089	10,906	5,423	8,317	21,491	2,306	—	**67,928**
	Special Mention	—	1,430	—	—	—	33	—	—	**1,463**
	Substandard	—	—	—	—	1,127	3,318	—	—	**4,445**
Total Rental - Large Loan		**13,396**	**7,519**	**10,906**	**5,423**	**9,444**	**24,842**	**2,306**	**—**	**73,836**
Home equity	Pass	131	—	90	46	266	1,434	78,799	—	**80,766**
	Special Mention	—	—	—	40	—	162	1,426	—	**1,628**
	Substandard	—	—	—	—	—	355	242	—	**597**
Total Home Equity		**131**	**—**	**90**	**86**	**266**	**1,951**	**80,467**	**—**	**82,991**

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Dollars in thousands	Risk Rating	2020	2019	2018	2017	2016	Prior	Revolving	Revolving-Term	Total
		September 30, 2020								
Total Residential 1-4 Family Real Estate		**57,046**	**52,438**	**49,721**	**37,201**	**43,674**	**197,250**	**87,506**	**—**	**524,836**
Mortgage warehouse lines	Pass	—	—	—	—	—	—	243,730	—	**243,730**
	Special Mention	—	—	—	—	—	—	—	—	**—**
	Substandard	—	—	—	—	—	—	—	—	**—**
Total Mortgage Warehouse Lines		**—**	**—**	**—**	**—**	**—**	**—**	**243,730**	**—**	**243,730**
Consumer	Pass	10,441	10,748	5,139	1,977	1,432	1,679	862	—	**32,278**
	Special Mention	789	549	270	170	81	62	17	—	**1,938**
	Substandard	178	132	22	15	59	5	28	—	**439**
Total Consumer		**11,408**	**11,429**	**5,431**	**2,162**	**1,572**	**1,746**	**907**	**—**	**34,655**
Other										
Credit cards	Pass	1,637	—	—	—	—	—	—	—	**1,637**
	Special Mention	—	—	—	—	—	—	—	—	**—**
	Substandard	—	—	—	—	—	—	—	—	**—**
Total Credit Cards		**1,637**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,637**
Overdrafts	Pass	614	—	—	—	—	—	—	—	614
	Special Mention	—	—	—	—	—	—	—	—	—
	Substandard	—	—	—	—	—	—	—	—	—
Total Overdrafts		**614**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**614**
Total Other		**2,251**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**2,251**
Total		**$ 380,372**	**$ 397,225**	**$ 236,948**	**$ 166,430**	**$ 150,193**	**$ 485,021**	**$ 435,615**	**$ —**	**$ 2,251,804**

At September 30, 2020, we had TDRs of $25.2 million, of which $21.3 million were current with respect to restructured contractual payments. At December 31, 2019, our TDRs totaled $25.7 million, of which $22.9 million were current with respect to restructured contractual payments. There were no commitments to lend additional funds under these restructurings at either balance sheet date.

The following table presents by class the TDRs that were restructured during the three and nine months ended September 30, 2020 and September 30, 2019. Generally, the modifications were extensions of term, modifying the payment terms from principal and interest to interest only for an extended period, or reduction in interest rate. TDRs are evaluated individually for allowance for credit loss purposes if the loan balance exceeds $500,000, otherwise, smaller balance TDR loans are included in the pools to determine ACLL.

Dollars in thousands	For the Three Months Ended September 30, 2020					For the Three Months Ended September 30, 2019				
	Number of Modifications		Pre-modification Recorded Investment		Post-modification Recorded Investment	Number of Modifications		Pre-modification Recorded Investment		Post-modification Recorded Investment
Residential 1-4 family real estate										
Personal residence	1	$	48	$	48	—		—		—
Rental - small loan	1		399		399	—		—		—
Total	2	$	447	$	447	—	$	—	$	—

Dollars in thousands	For the Nine Months Ended September 30, 2020					For the Nine Months Ended September 30, 2019				
	Number of Modifications		Pre-modification Recorded Investment		Post-modification Recorded Investment	Number of Modifications		Pre-modification Recorded Investment		Post-modification Recorded Investment
Commercial real estate - owner occupied										
Other	1	$	361	$	361	1	$	325	$	325
Commercial real estate - non-owner occupied										
Multifamily	—		—		—	1		35		35
Retail	—		—		—	2		162		162
Other	—		—		—	1		127		127
Residential 1-4 family real estate										
Personal residence	1		48		48	3		151		151
Rental - small loan	1		399		399	4		259		259
Consumer	—		—		—	1		16		16
Total	3	$	808	$	808	13	$	1,075	$	1,075

The following tables present defaults during the stated period of TDRs that were restructured during the prior 12 months. For purposes of these tables, a default is considered as either the loan was past due 30 days or more at any time during the period, or the loan was fully or partially charged off during the period.

Dollars in thousands	For the Three Months Ended September 30, 2020			For the Three Months Ended September 30, 2019		
	Number of Defaults		Recorded Investment at Default Date	Number of Defaults		Recorded Investment at Default Date
Commercial real estate - owner occupied						
Other	1	$	361	—	$	—
Commercial real estate - non-owner occupied						
Other	—		—	1		126
Residential 1-4 family real estate						
Personal residence	1		49	2		122
Rental - small loan	—		—	1		52
Total	2	$	410	4	$	300

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Dollars in thousands	For the Nine Months Ended September 30, 2020 Number of Defaults		For the Nine Months Ended September 30, 2020 Recorded Investment at Default Date	For the Nine Months Ended September 30, 2019 Number of Defaults		For the Nine Months Ended September 30, 2019 Recorded Investment at Default Date
Commercial real estate - owner occupied						
Other	1	$	361	—	$	—
Commercial real estate - non-owner occupied						
Other	—		—	1		126
Residential 1-4 family real estate						
Personal residence	1		49	2		122
Rental - small loan	—		—	1		52
Total	2	$	410	4	$	300

As of September 30, 2020, we had loans modifications to interest only or principal and interest deferrals on outstanding loan balances of $117.7 million in connection with the COVID-19 relief provided by the CARES Act. These modifications and deferrals were not considered troubled debt restructurings as permitted by provisions in the CARES Act.

On January 1, 2020, we purchased loans, for which there was, at the time of acquisition, more than significant deterioration of credit quality since origination (PCD loans). The carrying amount of these loans at acquisition is as follows:

Dollars in thousands		January 1, 2020
Purchase price of PCD loans at acquisition	$	1,877
Allowance for credit losses - loans at acquisition		410
Non-credit discount at acquisition		159
Par value of PCD loans at acquisition		1,308

NOTE 7. GOODWILL AND OTHER INTANGIBLE ASSETS

During first quarter 2020, we evaluated recent potential triggering events that might be indicators that our goodwill was impaired. The events include, among others, the economic disruption and uncertainty surrounding the COVID-19 pandemic. We determined that there were no indicators of impairment noted as of March 31, 2020.

The following tables present our goodwill activity for the quarter ending September 30, 2020 and the balance of other intangible assets at September 30, 2020 and December 31, 2019.

Dollars in thousands		Goodwill Activity
Balance, January 1, 2020	$	12,658
Reclassifications to goodwill		—
Acquired goodwill		25,487
Balance, September 30, 2020	$	38,145

Dollars in thousands		Other Intangible Assets September 30, 2020		Other Intangible Assets December 31, 2019
Identifiable intangible assets				
Gross carrying amount	$	15,569	$	14,727
Less: accumulated amortization		(5,613)		(4,363)
Net carrying amount	$	9,956	$	10,364

We recorded amortization expense of $412,000 and $1,251,000 for the three and nine months ended September 30, 2020 and $404,000 and $1,300,000 for the three and nine months ended September 30, 2019, relative to our identifiable intangible assets.

Amortization relative to our identifiable intangible assets is expected to approximate the following during the next five years and thereafter:

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Dollars in thousands		Core Deposit Intangible
Three month period ending December 31, 2020	$	408
Year ending December 31, 2021		1,532
Year ending December 31, 2022		1,396
Year ending December 31, 2023		1,260
Year ending December 31, 2024		1,124
Thereafter		4,165

NOTE 8. DEPOSITS

The following is a summary of interest bearing deposits by type as of September 30, 2020 and December 31, 2019:

Dollars in thousands		September 30, 2020		December 31, 2019
Demand deposits, interest bearing	$	867,442	$	630,351
Savings deposits		598,564		418,096
Time deposits		565,815		604,237
Total	$	2,031,821	$	1,652,684

Included in time deposits are deposits acquired through a third party ("brokered deposits") totaling $64.1 million and $150.6 million at September 30, 2020 and December 31, 2019, respectively.

A summary of the scheduled maturities for all time deposits as of September 30, 2020 is as follows:

Dollars in thousands		
Three month period ending December 31, 2020	$	105,223
Year ending December 31, 2021		332,065
Year ending December 31, 2022		60,820
Year ending December 31, 2023		35,732
Year ending December 31, 2024		15,635
Thereafter		16,340
Total	$	565,815

The aggregate amount of time deposits in denominations that meet or exceed the FDIC insurance limit of $250,000 totaled $145.4 million at September 30, 2020 and $198.1 million at December 31, 2019.

NOTE 9. BORROWED FUNDS

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

	Nine Months Ended September 30,							
	2020				2019			
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 September 30	$	140,000	$	145	$	206,550	$	144
Average balance outstanding for the period		126,964		145		196,058		564
Maximum balance outstanding at any month end during period		215,700		145		225,200		144
Weighted average interest rate for the period		0.79 %		0.64 %		2.63 %		2.48 %
Weighted average interest rate for balances outstanding at September 30		0.36 %		0.25 %		2.15 %		2.00 %

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Dollars in thousands	Year Ended December 31, 2019	
	Short-term FHLB Advances	Federal Funds Purchased and Lines of Credit
Balance at December 31	$ 199,200	145
Average balance outstanding for the period	193,992	458
Maximum balance outstanding at any month end during period	237,400	145
Weighted average interest rate for the period	2.48 %	2.43 %
Weighted average interest rate for balances outstanding at December 31	1.83 %	1.75 %

Long-term borrowings: Our long-term borrowings of $703,000 and $717,000 at September 30, 2020 and December 31, 2019, respectively, consisted of a 5.34% fixed rate advance from the Federal Home Loan Bank ("FHLB"), maturing in 2026. This FHLB advance is collateralized by a blanket lien of $1.25 billion of residential mortgage loans, certain commercial loans, mortgage backed securities and securities of U.S. Government agencies and corporations.

Subordinated debentures: We issued $30 million of subordinated debentures, net of $664,000 debt issuance costs, during third quarter 2020 in a private placement transaction. 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. This subordinated debt bears interest at a fixed rate of 5.00% per year, from and including September 22, 2020 to, but excluding, September 30, 2025, payable quarterly in arrears. From and including September 30, 2025 to, but excluding, the maturity date or earlier redemption date, the interest rate will reset quarterly at a variable rate equal to the then current three-month term Secured Overnight Financing Rate ("SOFR"), as published by the Federal Reserve Bank of New York, plus 487 basis points, payable quarterly in arrears. As provided in the Notes, the interest rate on the Notes during the applicable floating rate period may be determined based on a rate other than three-month term SOFR. This debt has a 10 years term and generally, is not prepayable by us within the first five years.

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. These subordinated debentures totaled $19.6 million at September 30, 2020 and December 31, 2019.

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,	2020	$ 5	$ —	$ —
	2021	20	—	—
	2022	21	—	—
	2023	22	—	—
	2024	22	—	—
	Thereafter	613	29,336	19,589
		$ 703	$ 29,336	$ 19,589

NOTE 10. SHARE-BASED COMPENSATION

Under the 2014 Long-Term Incentive Plan ("2014 LTIP"), stock options, SARs and RSUs 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.

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.

A summary of our SAR and stock option activity the first nine months of 2020 and 2019 is as follows:

	For the Nine Months Ended September 30, 2020			
	Options/SARs	Aggregate Intrinsic Value *(in thousands)*	Remaining Contractual Term (Yrs.)	Weighted-Average Exercise Price
Outstanding, January 1	330,703			$ 20.44
Granted	—			—
Exercised	—			—
Forfeited	—			—
Expired	—			—
Outstanding, September 30	330,703	$ 349	6.58	$ 20.44
Exercisable, September 30	179,375	$ 349	5.52	$ 17.03

	For the Nine Months Ended September 30, 2019			
	Options/SARs	Aggregate Intrinsic Value *(in thousands)*	Remaining Contractual Term (Yrs.)	Weighted-Average Exercise Price
Outstanding, January 1	232,091			$ 17.36
Granted	138,125			23.94
Exercised	(31,413)			11.83
Forfeited	—			—
Expired	—			—
Outstanding, September 30	338,803	$ 1,745	7.41	$ 20.56
Exercisable, September 30	112,989	$ 1,063	5.59	$ 16.32

Grants of RSUs include time-based vesting conditions that generally vest ratably over a period of 3 to 5 years. During second quarter 2020, we granted 10,995 RSUs which will vest ratably over 4 years. During first quarter 2020, we granted 1,846 RSUs which will fully vest on the 2 anniversary of the grant date. During 2019, we granted 2,892 RSUs which will vest ratably over 3 years. A summary of our RSU activity and related information is as follows.

Dollars in thousands, except per share amounts	RSUs	Weighted Average Grant Date Fair Value
Nonvested, December 31, 2019	2,892	25.93
Granted	12,841	18.19
Forfeited	—	—
Vested	(651)	25.60
Nonvested, September 30, 2020	15,082	20.45

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 nine months of 2020 and 2019, total stock compensation expense for all share-based arrangements was $402,000 and $430,000 and the related deferred tax benefits were approximately $96,000 and $103,000. For the three months ended September 30, 2020 and 2019, total stock compensation expense for all share-based

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arrangements was $80,000 and $149,000 and the related deferred tax benefits were approximately $19,000 and $36,000. At September 30, 2020 our total unrecognized compensation expense related to all nonvested awards not yet recognized totaled $1.37 million and is expected to be recognized over the next 1.87 years.

NOTE 11. 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		September 30, 2020
Commitments to extend credit:		
Revolving home equity and credit card lines	$	88,214
Construction loans		110,896
Other loans		320,318
Standby letters of credit		11,200
Total	$	530,628

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.

Allowance For Credit Losses - Off-Balance-Sheet Credit Exposures

The ACL on off-balance-sheet credit exposures is a liability account, calculated in accordance with ASC 326, representing expected credit losses over the contractual period for which we are exposed to credit risk resulting from a contractual obligation to extend credit. No allowance is recognized if we have the unconditional right to cancel the obligation. Off-balance-sheet credit exposures primarily consist of amounts available under outstanding lines of credit and letters of credit detailed in the table above. For the period of exposure, the estimate of expected credit losses considers both the likelihood that funding will occur and the amount expected to be funded over the estimated remaining life of the commitment or other off-balance-sheet exposure. The likelihood and expected amount of funding are based on historical utilization rates. The amount of the allowance represents management's best estimate of expected credit losses on commitments expected to be funded over the contractual life of the commitment. Estimating credit losses on amounts expected to be funded uses the same methodology as described for loans in Note 6 - Loans and Allowance for Credit Losses as if such commitments were funded.

The impact to the ACL on off-balance sheet credit exposures upon adoption of ASC 326 was $2.43 million, followed by a nine month 2020 provision of $1.09 million resulting in a September 30, 2020 balance of $3.52 million.

Litigation

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

NOTE 12. REGULATORY MATTERS

Our bank subsidiary, Summit Community Bank, Inc. ("Summit Community"), is subject to various regulatory capital requirements administered by the banking regulatory agencies. Under the capital adequacy guidelines and the regulatory framework for prompt corrective action, Summit Community must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Our bank subsidiary's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Quantitative measures established by regulation to ensure capital adequacy require Summit Community to maintain minimum amounts and ratios of Common Equity Tier 1("CET1"), Total capital and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). We believe, as of September 30, 2020, that our bank subsidiary met all capital adequacy requirements to which they were subject.

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

In December 2018, the federal bank regulatory agencies approved a final rule modifying their regulatory capital rules to provide an option to phase-in over a period of three years the day-one regulatory capital effects of the implementation of ASC 326. In March 2020, those agencies approved a final rule providing an option to delay the estimated impact on regulatory capital. We elected this optional phase-in period upon adoption of ASC 326 on January 1, 2020 and elected to delay the estimated impact. The initial impact of adoption as well as 25% of the quarterly increases in the allowance for credit losses subsequent to adoption (collectively the "transition adjustments") will be delayed for two years. After two years, the cumulative amount of the transition adjustments will become fixed and will be phased out of the regulatory capital calculations evenly over a three year period, with 75% recognized in year three, 50% recognized in year four, and 25% recognized in year five. After five years, the temporary regulatory capital benefits will be fully reversed.

The following tables present Summit's, as well as Summit Community's, actual and required minimum regulatory capital amounts and ratios as of September 30, 2020 and December 31, 2019. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended.

	Actual		Minimum Required Capital - Basel III		Minimum Required To Be Well Capitalized	
Dollars in thousands	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of September 30, 2020						
CET1 (to risk weighted assets)						
Summit	$ 231,568	9.9 %	N/A	N/A	N/A	N/A
Summit Community	276,361	11.8 %	163,943	7.0 %	152,233	6.5 %
Tier I Capital (to risk weighted assets)						
Summit	250,568	10.7 %	N/A	N/A	N/A	N/A
Summit Community	276,361	11.8 %	199,074	8.5 %	187,363	8.0 %
Total Capital (to risk weighted assets)						
Summit	301,774	12.9 %	N/A	N/A	N/A	N/A
Summit Community	297,567	12.7 %	246,020	10.5 %	234,305	10.0 %
Tier I Capital (to average assets)						
Summit	250,568	8.7 %	N/A	N/A	N/A	N/A
Summit Community	276,361	9.6 %	115,150	4.0 %	143,938	5.0 %

Dollars in thousands	Actual		Minimum Required Capital - Basel III Fully Phased-in		Minimum Required To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019						
CET1 (to risk weighted assets)						
Summit	224,679	11.1 %	N/A	N/A	N/A	N/A
Summit Community	244,045	12.1 %	141,183	7.0 %	131,099	6.5 %
Tier I Capital (to risk weighted assets)						
Summit	243,679	12.1 %	N/A	N/A	N/A	N/A
Summit Community	244,045	12.1 %	171,437	8.5 %	161,352	8.0 %
Total Capital (to risk weighted assets)						
Summit	256,753	12.7 %	N/A	N/A	N/A	N/A
Summit Community	257,119	12.7 %	212,579	10.5 %	202,456	10.0 %
Tier I Capital (to average assets)						
Summit	243,679	10.5 %	N/A	N/A	N/A	N/A
Summit Community	244,045	10.6 %	92,092	4.0 %	115,116	5.0 %

NOTE 13. DERIVATIVE FINANCIAL INSTRUMENTS

Cash flow hedges

We have entered into three pay-fixed/receive LIBOR interest rate swaps as follows:

- A $40 million notional interest rate swap expiring on October 18, 2021, was designated as a cash flow hedge of $40 million of variable rate Federal Home Loan Bank advances. Under the terms of this swap we will pay a fixed rate of 2.19% and receive a variable rate equal to three month LIBOR.

- A $20 million notional interest rate swap with an effective date of October 18, 2021 and expiring on October 18, 2023, was designated as a cash flow hedge of $20 million of forecasted variable rate Federal Home Loan Bank advances. Under the terms of this swap we will pay a fixed rate of 1.07% and receive a variable rate equal to three month LIBOR.

- A $20 million notional interest rate swap with an effective date of October 18, 2021 and expiring on October 18, 2024, was designated as a cash flow hedge of $20 million of forecasted variable rate Federal Home Loan Bank advances. Under the terms of this swap we will pay a fixed rate of 1.1055% and receive a variable rate equal to three month LIBOR.

In addition, we have entered into one interest rate cap to hedge the risk of variability in its cash flows above .75% of the three month LIBOR benchmark interest rate.

- A $100 million notional interest rate cap with an effective date of July 20, 2020 and expiring on April 18, 2030, was designated as a cash flow hedge of $100 million of forecasted fixed rate Federal Home Loan Bank advances. Under the terms of this cap we will hedge the variability of cash flows when three month LIBOR is above .75%.

Fair value hedges

We have entered into two pay fixed/receive variable interest rate swaps to hedge fair value variability of two commercial fixed rate loans with the same principal, amortization, and maturity terms of the underlying loans, which are designated as fair value hedges as follows:

- Under the terms of a $9.95 million original notional interest rate swap expiring January 15, 2025, we will pay a fixed rate of 4.33% and receive a variable rate equal to one month LIBOR plus 2.40 percent.

- Under the terms of a $11.3 million original notional interest rate swap expiring January 15, 2026, we will pay a fixed rate of 4.30% and receive a variable rate equal to one month LIBOR plus 2.18 percent.

A summary of our derivative financial instruments as of September 30, 2020 and December 31, 2019 follows:

Dollars in thousands	September 30, 2020			
	Notional Amount	Derivative Fair Value		Net Ineffective
		Asset	Liability	Hedge Gains/(Losses)
CASH FLOW HEDGES				
Pay-fixed/receive-variable interest rate swaps				
Short term borrowings	$ 80,000	$ —	$ 1,652	$ —
Interest rate cap				
Short term borrowings	$ 100,000	$ 4,611	$ —	$ —
FAIR VALUE HEDGES				
Pay-fixed/receive-variable interest rate swaps				
Commercial real estate loans	$ 18,349	$ —	$ 1,415	$ —

Dollars in thousands	December 31, 2019			
	Notional Amount	Derivative Fair Value		Net Ineffective
		Asset	Liability	Hedge Gains/(Losses)
CASH FLOW HEDGES				
Pay-fixed/receive-variable interest rate swaps				
Short term borrowings	$ 70,000	$ —	$ 679	$ —
FAIR VALUE HEDGES				
Pay-fixed/receive-variable interest rate swaps				
Commercial real estate loans	$ 18,809	$ —	$ 309	$ —

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 14. ACQUISITIONS

Cornerstone Financial Services Inc. Acquisition

On January 1, 2020, Summit Community Bank, Inc. ("SCB"), a wholly-owned subsidiary of Summit, acquired 100% of the ownership of Cornerstone Financial Services Inc. ("Cornerstone") and its subsidiary Cornerstone Bank, headquartered in West Union, West Virginia. With this transaction, Summit further expands its footprint into the central region of West Virginia. Pursuant to the Agreement and Plan of Merger dated September 17, 2019, Cornerstone's shareholders received cash in the amount of $5,700.00 per share or 228 shares of Summit common stock, or a combination of cash and Summit stock, subject to proration to result in approximately 50% cash and 50% stock consideration in the aggregate. Total stock consideration was $15.4 million or 570,000 shares of Summit common stock and cash consideration was $14.3 million. Cornerstone's assets and liabilities approximated $195 million and $176 million, respectively, at December 31, 2019 and was deemed immaterial to our financial statements.

We accounted for the acquisition using the acquisition method of accounting in accordance with ASC 805, *Business Combinations* and accordingly, the assets and liabilities of Cornerstone were recorded at their acquisition date respective fair values. Determining the fair value of assets and liabilities, particularly related to the loan portfolio, is a complicated process involving significant judgment regarding methods and assumptions used to calculate the estimated fair values. The fair values are preliminary and subject to refinement for up to one year after the acquisition date as additional information relative to the acquisition date fair values becomes available. We recognized preliminary goodwill of $10.82 million in connection with the acquisition (not deductible for income tax purposes), which is not amortized for financial reporting purposes, but is subject to annual impairment testing or upon a triggering event. The core deposit intangible represents the value of long-term deposit relationships acquired in this transaction and will be amortized over an estimated weighted average life of 10 years using an accelerated method which approximates the estimated run-off of the acquired deposits. The following table details the total consideration paid on January 1, 2020 in connection with the acquisition of Cornerstone, the fair values of the assets acquired and liabilities assumed and the resulting preliminary goodwill.

(Dollars in thousands)	As Recorded by Cornerstone	Estimated Fair Value Adjustments	Estimated Fair Values as Recorded by Summit
Cash consideration			$ 14,250
Stock consideration			15,441
Total consideration			29,691
Identifiable assets acquired:			
Cash and cash equivalents	$ 60,284	$ —	$ 60,284
Securities available for sale, at fair value	90,075	(47)	90,028
Loans			
Purchased performing	37,965	188	38,153
Purchased credit deteriorated	1,877	(569)	1,308
Allowance for loan losses	(312)	312	—
Premises and equipment	806	(142)	664
Property held for sale	10	—	10
Core deposit intangibles	—	717	717
Other assets	4,324	(74)	4,250
Total identifiable assets acquired	$ 195,029	$ 385	$ 195,414
Identifiable liabilities assumed:			
Deposits	173,027	239	173,266
Other liabilities	3,286	(7)	3,279
Total identifiable liabilities assumed	$ 176,313	$ 232	$ 176,545
Net identifiable assets acquired	$ 18,716	$ 153	$ 18,869
Preliminary goodwill resulting from acquisition			**$ 10,822**

MVB Bank Branches Acquisition

On April 24, 2020, SCB expanded its presence in the Eastern Panhandle of West Virginia by acquiring three MVB Bank locations in Berkeley County, West Virginia and one MVB Bank location in Jefferson County, West Virginia. Summit assumed certain deposits and loans totaling approximately $195.0 million and $35.3 million, respectively. The purchase price was $50.3 million consisting of (i) the average daily closing balance of the deposits for the thirty (30) day period prior to the closing multiplied by 8.00%, (ii) the aggregate amount of cash on hand as of the closing date, (iii) the aggregate net book value of all assets being assumed (excluding cash on hand, real property and accrued interest with respect to the loans acquired), (iv) the appraised value of the real property acquired, and (v) accrued interest with respect to the loans acquired.

This acquisition was determined to constitute a business combination in accordance with ASC 805, *Business Combinations,*and accordingly we accounted for the acquisition using the acquisition method of accounting, recording the assets and liabilities of MVB Bank at their acquisition date respective fair values. Determining the fair value of assets and liabilities, particularly related to the loan portfolio, is a complicated process involving significant judgment regarding methods and assumptions used to calculate the estimated fair values. The fair values are preliminary and subject to refinement for up to one year after the acquisition date as additional information relative to the acquisition date fair values becomes available. We recognized preliminary goodwill of $14.67 million in connection with the acquisition (deductible for income tax purposes), which is not amortized for financial reporting purposes, but is subject to annual impairment testing. The core deposit intangible represents the value of long-term deposit relationships acquired in this transaction and will be amortized over an estimated weighted average life of 10 years using an accelerated method which approximates the estimated run-off of the acquired deposits. The following table details the total consideration paid on April 24, 2020 in connection with the acquisition of the MVB Bank branches, the fair values of the assets acquired and liabilities assumed and the resulting preliminary goodwill.

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(Dollars in thousands)	As Recorded by MVB	Estimated Fair Value Adjustments	Estimated Fair Values as Recorded by Summit
Cash consideration			$ 12,965
Total consideration			12,965
Identifiable assets acquired:			
Cash and cash equivalents	$ 800	$ —	$ 800
Loans			
Purchased performing	35,127	(1,185)	33,942
Premises and equipment	2,376	(42)	2,334
Core deposit intangibles	—	125	125
Other assets	114	—	114
Total identifiable assets acquired	$ 38,417	$ (1,102)	$ 37,315
Identifiable liabilities assumed:			
Deposits	188,134	598	188,732
Other liabilities	102	—	102
Total identifiable liabilities assumed	$ 188,236	$ 598	$ 188,834
Net liabilities assumed	$ (149,819)	$ (1,700)	$ (151,519)
Net cash received from MVB			136,854
Preliminary goodwill resulting from acquisition			**$ 14,665**

The following is a description of the methods used to determine the fair values of significant assets and liabilities presented for both transactions above.

Cash and cash equivalents: The carrying amount of these assets approximates their fair value based on the short-term nature of these assets, with the exception of certificates of deposits held at other banks, which were adjusted to fair value based upon current interest rates.

Securities: Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair value estimates are based on observable inputs including quoted market prices for similar instruments, quoted market prices that are not in an active market or other inputs that are observable in the market.

Loans: Fair values for loans are based on a discounted cash flow methodology that considered factors including the type of loan and related collateral, collectibility, fixed or variable interest rate, term of loan, amortization status and current market rates. Loans were grouped together according to similar characteristics and were treated in the aggregate when applying various valuation techniques. The discount rates used for loans are based on current market rates for new originations of comparable loans and include adjustments for liquidity concerns, if any.

Premises and equipment: The fair value of Cornerstone's real property was determined based upon appraisals by licensed appraisers. The fair value of tangible personal property, which is not material, was assumed to equal the carrying value by Cornerstone.

Core deposit intangible: This intangible asset represents the value of the relationships with deposit customers. The fair value was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, cost of the deposit base, reserve requirements and the net maintenance cost attributable to customer deposits.

Deposits: The fair values of the demand and savings deposits by definition equal the amount payable on demand at the acquisition date. The fair values for time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered to the contractual interest rates on such time deposits.

Loans acquired in a business combination are recorded at estimated fair value on the date of acquisition without the carryover of the related allowance for loan losses.

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Prior to adoption of ASC 326 on January 1, 2020, loans acquired in a business combination that had evidence of credit deterioration since origination and for which it was probable at the date of acquisition that we would not collect all contractually required principal and interest payments were considered purchased credit-impaired (PCI) loans. When determining fair value, PCI loans were identified as of the date of acquisition based upon evidence of credit quality such as internal risk grades and past due and nonaccrual status. The difference between contractually required payments of principal and interest at acquisition and the cash flows expected to be collected at acquisition was accounted for as a"nonaccretable difference," and was available to absorb future credit losses on those loans. For purposes of determining the nonaccretable difference, no prepayments were generally assumed in determining contractually required payments of principal and interest or cash flows expected to be collected. Subsequent decreases to the expected cash flows generally resulted in a provision for loan losses. Subsequent significant increases in cash flows could have resulted in a reversal of the provision for loan losses to the extent of prior charges, or a transfer from nonaccretable difference to accretable yield. Further, any excess of cash flows expected at acquisition over the estimated fair value was accounted for as accretable yield and was recognized as interest income over the remaining life of the loan when there was a reasonable expectation about the amount and timing of such cash flows.

Subsequent to adoption of ASC 326 on January 1, 2020, loans acquired in a business combination that have experienced more-than-insignificant deterioration in credit quality since origination are considered purchased credit deteriorated (“PCD”) loans. At the acquisition date, an estimate of expected credit losses is made for groups of PCD loans with similar risk characteristics and individual PCD loans without similar risk characteristics. This initial allowance for credit losses is allocated to individual PCD loans and added to the purchase price or acquisition date fair values to establish the initial amortized cost basis of the PCD loans. As the initial allowance for credit losses is added to the purchase price, there is no credit loss expense recognized upon acquisition of a PCD loan. Any difference between the unpaid principal balance of PCD loans and the amortized cost basis is considered to relate to noncredit factors and results in a discount or premium. Discounts and premiums are recognized through interest income on a level-yield method over the life of the loans. All loans considered to be PCI prior to January 1, 2020 were converted to PCD on that date.

Loans not designated PCD loans as of the acquisition date are designated purchased performing loans. We account for purchased performing loans using the contractual cash flows method of recognizing discount accretion based on the acquired loans’ contractual cash flows. Purchased performing loans are recorded at fair value, including a credit discount. The fair value discount is accreted as an adjustment to yield over the estimated lives of the loans. There is no allowance for loan losses established at the acquisition date for purchased performing loans. A provision for loan losses is recorded for any deterioration in these loans subsequent to the acquisition.

The following presents the financial effects of adjustments recognized in the statements of income for the three and nine months ended September 30, 2020 and 2019 related to business combinations that occurred during 2016, 2017, 2019 and 2020.

	Income increase (decrease)			
	Three Months Ended September 30,		**Nine Months Ended September 30,**	
Dollars in thousands	**2020**	**2019**	**2020**	**2019**
Interest and fees on loans	$ 161	$ 137	$ 680	$ 604
Interest expense on deposits	175	77	461	247
Amortization of intangibles	(412)	(404)	(1,251)	(1,234)
Income before income tax expense	**$ (76)**	**$ (190)**	**$ (110)**	**$ (383)**

Pending WinFirst Acquisition

On September 28, 2020, we entered into a Definitive Merger Agreement with WinFirst Financial Corp. ("WinFirst"). Pursuant to the terms of the merger agreement, Summit will acquire all of the outstanding shares of common stock of WinFirst in exchange for cash in the amount of $21.7 million. Total merger consideration received by WinFirst shareholders is subject to an adjustment if WinFirst's adjusted shareholders’ equity as of the effective date of the merger deviates from the range mutually determined by the parties. WinFirst's assets approximated $146 million at September 30, 2020.

We anticipate the acquisition will close by year-end 2020, subject to customary closing conditions, including regulatory approval and approval of WinFirst's shareholders. Following the consummation of the merger, WinFirst's wholly-owned subsidiary WinFirst Bank will be consolidated with Summit's subsidiary, Summit Community Bank, Inc.

NOTE 15. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following is changes in accumulated other comprehensive income by component, net of tax, for the three and nine months ending September 30, 2020 and 2019.

	For the Three Months Ended September 30, 2020				
Dollars in thousands	Gains and Losses on Pension Plan	Gains and Losses on Other Post-Retirement Benefits	Gains and Losses on Cash Flow Hedges	Unrealized Gains (Losses) on Available-for-Sale Securities	Total
Beginning balance	$ (140)	$ 48	$ (2,417)	$ 5,831	$ 3,322
Other comprehensive income before reclassification	—	—	422	1,603	2,025
Amounts reclassified from accumulated other comprehensive income	—	—	—	(1,157)	(1,157)
Net current period other comprehensive income	—	—	422	446	868
Ending balance	$ (140)	$ 48	$ (1,995)	$ 6,277	$ 4,190

	For the Three Months Ended September 30, 2019				
Dollars in thousands	Gains and Losses on Pension Plan	Gains and Losses on Other Post-Retirement Benefits	Gains and Losses on Cash Flow Hedges	Unrealized Gains (Losses) on Available-for-Sale Securities	Total
Beginning balance	$ (328)	$ 139	$ (737)	$ 3,147	$ 2,221
Other comprehensive income income before reclassification	—	—	53	1,916	1,969
Amounts reclassified from accumulated other comprehensive income	—	—	—	(344)	(344)
Net current period other comprehensive income	—	—	53	1,572	1,625
Ending balance	$ (328)	$ 139	$ (684)	$ 4,719	$ 3,846

	For the Nine Months Ended September 30, 2020				
Dollars in thousands	Gains and Losses on Pension Plan	Gains and Losses on Other Post-Retirement Benefits	Gains and Losses on Cash Flow Hedges	Unrealized Gains (Losses) on Available-for-Sale Securities	Total
Beginning balance	$ (140)	$ 48	$ (518)	$ 3,145	$ 2,535
Other comprehensive income (loss) before reclassification	—	—	(1,477)	5,078	3,601
Amounts reclassified from accumulated other comprehensive income	—	—	—	(1,946)	(1,946)
Net current period other comprehensive income (loss)	—	—	(1,477)	3,132	1,655
Ending balance	$ (140)	$ 48	$ (1,995)	$ 6,277	$ 4,190

	For the Nine Months Ended September 30, 2019				
Dollars in thousands	Gains and Losses on Pension Plan	Gains and Losses on Other Post-Retirement Benefits	Gains and Losses on Cash Flow Hedges	Unrealized Gains (Losses) on Available-for-Sale Securities	Total
Beginning balance	$ —	$ 139	$ (314)	$ (841)	$ (1,016)
Other comprehensive income (loss) before reclassification	(328)	—	(370)	6,727	6,029
Amounts reclassified from accumulated other comprehensive income	—	—	—	(1,167)	(1,167)
Net current period other comprehensive income (loss)	(328)	—	(370)	5,560	4,862
Ending balance	$ (328)	$ 139	$ (684)	$ 4,719	$ 3,846

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NOTE 16. INCOME TAXES

Our income tax expense for the three months ended September 30, 2020 and September 30, 2019 totaled $2.6 million and $1.8 million, respectively. For the nine months ended September 30, 2020 and September 30, 2019 our income tax expense totaled $5.3 million and $5.3 million. Our effective tax rate (income tax expense as a percentage of income before taxes) for the three months ended September 30, 2020 and 2019 was 21.2% and 18.4%, respectively, and for the nine months ended September 30, 2020 and 2019 waa 20.1% and 18.2%, respectively. A reconciliation between the statutory income tax rate and our effective income tax rate for the three and nine months ended September 30, 2020 and 2019 is as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
Dollars in thousands	Percent	Percent	Percent	Percent
Applicable statutory rate	21.0 %	21.0 %	21.0 %	21.0 %
Increase (decrease) in rate resulting from:				
Tax-exempt interest and dividends, net	(1.9)%	(1.6)%	(2.2)%	(2.0)%
State income taxes, net of Federal income tax benefit	1.9 %	1.9 %	1.6 %	1.8 %
Low-income housing and rehabilitation tax credits	(0.1)%	(0.5)%	(0.6)%	(0.6)%
Other, net	0.3 %	(2.4)%	0.3 %	(2.0)%
Effective income tax rate	21.2 %	18.4 %	20.1 %	18.2 %

The components of applicable income tax expense for the three and nine months ended September 30, 2020 and 2019 are as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
Dollars in thousands	2020	2019	2020	2019
Current				
Federal	$ 2,697	$ 1,666	$ 7,689	$ 4,913
State	372	246	1,072	716
	3,069	1,912	8,761	5,629
Deferred				
Federal	(416)	(88)	(3,025)	(294)
State	(59)	(12)	(434)	(42)
	(475)	(100)	(3,459)	(336)
Total	$ 2,594	$ 1,812	$ 5,302	$ 5,293

NOTE 17. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Dollars in thousands	2020	2019	2020	2019
Service fees on deposit accounts	$ 1,138	$ 1,312	$ 3,283	$ 3,716
Bank card revenue	1,237	924	3,257	2,631
Trust and wealth management fees	622	632	1,870	1,830
Insurance commissions	44	40	75	1,821
Other	69	66	292	224
Net revenue from contracts with customers	3,110	2,974	8,777	10,222
Non-interest income within the scope of other ASC topics	3,097	785	5,530	4,577
Total noninterest income	$ 6,207	$ 3,759	$ 14,307	$ 14,799

Item 2. 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 its operating subsidiary, Summit Community Bank (“Summit Community”), for the periods indicated. This discussion and analysis should be read in conjunction with our 2019 audited consolidated 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. This Quarterly Report on Form 10-Q contains comments or information that constitute forward-looking statements (within the meaning of the Private Securities Litigation Act of 1995) that are based on current expectations that involve a number of risks and uncertainties. Words such as “expects”, “anticipates”, “believes”, “estimates” and other similar expressions or future or conditional verbs such as “will”, “should”, “would” and “could” are intended to identify such forward-looking statements.

Although we believe the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially. Factors that might cause such a difference include: the effect of the COVID-19 crisis, including the negative impacts and disruptions on the communities we serve, and the domestic and global economy, which may have an adverse effect on our business; current and future economic and market conditions, including the effects of declines in housing prices, high unemployment rates, U.S. fiscal debt, budget and tax matters, geopolitical matters, and any slowdown in global economic growth; fiscal and monetary policies of the Federal Reserve; future provisions for credit losses on loans and debt securities; changes in nonperforming assets; changes in interest rates and interest rate relationships; demand for products and services; the degree of competition by traditional and non-traditional competitors; the successful integration of operations of our acquisitions; changes in banking laws and regulations; changes in tax laws; the impact of technological advances; the outcomes of contingencies; trends in customer behavior as well as their ability to repay loans; and changes in the national and local economies. We undertake no obligation to revise these statements following the date of this filing.

OVERVIEW

On January 1, 2020, we acquired Cornerstone Financial Service, Inc. ("Cornerstone") and its subsidiary, Cornerstone Bank, Inc., headquartered in West Union, West Virginia and on April 24, 2020, we acquired four MVB Bank ("MVB") branches in the eastern panhandle of West Virginia. Cornerstone's and MVB's results are included in our financial statements from the acquisition dates forward, impacting comparisons to the prior-year periods. On May 1, 2019, we sold our insurance agency, Summit Insurance Services, LLC ("SIS"). Accordingly, their results are included in our financial statements only until date of sale, impacting comparisons to the first nine months of the prior-year.

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.

Primarily due to our Cornerstone and MVB branch acquisitions and organic loan growth, average interest earning assets increased by 19.87% for the first nine months in 2020 compared to the same period of 2019 while our net interest earnings on a tax equivalent basis increased 20.71%. Our tax equivalent net interest margin increased 2 basis points as our yield on interest earning assets decreased 59 basis points while our cost of interest bearing funds decreased 70 basis points.

COVID-19 IMPACTS

Overview

Our business has been, and continues to be, impacted by the recent and ongoing outbreak of COVID-19. In March 2020, COVID-19 was declared a pandemic by the World Health Organization and a national emergency by the President of the United States. Efforts to limit the spread of COVID-19 have led to shelter-in-place orders, the closure of non-essential businesses, travel restrictions, supply chain disruptions and prohibitions on public gatherings, among other things, throughout many parts of the United States and, in particular, the markets in which we operate. As the current pandemic is ongoing and dynamic in nature, there are many uncertainties related to COVID-19 including, among other things, its ultimate geographic spread; its severity; the duration of the outbreak; the impact to our clients, employees and vendors; the impact to the financial services and banking industry; and the impact to the economy as a whole as well as the effect of actions taken, or that may yet be taken, by governmental authorities to contain the outbreak or to mitigate its impact (both economic and health-related).

COVID-19 has negatively affected, and is expected to continue to negatively affect, our business, financial position and operating results. In light of the uncertainties and continuing developments discussed herein, the ultimate adverse impact of COVID-19 cannot be reliably estimated at this time, but it has been and is expected to continue to be material.

Impact on our Operations

The resulting closures of non-essential businesses and related economic disruption has impacted our operations as well as the operations of our clients. In West Virginia and Virginia, financial services have been identified as essential services, and accordingly, our business remains open, with appropriate safety protocols implemented. To address the issues arising as a result of COVID-19, we have implemented various plans, strategies and protocols to protect our employees, maintain services for clients, assure the functional continuity of our operating systems, controls and processes, and mitigate financial risks posed by changing market conditions. In order to protect employees and assure workforce continuity and operational redundancy, we imposed business travel restrictions, enhanced our sanitizing protocols within our facilities and physically separated, to the extent possible, our critical operations workforce that cannot work remotely.

Impact on our Financial Position and Results of Operations

Lending and Credit Risks

COVID-19 has had a material impact on our loan credit risks for the first nine months of 2020. While we have not yet experienced any material charge-offs related to COVID-19, our allowance for credit losses ACL computation and resulting provision for credit losses are significantly impacted by the estimated potential future economic impact of the COVID-19 crisis. Due to deteriorated forecasted economic scenarios since the pandemic was declared in early March, our need for additional ACL increased significantly. Should economic conditions worsen, we could experience further increases in our ACL and record additional credit loss expense.

We have taken actions to identify and assess our COVID-19 related credit exposures by asset classes and borrower types. Depending on the demonstrated need of the client, in certain cases, we are either modifying to interest only or deferring the full loan payment. Accordingly, the following tables summarize the aggregate balances of loans the Company has modified as result of COVID-19 as of September 30, 2020 and June 30, 2020 classified by types of loans and impacted borrowers.

		Loan Balances Modified Due to COVID-19 as of September 30, 2020			
Dollars in thousands	**Total Loan Balance as of 9/30/2020**	**Interest Only Payments**	**Payment Deferral**	**Total Loans Modified**	**Percentage of Loans Modified**
Hospitality industry	$ 120,324	$ 36,803	$ 11,466	$ 48,269	40.1 %
Non-owner occupied retail stores	108,326	19,497	—	19,497	18.0 %
Owner-occupied retail stores	100,926	1,601	1,409	3,010	3.0 %
Restaurants	7,968	—	—	—	— %
Oil & gas industry	24,404	914	—	914	3.7 %
Other commercial	1,084,385	40,846	—	40,846	3.8 %
Total Commercial Loans	1,446,333	99,661	12,875	112,536	7.8 %
Residential 1-4 family personal	263,315	195	991	1,186	0.5 %
Residential 1-4 family rentals	178,529	3,567	336	3,903	2.2 %
Home equity	82,991	—	—	—	— %
Total Residential Real Estate Loans	524,835	3,762	1,327	5,089	1.0 %
Consumer	34,655	34	22	56	0.2 %
Mortgage warehouse lines	243,730	—	—	—	0.0 %
Credit cards and overdrafts	2,251	—	—	—	0.0 %
Total Loans	**$ 2,251,804**	**$ 103,457**	**$ 14,224**	**$ 117,681**	**5.2 %**

Dollars in thousands	Total Loan Balance as of 6/30/2020	Loan Balances Modified Due to COVID-19 as of June 30, 2020: Interest Only Payments	Payment Deferral	Total Loans Modified	Percentage of Loans Modified
Hospitality industry	$ 119,204	$ 55,849	$ 43,030	$ 98,879	82.9 %
Non-owner occupied retail stores	109,078	38,354	13,802	52,156	47.8 %
Owner-occupied retail stores	119,794	21,956	9,372	31,328	26.2 %
Restaurants	8,126	2,392	1,877	4,269	52.5 %
Oil & gas industry	31,977	914	4,378	5,292	16.5 %
Other commercial	1,005,740	88,285	34,634	122,919	12.2 %
Total Commercial Loans	1,393,919	207,750	107,093	314,843	22.6 %
Residential 1-4 family personal	267,170	3,933	13,404	17,337	6.5 %
Residential 1-4 family rentals	180,415	20,348	6,032	26,380	14.6 %
Home equity	88,929	—	569	569	0.6 %
Total Residential Real Estate Loans	536,514	24,281	20,005	44,286	8.3 %
Consumer	34,640	595	605	1,200	3.5 %
Mortgage warehouse lines	252,472	—	—	—	0.0 %
Credit cards and overdrafts	2,162	—	—	—	0.0 %
Total Loans	**$ 2,219,707**	**$ 232,626**	**$ 127,703**	**$ 360,329**	**16.2 %**

Modified loans with deferred payments will continue to accrue interest during the deferral period unless otherwise classified as nonperforming. Consistent with bank regulatory guidance and Section 401(3) of the CARES Act, borrowers that were otherwise current on loan payments that were granted COVID-19 related financial hardship payment deferrals will continue to be reported as current loans throughout the agreed upon deferral periods. COVID-19 related loan modifications are also deemed to be insignificant borrower concessions, and therefore, such modified loans were not classified as troubled-debt restructured loans as of September 30, 2020. We anticipate that COVID-19 related loan modifications will continue throughout 2020.

Our loan interest income could be reduced due to COVID-19. While interest and fees will still accrue to income, through normal accounting, should eventual credit losses on these deferred payments emerge, interest income and fees accrued would need to be reversed. In such a scenario, interest income in future periods could be negatively impacted. At this time, we are unable to project the materiality of such an impact.

Capital and Liquidity

Although there is a high degree of uncertainty around the magnitude and duration of the economic impact of the COVID-19 pandemic, management believes that our financial position, including high levels of capital and liquidity, will allow us to successfully endure the negative economic impacts of the crisis. Our capital management activities, coupled with our historically strong earnings performance and prudent dividend practices, have allowed us to build and maintain strong capital reserves. At September 30, 2020, all of Summit's regulatory capital ratios significantly exceeded well-capitalized standards. More specifically, the Company bank subsidiary's Tier 1 Leverage Ratio, a common measure to evaluate a financial institutions capital strength, was 9.6% at September 30, 2020, which is well in excess of the well-capitalized regulatory minimum of 5.0%.

In addition, management believes the Company's liquidity position is strong. The Company's bank subsidiary maintains a funding base largely comprised of core noninterest bearing demand deposit accounts and low cost interest-bearing transactional deposit accounts with clients that operate or reside within the footprint of its branch bank network. At September 30, 2020, the Company's cash and cash equivalent balances were $109.0 million. In addition, Summit maintains an available-for-sale securities portfolio, comprised primarily of highly liquid U.S. agency securities, highly-rated municipal securities and U.S. agency-backed mortgage backed securities, which serves as a ready source of liquidity. At September 30, 2020, the Company's available-for-sale securities portfolio totaled $298.0 million, $162.1 million of which was unpledged as collateral. The Company bank subsidiary's unused borrowing capacity at the Federal Home Loan Bank of Pittsburgh at September 30, 2020 was $732.7 million, and it maintained $169.2 million of borrowing availability at the Federal Reserve Bank of Richmond's discount window.

The COVID-19 crisis is expected to continue to impact our financial results, as well as demand for our services and products during the remainder of 2020 and potentially beyond. The short and long-term implications of the COVID-19 crisis, and related monetary and fiscal stimulus measures, on our future revenues, earnings results, allowance for credit losses, capital reserves and liquidity are unknown at present.

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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 2019 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 ACL in accordance with the ASC 326 (as adopted on January 1, 2020), fair value measurements and accounting for acquired loans 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. Refer to Note 6 of the accompanying consolidated financial statements for a discussion of the methodogy we employ regarding the ACL.

For additional information regarding critical accounting policies, refer to Critical Accounting Policies section in Management’s Discussion and Analysis of Financial Condition and Results of Operations included in the 2019 Form 10-K. There have been no significant changes in our application of critical accounting policies since December 31, 2019.

RESULTS OF OPERATIONS

Earnings Summary

Net income for the nine months ended September 30, 2020 decreased to $21.1 million or $1.62 per diluted share from $23.7 million or $1.88 per diluted share for the same period of 2019. Net income for the three months ended September 30, 2020 was $9.6 million, or $0.74 per diluted share, compared to $8.1 million, or $0.65 per diluted share for the same period of 2019. Earnings for both the nine and three months ended September 30, 2020 were negatively impacted by increased provision for credit losses, partially offset by higher net interest income, increased realized securities gains and higher mortgage origination revenue. In addition, negatively impacting earnings for the nine months ended September 30, 2020 were increased merger-related expenses and fewer insurance commissions due to the sale of our insurance subsidiary in second quarter 2019 (which resulted in a $1.9 million pretax gain on sale during second quarter 2019). Partially offsetting these negative factors were increased net interest income. Returns on average equity and assets for the first nine months of 2020 were 10.72% and 1.04%, respectively, compared with 13.48% and 1.40% for the same period of 2019.

Cornerstone’s and MVB's results of operations are included in our consolidated results of operations from the date of acquisition, and therefore our 2020 results reflect increased levels of average balances, income and expense as compared to the same periods of 2019 results. At consummation (prior to fair value acquisition adjustments), Cornerstone had total assets of $195.0 million, net loans of $39.8 million, and deposits of $173.0 million; the MVB branch transaction consisted primarily of $35.1 million loans acquired and $188.1 million deposits assumed. Also impacting comparability of results is the sale of SIS. Their results are included in our financial statements only until date of sale, impacting comparisons to the prior-year three and nine months ended September 30, however, historically SIS's results of operations accounted for less than $0.01 per share of the company's quarterly earnings.

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.

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Q3 2020 compared to Q2 2020

For the quarter ended September 30, 2020, our net interest income on a fully taxable-equivalent basis increased $1.7 million to $25.06 million compared to $23.32 million for the quarter end June 30, 2020. Our taxable-equivalent earnings on interest earning assets increased $1.3 million, while the cost of interest bearing liabilities decreased $391,000 (see Tables I and II).

For the three months ended September 30, 2020 average interest earning assets increased to $2.74 billion compared to $2.55 billion for the three months ended June 30, 2020, while average interest bearing liabilities increased to $2.21 billion for the three months ended September 30, 2020 from $2.02 billion for the three months ended June 30, 2020.

For the quarter ended September 30, 2020, our net interest margin decreased to 3.64%, compared to 3.68% for the linked quarter, as both the yields on earning assets and the cost of our interest bearing funds decreased by 16 basis points. At acquisition, Cornerstone's and MVB's deposit costs were significantly lower than Summit's cost of deposits, thus positively impacting our overall cost of funds.

Excluding the impact of accretion and amortization of fair value acquisition accounting adjustments related to the interest earning assets and interest bearing liabilities acquired by merger, Summit's net interest margin was 3.59% and 3.61% for the three months ended September 30, 2020 and June 30, 2020.

Q3 2020 compared to Q3 2019

For the quarter ended September 30, 2020, our net interest income on a fully taxable-equivalent basis increased $5.4 million to $25.06 million compared to $19.63 million for the quarter end September 30, 2019. Our taxable-equivalent earnings on interest earning assets increased $2.1 million, while the cost of interest bearing liabilities decreased $3.3 million (see Tables I and II).

For the three months ended September 30, 2020 average interest earning assets increased 27.6% to $2.74 billion compared to $2.15 billion for the three months ended September 30, 2019, while average interest bearing liabilities increased 23.3% from $1.79 billion for the three months ended September 30, 2019 to $2.21 billion for the three months ended September 30, 2020.

For the quarter ended September 30, 2020, our net interest margin increased to 3.64%, compared to 3.63% for the same period of 2019, as the yields on earning assets decreased 78 basis points, while the cost of our interest bearing funds decreased by 92 basis points.

Excluding the impact of accretion and amortization of fair value acquisition accounting adjustments related to the interest earning assets and interest bearing liabilities acquired by merger, Summit's net interest margin was 3.59% for the three months ended September 30, 2019.

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Table I - Average Balance Sheet and Net Interest Income Analysis

	For the Quarter Ended								
	September 30, 2020			June 30, 2020			September 30, 2019		
Dollars in thousands	Average Balance	Earnings/ Expense	Yield/ Rate	Average Balance	Earnings/ Expense	Yield/ Rate	Average Balance	Earnings/ Expense	Yield/ Rate
Interest earning assets									
Loans, net of unearned fees (1)									
Taxable	$ 2,251,722	$ 26,656	4.71 %	$ 2,118,158	$ 25,466	4.84 %	$ 1,813,555	$ 24,786	5.42 %
Tax-exempt (2)	16,245	191	4.68 %	17,244	200	4.66 %	15,903	195	4.86 %
Securities									
Taxable	261,231	1,445	2.20 %	248,792	1,453	2.35 %	203,288	1,566	3.06 %
Tax-exempt (2)	150,350	1,186	3.14 %	120,385	1,012	3.38 %	79,387	782	3.91 %
Federal funds sold and interest bearing deposits with other banks	60,639	57	0.37 %	41,776	60	0.58 %	35,214	125	1.41 %
Total interest earning assets	2,740,187	29,535	4.29 %	2,546,355	28,191	4.45 %	2,147,347	27,454	5.07 %
Noninterest earning assets									
Cash & due from banks	16,603			16,672			12,815		
Premises and equipment	52,329			50,457			43,160		
Property held for sale	17,801			18,122			21,180		
Other assets	136,777			122,233			83,609		
Allowance for loan losses	(28,144)			(25,799)			(13,276)		
Total assets	$ 2,935,553			$ 2,728,040			$ 2,294,835		
Interest bearing liabilities									
Interest bearing demand deposits	$ 850,281	$ 380	0.18 %	$ 764,852	$ 369	0.19 %	$ 594,772	$ 1,621	1.08 %
Savings deposits	588,085	925	0.63 %	512,634	1,200	0.94 %	302,331	949	1.25 %
Time deposits	585,092	2,247	1.53 %	625,717	2,617	1.68 %	674,869	3,644	2.14 %
Short-term borrowings	165,555	734	1.76 %	95,744	499	2.10 %	202,425	1,372	2.69 %
Long-term borrowings and capital trust securities	23,230	194	3.32 %	20,299	186	3.69 %	20,312	243	4.75 %
Total interest bearing liabilities	2,212,243	4,480	0.81 %	2,019,246	4,871	0.97 %	1,794,709	7,829	1.73 %
Noninterest bearing liabilities and shareholders' equity									
Demand deposits	421,741			417,992			240,193		
Other liabilities	33,978			32,238			21,320		
Total liabilities	2,667,962			2,469,476			2,056,222		
Shareholders' equity	267,591			258,564			238,613		
Total liabilities and shareholders' equity	$ 2,935,553			$ 2,728,040			$ 2,294,835		
Net interest earnings		$ 25,055			$ 23,320			$ 19,625	
Net yield on interest earning assets			3.64 %			3.68 %			3.63 %

(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 a Federal tax rate of 21% for all periods presented. The tax equivalent adjustment resulted in an increase in interest income of $289,000, $254,000, and $205,000 for the three months ended September 30, 2020, June 30, 2020 and September 30, 2020, respectively.

Table II - Changes in Net Interest Income Attributable to Rate and Volume

	For the Quarter Ended September 30, 2020 vs. June 30, 2020			For the Quarter Ended September 30, 2020 vs. September 30, 2019		
	Increase (Decrease) Due to Change in:			Increase (Decrease) Due to Change in:		
Dollars in thousands	Volume	Rate	Net	Volume	Rate	Net
Interest earned on:						
Loans						
Taxable	$ 1,794	$ (604)	$ 1,190	$ 5,431	$ (3,561)	$ 1,870
Tax-exempt	(10)	1	(9)	4	(8)	(4)
Securities						
Taxable	79	(87)	(8)	381	(502)	(121)
Tax-exempt	249	(75)	174	583	(179)	404
Federal funds sold and interest bearing deposits with other banks	22	(25)	(3)	57	(125)	(68)
Total interest earned on interest earning assets	2,134	(790)	1,344	6,456	(4,375)	2,081
Interest paid on:						
Interest bearing demand deposits	42	(31)	11	498	(1,739)	(1,241)
Savings deposits	165	(440)	(275)	603	(627)	(24)
Time deposits	(153)	(217)	(370)	(443)	(954)	(1,397)
Short-term borrowings	325	(90)	235	(221)	(417)	(638)
Long-term borrowings and capital trust securities	27	(19)	8	31	(80)	(49)
Total interest paid on interest bearing liabilities	406	(797)	(391)	468	(3,817)	(3,349)
Net interest income	$ 1,728	$ 7	$ 1,735	$ 5,988	$ (558)	$ 5,430

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Table III - Average Balance Sheet and Net Interest Income Analysis

	For the Nine Months Ended					
	September 30, 2020			September 30, 2019		
Dollars in thousands	Average Balance	Earnings/ Expense	Yield/ Rate	Average Balance	Earnings/ Expense	Yield/ Rate
Interest earning assets						
Loans, net of unearned fees (1)						
Taxable	$ 2,102,331	$ 77,211	4.91 %	$ 1,758,645	$ 71,877	5.46 %
Tax-exempt (2)	16,121	576	4.77 %	15,172	591	5.2 %
Securities						
Taxable	256,322	4,657	2.43 %	200,947	4,858	3.23 %
Tax-exempt (2)	113,793	2,897	3.40 %	98,084	2,920	3.98 %
Federal funds sold and interest bearing deposits with other banks	46,074	215	0.62 %	41,642	490	1.57 %
Total interest earning assets	2,534,641	85,556	4.51 %	2,114,490	80,736	5.10 %
Noninterest earning assets						
Cash & due from banks	15,901			12,941		
Premises and equipment	49,655			40,983		
Property held for sale	18,423			21,904		
Other assets	120,228			87,080		
Allowance for loan losses	(25,618)			(13,283)		
Total assets	$ 2,713,230			$ 2,264,115		
Interest bearing liabilities						
Interest bearing demand deposits	$ 753,384	$ 1,830	0.32 %	$ 575,817	$ 5,016	1.16 %
Savings deposits	516,841	3,462	0.89 %	306,083	2,768	1.21 %
Time deposits	608,551	7,796	1.71 %	667,565	9,960	1.99 %
Short-term borrowings	127,109	1,863	1.96 %	196,622	4,241	2.88 %
Long-term borrowings and capital trust securities	21,284	600	3.77 %	20,317	757	4.98 %
Total interest bearing liabilities	2,027,169	15,551	1.02 %	1,766,404	22,742	1.72 %
Noninterest bearing liabilities and shareholders' equity						
Demand deposits	393,128			243,356		
Other liabilities	30,741			19,669		
Total liabilities	2,451,038			2,029,429		
Shareholders' equity - common	262,192			234,686		
Total liabilities and shareholders' equity	$ 2,713,230			$ 2,264,115		
Net interest earnings		$ 70,005			$ 57,994	
Net yield on interest earning assets			3.69 %			3.67 %

(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 a Federal tax rate of 21%. The tax equivalent adjustment resulted in an increase in interest income of $730,000 and $737,000 for the nine months ended September 30, 2020 and 2019, respectively.

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Table IV - Changes in Net Interest Income Attributable to Rate and Volume

	For the Nine Months Ended September 30, 2020 versus September 30, 2019		
	Increase (Decrease) Due to Change in:		
Dollars in thousands	Volume	Rate	Net
Interest earned on:			
Loans			
Taxable	$ 13,135	$ (7,801)	$ 5,334
Tax-exempt	36	(51)	(15)
Securities			
Taxable	1,167	(1,368)	(201)
Tax-exempt	433	(456)	(23)
Federal funds sold and interest bearing deposits with other banks	47	(322)	(275)
Total interest earned on interest earning assets	14,818	(9,998)	4,820
Interest paid on:			
Interest bearing demand deposits	1,219	(4,405)	(3,186)
Savings deposits	1,550	(856)	694
Time deposits	(833)	(1,331)	(2,164)
Short-term borrowings	(1,247)	(1,131)	(2,378)
Long-term borrowings and capital trust securities	35	(192)	(157)
Total interest paid on interest bearing liabilities	724	(7,915)	(7,191)
Net interest income	$ 14,094	$ (2,083)	$ 12,011

Noninterest Income

Total noninterest income for the nine months ended September 30, 2020 decreased 3.3% compared to the same period of 2019 principally due to lower insurance commissions due to the sale of SIS and the gain on sale of SIS recognized in 2019. On a quarterly basis, total noninterest income was 65.1% higher in 2020 compared to 2019 primarily due to higher realized securities gains. Also, mortgage origination revenue increased during 2020 due to higher volumes of secondary market loans driven primarily by historically low interest rates. Further detail regarding noninterest income is reflected in the following table.

Table V - Noninterest Income

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,	
Dollars in thousands	2020	2019	2020	2019
Insurance commissions	$ 44	$ 40	$ 75	$ 1,821
Trust and wealth management fees	622	632	1,870	1,830
Mortgage origination revenue	780	77	1,636	392
Service charges on deposit accounts	1,138	1,312	3,283	3,716
Bank card revenue	1,237	924	3,257	2,631
Realized securities gains	1,522	453	2,560	1,535
Gain on sale of Summit Insurance Services, LLC	—	—	—	1,906
Bank owned life insurance income	795	247	1,334	733
Other	69	74	292	235
Total	$ 6,207	$ 3,759	$ 14,307	$ 14,799

Noninterest Expense

Total noninterest expense increased 21.1% for the three months ended September 30, 2020 compared to the same period of 2019 primarily due to higher salaries, commissions, and employee benefits and increased 8.8% for the nine months ended September 30, 2020 as compared to the same period of 2019 with lower foreclosed properties expense being offset by higher salaries, commissions, and employee benefits and increased merger expenses. Table VI below shows the breakdown of the changes.

Table VI - Noninterest Expense

	For the Quarter Ended September 30,				For the Nine Months Ended September 30,			
		Change				Change		
Dollars in thousands	**2020**	$	%	**2019**	**2020**	$	%	**2019**
Salaries, commissions, and employee benefits	**$ 8,108**	$ 1,064	15.1 %	$ 7,044	$ 23,709	$ 1,743	7.9 %	$ 21,966
Net occupancy expense	**1,057**	258	32.3 %	799	2,917	315	12.1 %	2,602
Equipment expense	**1,474**	178	13.7 %	1,296	4,263	569	15.4 %	3,694
Professional fees	**364**	(24)	(6.2)%	388	1,168	(98)	(7.7)%	1,266
Advertising and public relations	**145**	(32)	(18.1)%	177	389	(95)	(19.6)%	484
Amortization of intangibles	**412**	8	2.0 %	404	1,251	(49)	(3.8)%	1,300
FDIC premiums	**320**	320	n/a	—	595	507	576.1 %	88
Bank card expense	589	134	29.5 %	455	1,652	285	20.8 %	1,367
Foreclosed properties expense, net	**607**	302	99.0 %	305	1,815	(421)	(18.8)%	2,236
Merger-related expenses	**28**	(46)	(62.2)%	74	1,453	934	180.0 %	519
Other	**2,405**	541	29.0 %	1,864	6,493	20	0.3 %	6,473
Total	**$ 15,509**	$ 2,703	21.1 %	$ 12,806	$ 45,705	$ 3,710	8.8 %	$ 41,995

Salaries, commissions, and employee benefits: The increases in these expenses for the three and nine months ended September 30, 2020 compared to the same periods of 2019 are primarily due to an increase in number of employees, resulting from the Cornerstone and MVB branch acquisitions, and general merit raises.

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

FDIC premiums: For the 2020 periods, FDIC premiums increased as we fully utilized our FDIC's Small Bank Assessment Credits resulting from the reserve ratio meeting the required 1.38 percent threshold and also due to a higher assessment base due to growth in our balance sheet. We expect increased assessments to continue throughout 2020.

Foreclosed properties expense, net: The decrease in foreclosed properties expense, net of gains/losses, for the nine months ended September 30, 2020 is primarily due to realized gains on sales in 2020 versus realized losses in the same period of 2019; the increase in these expenses for the three months ended September 30, 2020 is primarily due to higher writedowns of foreclosed properties to their fair value.

Merger-related expenses: Merger-related expenses during 2020 are related to the Cornerstone and MVB branch acquisitions.

Other: The increase in other expenses for the three months ended September 30, 2020 is largely due to deferred director compensation plan expense of $325,000 in 2020 compared to $6,000 expense in the comparable period of 2019 as a result of the stock market's overall positive performance during Q3 2020. Under the plan, the directors optionally defer their director fees into a "phantom" investment plan whereby the company recognizes expense or benefit relative to the phantom returns or losses of such investments. However, for the nine months ended September 30, 2020, deferred director compensation expense totaled $316,000 compared to $664,000 for the comparable period of 2019 as the stock market's performance year-to-date 2020 has been significantly less than during the same period of 2019. Additionally, servicing charges related to mortgage warehouse lines increased to $580,000 for the 2020 period compared to $241,000 during the comparable period of 2019, which is reflective of our increased participations.

Income Taxes

Our income tax expense for the three months ended September 30, 2020 and September 30, 2019 totaled $2.6 million and $1.8 million, respectively. For the nine months ended September 30, 2020 and September 30, 2019, our income taxes totaled $5.3 million and $5.3 million, respectively. Our effective tax rate (income tax expense as a percentage of income before taxes) for the quarters ended September 30, 2020 and 2019 was 21.2% and 18.4%, respectively and for the nine months ended September 30, 2020 and September 30, 2019 was 20.1% and 18.2%, respectively. Refer to Note 16 of the accompanying financial statements for further information regarding our income taxes.

Credit Experience

For purposes of this discussion, nonperforming assets 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 credit losses represents charges to earnings necessary to maintain an adequate allowance to cover an estimate of the full amount of expected credit losses relative to loans. 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 $11.5 million and $1.05 million provisions for credit losses (for both funded loans and unfunded commitments) for the first nine months of 2020 and 2019. The projected economic impact of COVID-19 on our loss drivers over the reasonable and supportable forecast period created the need for $7.2 million of additional ACL, which includes the ACL for unfunded commitments. Approximately $1.1 million of the provision was the result of additional ACLL due to the acquisition of Cornerstone and MVB loans. Changes in loan volume and the mix in the underlying portfolio resulted in a $1.1 million increase in the ACLL for the quarter.

We incurred net loan charge-offs of $1,014,000 in third quarter 2020 (0.18 percent of average loans annualized), which included an $880,000 charge-off of a commercial real estate relationship which had previously been fully reserved and exhibited weakness prior to the COVID-19 pandemic, compared to $711,000 net loan charge-offs during third quarter 2019. Net loan charge-offs for the nine months ended September 30, 2020 and 2019 totaled $1.8 million and $1.2 million, respectively.

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As illustrated in Table VII below, our non-performing assets have decreased since year end 2019.

Table VII - Summary of Non-Performing Assets

	September 30,		December 31,
Dollars in thousands	2020	2019	2019
Accruing loans past due 90 days or more	$ 2	$ 39	$ 42
Nonaccrual loans			
Commercial	553	835	764
Commercial real estate	4,313	7,037	5,800
Commercial construction and development	—	—	—
Residential construction and development	2	191	326
Residential real estate	5,104	4,461	4,404
Consumer	29	76	74
Other	—	100	100
Total nonaccrual loans	10,001	12,700	11,468
Foreclosed properties			
Commercial	—	—	—
Commercial real estate	2,499	1,514	1,930
Commercial construction and development	4,154	4,910	4,601
Residential construction and development	10,330	12,846	11,169
Residential real estate	847	1,709	1,576
Total foreclosed properties	17,830	20,979	19,276
Repossessed assets	—	16	17
Total nonperforming assets	$ 27,833	$ 33,734	$ 30,803
Total nonperforming loans as a percentage of total loans	0.44 %	0.69 %	0.60 %
Total nonperforming assets as a percentage of total assets	0.94 %	1.45 %	1.28 %
Allowance for credit losses-loans as a percentage of nonperforming loans	293.45 %	101.59 %	113.58 %
Allowance for credit losses-loans as a percentage of period end loans	1.30 %	0.70 %	0.68 %

The following table details the activity regarding our foreclosed properties for the three and nine months ended September 30, 2020 and 2019.

Table VIII - Foreclosed Property Activity

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
Dollars in thousands	2020	2019	2020	2019
Beginning balance	$ 17,954	$ 21,390	$ 19,276	$ 21,432
Acquisitions	725	106	888	4,009
Improvements	177	55	1,249	88
Disposals	(470)	(439)	(1,863)	(2,972)
Writedowns to fair value	(555)	(133)	(1,719)	(1,578)
Balance September 30	$ 17,831	$ 20,979	$ 17,831	$ 20,979

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

At September 30, 2020 and December 31, 2019, our allowance for loan credit losses totaled $29.4 million, or 1.30% of total loans and $13.1 million, or 0.68% of total loans. The allowance for loan credit losses is considered adequate to cover an estimate of the full amount of expected credit losses relative to loans.

At September 30, 2020 and December 31, 2019 we had approximately $17.8 million and $19.3 million in foreclosed properties which were 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 additional gains or losses.

FINANCIAL CONDITION

Our total assets were $2.95 billion at September 30, 2020 and $2.40 billion at December 31, 2019. Table IX below is a summary of significant changes in our financial position between December 31, 2019 and September 30, 2020.

Table IX - Summary of Significant Changes in Financial Position

Dollars in thousands	Balance at December 31, 2019	Increase (Decrease): Impact of Cornerstone Acquisition	Increase (Decrease): Impact of MVB Branches Acquisition	Increase (Decrease): Other Changes	Balance at September 30, 2020
Assets					
Cash and cash equivalents	$ 61,888	$ 46,034	137,654	$ (136,590)	$ 108,986
Securities available for sale	276,355	90,028	—	(68,394)	297,989
Securities held to maturity	—	—	—	91,600	91,600
Other investments	12,972	349	—	(2,555)	10,766
Loans, net	1,900,425	39,461	33,942	248,622	2,222,450
Property held for sale	19,276	10	—	(1,455)	17,831
Premises and equipment	44,168	664	2,334	5,714	52,880
Goodwill and other intangibles	23,022	11,539	14,790	(1,250)	48,101
Cash surrender value of life insurance policies	43,603	2,715	—	10,711	57,029
Other assets	21,783	1,186	114	16,147	39,230
Total assets	**$ 2,403,492**	**$ 191,986**	**$ 188,834**	**$ 162,550**	**$ 2,946,862**
Liabilities					
Deposits	$ 1,913,237	$ 173,266	188,732	$ 176,656	$ 2,451,891
Short-term borrowings	199,345	—	—	(59,200)	140,145
Long-term borrowings	717	—	—	(14)	703
Subordinated debentures	—	—	—	29,336	29,336
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	—	—	—	19,589
Other liabilities	22,840	3,279	102	7,014	33,235
Shareholders' Equity	247,764	15,441	—	8,758	271,963
Total liabilities and shareholders' equity	**$ 2,403,492**	**$ 191,986**	**188,834**	**$ 162,550**	**$ 2,946,862**

The following is a discussion of the significant changes in our financial position during the first nine months of 2020:

Cash and cash equivalents: Net reduction of $136.6 million is primarily attributable to repayments of short-term Federal Home Loan Bank ("FHLB") advances, funding of $101.3 million of PPP loans and the cash consideration of $14.3 million paid in conjunction with the Cornerstone acquisition.

Securities available for sale: The net decrease of $68.4 million in securities available for sale is principally a result of sales of a large portion of the acquired Cornerstone securities portfolio and the sales of a portion of our tax-exempt municipals securities, whose proceeds were used to fund loan growth and calls and maturities of brokered and direct CDs.

Securities held to maturity: During second quarter 2020, we invested in various municipal securities that we have classified as held to maturity as we have the positive intent and ability to hold them to maturity. Accordingly, they are carried at cost, adjusted for amortization of premiums and accretion of discounts.

Loans: Mortgage warehouse lines of credit grew $117.5 million during the first nine months of 2020 as we expanded our existing line participations and established two new participations in light of strong mortgage refinance and home purchase activity nationally. Excluding mortgage warehouse lines of credit and Cornerstone and MVB loans acquired, organic loan growth was $145.7 million during the first nine months of 2020, of which $101.3 growth was PPP loans.

Other assets: During 2020, the largest increases in Other assets are as follows:
- Right-of-use asset increased $3.0 million due to a new operating lease entered into for a Reston, Virginia location

- Net derivative assets increased $4.6 million due to a newly entered interest rate cap
- Deferred tax assets have increased $5.5 million primarily due to deferred taxes related to increased allowance for credit losses

Deposits: During the first nine months of 2020, noninterest bearing checking deposits increased $159.5 million, interest bearing checking deposits grew $237.1 million, savings deposits grew $180.5 million, and retail CDs increased $41.4 million while brokered CDs declined $86.4 million and Direct CDs decreased $29.3 million.

Short-term borrowings: The net decrease in short-term borrowings was attributable to repayments of short-term FHLB advances primarily using cash acquired in conjunction with the Cornerstone and MVB branches acquisitions and proceeds from sales of securities.

Subordinated debentures: We issued $30 million of subordinated debt in Q3 2020 in a private placement transaction. 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. This subordinated debt, bears interest at a fixed rate of 5.00% per year, from and including September 22, 2020 to, but excluding, September 30, 2025, payable quarterly in arrears. From and including September 30, 2025 to, but excluding, the maturity date or earlier redemption date, the interest rate will reset quarterly at a variable rate equal to the then current three-month term Secured Overnight Financing Rate ("SOFR"), as published by the Federal Reserve Bank of New York, plus 487 basis points, payable quarterly in arrears. As provided in the Notes, the interest rate on the Notes during the applicable floating rate period may be determined based on a rate other than three-month term SOFR. This debt has a 10 year term and generally, is not prepayable by us within the first five years.

Shareholders' equity: Changes in shareholders' equity are a result of net income, other comprehensive income, dividends and the impact on retained earnings for adoption of ASC 326 on January 1, 2020.

Refer to Notes 5, 6, 8, and 9 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 September 30, 2020 and December 31, 2019.

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 $1.2 billion or 40.32% of total consolidated assets at September 30, 2020.

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 $873 million. As of September 30, 2020 and December 31, 2019, these advances totaled approximately $141 million and $200 million, respectively. At September 30, 2020, we had additional borrowing capacity of $733 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 September 30, 2020 was approximately $169 million, which is secured by a pledge of certain consumer and our commercial and industrial loan portfolios. We have a $6 million unsecured line of credit with a correspondent bank. Also, we have a $298 million portfolio of available for sale securities which can be liquidated to meet liquidity needs.

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, pandemic 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.

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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 September 30, 2020 totaled $272.0 million compared to $247.8 million at December 31, 2019.

Refer to Note 12 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 September 30, 2020.

Table X - Contractual Cash Obligations

Dollars in thousands	Long Term Debt	Subordinated Debentures	Capital Trust Securities	Operating Leases
2019	$ 5	$ —	$ —	$ 297
2020	20	—	—	480
2021	21	—	—	443
2022	22	—	—	305
2023	22	—	—	261
Thereafter	613	29,336	19,589	1,325
Total	$ 703	$ 29,336	$ 19,589	$ 3,111

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 September 30, 2020 are presented in the following table.

Table XI - Off-Balance Sheet Arrangements *Dollars in thousands*	**September 30, 2020**
Commitments to extend credit:	
Revolving home equity and credit card lines	$ 88,214
Construction loans	110,896
Other loans	320,318
Standby letters of credit	11,200
Total	$ 530,628

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market Risk Management

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, exchange rates and equity prices. Interest rate risk is our primary market risk and results from timing differences in the repricing of assets, liabilities and off-balance sheet instruments, changes in relationships between rate indices and the potential exercise of 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 well-matched over the near-term. That is, absent any changes in the volumes of our interest earning assets or interest bearing liabilities, assets are likely to reprice faster than liabilities, resulting in an increase in net income in a rising rate environment. Net income would decrease 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 decrease our earnings due to the compression of earning asset yields and funding rates, while a steepening would increase earnings as margins widen.

Several techniques are available to monitor and control the level of interest rate risk. We control interest rate risk principally by matching the maturities of our interest earning assets with similar maturing interest bearing liabilities and by hedging adverse risk exposures with derivative financial instruments such as interest rate swaps and caps. 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 either the next 12 months or the next 24 months (as footnoted in table below), and then remain stable. 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 September 30, 2020. The sensitivity is measured as a percentage change in net interest income given the stated changes in interest rates (gradual change over 12 months, stable thereafter) compared to net interest income with rates unchanged in the same period. The estimated changes set forth below are dependent on the assumptions discussed above.

	Estimated % Change in Net Interest Income over:	
Change in	**0 - 12 Months**	**13 - 24 Months**
Interest Rates	**Actual**	**Actual**
Down 100 basis points (1)	0.32 %	-4.52 %
Up 200 basis points (1)	-2.87 %	-2.64 %
Up 200 basis points (2)	-1.51 %	-4.92 %

(1) assumes a parallel shift in the yield curve over 12 months, with no change thereafter

(2) assumes a parallel shift in the yield curve over 24 months, with no change thereafter

Item 4. Controls and Procedures

Our management, including the Chief Executive Officer and Chief Financial Officer, has conducted as of September 30, 2020, 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 September 30, 2020 were effective. There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

Refer to Note 11 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, 2019. The following risk factor is provided to supplement that discussion.

Our business, financial condition, liquidity and results of operations have been, and will likely continue to be, adversely affected by the COVID-19 pandemic.

In March 2020, the World Health Organization declared COVID-19 as a global pandemic. The COVID-19 pandemic has created economic and financial disruptions that have adversely affected, and are likely to continue to adversely affect, our business, financial condition, liquidity and results of operations. The extent to which the COVID-19 pandemic will continue to negatively affect our business, financial condition, liquidity and results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the effectiveness of our plans, the direct and indirect impact of the pandemic on our employees, clients, counterparties and service providers, as well as other market participants, and actions taken by governmental authorities and other third parties in response to the pandemic.

The COVID-19 pandemic has contributed to:

- Severe unemployment and business disruption and decreased consumer confidence and commercial activity generally, leading to an increased risk of delinquencies, defaults and foreclosures.
- Higher and more volatile credit loss expense and high potential for increased charge-offs.
- Ratings downgrades, credit deterioration and defaults in many industries, particularly restaurants, hospitality, entertainment, energy and commercial real estate.
- A sudden and significant reduction in the valuation of the equity, fixed-income and commodity markets and the significant increase in the volatility of those markets.
- A decrease in the rates and yields on U.S. Treasury securities, which may lead to decreased net interest income.
- A reduction in the value of the assets that we manage or otherwise administer or service for others, affecting related fee income and demand for our services.

Our financial position and results of operations are particularly susceptible to the ability of our loan customers to meet loan obligations, the availability of our workforce and the availability of our critical vendors. While its effects continue to materialize, the COVID-19 crisis has resulted in a significant decrease in commercial activity throughout our market area as well as nationally. This decrease in commercial activity may cause our clients and vendors to be unable to meet existing payment or other obligations to us. The national public health crisis arising from the COVID-19 crisis and public expectations about it, combined with certain pre-existing factors, including, but not limited to, international trade disputes, inflation risks and oil price volatility, could further destabilize the financial markets and geographies in which we operate. The resulting economic pressure on consumers and uncertainty regarding the sustainability of any economic improvements has impacted the creditworthiness of potential and current borrowers. Borrower loan defaults that adversely affect our earnings correlate with severely deteriorating economic conditions including the unemployment rate, which, in turn, are likely to impact our borrowers' creditworthiness and our ability to make loans.

In addition, the economic pressures and uncertainties arising from the COVID-19 crisis may result in specific changes in consumer and business spending and borrowing and saving habits, affecting the demand for loans and other products and services we offer. Consumers affected by COVID-19 may continue to demonstrate changed behavior even after the crisis is over. For example, consumers may decrease discretionary spending on a permanent or long-term basis, certain industries may take longer to recover -- particularly those that rely on travel or large gatherings -- as consumers may be hesitant to return to full social interaction. We lend to customers operating in such industries including restaurants, hotels/lodging, entertainment, energy, retail and commercial real estate, among others, that have been significantly impacted by COVID-19, and we are continuing to monitor these customers closely.

Any disruption to our ability to deliver financial products or services to, or interact with, our clients could result in losses or increased operational costs, harm our reputation or result in regulatory fines, penalties and other sanctions. The COVID-19 crisis could still greatly affect our routine and essential operations due to further limited access to or closures of our branch facilities and other physical offices; and government or regulatory agency orders, among other things. The business and operations of our third-party service providers, many of whom perform critical services for our business, could also be significantly impacted, which in turn could impact us.

The Federal Reserve has taken various actions and the U.S. government has enacted several fiscal stimulus measures to counteract the economic disruption caused by the COVID-19 pandemic and provide economic assistance to individual households and businesses, stabilize the markets and support economic growth. The success of these measures is unknown and they may not be sufficient to fully mitigate the negative impact of the COVID-19 pandemic.

We face an increased risk of litigation and governmental, regulatory and third-party scrutiny as a result of the effects of COVID-19 on market and economic conditions and actions governmental authorities take in response to those conditions. Furthermore, various governmental programs such as the Paycheck Protection Program loan program are complex and our participation may lead to additional litigation and governmental, regulatory and third-party scrutiny, negative publicity and damage to our reputation.

The extent to which the COVID-19 pandemic impacts our business, results of operations and financial condition will depend on future developments, which are highly uncertain and are difficult to predict, including, but not limited to, the duration and spread of the pandemic, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume. Even after the COVID-19 pandemic has subsided, we may continue to experience materially adverse impacts to our business as a result of the virus's global economic impact, including the availability of credit, adverse impacts on our liquidity and any recession that has occurred or may occur in the future.

There are no comparable recent events that provide guidance as to the effect the spread of COVID-19 as a global pandemic may have, and, as a result, the ultimate impact of the outbreak is highly uncertain and subject to change. We do not yet know the full extent of the impacts on our business, our operations or the global economy as a whole. However, the effects could have a material impact on our results of operations and heighten many of our known risks described in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2019.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In February 2020, the Board of Directors authorized the open market repurchase of up to 750,000 shares of the issued and outstanding shares of Summit's common stock ("February 2020 Repurchase Plan"). The timing and quantity of purchases under this stock repurchase plan are at the discretion of management. The plan may be discontinued, suspended, or restarted at any time at the Company's discretion.

No repurchases of Company shares were made during the quarter ended September 30, 2020.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
July 1, 2020 - July 31, 2020	—	$ —	—	674,667
August 1, 2020 - August 31, 2020	—	—	—	674,667
September 1, 2020 - September 30, 2020	—	—	—	674,667

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 13 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)

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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	14
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 3.1 of Summit Financial Group, Inc.'s filing on Form 10-Q dated March 26, 2020.

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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,
Executive Vice President and Chief Financial Officer

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

Date: November 5, 2020

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Exhibit 31.1

SARBANES-OXLEY ACT SECTION 302
CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, H. Charles Maddy, III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Summit Financial Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in registrant's internal control over financial reporting.

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

Date: November 5, 2020

Exhibit 31.2

SARBANES-OXLEY ACT SECTION 302
CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Robert S. Tissue, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Summit Financial Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in registrant's internal control over financial reporting.

/s/ Robert S. Tissue
Robert S. Tissue
Executive Vice President and Chief Financial Officer

Date: November 5, 2020

Exhibit 32.1

SARBANES-OXLEY ACT SECTION 906
CERTIFICATION OF CHIEF EXECUTIVE OFFICER

In connection with this Quarterly Report of Summit Financial Group, Inc. ("Summit “) on Form 10-Q for the period ending September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, H. Charles Maddy, III, President and Chief Executive Officer of Summit, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of Summit.

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

Date: November 5, 2020

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

Exhibit 32.2

SARBANES-OXLEY ACT SECTION 906
CERTIFICATION OF CHIEF FINANCIAL OFFICER

In connection with this Quarterly Report of Summit Financial Group, Inc. ("Summit “) on Form 10-Q for the period ending September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert S. Tissue, Executive Vice President and Chief Financial Officer of Summit, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of Summit.

/s/ Robert S. Tissue
Robert S. Tissue,
Executive Vice President and Chief Financial Officer

Date: November 5, 2020

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.