

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

FORM 10-K

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

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

For the fiscal year ended December 31, 2023

Commission File Number 0-16587



Summit Financial Group, Inc.
(Exact name of registrant as specified in its charter)

West Virginia
(State or other jurisdiction of
incorporation or organization)

55-0672148
(I.R.S. Employer
Identification No.)

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

26836
(Zip Code)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common	SMMF	NASDAQ Global Select Market

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ 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 large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of “large accelerated filer”, “accelerated filer”, “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Non-accelerated filer ☐

Emerging growth company ☐

Accelerated Filer ☒

Smaller reporting 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 has filed a report on and attestation of its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant’s executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant at June 30, 2023 was approximately \$265,527,000. Registrant has assumed that all of its executive officers and directors are affiliates. Such assumption shall not be deemed to be conclusive for any other purpose.

The number of shares of the Registrant’s Common Stock outstanding on March 6, 2024 was 14,683,729.

Documents Incorporated by Reference

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

Document	Part of Form 10-K into which document is incorporated
Portions of the Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held May 23, 2024	Part III - Items 10, 11, 12, 13 and 14

SUMMIT FINANCIAL GROUP, INC
Form 10-K Index

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PART I.

Item 1. Business

Summit Financial Group, Inc. (“Company” or “Summit”) is a \$4.6 billion financial holding company headquartered in Moorefield, West Virginia and incorporated on March 5, 1987. We provide community banking services primarily in the Eastern Panhandle, Southern and North Central regions of West Virginia, the Northern, Shenandoah Valley and Southwestern regions of Virginia, the Central region of Kentucky, the Eastern Shore of Maryland and Delaware. We provide these services through our community bank subsidiary, Summit Community Bank (“Summit Community” or “Bank”).

Community Banking

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

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

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

Lending

Our primary lending focus is providing commercial loans to local businesses with annual sales generally up to \$150 million and providing owner-occupied real estate loans to individuals. We typically do not seek credit relationships of more than \$35 million but will consider larger lending relationships exhibiting above-average credit quality. Under our commercial banking strategy, we focus on offering a broad line of financial products and services to small and medium-sized businesses through full service banking offices. Summit Community Bank has senior management with extensive lending experience. These managers exercise substantial authority over credit and pricing decisions, subject to loan committee approval for larger credits.

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

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

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

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

Exceptions are permitted to these regulatory guidelines as long as such exceptions are identified, monitored and reported to the Board of Directors at least quarterly and the total of such exceptions do not exceed 100% of Summit Community’s total regulatory capital, which totaled \$524.7 million as of December 31, 2023. As of this date, we had loans approximating \$92.9 million which exceeded the above regulatory LTV guidelines, as follows:

	million	
Undeveloped land	\$	4.9
Land development	\$	4.1
Land development - Finished building lots	\$	0.1
Construction:		
Commercial, multifamily and other non-residential	\$	8.3
1-4 family residential, consumer borrower	\$	0.2
1-4 family residential, pre-sold, commercial borrower	\$	—
1-4 family residential, spec, commercial borrower	\$	1.6
Improved property:		
Residential real estate - nonowner occupied	\$	5.4
Commercial real estate - owner occupied	\$	9.6
Commercial real estate - nonowner occupied	\$	30.4
Owner occupied 1-4 family	\$	28.1
Home equity	\$	0.2

Our underwriting standards and practice are designed to originate both fixed and variable rate loan products, consistent with the underwriting guidelines discussed above. Adjustable rate and variable rate loans are underwritten, giving consideration both to the loan’s initial rate and to higher assumed rates, commensurate with reasonably anticipated market conditions. Accordingly, we want to insure that adequate primary repayment capacity exists to address both future increases in interest rates and fluctuations in the underlying cash flows available for repayment. Historically, we have not offered “payment option ARM” loans. Further, we have had no loan portfolio products which were specifically designed for “sub-prime” borrowers (defined as consumers with a credit score of less than 599).

Supervision and Regulation

General

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

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

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

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

In July 2019, the federal bank regulators adopted final rules (the “Capital Simplifications Rules”) that, among other things, eliminated the standalone prior approval requirement in the Basel III Capital Rules for any repurchase of common stock. In certain circumstances, Summit’s repurchases of its common stock may be subject to a prior approval or notice requirement under other regulations, policies or supervisory expectations of the Federal Reserve Board. Any redemption or repurchase of preferred stock or subordinated debt remains subject to the prior approval of the Federal Reserve Board.

The Inflation Reduction Act of 2022 (the “IRA”) imposes a new 1% excise tax on the fair market value of stock repurchased after December 31, 2022 by publicly traded U.S. corporations. With certain exceptions, the value of stock repurchased is determined net of stock issued in the year, including shares issued pursuant to compensatory arrangements.

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

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

Because we are a public company, we are subject to regulation by the SEC. SEC regulations require us to disclose certain types of business and financial data on a regular basis to the SEC and to our shareholders. We are required to file annual, quarterly and current reports with the SEC. We prepare and file an annual report on Form 10-K with the SEC that contains detailed financial and operating information, as well as a management response to specific questions about our operations. SEC regulations require that our annual reports to shareholders contain certified financial statements and other specific items such as management’s discussion and analysis of our financial condition and results of operations. We must also file quarterly reports

with the SEC on Form 10-Q that contain detailed financial and operating information for the prior quarter and we must file current reports on Form 8-K to provide the public with information on recent material events.

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

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

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

Bank Holding Company Activities

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

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

To maintain financial holding company status, a financial holding company and all of its depository institution subsidiaries must be “well capitalized” and “well managed.” A depository institution subsidiary is considered to be “well capitalized” if it satisfies the requirements for this status discussed in the section captioned “Capital Requirements” included elsewhere in this item. A depository institution subsidiary is considered “well managed” if it received a composite rating and management rating of at least “satisfactory” in its most recent examination. A financial holding company’s status will also depend upon it maintaining its status as “well capitalized” and “well managed” under applicable FRB regulations. If a financial holding company ceases to meet these capital and management requirements, the FRB’s regulations provide that the financial holding company must enter into an agreement with the FRB to comply with all applicable capital and management requirements. Until the financial holding company returns to compliance, the FRB may impose limitations or conditions on the conduct of its activities and the company may not commence any of the broader financial activities permissible for financial holding companies or acquire a company

engaged in such financial activities without prior approval of the FRB. If the company does not return to compliance within 180 days, the FRB may require divestiture of the holding company's depository institutions. Bank holding companies and banks must also be both well capitalized and well managed in order to acquire banks located outside their home state.

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

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

The Dodd-Frank Act amends the BHC Act to require the federal financial regulatory agencies to adopt rules that prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds). The statutory provision is commonly called the "Volcker Rule". In July, 2019, the federal banking agencies adopted a final rule implementing sections of the Economic Growth, Regulatory Relief and Consumer Protection Act to grant an exclusion from the Volcker Rule for community banks with fewer than \$10 billion in total consolidated assets and total trading assets, as well as liabilities that are equal to or less than five percent of their total consolidated assets. Not only are we now excluded from the Volcker Rule due to our asset size, the Volcker Rule has not had a material impact on our operations as we do not generally engage in activities prohibited by the Volcker Rule.

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

Dividends

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

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

Credit and Monetary Policies and Related Matters

Summit Community is affected by the fiscal and monetary policies of the federal government and its agencies, including the FRB. An important function of these policies is to curb inflation and control recessions through control of the supply of money and credit. The operations of Summit Community are affected by the policies of government regulatory authorities, including the FRB, which regulates money and credit conditions through open-market operations in United States Government and Federal agency securities, adjustments in the discount rate on member bank borrowings and requirements against deposits and regulation of interest rates payable by member banks on time and savings deposits. These policies have a significant influence

on the growth and distribution of loans, investments and deposits, and interest rates charged on loans, or paid for time and savings deposits, as well as yields on investments. The FRB has had a significant effect on the operating results of commercial banks in the past and is expected to continue to do so in the future. Future policies of the FRB and other authorities and their effect on future earnings cannot be predicted.

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

Capital Requirements

The FRB regulates and monitors the capital adequacy of bank holding companies, such as Summit, while the FDIC and the West Virginia Division of Financial Institutions regulate and monitor the capital adequacy of the Bank. Bank regulators use a combination of risk-based guidelines and leverage ratios to evaluate capital adequacy and consider these capital levels when conducting supervisory activities related to bank and bank holding company safety and soundness.

In July 2013, the U.S. federal banking regulators substantially amended the capital rules for banks and bank holding companies to make them generally compliant with the Basel Committee on Banking Supervision's Basel III Global Regulatory Framework (the "Basel III Capital Rules"). The Basel III Capital Rules, which were phased in over the period 2015 through 2019, implemented higher minimum capital requirements for bank holding companies and banks. The Basel III rules included a Common Equity Tier 1 capital requirement and established criteria that instruments must meet to be considered Common Equity Tier 1 capital, additional Tier 1 capital or Tier 2 capital. These enhancements were designed to both improve the quality and increase the quantity of capital required to be held by banking organizations, better equipping the U.S. banking system to deal with adverse economic conditions.

The Basel III Capital Rules require banks and bank holding companies to maintain a minimum Common Equity Tier 1 ("CET1") risk-based capital ratio of 4.5%, a Tier 1 risk-based capital ratio of 6%, a total risk-based capital ratio of 8% and a leverage ratio of 4%. Under the Basel III Capital Rules, banks and bank holding companies must maintain a CET1 risk-based capital ratio of 6.5%, a Tier 1 risk-based capital ratio of 8%, a total risk-based capital ratio of 10% and a leverage ratio of 5% to be deemed "well capitalized" for purposes of certain rules and requirements.

Banks and bank holding companies are also required to maintain a "capital conservation buffer" in excess of the minimum risk-based capital ratios. The buffer is intended to help ensure that banking organizations conserve capital when it is most needed, allowing them to better weather periods of economic stress. The minimum 2.5% buffer is composed solely of CET1 capital. If an institution's capital conservation buffer is less than or equal to 2.5%, then the institution is subject to limitations on certain activities, including payment of dividends, share repurchases and discretionary bonuses to executive officers.

The Basel III Capital Rules also attempted to improve the quality of capital by implementing changes to the definition of capital. Among the most important changes are stricter eligibility criteria for regulatory capital instruments that disallow the inclusion of certain instruments, such as trust preferred securities, in Tier 1 capital going forward and new constraints on the inclusion of minority interests, mortgage-servicing assets, deferred tax assets and certain investments in the capital of unconsolidated financial institutions. In addition, the Basel III Capital Rules require that most regulatory capital deductions be made from CET1 capital.

The federal bank regulatory agencies may also set higher capital requirements for banks and bank holding companies whose circumstances warrant it. For example, bank holding companies experiencing internal growth or making acquisitions are expected to maintain strong capital positions substantially above the minimum supervisory levels. Our regulatory capital ratios and those of Summit Community are well in excess of the most restrictive minimum regulatory capital ratios plus the full Capital Conservation Buffer (as applicable) established under the Basel III Capital Rules. Our regulatory capital ratios as of December 31, 2023 are set forth in the table in Note 19 of the notes to the consolidated financial statements beginning on page 100.

The Basel III Capital Rules also set forth changes in the methods of calculating certain risk-weighted assets, which in turn affect the calculation of risk-based capital ratios. Under the Basel III Capital Rules, higher or more sensitive risk weights are assigned

to various categories of assets, including certain credit facilities that finance the acquisition, development or construction of real property, certain exposures or credits that are 90 days past due or on non-accrual, foreign exposures and certain corporate exposures. In addition, the Basel III Capital Rules include (i) alternative standards of credit worthiness consistent with the Dodd-Frank Act, (ii) greater recognition of collateral and guarantees and (iii) revised capital treatment for derivatives and repo-style transactions.

On December 21, 2018, the federal banking agencies issued a joint final rule to revise their regulatory capital rules to: (i) address the implementation of the Current Expected Credit Losses ("CECL") accounting standard under GAAP; and (ii) provide an optional three-year phase-in period for the day-one adverse regulatory capital effects that banking organizations experienced upon adopting CECL. We implemented the CECL accounting standard on January 1, 2020, whereby we increased the allowances for loan credit losses and unfunded commitments by \$8.89 million and recorded a cumulative effect adjustment to retained earnings of \$6.76 million (net of deferred income taxes of \$2.13 million) and elected to recognize the regulatory capital impact of its adoption over the three year period. However, relief provided community banks under the Coronavirus Aid, Relief and Economic Security Act delayed the start of this three-year phase-in period until January 1, 2022.

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

A bank will be (i) "well capitalized" if the institution has a total risk-based capital ratio of 10.0% or greater, a CET1 capital ratio of 6.5% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater and a leverage ratio of 5.0% or greater and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (ii) "adequately capitalized" if the institution has a total risk-based capital ratio of 8.0% or greater, a CET1 capital ratio of 4.5% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater and a leverage ratio of 4.0% or greater and is not "well capitalized"; (iii) "undercapitalized" if the institution has a total risk-based capital ratio that is less than 8.0%, a CET1 capital ratio less than 4.5%, a Tier 1 risk-based capital ratio of less than 6.0% or a leverage ratio of less than 4.0%; (iv) "significantly undercapitalized" if the institution has a total risk-based capital ratio of less than 6.0%, a CET1 capital ratio less than 3.0%, a Tier 1 risk-based capital ratio of less than 4.0% or a leverage ratio of less than 3.0%; and (v) "critically undercapitalized" if the institution's tangible equity is equal to or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank's capital category is determined solely for the purpose of applying prompt corrective action regulations and the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects for other purposes."

Beginning in the first quarter of 2020, a qualifying community banking organization could elect to use the community bank leverage ratio ("CBLR") framework to eliminate the requirements for calculating and reporting risk-based capital ratios. A qualifying community organization is a depository institution or its holding company that has less than \$10 billion in average total consolidated assets; has off-balance-sheet exposures of 25% or less of total consolidated assets; has trading assets plus trading liabilities of 5% or less of total consolidated assets; and is not an advanced approaches banking organization. Qualifying community banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than 9% are considered to have satisfied the risk-based and leverage capital requirements and are considered to have met the well-capitalized ratio requirements for purposes of Section 38 of the FDICIA. A qualifying community banking organization may opt into and out of the CBLR framework by completing the associated reporting requirements on its call report. We presently do not anticipate opting into the CBLR framework.

Community Reinvestment Act

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

applicant financial holding company and such records may be the basis for denying the application or imposing conditions in connection with approval of the application.

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

On October 24, 2023, the Office of the Comptroller of the Currency (“OCC”), the Federal Reserve System Board and the FDIC finalized comprehensive revisions to their CRA regulations. The objectives in issuing the final rule include strengthening the achievement of the core purpose of the statute, adapting to changes in the banking industry, including the expanded role of mobile and online banking, tailoring performance standards to account for differences in bank size and business models and local conditions, confirming that CRA and fair lending responsibilities are mutually reinforcing, and promoting a consistent regulatory approach that applies to banks regulated by all three agencies. The final rule is expected to go into effect on April 1, 2024, but most provisions of the rule, including the new tests, the need to define retail lending assessment areas, and the data collection requirements, will become applicable on January 1, 2026. Reporting of the collected data will not be required until 2027. In addition to numerous technical revisions, the final rule introduces major changes to the CRA regulations in four key areas: (A) the delineation of assessment areas; (B) the overall evaluation framework and performance standards and metrics; (C) the definition of community development activities; and (D) data collection and reporting. The new evaluation framework is “tailored” based on the size of the bank.

Graham-Leach-Bliley Act of 1999

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

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

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

Deposit Acquisition Limitation

Under West Virginia banking law, an acquisition or merger is not permitted if the resulting depository institution or its holding company, including its affiliated depository institutions, would assume additional deposits to cause it to control deposits in the State of West Virginia in excess of twenty-five percent (25%) of such total amount of all deposits held by insured depository institutions in West Virginia. This limitation may be waived by the Commissioner of Banking by showing good cause.

Consumer Laws and Regulations

In addition to the banking laws and regulations discussed above, bank subsidiaries are also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. Among the more prominent of such laws and regulations are the Truth in Lending Act, the Home Mortgage Disclosure Act and Regulation C, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act, the Right to Financial Privacy Act and the Fair Housing Act. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans to such customers. Bank subsidiaries must comply with the applicable provisions of these consumer protection laws and regulations as part of their ongoing customer relations.

Dodd-Frank centralized responsibility for consumer financial protection by creating the CFPB and giving it responsibility for implementing, examining and enforcing compliance with federal consumer protection laws. The CFPB has broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential

mortgages, home-equity loans and credit cards. The CFPB’s functions include investigating consumer complaints, rulemaking, supervising and examining banks’ consumer transactions and enforcing rules related to consumer financial products and services including mortgage lending and servicing, fair lending requirements, and automotive finance. Summit Community Bank, as a bank with less than \$10 billion in assets, is subject to these federal consumer financial laws, but continues to be examined for compliance by the FDIC, its primary federal banking regulator.

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

USA Patriot Act of 2001

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

Sarbanes-Oxley Act of 2002

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

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

Cybersecurity

The federal banking regulators regularly issue new guidance and standards, and update existing guidance and standards, regarding cybersecurity intended to enhance cyber risk management among financial institutions. Financial institutions are expected to comply with such guidance and standards and to accordingly develop appropriate security controls and risk management processes. If we fail to observe such regulatory guidance or standards, we could be subject to various regulatory sanctions, including financial penalties.

In November 2021, the federal banking agencies adopted a Final Rule, with compliance required by May 1, 2022, that requires banking organizations to notify their primary banking regulator within 36 hours of determining that a “computer-security incident” has materially disrupted or degraded, or is reasonably likely to materially disrupt or degrade, the banking organization’s ability to carry out banking operations or deliver banking products and services to a material portion of its customer base, its businesses and operations that would result in material loss, or its operations that would impact the stability of the United States.

In 2023, the SEC issued a final rule that requires disclosure of material cybersecurity incidents, as well as cybersecurity risk management, strategy and governance. Under this rule, banking organizations that are SEC registrants must generally disclose information about a material cybersecurity incident within four business days of determining it is material with periodic updates as to the status of the incident in subsequent filings as necessary.

In the ordinary course of business, we rely on electronic communications and information systems to conduct our operations and to store sensitive data. We employ an in-depth, layered, defensive approach that leverages people, processes and technology to

manage and maintain cybersecurity controls. We utilize both internal systems and third party consultants to provide the best defense possible. We employ a variety of preventative and detective tools to monitor, block and provide alerts regarding suspicious activity, as well as to report on any suspected advanced persistent threats. Notwithstanding the strength of our defensive measures, the threat from cyber attacks is severe, attacks are sophisticated and increasing in volume and attackers respond rapidly to changes in defensive measures. While to date, we have not experienced a significant compromise, significant data loss or any material financial losses related to cybersecurity attacks, our systems and those of our customers and third-party service providers are under constant threat and it is possible that we could experience a significant event in the future. Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of Internet banking, mobile banking and other technology-based products and services by us and our customers. See Item 1C. Cybersecurity for a further discussion of risks related to cybersecurity.

Transactions with Affiliates

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

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

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

Incentive Compensation

The Federal Reserve Board reviews, as part of its regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as Summit, that are not "large, complex banking organizations." These reviews are tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The scope and content of the U.S. banking regulators' policies on incentive compensation are continuing to develop.

The federal bank regulatory agencies issued joint guidance in 2010 on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. In addition, Section 956 of the Dodd-Frank Act requires the federal bank regulatory agencies and the SEC to issue regulations or guidelines requiring covered financial institutions, including the Company and Summit Community, to prohibit incentive-based payment arrangements that encourage inappropriate risks by providing compensation that is excessive or that could lead to material financial loss to the institution. A proposed rule was issued in 2016, but this proposed rule has not been finalized. Also, pursuant to the Dodd-Frank Act, in 2015, the SEC proposed rules that would direct stock exchanges to require listed companies to implement clawback policies to recover incentive-based compensation from current or former executive officers in the event of certain financial restatements and would also require companies to disclose their clawback policies and their actions under those policies. The Company continues to evaluate the proposed rules, both of which are subject to further rulemaking procedures.

In October 2022, the SEC adopted a final rule directing national securities exchanges and associations, including NASDAQ, to implement listing standards that require listed companies to adopt policies mandating the recovery or "clawback" of excess incentive-based compensation earned by a current or former executive officer during the three fiscal years preceding the date the listed company is required to prepare an accounting restatement, including to correct an error that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period. Under the final rule, Summit was required to adopt a clawback policy within 60 days after such listing standard becomes effective. The NASDAQ's listing standards pursuant to the SEC's rule became effective on October 2, 2023. Summit adopted a compensation recovery policy pursuant to the NASDAQ listing standards on November 16, 2023. The policy is included as Exhibit 97.1 to this Form 10-K.

Anti-Money Laundering

The Anti-Money Laundering Act of 2020 (“AMLA”), which amends the Bank Secrecy Act of 1970 (“BSA”), was enacted in January 2021. The AMLA is intended to be a comprehensive reform and modernization to U.S. bank secrecy and anti-money laundering laws. Among other things, it codifies a risk-based approach to anti-money laundering compliance for financial institutions; requires the development of standards for evaluating technology and internal processes for BSA compliance; expands enforcement- and investigation-related authority, including increasing available sanctions for certain BSA violations and instituting BSA whistleblower incentives and protections.

Competition

We engage in highly competitive activities. Each activity and market served involves competition with other banks and savings institutions, as well as with non-banking and non-financial enterprises that offer financial products and services that compete directly with our products and services. We actively compete with other banks, mortgage companies and other financial service companies in our efforts to obtain deposits and make loans, in the scope and types of services offered, in interest rates paid on time deposits and charged on loans and in other aspects of banking.

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

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

Human Capital Resources

At December 31, 2023, we employed 496 full-time equivalent team members. We have acquired six whole banks and eight branches of another bank over the last seven years resulting in an overall increase of approximately 269 full-time employees. The average tenure of our full-time employees, including time employed by the banks we acquired is 8.92 years, while the average tenure of our executive management team is approximately 20.71 years. We have 3 employees that have been with the Company more than 40 years; 78 employees that have been with the Company more than 20 years and 280 employees that have been with the Company more than 5 years.

Summit's service commitment to customers is a fundamental value of our company, and is embodied in our ‘Service Beyond Expectations’ culture. We recognize the critical role our employees play in implementing our ‘Service Beyond Expectations’ core strategy. The dedication of our employees resulted in Summit Community’s recognition as the number-one “Best-In-State-Bank” in West Virginia by Forbes in 2018, 2022 and 2023. This award was based on a survey of more than 25,000 customers in the United States for their opinions on their current and former banking relationships.

While our employees are focused on providing ‘Service Beyond Expectations’ to our customers and to the community, Summit’s Board of Directors and management team are focused on providing a workplace where employees feel valued and respected, are supported professionally and personally through on the job training, development programs and health and wellness programs, and are recognized and rewarded based on their individual results and performance and the performance of the Company.

Summit values diversity in our employees, customers, suppliers, marketplace, and community. We believe employing a diverse workforce that is reflective of our customers and the communities that we serve helps us to better identify and deliver ‘Service Beyond Expectations’ to meet our customers’ and communities’ particular financial needs. We are committed to attracting, retaining and promoting our employees regardless of sex, sexual orientation, gender identity, race, color, national origin, age, relation and physical ability. We identify and hire the best candidates for all open positions based on qualifying factors for the position and free from discrimination.

Management reviews and monitors our workforce data provided to the U.S. Equal Employment Opportunity Commission to ensure that we are recruiting, promoting and retaining diverse employees. We dedicate resources to promote a safe and inclusive workplace. Our employees participate in various training courses including a course on sexual harassment and a course on accepting each other's differences. We believe employing a diverse workforce that is reflective of our customers and the communities that we serve helps us to better identify and deliver 'Service Beyond Expectations' to meet our customers' and communities' particular financial needs. Consistent with these efforts, 78% of our workforce is gender/racial diverse.

Summit is committed to employee development and retention. We provide professional development opportunities, on the job training and mentoring to all of our employees. We encourage our employees to pursue educational opportunities that will help improve their job skills and performance. Our employees attend training, development and compliance courses offered by the West Virginia Bankers Association, the Community Bankers of West Virginia and the Virginia Bankers Association, and financial and credit risk management courses offered by The Risk Management Association. We also support employees who desire to continue their education in areas that are directly related to their jobs. We reimburse fees for continuing education courses and for certain certifications. We also provide up to \$1,000 per employee in educational assistance annually for those employees who wish to continue their education.

Our compensation and benefits package is designed to attract, motivate and retain employees. In addition to competitive base salaries, the Company provides a variety of short-term, long-term and commission-based incentive compensation programs to reward performance relative to key financial performance of the Company and customer experience metrics. The Company's long-term compensation program is directly linked to the long-term performance of the Company, its common stock and Summit Community. Summit offers comprehensive health and benefit options to its employees consisting of health, dental, vision, life insurance, disability insurance, paid vacation, paid illness, and holidays. Summit also maintains an Employee Stock Ownership Plan (ESOP) which covers substantially all employees. Under the provisions of the ESOP, employee participants in the ESOP are not permitted to contribute to the ESOP, rather the cost of the ESOP is borne by the Company through annual contributions in amounts determined by the Company's Board of Directors. Discretionary contributions were made by the Company for 2023 of 5%. As of December 31, 2023, the ESOP owned 3.82% of the Company's common stock. In addition, the Company has a defined contribution plan with 401(k) provisions covering substantially all employees. Under the provisions of the plan, the Company matches 100% of the participant's salary reduction contributions, up to 4% of such participant's compensation. The Company may also make optional contributions at the discretion of the Company's Board of Directors.

Summit employees actively share their talents in their communities through volunteer activities in education, economic development, human and health services, and community reinvestment. Bank management and personnel serve in leadership positions on several community development organizations that provide affordable housing assistance, economic development, and community services for low- and moderate-income individuals and families.

Available Information

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

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

Item 1A. Risk Factors

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

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

RISKS RELATING TO OUR BUSINESS***Changes in interest rates could negatively impact our future earnings.***

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

We are subject to extensive government regulation and supervision.

The Company and Summit Community are subject to extensive federal and state regulation and supervision, which vests a significant amount of discretion in the various regulatory authorities. Banking regulations are primarily intended to protect depositors and customers, the Federal Deposit Insurance fund and the banking system as a whole, not security holders. These regulations and supervisory guidance affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. The Dodd-Frank Act instituted major changes to the banking and financial institutions regulatory regimes. Other changes to statutes, regulations or regulatory policies or supervisory guidance, including changes in interpretation or implementation of statutes, regulations, policies or supervisory guidance, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations, policies or supervisory guidance could result in enforcement and other legal actions by Federal or state authorities, including criminal and civil penalties, the loss of FDIC insurance, the revocation of a banking charter, other sanctions by regulatory agencies, civil money penalties and/or reputation damage.

In this regard, government authorities, including the bank regulatory agencies, are pursuing aggressive enforcement actions with respect to compliance and other legal matters involving financial activities, which heightens the risks associated with actual and perceived compliance failures. We anticipate increased regulatory scrutiny, in the course of routine examinations and otherwise, and new regulations in response to recent negative developments in the banking industry, which may increase our cost of doing business and reduce our profitability. Among other things, there may be increased focus by both regulators and investors on deposit composition, the level of uninsured deposits, brokered deposits, unrealized losses in securities portfolios, liquidity, commercial real estate loan composition and concentrations, and capital as well as general oversight and control of the foregoing. We could face increased scrutiny or be viewed as higher risk by regulators and/or the investor community, which could have a material adverse effect on our business, financial condition and results of operations. Any of the foregoing could have a material adverse effect on our business, financial condition and results of operations. See the section captioned “Supervision and Regulation” included in Item 1. Business on page 1.

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

Although the Bank is qualified as “well capitalized” under the regulatory framework for prompt corrective action as of December 31, 2023, there is no guarantee that we will not have a decline in our capital category in the future. In the event of such a capital category decline, we would be subject to increased regulatory restrictions that could have a material adverse effect on our business, financial condition, results of operations, cash flows and/or future prospects.

If a bank is classified as undercapitalized, the bank is required to submit a capital restoration plan to the FDIC. Pursuant to FDICIA, an undercapitalized bank is prohibited from increasing its assets, engaging in a new line of business, acquiring any interest in any company or insured depository institution, or opening or acquiring a new branch office, except under certain

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

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

Our financial flexibility could be severely constrained if we are unable to renew our wholesale funding or if adequate financing is not available in the future at acceptable rates of interest. We may not have sufficient liquidity to continue to fund new loan originations and we may need to liquidate loans or other assets unexpectedly in order to repay obligations as they mature. Our inability to obtain regulatory consent to accept or renew brokered deposits could have a material adverse effect on our business, financial condition, results of operations, cash flows and/or future prospects and our ability to continue as a going concern. Finally, the capital classification of a bank affects the frequency of examinations of the bank, the deposit insurance premiums paid by such bank and the ability of the bank to engage in certain activities, all of which could have a material adverse effect on our business, financial condition, results of operations, cash flows and/or future prospects. Under FDICIA, the FDIC is required to conduct a full-scope, on-site examination of every bank at least once every twelve (12) months.

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

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

We attempt to maintain an appropriate allowance for credit losses to provide for our estimate of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. As of December 31, 2023, our allowance for credit losses on loans totaled \$48.1 million, which represents approximately 1.31% of our total loans. The determination of the appropriate level of allowance for credit losses inherently involves a high degree of subjectivity and requires us to make significant estimates related to current and expected future credit risks and trends, all of which may undergo material changes. Continuing deterioration in economic conditions affecting borrowers and securities issuers; new information regarding existing loans, credit commitments and securities holdings; natural disasters and risks related to climate change; and identification of additional problem loans, ratings down-grades and other factors, both within and outside of our control, may require an increase in the allowances for credit losses on loans, securities and off-balance sheet credit exposures. There is no precise method of predicting credit losses and therefore, we always face the risk that losses in future periods will exceed our allowance for credit losses and that we would need to make additional provisions to our allowance for credit losses. Our methodology for the determination of the adequacy of the allowance for credit losses is set forth in Note 7 of the accompanying consolidated financial statements.

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

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

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

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

We require liquidity to meet our deposit and debt obligations as they come due. Our access to funding sources in amounts adequate to finance our activities or on terms that are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy generally.

A substantial majority of our liabilities are demand, savings, interest checking and money market deposits, which are payable on demand or upon several days' notice, while by comparison, a substantial portion of our assets are loans, which cannot be called or sold in the same time frame. We may not be able to replace maturing deposits and advances as necessary in the future, especially if a large number of our depositors sought to withdraw their accounts, regardless of the reason. Our access to deposits may be negatively impacted by, among other factors, periods of low interest rates or higher interest rates which could promote increased competition for deposits, including from new financial technology competitors, or provide customers with alternative investment options. Additionally, negative news about us or the banking industry in general could negatively impact market and/or customer perceptions of our company, which could lead to a loss of depositor confidence and an increase in deposit withdrawals, particularly among those with uninsured deposits. Furthermore, as we and other regional banking organizations experienced in 2023, the failure of other financial institutions may cause deposit outflows as customers spread deposits among several different banks so as to maximize their amount of FDIC insurance, move deposits to banks deemed "too big to fail" or remove deposits from the banking system entirely. As of December 31, 2023, approximately 35% of our deposits were uninsured and we rely on these deposits for liquidity.

We utilize, as an additional source of funds, borrowings from the Federal Home Loan Bank of Pittsburgh, or the FHLB. As of December 31, 2023, our FHLB borrowings maturing within one year totaled \$302.8 million. If we were unable to borrow from the FHLB in the future, we may be required to seek higher cost funding sources, which could materially and adversely affect our net interest income.

One aspect of our liquidity management process is establishing contingent liquidity funding plans under various scenarios in order to prepare for unexpected liquidity shortages or events. Page 50 of Management's Discussion and Analysis of Financial Condition and Results of Operations shows three "stressed" liquidity circumstances and our related contingency plans with respect to each.

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

As part of our general growth strategy, we have partially expanded our business through acquisitions. We completed the acquisition of PSB Holding Corp. ("PSB") on April 1, 2023. We also acquired four branches in the eastern panhandle of West Virginia from MVB Bank, Inc. on April 24, 2020 and four branches and two drive-up banking locations of MVB Bank, Inc., in southern West Virginia on July 12, 2021. On August 24, 2023, we entered into an agreement with Burke & Herbert Financial Services Corp. ("Burke & Herbert") under which Summit will merge with and into Burke & Herbert in an all-stock merger of equals transaction that we expect to close in second quarter of 2024. Although our business strategy emphasizes organic expansion, we continue, from time to time in the ordinary course of business, to engage in preliminary discussions with potential acquisition targets. There can be no assurance that, in the future, we will successfully identify suitable acquisition candidates, complete acquisitions and successfully integrate acquired operations into our existing operations or expand into new markets. The consummation of any future acquisitions may dilute shareholder value or may have an adverse effect upon our operating results while the operations of the acquired business are being integrated into our operations. In addition, once integrated, acquired operations may not achieve levels of profitability comparable to those achieved by our existing operations, or otherwise perform as expected. Further, transaction-related expenses may adversely affect our earnings. These adverse effects on our earnings and results of operations may have a negative impact on the value of our common stock. Acquiring banks, bank branches or other businesses involves risks commonly associated with acquisitions, including:

- We may be exposed to potential asset quality issues or unknown or contingent liabilities of the banks, businesses, assets, and liabilities we acquire. If these issues or liabilities exceed our estimates, our results of operations and financial condition may be materially negatively affected;
- Prices at which acquisitions can be made fluctuate with market conditions. We have experienced times during which acquisitions could not be made in specific markets at prices we considered acceptable and expect that we will experience this condition in the future;
- The acquisition of other entities generally requires integration of systems, procedures and personnel of the acquired entity into our company to make the transaction economically successful. This integration process is complicated and time consuming and can also be disruptive to the customers of the acquired business. If the integration process is not conducted successfully and with minimal effect on the acquired business and its customers, we may not realize the anticipated economic benefits of particular acquisitions within the expected time frame, and we may lose customers or employees of the acquired business. We may also experience greater than anticipated customer losses even if the integration process is successful.

- To the extent our costs of an acquisition exceed the fair value of the net assets acquired, the acquisition will generate goodwill. As discussed below, we are required to assess our goodwill for impairment at least annually, and any goodwill impairment charge could have a material adverse effect on our results of operations and financial condition; and
- To finance an acquisition, we may borrow funds, thereby increasing our leverage and diminishing our liquidity, or issue additional shares, which could dilute the interests of our existing shareholders.

Combining Burke & Herbert and Summit may be more difficult, costly or time-consuming than expected, and Burke & Herbert and Summit may fail to realize the anticipated benefits of the merger.

The merger with Burke & Herbert is a merger transaction combining two financial institutions of relatively similar asset size. The success of the merger will depend, in part, on the ability to realize the anticipated cost savings from combining the businesses of Burke & Herbert and Summit. To realize the anticipated benefits and cost savings from the merger, Burke & Herbert and Summit must successfully integrate and combine their businesses in a manner that permits those cost savings to be realized, without adversely affecting current revenues and future growth. If Burke & Herbert and Summit are not able to successfully achieve these objectives, the anticipated benefits of the merger may not be realized fully, or at all, or may take longer to realize than expected. In addition, the actual cost savings of the merger could be less than anticipated, and integration may result in additional and unforeseen expenses.

An inability to realize the full extent of the anticipated benefits of the merger and the other transactions contemplated by the merger agreement, as well as any delays encountered in the integration process, could have an adverse effect upon the revenues, levels of expenses and operating results of the continuing corporation following the completion of the merger, which may adversely affect the value of the common stock of the continuing corporation following the completion of the merger.

Burke & Herbert and Summit have operated and, until the completion of the merger, must continue to operate, independently. It is possible that the integration process could result in the loss of key employees, the disruption of each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the companies' ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits and cost savings of the merger. Integration efforts between the two companies may also divert management attention and resources. These integration matters could have an adverse effect on each of Burke & Herbert and Summit during this transition period and for an undetermined period after completion of the merger on the continuing corporation.

Furthermore, the board of directors of the continuing corporation will consist of former directors from each of Burke & Herbert and Summit. Combining the boards of directors of each company into a single board could require the reconciliation of differing priorities and philosophies.

The future results of the continuing corporation following the merger with Burke & Herbert may suffer if the continuing corporation does not effectively manage its expanded operations, including complying with any enhanced regulatory requirements.

Following the merger, the size of the business of the continuing corporation will increase beyond the current size of either Burke & Herbert's or Summit's business. The continuing corporation's future success will depend, in part, upon its ability to manage this expanded business, which may pose challenges for management, including challenges related to the management and monitoring of new operations and associated increased costs and complexity. There can be no assurances that the continuing corporation will be successful or that it will realize the expected operating efficiencies, revenue enhancement or other benefits currently anticipated from the merger.

The continuing corporation may also face increased scrutiny from governmental authorities as a result of the increased size of its business, including if the total assets of the continuing corporation grow to exceed \$10 billion as of December 31 of any calendar year. Banks with \$10 billion or more in total assets are, among other things: examined directly by the CFPB with respect to various federal consumer financial laws; subject to reduced dividends on any holdings of Federal Reserve Bank of Richmond common stock; subject to limits on interchange fees pursuant to the Durbin amendment to the Dodd-Frank Act; subject to certain enhanced prudential standards; no longer treated as a "small institution" for FDIC deposit insurance assessment purposes; and no longer eligible to elect to be subject to the "community bank leverage ratio." Compliance with these additional ongoing requirements may necessitate additional personnel, the design and implementation of additional internal controls, and the incurrence of significant expenses which could have a significant adverse effect on Burke & Herbert's financial condition or results of operations.

The continuing corporation may be unable to retain Burke & Herbert and/or Summit personnel successfully after the merger is completed.

The success of the merger will depend in part on the continuing corporation's ability to retain the talents and dedication of key employees currently employed by Burke & Herbert and Summit. It is possible that these employees may decide not to remain with Burke & Herbert or Summit, as applicable, while the merger is pending or with the continuing corporation after the merger is consummated. If Burke & Herbert and Summit are unable to retain key employees, including management, who are critical to the successful integration and future operations of the companies, Burke & Herbert and Summit could face disruptions in their operations, loss of existing customers, loss of key information, expertise or know-how and unanticipated additional recruitment costs. In addition, following the merger, if key employees terminate their employment, the continuing corporation's business activities may be adversely affected, and management's attention may be diverted to successfully hiring suitable replacements, all of which may cause the continuing corporation's business to suffer. Burke & Herbert and Summit also may not be able to locate or retain suitable replacements for any key employees who leave either company.

Failure to complete the merger could negatively impact Summit.

If the merger is not completed for any reason, there may be various adverse consequences and Summit may experience negative reactions from the financial markets and from their respective customers and employees. For example, Summit's businesses may have been impacted adversely by the failure to pursue other beneficial opportunities due to the focus of management on the merger, without realizing any of the anticipated benefits of completing the merger. Additionally, if the merger agreement is terminated, the market price of Summit common stock could decline to the extent that current market prices reflect a market assumption that the merger will be beneficial and will be completed. Summit also could be subject to litigation related to any failure to complete the merger or to proceedings commenced against Summit to perform their respective obligations under the merger agreement. If the merger agreement is terminated under certain circumstances by Summit, Summit may be required to pay a termination fee of \$14.86 million to Burke & Herbert.

Acquisitions may be delayed, impeded, or prohibited due to regulatory issues.

Acquisitions by financial institutions, including us, are subject to approval by a variety of federal and state regulatory agencies (collectively, "regulatory approvals"). The process for obtaining these required regulatory approvals has become substantially more difficult since the global financial crisis, and our ability to engage in certain merger or acquisition transactions depends on the bank regulators' views at the time as to our capital levels, quality of management, and overall condition, in addition to their assessment of a variety of other factors, including our compliance with law. Regulatory approvals could be delayed, impeded, restrictively conditioned or denied due to existing or new regulatory issues we have, or may have, with regulatory agencies, including, without limitation, issues related to Bank Secrecy Act compliance, Community Reinvestment Act issues, fair lending laws, fair housing laws, consumer protection laws, unfair, deceptive, or abusive acts or practices regulations and other laws and regulations. We may fail to pursue, evaluate or complete strategic and competitively significant acquisition opportunities as a result of our inability, or perceived or anticipated inability, to obtain regulatory approvals in a timely manner, under reasonable conditions or at all. Difficulties associated with potential acquisitions that may result from these factors could have a material adverse effect on our business, financial condition and results of operations.

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

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on those properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations.

Certain of our credit exposures are concentrated in industries that may be more susceptible to the long-term risks of climate change, natural disasters or global pandemics. To the extent that these risks may have a negative impact on the financial condition of borrowers, it could also have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

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

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

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

Although we make significant efforts to maintain the security and integrity of our information systems and have implemented various measures to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because attempted security breaches, particularly cyber attacks and intrusions, or disruptions will occur in the future and because the techniques used in

such attempts are constantly evolving and generally are not recognized until launched against a target and in some cases are designed not to be detected and, in fact, may not be detected. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures and thus it is virtually impossible for us to entirely mitigate this risk. While we maintain specific “cyber” insurance coverage, which would apply in the event of various breach scenarios, the amount of coverage may not be adequate in any particular case. Furthermore, because cyber threat scenarios are inherently difficult to predict and can take many forms, some breaches may not be covered under our cyber insurance coverage. A security breach or other significant disruption of our information systems or those related to our customers, merchants and our third party vendors, including as a result of cyber attacks, could (i) disrupt the proper functioning of our networks and systems and therefore our operations and/or those of certain of our customers; (ii) result in the unauthorized access to and destruction, loss, theft, misappropriation or release of confidential, sensitive or otherwise valuable information of ours or our customers; (iii) result in a violation of applicable privacy, data breach and other laws, subjecting us to additional regulatory scrutiny and expose the us to civil litigation, governmental fines and possible financial liability; (iv) require significant management attention and resources to remedy the damages that result; or (v) harm our reputation or cause a decrease in the number of customers that choose to do business with us. The occurrence of any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

We are dependent upon third parties for certain information system, data management and processing services and to provide key components of our business infrastructure.

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

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

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

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

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

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

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

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

marketing these products and services to our customers, which may negatively affect our results of operations, financial condition and cash flows.

RISKS RELATING TO THE ECONOMIC ENVIRONMENT

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

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

External economic factors, such as changes in monetary policy and inflation and deflation, may have an adverse effect on our business, financial condition and results of operations.

Our financial condition and results of operations are affected by credit policies of monetary authorities, particularly the FRB. Actions by monetary and fiscal authorities, including the FRB, could lead to inflation, deflation, or other economic phenomena that could adversely affect our financial performance. Beginning in 2021 and throughout 2022, inflation rose sharply to levels not seen for over 40 years; however during 2023 inflationary pressures eased significantly and are expected to continue to moderate throughout 2024. Small to medium-sized businesses may be impacted more during periods of high inflation as they are not able to leverage economics of scale to mitigate cost pressures compared to larger businesses. Consequently, the ability of our business clients to repay their loans may deteriorate, and in some cases this deterioration may occur quickly, which would adversely impact our results of operations and financial condition. Furthermore, a prolonged period of inflation could cause wages and other costs to the Company to increase, which could adversely affect our results of operations and financial condition. Virtually all of our assets and liabilities are monetary in nature. As a result, interest rates tend to have a more significant impact on our performance than general levels of inflation or deflation. Interest rates do not necessarily move in the same direction or by the same magnitude as the prices of goods and services.

The soundness of other financial institutions could adversely affect us.

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

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

Volatility in the fair value of certain investment securities, whether caused by changes in market conditions, interest rates, credit risk of the issuer, the expected yield of the security, or actual defaults in the portfolio could result in significant fluctuations in the value of the securities as well as any regulatory rulemaking which could exclude or limit the holdings of certain investment securities. This could have a material adverse impact on our accumulated other comprehensive income and shareholders' equity depending on the direction of the fluctuations. Furthermore, future downgrades, defaults or prepayments, including the liquidation of the underlying collateral in certain securities, could result in future classifications as other-than-temporarily impaired. This could have a material impact on our future earnings, although the impact on shareholders' equity will be offset by any amount already included in other comprehensive income for securities that were temporarily impaired.

RISKS RELATING TO AN INVESTMENT IN OUR SECURITIES

Our ability to pay dividends is limited.

We are a separate and distinct legal entity from our subsidiaries. We receive substantially all of our revenue from dividends from our subsidiary bank, Summit Community. These dividends are the principal source of funds to pay dividends on our common stock and interest and principal on our debt. Various federal and/or state laws and regulations limit the amount of

dividends that Summit Community may pay to Summit. Also, Summit's right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. In the event Summit Community is unable to pay dividends to us, we may not be able to service debt, pay obligations or pay dividends on our common stock. The inability to receive dividends from Summit Community could have a material adverse effect on our business, financial condition and results of operations.

Our stock price can be volatile.

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

The trading volume in our common stock is less than that of larger financial services companies.

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

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

As of March 1, 2024, our executive officers and directors beneficially own 11.33% (computed in accordance with Exchange Act Rule 13d-3) of the outstanding shares of our common stock. Accordingly, these executive officers and directors will be able to impact the outcome of all matters required to be submitted to our shareholders for approval, including decisions relating to the election of directors, the determination of our day-to-day corporate and management policies and other significant corporate transactions.

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

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

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

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

We have three statutory business trusts that were formed for the purpose of issuing mandatorily redeemable securities (the "capital securities") for which we are obligated to third-party investors and investing the proceeds from the sale of the capital securities in our junior subordinated debentures (the "debentures"). The debentures held by the trusts are their sole assets. Our subordinated debentures of these unconsolidated statutory trusts totaled approximately \$19.6 million at December 31, 2023 and 2022.

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

Payments of the principal and interest on the trust preferred securities of the statutory trusts are conditionally guaranteed by us. The junior subordinated debentures are senior to our shares of common stock. As a result, we must make payments on the junior subordinated debentures before any dividends can be paid on our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the junior subordinated debentures must be satisfied before any distributions can be

made on our common stock. We have the right to defer distributions on the junior subordinated debentures (and the related trust preferred securities) for up to five (5) years, during which time no dividends may be paid on our common stock.

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

On September 22, 2020, we issued and sold \$30 million in the aggregate principal amount of subordinated notes (the “subordinated notes”) in a private placement. The subordinated notes mature on September 30, 2030 and bear 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 SOFR, as published by the Federal Reserve Bank of New York, plus 487 basis points, payable quarterly in arrears. As provided in the subordinated 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.

Prior to the fifth anniversary of the original date of issue, we may redeem the subordinated notes, in whole but not in part, only under certain limited circumstances set forth in the subordinated notes. On or after the fifth anniversary of the original date of issue, we may redeem the subordinated notes, in whole or in part, at our option, on any interest payment date.

Principal and interest on the subordinated notes are subject to acceleration only in limited circumstances in the case of certain bankruptcy and insolvency-related events with respect to Summit Financial Group. The subordinated notes are unsecured, subordinated obligations of Summit Financial Group, are not obligations of, and are not guaranteed by, any subsidiary of Summit Financial Group, and rank junior in right of payment to the Company’s current and future senior indebtedness. The Notes are intended to qualify as Tier 2 capital of the Company for regulatory capital purposes.

On November 16, 2021, we issued and sold \$75 million in the aggregate principal amount of subordinated notes (the “subordinated notes”) in a private placement. The subordinated notes mature on December 1, 2031 and bear interest at a fixed rate of 3.25% per year, from and including November 16, 2021 to, but excluding, December 1, 2026, payable quarterly in arrears. From and including December 1, 2026 to, but excluding, the maturity date or earlier redemption date, the subordinated notes will bear interest at an annual floating rate, reset quarterly, equal to the benchmark rate (which is expected to be the then-current Three-Month Term SOFR), plus 230 basis points, or such other rate as determined pursuant to the indenture, payable quarterly in arrears on March 1, June 1, September 1, and December 1 of each year through December 1, 2031 or earlier redemption date.

Prior to the fifth anniversary of the original date of issue, we may redeem the subordinated notes, in whole but not in part, only under certain limited circumstances set forth in the subordinated notes. On or after the fifth anniversary of the original date of issue, we may redeem the subordinated notes, in whole or in part, at our option, on any interest payment date.

Principal and interest on the subordinated notes are subject to acceleration only in limited circumstances in the case of certain bankruptcy and insolvency-related events with respect to Summit Financial Group. The subordinated notes are unsecured, subordinated obligations of Summit Financial Group, are not obligations of, and are not guaranteed by, any subsidiary of Summit Financial Group, and rank junior in right of payment to the Company’s current and future senior indebtedness. The Notes are intended to qualify as Tier 2 capital of the Company for regulatory capital purposes.

The debentures and subordinated notes are senior to our shares of capital stock. As a result, we must make payments on the debentures and the subordinated notes before any dividends can be paid on our stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the debentures and the subordinated notes must be satisfied before any distributions can be made on our stock. We have the right to defer distributions on the debentures (and the related trust preferred securities) for up to five years, during which time no dividends may be paid on our stock.

In 2023, our total interest payments on the debentures approximated \$1.5 million and the total interest paid on the subordinated notes was \$3.9 million. Based on current rates, our quarterly interest payment obligation on the debentures is approximately \$391,000 and on the 2020 subordinated notes is approximately \$375,000 and the semi-annual interest payment obligation on the 2021 subordinated notes is approximately \$1.2 million.

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

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

GENERAL RISKS

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

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

We operate in a very competitive industry and market.

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

We rely heavily on our management team and the unexpected loss of key officers could adversely affect our business, financial condition, results of operations, cash flows and/or future prospects.

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

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

High inflation, natural disasters, acts of terrorism, including cyber attacks, an escalation of hostilities or other international or domestic occurrences, including the current wars in Ukraine and Israel, as well as other factors could have a negative impact on the economy of the Mid-Atlantic regions in which we operate. An additional economic downturn in our markets would likely contribute to the deterioration of the quality of our loan portfolio by impacting the ability of our customers to repay loans, the value of the collateral securing loans and may reduce the level of deposits in our bank and the stability of our deposit funding sources. An additional economic downturn could also have a significant impact on the demand for our products and services. The cumulative effect of these matters on our results of operations and financial condition could be adverse and material.

Changes in accounting standards could impact reported earnings.

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

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

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

Climate change and related legislative and regulatory initiatives may materially affect our business and results of operations.

The effects of climate change continue to create an alarming level of concern for the state of the global environment. As a result, the global business community has increased its political and social awareness surrounding the issue, and the United States has entered into international agreements in an attempt to reduce global temperatures, such as reentering the Paris Agreement. Further, the U.S. Congress, state legislatures and federal and state regulatory agencies continue to propose numerous initiatives to supplement the global effort to combat climate change. Similar and even more expansive initiatives are expected under the current administration, including potentially increasing supervisory expectations with respect to banks' risk management practices, accounting for the effects of climate change in stress testing scenarios and systemic risk assessments, revising expectations for credit portfolio concentrations based on climate-related factors and encouraging investment by banks in climate-related initiatives and lending to communities disproportionately impacted by the effects of climate change. The lack of empirical data surrounding the credit and other financial risks posed by climate change render it impossible to predict how specifically climate change may impact our financial condition and results of operations; however, the physical effects of climate change may also directly impact us. Specifically, unpredictable and more frequent weather disasters may adversely impact the value of real property securing the loans in our portfolios. Additionally, if insurance obtained by our borrowers is insufficient to cover any losses sustained to the collateral, or if insurance coverage is otherwise unavailable to our borrowers, the collateral securing our loans may be negatively impacted by climate change, which could impact our financial condition and results of operations. Further, the effects of climate change may negatively impact regional and local economic activity, which could lead to an adverse effect on our customers and impact the communities in which we operate.

Climate change also exposes us to transition risks associated with the transition to a less carbon-dependent economy. Transition risks may result from changes in policies; laws and regulations; technologies; and/or market preferences to address climate change. Such changes could materially, negatively impact our business, results of operations, financial condition and/or our reputation, in addition to having a similar impact on our customers. Ongoing legislative or regulatory uncertainties and changes regarding climate risk management and practices may result in higher regulatory, compliance, credit and reputational risks and costs.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 1C. Cybersecurity*Risk Management and Strategy*

We maintain an Information Systems Security Program to safeguard all Summit and Summit Community's information assets against unauthorized use, disclosure, modification, damage, or loss. This is achieved through a collaborative effort involving Operations, Technology, Compliance, Risk, and Senior Management. The Program is designed to:

- Uphold the security and confidentiality of customer and bank records as mandated by law.
- Proactively guard against potential threats or hazards to the integrity of these records.
- Prevent unauthorized access or use of records or information that could significantly harm our Company, Customers, and Employees.
- Develop and maintain guidelines for Information Technology compliance with external and regulatory demands.
- Implement and regularly test effective Business Continuity and Disaster Recovery strategies.

The Company's Chief Operating Officer (COO) is designated as the program coordinator responsible for coordinating and overseeing the program.

Risk and Compliance Protocols

Annually, our Compliance Department conducts risk assessments to determine the effectiveness of controls outlined in the Information Systems Security Program. This is in alignment with the requirements of the Gramm-Leach Bliley Act ("GLBA") and the Federal Financial Institutions Examination Council ("FFIEC") guidance on securing customer information. Key focus areas include:

- Evaluating technology systems used for the collection, processing, and storage of information.
- Assessing both internal and external cybersecurity threats and vulnerabilities.
- Ensuring that penetration and controls testing are conducted regularly.
- Gauging the potential impact of compromised information or systems.
- Assessing the effectiveness of governance structures in managing information security risks.

Monthly internal and external penetration testing is conducted and reviewed either by independent third parties or qualified employees not involved in developing or maintaining the security program. An audit is performed annually by qualified internal auditors or contracted independent parties and is overseen by the Company's Audit & Compliance Committee of the Board of Directors ("Audit Committee"). Management promptly reviews test results to initiate necessary remediation, which are then reviewed by the Audit Committee, third-party auditors, and examiners.

In addition to assessing our own cybersecurity preparedness, we also identify, evaluate and manage cybersecurity risks associated with use of third-party vendors and service providers.

Cybersecurity Incident Response

The Company has established a Cybersecurity Incident Response Testing Plan ("CSIRTP"), integrated into the Business Continuity Plan. This plan outlines a systematic approach to managing information security incidents, supplemented by specific playbooks for various attack types. The CSIRTP requires approval by the Information Technology Steering Committee and is governed by the Business Continuity Plan that is approved annually by the Board of Directors. We are not aware of any cybersecurity threats, including as a result of any previous cybersecurity incidents, that have materially affected or are reasonably likely to materially affect the Company's business strategy, results of operations or financial condition.

Governance and Oversight

The Information Systems Security Program, reviewed and updated annually by the Board of Directors, is our benchmark for protecting the Company's confidential information. The COO, with over 30 years of experience in operations and information security, reports security incidents and updates to the Board as needed.

The Board and Senior Management are tasked with comprehensively understanding the Company's risk environment. Incident management and response teams are in place to execute response protocols and strategies, mitigating business risk and supporting recovery initiatives. This team adapts based on the nature of incidents, ensuring a flexible and effective response.

The CSIRTP framework ensures timely reporting of cybersecurity incidents to the Executive Management Team. Incident severity is judged based on potential impacts, including damage, compromise, loss, and the likelihood of further exploitation. The Chief Risk Officer is informed of all incidents that are determined to be significant. The Chief Executive Officer and the Board of Directors are notified of these incidents as necessary.

For further information on risks to the Company from cybersecurity threats, see "Our information systems may experience failure, interruption or breach in security" under Item 1A. Risk Factors.

Item 2. Properties

Our principal executive office is located at 300 North Main Street, Moorefield, West Virginia, in a building owned by Summit Community. Summit Community's operations center is located at 1929 State Route 55, Moorefield, West Virginia in a building that it owns.

Summit Community's main office and branch locations occupy offices which are either owned or operated under lease arrangements. At December 31, 2023, Summit Community operated 54 banking offices in five states as follows:

Office Locations by State	Number of Offices		
	Owned	Leased	Total
Summit Community Bank			
West Virginia	26	3	29
Virginia	10	4	14
Maryland	5	4	9
Delaware	—	1	1
Kentucky	—	1	1

We believe that the premises occupied by us and our subsidiary generally are well located and suitably equipped to serve as financial services facilities. See Notes 9 and 10 of our consolidated financial statements beginning on page 89.

Item 3. Legal Proceedings

Information required by this item is set forth under the caption "Legal Contingencies" in Note 17 of our consolidated financial statements beginning on page 99.

Item 4. Mine Safety Disclosures

Not applicable.

PART II.

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

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

As of March 1, 2024, there were approximately 1,345 shareholders of record of Summit’s common stock.

Purchases of Summit Equity Securities: We sponsor a qualified Employee Stock Ownership Plan (“ESOP”), which enables eligible employees to acquire shares of our common stock. The cost of the ESOP is borne by us through annual contributions to an Employee Stock Ownership Trust in amounts determined by the Board of Directors. The Employee Stock Ownership Trust makes regular purchases of our common stock as excess funds within the plan are available.

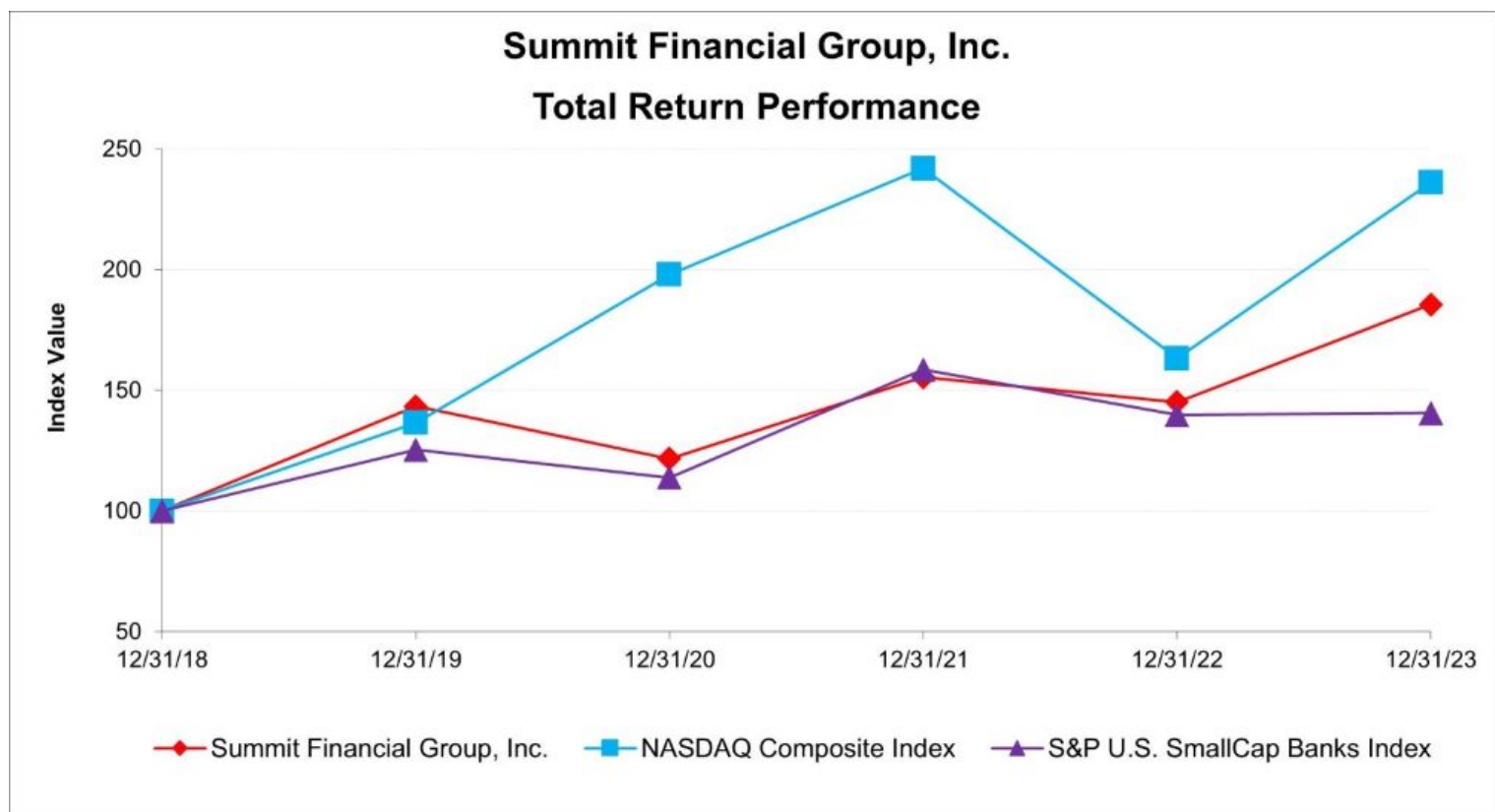
In February 2020, the Board of Directors authorized the open market repurchase of up to 750,000 shares of the issued and outstanding shares of Summit's common stock ("February 2020 Repurchase Plan"). The timing and quantity of purchases under this stock repurchase plan are at the discretion of management.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

The following table sets forth certain information regarding Summit's purchase of its common stock under the Repurchase Plan for the quarter ended December 31, 2023.

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
October 1, 2023 - October 31, 2023	—	\$ —	—	426,423
November 1, 2023 - November 30, 2023	—	—	—	426,423
December 1, 2023 - December 31, 2023	—	—	—	426,423

Performance Graph: Set forth below is a line graph comparing the cumulative total return of Summit's common stock assuming reinvestment of dividends, with that of the NASDAQ Composite Index ("NASDAQ Composite"), and the S&P U.S. SmallCap Banks Index (previously known as the SNL Small Cap U.S. Bank Index) for the five year period ending December 31, 2023.

The cumulative total shareholder return assumes a \$100 investment on December 31, 2018 in the common stock of Summit and each index and the cumulative return is measured as of each subsequent fiscal year-end. There is no assurance that Summit's common stock performance will continue in the future with the same or similar trends as depicted in the graph.



Index	For the Year Ended					
	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023
Summit Financial Group, Inc.	100.00	143.47	121.68	155.57	145.18	185.62
NASDAQ Composite	100.00	136.69	198.10	242.03	163.28	236.17
S&P U.S. SmallCap Banks Index	100.00	125.46	113.94	158.62	139.85	140.55

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

Item 6. Reserved

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**FORWARD LOOKING STATEMENTS**

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

Although we believe the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially. Factors that might cause such a difference include: 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; overall levels of inflation; 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.

DESCRIPTION OF BUSINESS

We are a \$4.63 billion community-based financial services company providing a full range of banking and other financial services to individuals and businesses through our community bank, Summit Community Bank, Inc., which has a total of 54 banking offices located in West Virginia, Virginia, Kentucky, Maryland, and Delaware. We have a trust and wealth management division offering trust services and other non-bank financial products principally within our community bank's market area.

OVERVIEW

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

Key Items in 2023

- Our earnings per diluted share decreased from \$4.08 in 2022 to \$3.81 in 2023.
- Our return on average equity decreased to 13.69% from 15.83% and return on average tangible common equity decreased from 21.03% to 18.34%.
- 2023 net income applicable to common shares was \$54.3 million (\$3.81 per diluted share) compared to \$52.3 million (\$4.08 per diluted share) in 2022.
- On April 1, 2023, we completed our acquisition of PSB. Accordingly, PSB's results of operations are included in our consolidated results of operation from the date of acquisition. Upon acquisition, PSB had total assets of \$568.3 million, loans amounting to \$381.5 million, and deposits totaling \$498.0 million.

In August 2023, we entered into an Agreement and Plan of Reorganization with Burke & Herbert, a \$3.6 billion asset bank holding company headquartered in Alexandria, Virginia, pursuant to which Summit will merge with and into Burke & Herbert, with Burke & Herbert as the surviving entity. Immediately following the Merger, Summit Community will be merged with Burke & Herbert's wholly-owned banking subsidiary, Burke & Herbert Bank & Trust Company, with Burke & Herbert Bank the surviving bank. The transaction is expected to close in second quarter 2024.

- We incurred acquisition-related expenses totaling \$6.4 million in 2023 as result of the PSB and Burke & Herbert transaction
- Net interest margin increased 11 basis points in 2023, principally due to our loan growth and PSB's favorable deposit mix.
- Net revenues increased \$30.3 million, or 20.6 percent during 2023 primarily as result of increased interest income related to loan growth and the PSB acquisition.
- We achieved loan growth, excluding mortgage warehouse lines of credit and PPP loans, of 21.0 percent, or \$620.3 million during 2023.
- Nonperforming assets remained relatively stable, representing 0.35 percent of total assets at year end 2023 compared to 0.33 percent at the prior year end.

- Cash dividends paid on our common stock in 2023 totaled \$0.84 per share compared to \$0.76 paid per share in 2022.

OUTLOOK

The year just concluded represents another significant milestone relative to Summit's goal to be a consistent growth, high-performing community banking institution. While we expect the B&H merger to close in second quarter 2024, if in the unlikely event that merger would not happen to occur, we are positioned well going forward. Our solid lending activity and strong core operating performance of the past year offer significant evidence of our progress. In addition, our acquisition strategy continued to present us with significant opportunities for ongoing performance enhancement. Looking forward to 2024, while we could be challenged by a variety of potential economic uncertainties, we anticipate sustaining our recent positive trends with respect to: revenue growth, loan portfolio growth, a relatively stable net interest margin, low overhead, and stability in overall levels of problem assets.

CRITICAL ACCOUNTING POLICIES

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

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

Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions and estimates underlying those amounts, we have identified the determination of the allowance for credit losses, 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.

Allowance for Credit Losses: The allowance for credit losses represents our estimate of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Determining the amount of the allowance for credit losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on loans individually evaluated, estimated losses on pools of homogeneous loans based on historical loss experience and consideration of current and future economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset type on our consolidated balance sheet. To the extent forecasted economic conditions change considerably and/or actual outcomes differ from our estimates, additional provisions for credit losses may be required that would negatively impact earnings in future periods. Note 7 to the accompanying consolidated financial statements describes the methodology used to determine the allowance for credit losses for loans and a discussion of the factors driving changes in the amount of the allowance for credit losses for loans is included in the Asset Quality section of this financial review. Note 17 to the accompanying consolidated financial statements describes our policies and methodology used to calculate the allowance for credit losses for off-balance-sheet credit exposures.

Fair Value Measurements: Fair value is based upon the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants, including, but not limited to, property held for sale, individually evaluated collateral dependent loans and derivatives. Based on the observability of the inputs used in the valuation techniques, we classify our financial assets and liabilities measured and disclosed at fair value in accordance with a three-level hierarchy (e.g., Level 1, Level 2 and Level 3). Fair value determination requires that we make a number of significant judgments. In determining the fair value of financial instruments, we use market prices of the same or similar instruments whenever such prices are available. We do not use prices involving distressed sellers in determining fair value. If observable market prices are unavailable or impracticable to obtain, then fair value is estimated using modeling techniques such as discounted cash flow analyses. These modeling techniques incorporate our assessments regarding assumptions that market participants would use in pricing the asset or the liability, including assumptions about the risks inherent in a particular valuation technique and the risk of nonperformance.

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

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

Acquired loans are divided into loans with evidence of credit quality deterioration ("PCD") and loans that do not meet this criteria (acquired performing).

A PCD asset is recorded at the purchase price plus the allowance for credit losses expected at the time of acquisition. Under this method, there is no credit loss expense affecting net income on acquisition. Changes in estimates of expected credit losses after acquisition are recognized as credit loss expense (or reversal of credit loss expense) in subsequent periods as they arise.

An asset is considered a PCD asset if, on the acquisition date, it has experienced a more-than-insignificant deterioration in credit quality since loan origination. FASB did not define the term "more-than-insignificant deterioration in credit quality". They did however, state that they did not intend for PCD accounting to be limited to financial assets that are considered nonaccrual or impaired under legacy US GAAP; instead, it intended the term to include additional assets that have experienced a more-than-insignificant deterioration in credit quality since loan origination. Therefore the determination of what constitutes a PCD asset is left to management judgement.

Summit Community Bank has determined the following would constitute a "more-than-insignificant deterioration in credit quality":

- Nonaccrual status
- Greater than 60 days past due at any time since loan origination
- Risk rating of OLEM, Substandard, Doubtful or Loss

We established a materiality limit of \$50,000 for evaluating loans for PCD status. Subsequent to the acquisition date of PCD assets, we continue to estimate the amount and timing of cash flows expected to be collected on these acquired loans. Increases in expected cash flows will generally result in a recovery of any previously recorded allowance for credit losses, to the extent applicable. The present value of any decreases in expected cash flows after the acquisition date will generally result in additional provision for expected credit losses, resulting in an increase to the allowance for credit losses.

For acquired performing loans, the difference between the acquisition date fair value and the contractual amounts due at the acquisition date represents the fair value adjustment. Fair value adjustments may be discounts (or premiums) to a loan's cost basis and are accreted (or amortized) to interest income over the loan's remaining life using the level yield method. A purchased financial asset that does not qualify as a PCD asset is accounted for similar to an originated financial asset. Generally, this means that an entity recognizes the allowance for credit losses for non-PCD assets through net income at acquisition. These purchased performing loans are accounted for through our CECL methodology as basically we would a new origination. Therefore, accounting for purchased performing acquired loans results in the bank recognizing a fair value adjustment to the loan at acquisition and also establishing a provision for excepted credit losses as in the same manner of an originated asset.

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

NON-GAAP FINANCIAL MEASURES

We prepare our financial statements in accordance with U.S. GAAP and also present certain non-GAAP financial measures that exclude certain items or otherwise include components that differ from the most directly comparable measures calculated in accordance with U.S. GAAP. Non-GAAP measures are provided as additional useful information to assess our financial condition and results of operations (including period-to-period operating performance). These non-GAAP measures are not intended as a substitute for GAAP financial measures and may not be defined or calculated the same way as non-GAAP measures with similar names used by other companies. For more information, including the reconciliation of these non-GAAP financial measures to their corresponding GAAP financial measures, see the respective sections where the measures are presented.

RESULTS OF OPERATIONS

Earnings Summary

Net income applicable to common shares increased 3.9% during 2023 to \$54.3 million, compared to \$52.3 million in 2022 and \$45.1 million in 2021. Net income applicable to common shares was \$3.81, \$4.08 and \$3.47 per diluted share for 2023, 2022 and 2021, respectively, representing a 6.6% decrease in 2023 and a 17.6% increase in 2022. Return on average equity was 13.69% in 2023 compared to 15.83% in 2022 and 14.76% in 2021. Return on average assets for the year ended December 31, 2023 was 1.25% compared to 1.42% in 2022 and 1.36% in 2021.

2023 net income applicable to common shares was positively impacted by higher net interest income of \$27.6 million (or \$1.94 per diluted share) and \$2.7 million (or \$0.19 per diluted share) increased noninterest revenue. Partially offsetting these positive impacts were \$6.3 million (or \$0.44 per diluted share) higher acquisition related expenses \$5.8 million (or \$0.41 per diluted share) higher salaries and employee benefits and \$5.3 million (or \$0.37 per diluted share) increased provision for credit losses.

2022 net income applicable to common shares was positively impacted by higher net interest income of \$19.1 million (or \$1.49 per diluted share), \$1.5 million (or \$0.12 per diluted share) lower net foreclosed properties expenses and \$1.1 million (or \$0.09 per diluted share) fewer acquisition related expenses. Partially offsetting these positive impacts were \$708,000 (or \$0.06 per diluted share) realized securities losses, \$6.1 million (or \$0.47 per diluted share) higher salaries and employee benefits and \$2.5 million (or \$0.20 per diluted share) decreased mortgage origination revenue.

2021 net income was positively impacted by higher net interest income of \$14.5 million (or \$1.11 per diluted share) and \$10.5 million (or \$0.81 per diluted share) lower provision for credit losses. Partially offsetting these positive impacts were \$3.0 million (or \$0.23 per diluted share) fewer realized securities gains, \$3.1 million (or \$0.24 per diluted share) higher salaries and employee benefits and \$1.3 million (or \$0.10 per diluted share) increased other noninterest expense.

Net Interest Income

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

The Federal Reserve influences the general market rates of interest, including the deposit and loan rates offered by many financial institutions. Our loan portfolio is significantly affected by changes in the target Federal funds rate set by the Federal Open Market Committee of the Federal Reserve. As of December 31, 2023, approximately 36.7% of our loans had a fixed interest rate, while approximately 35.5% had adjustable rates and approximately 27.8% had floating interest rates. Our adjustable rate loans typically reprice every 1 to 5 years at rates tied to FHLB advance rate of the same term as each adjustable rate loan's repricing period. Our floating rate loans reprice at periods ranging from daily to quarterly at rates primarily tied to or derived from the prime interest rate, the Secured Overnight Financing Rates ("SOFR").

Select average market rates for the periods indicated are presented in the table below.

	2023	2022	2021
Federal funds -- high target	5.20%	1.87%	0.25%
Interest on reserve balances	5.10	1.76	0.13
Prime	8.20	4.86	3.25
SOFR	5.01	1.65	0.04

As of December 31, 2023, the target range for the federal funds rate was 5.25% to 5.50%. In December 2023, the Federal Reserve released its *Summary of Economic Projections* wherein the midpoint of the projected appropriate target range for the federal funds rate would decline to 4.6% by the end of 2024 and subsequently decrease to 3.6% by the end of 2025. While there can be no such assurance that any increases and decreases in the Federal funds rate will occur, these projections imply up to a 75 basis point decrease in the Federal funds rate during 2024, followed by a 100 basis point decrease in 2025.

See Item 7A. Quantitative and Qualitative Disclosures About Market Risk elsewhere in this report for information about our sensitivity to interest rates. Further analysis of the components of our net interest margin is presented below.

Net interest income on a fully tax equivalent basis, average balance sheet amounts and corresponding average yields on interest earning assets and costs of interest bearing liabilities for the years 2019 through 2023 are presented in Table I. Table II presents, for the periods indicated, the changes in interest income and expense attributable to (a) changes in volume (changes in volume multiplied by prior period rate) and (b) changes in rate (change in rate multiplied by prior period volume). Changes in interest income and expense attributable to both rate and volume have been allocated between the factors in proportion to the relationship of the absolute dollar amounts of the change in each.

Net interest income on a fully tax equivalent basis totaled \$158.1 million, \$130.3 million and \$111.0 million for the years ended December 31, 2023, 2022 and 2021, respectively, representing an increase of 21.3% in 2023 and 17.4% in 2022. During 2023, 2022 and 2021, the volumes of both interest earning assets and interest bearing liabilities increased.

During 2023, our earnings on interest earning assets increased \$84.1 million, primarily due to higher volumes while the cost of interest bearing liabilities increased \$56.2 million primarily due to higher cost of funds.

During 2022, our earnings on interest earning assets increased \$36.6 million, primarily due to higher volumes while the cost of interest bearing liabilities increased \$17.3 million primarily due to higher cost of funds.

During 2021, our earnings on interest earning assets increased \$7.5 million due to higher volumes while the cost of interest bearing liabilities decreased \$7.0 million due to lower cost of funds.

Total average earning assets increased 17.9% to \$4.12 billion for 2023 from \$3.49 billion in 2022. Total average interest bearing liabilities increased 20.0% to \$3.34 billion at December 31, 2023, compared to \$2.78 billion at December 31, 2022.

Our net interest margin was 3.84% for 2023 compared to 3.73% and 3.54% for 2022 and 2021, respectively. Our net interest margin increased 11 basis points during 2023 due to higher volumes of interest earning assets. Our net interest margin increased 19 basis points during 2022 due to higher volumes of interest earning assets.

See the “Market Risk Management” section for discussion of the impact changes in market interest rates could have on us. Further analysis of our yields on interest earning assets and interest bearing liabilities are presented in Tables I and II below.

Table I - Average Balance Sheet and Net Interest Income Analysis
Interest Earnings & Expenses and Average Yields/Rates

<i>Dollars in thousands</i>	2023	2022	2021	2020	2019
ASSETS					
Interest earning assets					
Loans, net of unearned interest (1)					
Taxable	\$ 3,472,844	\$ 2,949,350	\$ 2,487,885	\$ 2,150,294	\$ 1,782,477
Tax-exempt (2)	4,618	4,961	9,681	15,352	15,315
Securities					
Taxable	392,720	295,264	301,446	256,893	205,340
Tax-exempt (2)	210,945	195,558	159,266	122,386	90,823
Interest bearing deposits with other banks	34,948	46,248	175,615	56,399	39,408
	4,116,075	3,491,381	3,133,893	2,601,324	2,133,363
Noninterest earning assets					
Cash and due from banks	21,948	17,473	19,582	16,139	12,939
Premises and equipment	60,123	55,219	54,762	50,418	41,778
Other assets	282,735	230,860	178,535	143,284	107,456
Allowance for credit losses on loans	(44,564)	(34,630)	(33,491)	(26,915)	(13,225)
Total assets	\$ 4,436,317	\$ 3,760,303	\$ 3,353,281	\$ 2,784,250	\$ 2,282,311
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities					
Interest bearing liabilities					
Interest bearing demand deposits	\$ 2,009,253	\$ 1,350,227	\$ 1,044,817	\$ 789,064	\$ 586,938
Savings deposits	490,219	627,630	673,259	539,625	317,569
Time deposits	479,573	479,545	569,420	598,085	660,910
Short-term borrowings	238,351	204,265	140,146	130,411	194,450
Long-term borrowings and subordinated debentures	123,777	123,331	58,974	28,396	20,315
	3,341,173	2,784,998	2,486,616	2,085,581	1,780,182
Noninterest bearing liabilities					
Demand deposits	641,806	597,199	518,311	401,502	244,559
Other liabilities	49,966	42,005	38,545	31,712	20,341
Total liabilities	4,032,945	3,424,202	3,043,472	2,518,795	2,045,082
Shareholders' equity - preferred	14,920	14,920	10,327	—	—
Shareholders' equity - common	388,452	321,181	299,482	265,455	237,229
Total shareholders' equity	403,372	336,101	309,809	265,455	237,229
Total liabilities and shareholders' equity	\$ 4,436,317	\$ 3,760,303	\$ 3,353,281	\$ 2,784,250	\$ 2,282,311
Net Interest Income					
Net Interest Margin					

(1) For purposes of this table, nonaccrual loans are included in average loan balances. Included in interest and fees on loans are loan fees of \$2,980,000, \$1,980,000, \$1,414,000, \$1,210,000 and \$960,000 for the years ended December 31, 2023, 2022, 2021, 2020 and 2019, respectively.

(2) For purposes of this table, interest income on tax-exempt securities and loans has been adjusted assuming a Federal tax rate of 21%. The taxable equivalent adjustment results in an increase in interest income of \$1,539,000, \$1,273,000, \$1,050,000, \$997,000 and \$922,000 for the years ended December 31, 2023, 2022, 2021, 2020 and 2019, respectively.

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

<i>Dollars in thousands</i>	2023 Versus 2022			2022 Versus 2021		
	Increase (Decrease)			Increase (Decrease)		
	Due to Change in:			Due to Change in:		
	Volume	Rate	Net	Volume	Rate	Net
Interest earned on						
Loans						
Taxable	\$ 28,542	\$ 43,885	\$ 72,427	\$ 22,094	\$ 10,826	\$ 32,920
Tax-exempt	(16)	98	82	(212)	(24)	(236)
Securities						
Taxable	3,393	6,577	9,970	(123)	2,682	2,559
Tax-exempt	481	707	1,188	1,075	220	1,295
Interest bearing deposits with other banks	(99)	500	401	(369)	385	16
Total interest earned on interest earning assets	32,301	51,767	84,068	22,465	14,089	36,554
Interest paid on						
Interest bearing demand deposits	9,328	32,280	41,608	527	11,928	12,455
Savings deposits	(1,083)	4,863	3,780	(177)	1,861	1,684
Time deposits	—	7,120	7,120	(612)	(1,025)	(1,637)
Short-term borrowings	713	2,317	3,030	996	1,022	2,018
Long-term borrowings and subordinated debentures	19	661	680	2,761	(3)	2,758
Total interest paid on interest bearing liabilities	8,977	47,241	56,218	3,495	13,783	17,278
Net interest income	\$ 23,324	\$ 4,526	\$ 27,850	\$ 18,970	\$ 306	\$ 19,276

Provision for Credit Losses

Provision for credit losses is determined by management as the amount to be added to the allowance for credit loss accounts for various types of financial instruments including loans, securities and off-balance-sheet credit exposure after net charge-offs have been deducted to bring the allowance to a level which, in management's best estimate, is necessary to absorb expected credit losses over the lives of the respective financial instruments.

The following table summarizes the changes in the various factors that comprise the components of credit loss expense.

Table III - Provision for Credit Losses
Dollars in thousands

	2023	2022
Provision for credit losses-loans		
Due to changes in:		
Volume and mix	\$ 5,805	\$ 8,971
Loss experience	(3,562)	(2,703)
Reasonable and supportable economic forecasts & other qualitative factors	2,159	1,727
Individually evaluated credits	4,048	(717)
Acquired loans	3,005	—
Total provision for credit losses - loans	11,455	7,278
Provision for credit losses-unfunded commitments		
Due to changes in:		
Volume and mix	707	521
Loss experience	(313)	(616)
Reasonable and supportable economic forecasts & other qualitative factors	166	(233)
Acquired loan commitments	235	—
Total provision for credit losses - unfunded commitments	795	(328)
Total provision for credit losses - debt securities	—	—
Total provision for credit losses	\$ 12,250	\$ 6,950

Noninterest Income

Noninterest income totaled 0.47%, 0.48% and 0.60% of average assets in 2023, 2022 and 2021, respectively. Noninterest income totaled \$20.9 million in 2023 compared to \$18.2 million in 2022 and \$20.2 million in 2021. During 2023, service charges on deposit accounts increased \$827,000 while mortgage origination revenue decreased \$903,000 and bank card revenue increased \$1.0 million. During 2022, services charges on deposit accounts increased \$1.1 million while mortgage origination revenue decreased \$2.5 million and we recorded \$708,000 realized losses on debt securities. Further detail regarding noninterest income is reflected in the following table.

Table IV - Noninterest Income

Dollars in thousands

	2023	2022	2021
Trust and wealth management fees	\$ 3,436	\$ 2,978	\$ 2,886
Mortgage origination revenue	577	1,480	3,999
Service charges on deposit accounts	6,977	6,150	5,032
Bank card revenue	7,299	6,261	5,896
Net gains on equity investments	740	265	202
Net realized (losses)/gains on debt securities	(266)	(708)	425
Bank owned life insurance and annuities income	1,576	1,211	1,026
Other	537	516	742
Total	\$ 20,876	\$ 18,153	\$ 20,208

Noninterest Expense

Noninterest expense totaled \$94.8 million, \$72.9 million and \$68.7 million, or 2.1%, 1.9%, and 2.0% of average assets for each of the years ended December 31, 2023, 2022 and 2021. Total noninterest expense increased \$21.9 million in 2023 compared to 2022 and increased \$4.1 million in 2022 compared to 2021. Our most notable changes in noninterest expense during 2023 were increased salaries and employee benefits, increased acquisition related expense and increased other expenses and during 2022 were increased salaries and employee benefits, decreased foreclosed properties expense and decreased acquisition related expense. Table V below presents a summary of our noninterest expenses for the past 3 years and the related year-over-year changes in each such expense.

Table V - Noninterest Expense

Dollars in thousands

	2023	Change		2022	Change		2021
		\$	%		\$	%	
Salaries, commissions and employee benefits	\$ 46,296	\$ 5,844	14.4%	\$ 40,452	\$ 6,066	17.6%	\$ 34,386
Net occupancy expense	5,851	723	14.1%	5,128	304	6.3%	4,824
Equipment expense	9,094	1,841	25.4%	7,253	263	3.8%	6,990
Professional fees	1,775	147	9.0%	1,628	50	3.2%	1,578
Advertising and public relations	1,113	220	24.6%	893	196	28.1%	697
Amortization of intangibles	3,335	1,895	131.6%	1,440	(123)	(7.9)%	1,563
FDIC premiums	2,458	1,234	100.8%	1,224	(225)	(15.5)%	1,449
Bank card expense	3,429	501	17.1%	2,928	260	9.7%	2,668
Foreclosed properties expense, net of (gains)/losses	89	(147)	(62.3)%	236	(1,509)	(86.5)%	1,745
Acquisition-related expense	6,444	6,330	n/m	114	(1,110)	(90.7)%	1,224
Other	14,909	3,326	28.7%	11,583	(32)	(0.3)%	11,615
Total	\$ 94,793	\$ 21,914	30.1%	\$ 72,879	\$ 4,140	6.0%	\$ 68,739

Salaries, commissions and employee benefits: These expenses are 14.4% higher in 2023 compared to 2022 primarily due to general merit increases, increased group health insurance premiums and the increased average number of annual full-time equivalent employees related to the PSB acquisition in Q2 2023. These expenses were 17.6% higher in 2022 compared to 2021 primarily due to general merit increases, increased group health insurance premiums and accrued expenses related to employee bonus.

Equipment: The 2023 and 2022 increases in equipment expense are primarily increased depreciation and amortization related to various technological upgrades, both hardware and software, including interactive teller machine upgrades made during the past three years and also recent acquisitions and increased rental expense due to recent acquisitions.

FDIC premiums: The increase during 2023 was primarily attributable to the higher assessment rate changed by the FDIC effective January 1, 2023. The decrease during 2022 was primarily due to improved quarterly assessment multipliers.

Acquisition-related expense: Acquisition-related expenses increased during 2023 due to the PSB transaction which closed on April 1, 2023 and the pending merger with Burke & Herbert. These 2023 expenses for the year ended December 31, 2023 represent legal, due diligence and fairness opinion costs relative to the Burke & Herbert merger and included \$4.16 million of contract termination costs, executive and employee severance benefits and legal and consulting fees associated with the PSB acquisition.

Other: The increase in other expenses for the year ended December 31, 2023 compared to the same period of 2022 are largely due to the following:

- Deferred director compensation plan-related income of \$133,000 for the year ended December 31, 2023 compared to \$612,000 in the comparable period of 2022. 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. During Q3 2022, we purchased investments to hedge the changes in the Plan participants' phantom investments which should serve to significantly reduce period-to-period volatility of the Plan's impact on our statements of income.
- Internet banking expense totaled \$1.7 million for the year ended December 31, 2023 compared to \$1.4 million for the comparable period of 2022 due to increased customer usage.
- Fraud losses increased from \$450,000 for the year ended December 31, 2022 to \$990,000 for the year ended December 31, 2023.
- Data processing costs were \$245,000 for the year ended December 31, 2023 compared to zero in 2022 due to the PSB data processing costs that continued until we merged our processing systems in third quarter 2023.
- Telephone expense totaled \$1.8 million for the year ended December 31, 2023 compared to \$1.4 million for the comparable period of 2022.
- Bank card losses totaled \$825,000 for the year ended December 31, 2023 compared to \$556,000 for the year ended December 31, 2022.

The 2022 decrease in other expenses is primarily due to \$612,000 deferred director compensation plan-related income during 2022 compared to plan-related expense of \$725,000 in 2021 partially offset by \$345,000 increased fraud losses, \$304,000 increased Virginia franchise tax due to our balance sheet growth, \$216,000 increased currency and coin delivery charges and \$203,000 increased miscellaneous other taxes.

Income Tax Expense

Income tax expense for the years ended December 31, 2023, 2022 and 2021 totaled \$15.2 million, \$14.1 million and \$11.7 million, respectively. Our effective tax rates (income tax expense as a percentage of income before taxes) for 2023, 2022 and 2021 were 21.5%, 20.9% and 20.3%, respectively. Refer to Note 15 of the accompanying consolidated financial statements for further information and additional discussion of the significant components influencing our effective income tax rates.

CHANGES IN FINANCIAL POSITION

Our average assets increased during 2023 to \$4.44 billion, an increase of 17.9% above 2022's average of \$3.76 billion, and our year end December 31, 2023 assets were \$717.6 million more than December 31, 2022. Average assets increased 12.1% in 2022 from 2021's average of \$3.35 billion.

Table VI - Summary of Significant Changes in Financial Position 2023 versus 2022
Dollars in thousands

	December 31, 2022	Impact of PSB Acquisition	Increase (Decrease)	December 31, 2023
Assets				
Cash and cash equivalents	\$ 44,717	\$ 14,364	\$ (6,849)	\$ 52,232
Debt securities available for sale	405,201	140,925	(43,364)	502,762
Debt securities held to maturity	96,163	—	(1,936)	94,227
Equity investments	29,494	63	(18,599)	10,958
Other investments	16,029	554	4,547	21,130
Loans, net of unearned fees	3,082,818	363,006	235,788	3,681,612
Less: allowance for credit losses	(38,899)	—	(9,191)	(48,090)
Loans, net	3,043,919	363,006	226,597	3,633,522
Property held for sale	5,067	—	(1,338)	3,729
Premises and equipment	53,981	6,175	2,882	63,038
Accrued interest and fees receivable	15,866	1,500	2,638	20,004
Goodwill and other intangibles	62,150	15,615	(3,335)	74,430
Cash surrender value of life insurance policies and annuities	71,640	12,290	1,749	85,679
Derivative financial instruments	40,506	—	(7,361)	33,145
Other assets	31,959	6,775	732	39,466
Total assets	\$ 3,916,692	\$ 561,267	\$ 156,363	\$ 4,634,322
Liabilities				
Non-interest bearing deposits	\$ 553,616	\$ 160,079	\$ (120,119)	\$ 593,576
Interest bearing deposits	2,616,263	337,474	167,835	3,121,572
Total deposits	3,169,879	497,553	47,716	3,715,148
Short-term borrowings	225,999	17,650	59,308	302,957
Long-term borrowings	658	5,143	(5,164)	637
Subordinated debentures	103,296	—	486	103,782
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	—	—	19,589
Other liabilities	42,741	1,988	7,272	52,001
Shareholders' equity - preferred	14,920	—	—	14,920
Shareholders' equity - common	339,610	38,933	46,745	425,288
Total liabilities and shareholders' equity	\$ 3,916,692	\$ 561,267	\$ 156,363	\$ 4,634,322

Table VII - Summary of Significant Changes in Financial Position 2022 versus 2021
Dollars in thousands

	December 31, 2021	Increase (Decrease)	December 31, 2022
Assets			
Cash and cash equivalents	\$ 78,458	\$ (33,741)	\$ 44,717
Debt securities available for sale	401,103	4,098	405,201
Debt securities held to maturity	98,060	(1,897)	96,163
Equity investments	20,609	8,885	29,494
Other investments	10,897	5,132	16,029
Loans, net of unearned fees	2,761,391	321,427	3,082,818
Less: allowance for credit losses	(32,298)	(6,601)	(38,899)
Loans, net	2,729,093	314,826	3,043,919
Property held for sale	9,858	(4,791)	5,067
Premises and equipment	56,371	(2,390)	53,981
Accrued interest and fees receivable	10,578	5,288	15,866
Goodwill and other intangibles	63,590	(1,440)	62,150
Cash surrender value of life insurance policies and annuities	60,613	11,027	71,640
Derivative financial instruments	11,187	29,319	40,506
Other assets	26,302	5,657	31,959
Total assets	\$ 3,576,719	\$ 339,973	\$ 3,916,692
Liabilities			
Non-interest bearing deposits	\$ 568,986	\$ (15,370)	\$ 553,616
Interest bearing deposits	2,374,103	242,160	2,616,263
Total deposits	2,943,089	226,790	3,169,879
Short-term borrowings	140,146	85,853	225,999
Long-term borrowings	679	(21)	658
Subordinated debentures	102,891	405	103,296
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	—	19,589
Other liabilities	42,852	(111)	42,741
Shareholders' equity - preferred	14,920	—	14,920
Shareholders' equity - common	312,553	27,057	339,610
Total liabilities and shareholders' equity	\$ 3,576,719	\$ 339,973	\$ 3,916,692

As highlighted in table VI, 2023's balance sheet growth was primarily loans. As highlighted in table VII, the majority of the changes in our financial position in 2022 versus 2021 resulted from growth in loans. Other changes in financial position are discussed below.

Cash and Cash Equivalents

The 2022 net reduction of \$33.7 million is primarily attributable to funding loan growth.

Loan Portfolio

Total loans averaged \$3.5 billion in 2023, which represented 78% of total average assets compared to \$3.0 billion in 2022, or 79% of total average assets. We experienced \$620.3 million or 21.0% loan growth in 2023, excluding mortgage warehouse lines, primarily as a result of our acquisition of PSB and an increase in the commercial real estate and construction and development portfolios, following 2022's growth of \$418.9 million or 16.5% and 2021's growth of \$373.1 million or 17.3%. Mortgage warehouse lines of credit declined \$21.5 million in 2023 and \$97.5 million in 2022 due to a reduction in size of our participation arrangement with a regional bank to fund residential mortgage warehouse lines of medium- and large-sized mortgage originators located throughout the United States.

Table VIII presents contractual loan maturities at December 31, 2023. Table IX presents the portion of loans maturing after one year that have fixed, floating or adjustable interest rates that fluctuate over the life of the loans in accordance with changes in an interest rate index.

Table VIII - Contractual Loan Maturities

<i>Dollars in thousands</i>	Within 1 Year	After 1 but within 5 Years	After 5 but within 15 Years	After 15 Years
Commercial	\$ 164,175	\$ 236,741	\$ 101,199	\$ 1,727
Commercial real estate - owner occupied				
Professional & medical	4,636	46,767	62,912	42,626
Retail	4,266	40,749	92,229	33,147
Other	12,149	42,852	82,583	80,192
Commercial real estate - non-owner occupied				
Hotels & motels	32,588	28,176	87,774	67,104
Mini-storage	260	2,009	27,498	38,750
Multifamily	15,940	97,912	52,965	135,481
Retail	10,208	85,631	94,675	63,732
Other	13,385	219,958	143,291	37,000
Construction and development				
Land & land development	29,058	75,457	29,894	10,849
Construction	134,302	132,536	23,516	83,672
Residential 1-4 family real estate				
Personal residence	881	8,312	65,344	288,196
Rental - small loan	11,042	19,448	43,538	68,637
Rental - large loan	10,577	10,304	33,611	62,122
Home equity	1,031	1,241	9,118	69,736
Mortgage warehouse lines	108,848	—	—	—
Consumer	5,763	28,390	9,422	181
Other				
Credit cards	2,286	—	—	—
Overdrafts	1,013	—	—	—
	\$ 562,408	\$ 1,076,483	\$ 959,569	\$ 1,083,152

Table IX - Loan Interest Rate Sensitivity

<i>Dollars in thousands</i>	Loans maturing after one year with:		
	Fixed Interest Rates	Floating Interest Rates	Adjustable Interest Rates
Commercial	\$ 111,342	\$ 172,171	\$ 56,154
Commercial real estate - owner occupied			
Professional & medical	37,710	48,386	66,209
Retail	72,908	11,230	81,987
Other	84,760	18,187	102,680
Commercial real estate - non-owner occupied			
Hotels & motels	36,235	15,564	131,255
Mini-storage	6,118	13,721	48,418
Multifamily	71,964	85,562	128,832
Retail	95,841	10,615	137,582
Other	191,096	57,915	151,238
Construction and development ⁽¹⁾			
Land & land development	71,155	17,890	27,155
Construction	87,769	62,651	89,304
Residential 1-4 family real estate			
Personal residence	224,665	50	137,137
Rental - small loan	37,264	13,259	81,100
Rental - large loan	37,726	3,983	64,328
Home equity	142	79,953	-
Mortgage warehouse lines	-	-	-
Consumer	37,098	812	83
Other			
Credit cards	-	-	-
Overdrafts	-	-	-
	\$ 1,203,793	\$ 611,949	\$ 1,303,462

(1) The majority of our construction loans convert to permanent financings upon construction completion and stabilization which is typically a two to three year period and are reclassified to the appropriate loan category at that time.

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

Debt Securities

Debt securities comprised approximately 12.9% of total assets at December 31, 2023 compared to 12.8% at December 31, 2022. Average debt securities approximated \$603.7 million for 2023 or 23.0% more than 2022's average of \$490.8 million. Refer to Note 5 of the accompanying consolidated financial statements for details of amortized cost, the estimated fair values, unrealized gains and losses as well as the debt security classifications by type.

Debt securities available for sale: The 2023 net decrease (excluding acquired PSB debt securities) of \$43.4 million is principally a result of a \$4 million increase in the fair value of the portfolio, \$135.7 million sales of securities (primarily taxable and tax-exempt municipal securities), \$40.7 million paydowns of mortgage-backed securities and \$125.5 million purchases of securities, primarily mortgage-backed securities and municipal securities. The 2022 net increase of \$4.1 million is principally a result of a \$52.3 million decrease in the fair value of the portfolio, \$69.2 million sales of securities (primarily taxable and tax-exempt municipal securities), \$37.9 million paydowns of mortgage-backed securities and \$168.9 million purchases of securities, primarily mortgage-backed securities and municipal securities

Debt securities held to maturity: We have 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.

The maturity distribution of the held to maturity securities portfolio at December 31, 2023, together with the weighted average yields for each range of maturity, is summarized in Table X. The stated average yields are stated on a tax equivalent basis using a Federal tax rate of 21%.

Table X - Debt Securities Held to Maturity - Maturity Analysis

	Within one year			After one but within five years			After five but within ten years			After ten years		
	Amount	Yield		Amount	Yield		Amount	Yield		Amount	Yield	
<i>(At amortized cost, dollars in thousands)</i>												
State and political subdivisions	\$	—	—%	\$	—	—%	\$	4,025	2.6%	\$	90,202	2.5%
Total	\$	—	—%	\$	—	—%	\$	4,025	2.6%	\$	90,202	2.5%

Equity Investments- Equity investments decreased \$18.6 million during 2023 due to our sale of a previous investment in a hedge fund that primarily traded S&P 500 index options.

Derivative financial instruments

The 2023 decrease in derivative financial instruments is due to the decrease in fair value of our cash flow and interest rate hedges as well as a maturity of a cashflow hedge. The 2022 increase in derivative financial instruments is due to the increase in the fair value of our cash flow and interest rate hedges.

Deposits

Total deposits at December 31, 2023 increased \$545.3 million or 17.2% compared to December 31, 2022. Total deposits at December 31, 2022 increased \$226.8 million or 7.7% compared to December 31, 2021. Deposits acquired in conjunction with the purchase of PSB in 2023 totaled \$498.0 million. We have increased new commercial account relationships as we have strengthened our focus on growing core transaction accounts. Core transaction accounts grew \$461.2 million or 20.1% during 2023 while our internet-only high yielding savings product decreased \$54.0 million, retail savings increased \$7.8 million, and retail time deposits increased \$130.3 million.

Table XI - Deposits

Dollars in thousands

	2023	2022
Noninterest bearing demand	\$ 593,576	\$ 553,616
Interest bearing demand	2,164,522	1,743,299
Savings	450,527	496,751
Time deposits	506,523	376,213
Total deposits	\$ 3,715,148	\$ 3,169,879

See Table I for average deposit balance and rate information by deposit type for the past five years and Note 12 of the accompanying consolidated financial statements for a maturity distribution of time deposits as of December 31, 2023.

Borrowings

Lines of Credit: We have a remaining available line of credit from the Federal Home Loan Bank of Pittsburgh (“FHLB”) totaling \$1.3 billion at December 31, 2023. We use this line primarily to fund loans to customers. Funds acquired through this program are reflected on the consolidated balance sheet in short-term borrowings or long-term borrowings, depending on the repayment terms of the debt agreement. We also had \$258.6 million available on a short term line of credit with the Federal Reserve Bank at December 31, 2023, which is primarily secured by consumer loans, construction loans and commercial and industrial loans and a \$6 million available line of credit with a correspondent bank.

Short-term Borrowings: Total short-term borrowings consisting primarily of advances from the FHLB having original maturities of 30 days or less were at \$303.0 million at December 31, 2023 compared to \$226.0 million at December 31, 2022. See Note 13 of the accompanying consolidated financial statements for additional disclosures regarding our short-term borrowings.

Long-term Borrowings: Total long-term borrowings of \$637,000 and \$658,000 at December 31, 2023 and 2022 consisted of a long-term FHLB advance. Refer to Note 13 of the accompanying consolidated financial statements for additional information regarding our long-term borrowings.

Subordinated debentures: We issued \$75 million of subordinated debentures, net of \$1.74 million debt issuance costs, during third quarter 2021 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 3.25% per year, from and including November 16, 2021 to, but excluding, December 1, 2026, payable semi-annually in arrears. From and including December 1, 2026 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 230 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.

We issued \$30 million of subordinated debentures, net of \$681,000 debt issuance costs, 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 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

Preferred: In April 2021, we sold through private placement 1,500 shares of 6% Fixed-Rate Non-Cumulative Perpetual Preferred Stock, Series 2021, \$1.00 par value, with a liquidation preference of \$10,000 per share for net proceeds of \$14.9 million.

Common: Changes in common shareholders' equity are a result of net income, other comprehensive income, dividends and issuances of our stock in conjunction with acquisitions. During 2023, tangible book value per common share (“TBVPCS”) increased \$2.19, or 10.1%, to \$23.89, which includes unrealized net gains on debt securities available for sale of \$0.60 per common share (net of deferred income taxes) recorded in Other Comprehensive Income (“OCI”), partially offset by decreases in the fair values of derivative financial instruments hedging against higher interest rates totaling \$0.33 per common share (net of deferred income taxes) also recorded in OCI. Tangible book value per common share represents tangible common equity (“TCE”) divided by common shares outstanding. Other companies may calculate these measures differently. While TCE and TBVPCS are non-GAAP financial measures, we believe TCE and TBVPCS provide alternative measures of capital strength and performance for investors, industry analysts and others.

Table XII - Book Value and Tangible Book Value Per Common Share

<i>Dollars in thousands</i>	December 31,	
	2023	2022
Total shareholders' equity	\$ 440,208	\$ 354,530
Less preferred stock	14,920	14,920
Common shareholders' equity	425,288	339,610
Less goodwill and intangible assets	74,430	62,150
Tangible common equity (TCE)	\$ 350,858	\$ 277,460
Common shares outstanding	14,683,457	12,783,646
Book value per common share ⁽¹⁾	\$ 28.96	\$ 26.57
Tangible book value per common share ⁽²⁾	\$ 23.89	\$ 21.70
<i>(1) Common shareholders' equity divided by common shares outstanding</i>		
<i>(2) TCE divided by common shares outstanding</i>		

ASSET QUALITY

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

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

Table XIII - Nonperforming Assets			
<i>Dollars in thousands</i>		2023	2022
Accruing loans past due 90 days or more			
Commercial	\$	—	\$ —
Commercial real estate		—	—
Residential construction & development		—	—
Residential 1-4 family real estate		307	—
Consumer		5	—
Other		23	12
Total accruing loans 90+ days past due		335	12
Nonaccrual loans			
Commercial		1,088	93
Commercial real estate		5,675	1,750
Commercial construction & development		—	—
Residential construction & development		708	851
Residential 1-4 family real estate		4,524	5,117
Consumer		109	—
Other		—	—
Total nonaccrual loans		12,104	7,811
Foreclosed properties			
Commercial		—	—
Commercial real estate		297	297
Commercial construction & development		1,253	2,187
Residential construction & development		1,924	2,293
Residential 1-4 family real estate		255	290
Total foreclosed properties		3,729	5,067
Reposessed assets		—	—
Total nonperforming assets		\$ 16,168	\$ 12,890
Total nonperforming loans as a percentage of total loans		0.34%	0.25%
Total nonperforming assets as a percentage of total assets		0.35%	0.33%
Allowance for credit losses on loans as a percentage of period end loans		1.31%	1.26%
Total nonaccrual loans as a percentage of total loans		0.33%	0.25%
Allowance for credit losses on loans as a percentage of nonaccrual loans		397.31%	498.00%

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

We monitor our concentrations in higher-risk lending areas in accordance with the *Interagency Guidance for Concentrations in Commercial Real Estate Lending* issued in 2006 by the U.S. Federal bank regulatory agencies. This guidance established two concentration guideline limits applicable to banks: 1) total of construction, land development and other land loans limited to 100% of the Bank's Tier 1 Capital plus the allowance for credit losses; and 2) total of loans subject to the 100% limit plus loans secured by non-owner occupied, non-farm non-residential properties limited to 300% of the Bank's Tier 1 Capital plus the allowance for credit losses. As of December 31, 2023, Summit Community's percentage with respect to above Guideline 1 was 98.9%, within the recommended 100% limit, and with respect to above Guideline 2, its percentage was 338.0%, exceeding the 300% level. The Bank's loan policy requires more frequent monitoring and reporting to the Board of Directors when concentrations exceed these regulatory guidelines.

We maintain the allowance for credit losses on loans at a level considered adequate to cover an estimate of the full amount of expected credit losses relative to loans. The allowance is comprised of three distinct reserve components: (1) specific reserves related to loans individually evaluated, (2) quantitative reserves related to loans collectively evaluated and (3) qualitative reserves related to loans collectively evaluated. A summary of the methodology we employ on a quarterly basis with respect to each of these components in order to evaluate the overall adequacy of our allowance for credit losses on loans is provided in Note 7 of the accompanying financial statements.

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

In analyzing the relationship among the allowance for credit losses, net loan charge-offs and nonperforming loans, it is helpful to understand the process of how loans are treated as the probability of collection changes over time. Allowances are established at origination through the allowance for credit losses to estimate the expected credit loss over the life of the financial assets based on risk characteristics inherent in the loan. (Please refer to Note 7 for detail on how allowance for credit losses are established.)

Generally, loans are placed on nonaccrual status (and become non-performing) when principal or interest is greater than 90 days past due based upon the loan's contractual term. As a loan deteriorates in credit quality, if the loan balance is material the loan may be individually evaluated through the allowance for credit losses on loans (" ACLL") instead of on a collective basis with other loans as it may no longer have similar risk characteristics. The allowance for credit losses on an individually evaluated loan are established based on the fair value of the underlying collateral for collateral dependent loans or based on the present value of future cash flows for loans deemed not to be collateral dependent. Therefore, as loan credit quality deteriorates the allowance for credit loss may change.

Charge-offs, if necessary, are recognized as deemed appropriate based on loan-type. 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 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 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 off to net realizable value at 120 days past due.

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 judgement 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. The following tables summarizes the changes in the various factors that comprise the provisions for credit losses.

At December 31, 2023 and 2022, our allowance for credit losses on loans totaled \$48.1 million, or 1.31% of total loans and \$38.9 million, or 1.26% of total loans, respectively. The allowance for credit losses on loans is considered adequate to cover all estimated future losses in our loan portfolio.

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

Table XIV - Allocation of the Allowance for Credit Losses on Loans
2023

<i>Dollars in thousands</i>	2023			2022		
	Amount	Allowance as % of total loans	% of loans in each category to total loans	Amount	Allowance as % of total loans	% of loans in each category to total loans
Commercial	\$ 4,319	0.12%	13.7%	\$ 4,941	0.16%	16.3%
Commercial real estate	13,963	0.38%	48.9%	10,574	0.34%	47.7%
Construction and development	19,859	0.54%	14.1%	14,620	0.47%	12.6%
Residential 1-4 family real estate	9,464	0.26%	19.1%	8,219	0.27%	17.9%
Mortgage warehouse lines	—	—%	3.0%	—	—%	4.2%
Consumer	205	0.01%	1.2%	174	0.01%	1.1%
Other	280	0.01%	0.1%	371	0.01%	0.1%
Total	\$ 48,090	1.31%	100.0%	\$ 38,899	1.26%	100.0%

The following table details our provision for credit losses on loans and net charge-offs and recoveries.

Table XV - Provision for Credit Losses on Loans and Net Charge-offs and Recoveries

<i>Dollars in thousands</i>	Provision for Credit Loss - Loans Expense (Benefit)	(Net Charge-offs) Recoveries	Average Loans	Ratio of Net Charge-Offs (Recoveries) to Average Loans
2023				
Commercial	\$ (570)	\$ (52)	\$ 510,832	0.01%
Commercial real estate	5,777	(3,614)	1,709,718	0.21%
Construction and development	5,230	8	443,092	—%
Residential 1-4 family real estate	353	624	660,379	(0.09)%
Mortgage warehouse lines	—	—	108,599	—%
Consumer	251	(220)	40,699	0.54%
Other	414	(505)	4,143	12.19%
Total	\$ 11,455	\$ (3,759)	\$ 3,477,462	0.11%
2022				
Commercial	1,774	(51)	465,878	0.01%
Commercial real estate	228	(63)	1,427,845	—%
Construction and development	4,868	(62)	321,950	0.02%
Residential 1-4 family real estate	(145)	(106)	534,763	0.02%
Mortgage warehouse lines	—	—	166,879	—%
Consumer	70	(59)	33,647	0.18%
Other	483	(336)	3,349	10.03%
Total	\$ 7,278	\$ (677)	\$ 2,954,311	0.02%
2021				
Commercial	1,112	(198)		
Commercial real estate	(278)	(225)		
Construction and development	1,070	12		
Residential 1-4 family real estate	(1,210)	(355)		
Mortgage warehouse lines	—	—		
Consumer	(44)	(9)		
Other	265	(179)		
Total	\$ 915	\$ (954)	\$ 2,497,566	0.04%

At December 31, 2023 and 2022, we had approximately \$3.7 million and \$5.1 million, respectively, in property held for sale which was obtained as the result of foreclosure proceedings. Although foreclosed property is recorded at fair value less estimated costs to sell, the prices ultimately realized upon their sale may or may not result in us recognizing additional loss. Refer to Note 8 of the accompanying consolidated financial statements for additional information regarding our property held for sale.

LIQUIDITY AND CAPITAL RESOURCES

Bank Liquidity: Liquidity reflects our ability to ensure the availability of adequate funds to meet loan commitments and deposit withdrawals, as well as provide for other transactional requirements. Liquidity is provided primarily by excess funds at correspondent banks, non-pledged securities and available lines of credit with the FHLB, Federal Reserve Bank of Richmond and correspondent banks, which totaled approximately \$1.8 billion or 38.36% of total consolidated assets at December 31, 2023.

Our liquidity strategy is to fund loan growth with deposits and other borrowed funds while maintaining an adequate level of short- and medium-term investments to meet normal daily loan and deposit activity. As a member of the FHLB, we have access to borrow approximately \$1.6 billion, which is collateralized by \$2.3 billion of residential mortgage loans, commercial loans, mortgage backed securities and securities of U. S. Government agencies and corporations. At December 31, 2023, we had available borrowing capacity of \$1.3 billion on our FHLB line. We also maintain a credit line with the Federal Reserve Bank of Richmond as a contingency liquidity vehicle. The amount available on this line at December 31, 2023 was approximately \$258.6 million, which is secured by a pledge of \$520.6 million of our consumer loans, construction loans and commercial and industrial loan portfolios. We have a \$6 million unsecured line of credit with a correspondent bank. Also, we classify nearly 80% of our securities as available for sale to enable us to liquidate them if the need arises. During 2023, our loan growth was funded primarily by sales and maturities of investments, deposits and short-term borrowings as our loans increased approximately \$235.8 million, while investments decreased by \$59.4 million, total deposits increased \$47.7 million and short-term borrowings increased \$59.3 million.

Liquidity risk represents the risk of loss due to the possibility that funds may not be available to satisfy current or future commitments based on external market issues, customer or creditor perception of financial strength and events unrelated to Summit such as war, terrorism, or financial institution market specific issues. The Asset/Liability Management Committee (“ALCO”), comprised of members of senior management and certain members of the Board of Directors, oversees our liquidity risk management process. The ALCO develops and recommends policies and limits governing our liquidity to the Board of Directors for approval with the objective of ensuring that we can obtain cost-effective funding to meet current and future obligations, as well as maintain sufficient levels of on-hand liquidity, under both normal and “stressed” circumstances.

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

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

- Would have limited amounts of maturing brokered deposits to replace in the short-term, as we have limited our brokered deposits maturing in any one quarter to no more than \$50 million.
- Presently has \$1.8 billion in available sources of liquid funds which could be drawn upon to fund maturing brokered deposits until Summit Community had restored its capital to well capitalized status.
- Would first seek to restore its capital to well capitalized status through capital contributions from Summit, its parent holding company.
- Would generally have no more than \$100 million in brokered deposits maturing in any one year time frame, which is well within its presently available sources of liquid funds, if in the event Summit does not have the capital resources to restore Summit Community’s capital to well capitalized status. One year would give Summit Community ample time to raise alternative funds either through retail deposits or the sale of assets and obtain capital resources to restore it to well capitalized status.

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

- Would severely curtail lending and other growth activities until such time as access to this line could be restored, thus eliminating the need for net new advances.
- Would still have available current liquid funding sources secured by unencumbered loans and securities totaling \$758 million aside from its FHLB line, which would result in a funding source of approximately \$471 million.

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

- Presently has \$1.6 billion in available sources of liquid funds which could be drawn upon immediately to fund any “net run off” of deposits from this activity.
- Would severely curtail lending and other growth activities so as to preserve the availability of as much contingency funds as possible.
- Would begin offering its own competitive deposit program when deemed prudent so as to restore the retail deposits lost to the competition.

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

Growth and Expansion: During 2023, we spent approximately \$7.1 million on capital expenditures for premises and equipment. We expect our capital expenditures to approximate \$3.0 - \$4.0 million in 2024, primarily for equipment and technological upgrades.

Capital Compliance: Our capital position is strong. Stated as a percentage of total assets, our equity ratio was 9.5% at December 31, 2023 compared to 9.1% at December 31, 2022. Our subsidiary bank, Summit Community Bank, had Tier 1 risk-based, Total risk-based and Tier 1 leverage capital in excess of the minimum “well capitalized” levels of \$150.2 million, \$117.8 million and \$243.2 million, respectively. We intend to maintain Summit Community Bank’s capital ratios at levels that would be considered to be “well capitalized” in accordance with regulatory capital guidelines. See Note 19 of the accompanying consolidated financial statements for further discussion of our regulatory capital.

During 2023, we retained \$42.3 million of earnings and the net change in accumulated other comprehensive loss was \$4 million, principally resulting from \$8.7 million unrealized net gains on securities available for sale and \$4.7 million unrealized net losses on cashflow and fair value hedges.

In April 2021, we sold through a private placement 1,500 shares or \$15.0 million of Series 2021 6% Fixed-Rate Non-Cumulative Perpetual Preferred Stock, \$1.00 par value, with a liquidation preference of \$10,000 per share (the “Preferred Stock”). The Preferred Stock is non-convertible and will pay noncumulative dividends, if and when declared by the Summit board of directors, at a rate of 6.0% per annum. Dividends declared will be payable quarterly in arrears on the 15th day of March, June, September and December of each year. Summit contributed the proceeds of this issuance to the capital of SCB to support its lending, investing and other financial activities.

Dividends: Cash dividends per share totaled \$0.84 and \$0.76 during 2023 and 2022, respectively, representing dividend payout ratios of 21.6% and 18.2%, respectively. It is our intention to continue to pay dividends on a quarterly basis during 2024. Future dividend amounts will depend on the earnings and financial condition of our subsidiary bank as well as general economic conditions.

The primary source of funds for the dividends paid to our shareholders is dividends received from our subsidiary bank. Dividends paid by our subsidiary bank are subject to restrictions by banking law and regulations and require approval by the bank’s regulatory agency if dividends declared in any year exceed the bank’s current year’s net income, as defined, plus its retained net profits of the two preceding years. In addition, cash dividends depend on the earnings and financial condition of our subsidiary bank and our capital adequacy as well as general economic conditions. During 2024, the net retained profits available for distribution to Summit as dividends without regulatory approval are approximately \$90.1 million.

Contractual Cash Obligations: During our normal course of business, we incur contractual cash obligations. Refer to Note 10 of the accompanying consolidated financial statements for further discussion of our lease commitments and Note 13 for information regarding debt obligations.

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. Refer to Note 17 of the accompanying consolidated financial statements for further discussion of our off-balance sheet arrangements.

QUARTERLY FINANCIAL DATA

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

2023					
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	
<i>Dollars in thousands, except per share amounts</i>					
Interest income	\$ 50,475	\$ 60,863	\$ 64,694	\$ 66,516	
Net interest income	34,189	40,313	41,273	40,793	
Net income	14,101	8,209	16,332	16,597	
Basic earnings per share	\$ 1.09	\$ 0.54	\$ 1.10	\$ 1.12	
Diluted earnings per share	\$ 1.08	\$ 0.54	\$ 1.09	\$ 1.11	

2022					
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	
<i>Dollars in thousands, except per share amounts</i>					
Interest income	\$ 32,893	\$ 35,563	\$ 42,451	\$ 47,840	
Net interest income	29,554	30,965	34,113	34,353	
Net income	11,693	12,014	14,423	15,086	
Basic earnings per share	\$ 0.90	\$ 0.92	\$ 1.11	\$ 1.16	
Diluted earnings per share	\$ 0.90	\$ 0.92	\$ 1.11	\$ 1.16	

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

MARKET RISK MANAGEMENT

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, exchange rates and equity prices. Interest rate risk is our primary market risk and results from timing differences in the repricing of assets, liabilities and off-balance sheet instruments, changes in relationships between rate indices and the potential exercise of embedded options. Accordingly, our net income is affected by changes in the absolute level of interest rates.

Some amount of interest rate risk is inherent and appropriate to the banking business. The principal objective of asset/liability management is to minimize interest rate risk and our actions in this regard are taken under the guidance of our Asset/Liability Management Committee (“ALCO”). The ALCO is comprised of members of the Board of Directors and of members of senior management. The ALCO actively formulates the economic assumptions that we use in our financial planning and budgeting process and establishes policies which control and monitor our sources, uses and prices of funds.

Our interest rate risk position at December 31, 2023 was liability sensitive. That is, absent any changes in the volumes of our interest earning assets or interest bearing liabilities, liabilities are likely to reprice faster than assets, resulting in an increase in net income in a falling rate environment. Net income would decrease in a rising interest rate environment.

Net interest income is also subject to changes in the shape of the yield curve. Prior to the Federal Reserve’s actions in 2022 to rapidly raise short-term interest rates, the yield curve was very low but gradually upward sloping. The recent rate increases resulted in a steepening of the yield curve on the short end (within 1 year), while the longer end of the curve is inverted between 1 and 10 years -- meaning that the yield on short-term instruments are higher than longer-term instruments. A flat or inverted interest rate curve is an unfavorable interest rate environment for many financial institutions, including Summit, as short-term interest rates generally drive our deposit pricing while longer-term interest rates generally impact our loan and investment pricing. 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 result in increased earnings as margins widen.

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

The following table presents the estimated sensitivity of our net interest income to changes in interest rates, as measured by our earnings simulation model as of December 31, 2023. 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. These changes in interest rates assume parallel shifts in the yield curve and do not take into account changes in the slope of the yield curve, unless otherwise indicated.

Change in Interest Rates	Estimated % Change in Net Interest Income over:	
	0 - 12 Months	13 - 24 Months
Down 100 basis points (1)	0.7%	5.6%
Down 200 basis points (1)	1.8%	4.7%
Down 200 basis points - steepening curve (2)	6.1%	18.7%
Up 200 basis points (1)	-2.1%	4.2%

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

(2) assumes short-term rates move down 200 basis points over 12 months while long-term rates remain relatively unchanged over 12 months, with no change thereafter

Over the next 12 months, we project that our net interest income, absent any changes in: 1) the volumes of interest earning assets and interest bearing liabilities or 2) the shape of the yield curve, would likely increase in a falling rate environment, and would likely decline in a rising interest rate environment.

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

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

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

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

Management assessed the Corporation’s system of internal control over financial reporting as of December 31, 2023. In making this assessment, we used the criteria for effective internal control over financial reporting set forth in *Internal Control-Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. Based on this assessment, management concludes that, as of December 31, 2023, its system of internal control over financial reporting is effective and meets the criteria of the *Internal Control-Integrated Framework*. Yount, Hyde & Barbour, P.C., Winchester, Virginia (U.S. PCAOB Auditor Firm I.D.: 613), independent registered public accounting firm that audited our consolidated financial statements, has issued an attestation report on the Corporation’s internal control over financial reporting.

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

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

Moorefield, West Virginia
March 12, 2024



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Internal Control over Financial Reporting

We have audited Summit Financial Group, Inc. and its subsidiaries (the Company) internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2023, and the related notes to the consolidated financial statements of the Company and our report dated March 12, 2024 expressed an unqualified opinion.

Basis for Opinion

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

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

Winchester, Virginia
March 12, 2024

Item 8. Financial Statements and Supplementary Data**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Summit Financial Group, Inc. and its subsidiaries (the Company) as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2023, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 12, 2024 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

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

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

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Credit Losses (ACL) – Loans Collectively Evaluated & Off-Balance-Sheet Credit Exposures**Description of the Matter**

As discussed in Note 7 (Loans and Allowance for Credit Losses on Loans) and Note 17 (Commitments and Contingencies) to the financial statements, the Company is subject to Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*. Accounting Standards Codification Topic 326 (ASC 326) requires, among other provisions, the measurement of all expected credit losses for loans and off-balance sheet exposures based on historical experience, current conditions, and reasonable and supportable forecasts. The ACL is a valuation allowance that represents management's current best estimate of expected credit losses considering available information, from internal and external sources, relevant to assessing collectability of loans over the loans' contractual terms ("life of loan" concept).

The Company's ACL for loans collectively evaluated for impairment was \$45.8 million, the total ACL for loans was \$48.1 million and total loans, net of unearned fees, were \$3.7 billion as of December 31, 2023. The ACL on off-balance sheet credit exposures totaled \$7.7 million with related unfunded commitments totaling \$891.3 million as of December 31, 2023. The Company's 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 life of the loans that are reasonable and supportable, to the identified pools of loans with similar risk characteristics. Loans are segmented into pools based upon similar characteristics and risk profiles and based on the degree of correlation of how loans within each pool respond to various economic conditions. The Company uses a loss-rate, or cohort, method to estimate expected credit losses for the identified loan pools. The cohort method tracks respective losses generated by that cohort of loans over their remaining lives. Loss rates are adjusted for qualitative factors that are not otherwise considered. The qualitative factors considered by management include reasonable and supportable forecasts of economic conditions; trends in credit quality; volume and concentrations of credit; and changes in lending policy, underwriting standards, and management. Management exercised significant judgment when assessing the qualitative factors in estimating the ACL.

We identified the measurement of the ACL as a critical audit matter as auditing this estimate involved especially complex and subjective auditor judgment in evaluating and testing management's assertions over an inherently complex estimation process that requires significant management judgment.

How We Addressed the Matter in Our Audit

The primary audit procedures we performed to address this critical audit matter included:

- Obtaining an understanding and testing the design and operating effectiveness of the Company's ACL methodology, internal controls, and management review controls related to collectively evaluated loans, including the process of:
 - The continued usage of the cohort method as the expected loss model, including assessment and reasonableness of loan pools, analysis of delay period, model validation, monitoring, and the completeness and accuracy of key data inputs and assumptions.
 - Qualitative factors, including sources of reasonable and supportable economic forecasts and other key inputs.
 - Governance and management review processes.
- Substantively testing management's process for measuring the ACL related to collectively evaluated loans and off-balance sheet credit exposures, including:
 - Evaluating the conceptual soundness, assumptions, and key data inputs of the Company's ACL expected loss rate methodology, including the reasonableness of loan pools and related cohort loss rates.
 - Evaluating the methodology's qualitative factors, including:
 - The completeness and accuracy of the data inputs used as a basis for the qualitative factors.
 - The reasonableness of management's judgments related to the determination of qualitative factors.
 - The directional consistency and reasonableness of the qualitative factor adjustments in accordance with ranges established in management's methodology.
 - Testing the mathematical accuracy of the calculation, including the application of the cohort loss rates and qualitative factors.

Business Combinations – Fair Value of Acquired Loans

Description of the Matter

As described in Note 3 (Mergers and Acquisitions) to the financial statements, the Company completed its acquisition of PSB Holding Corp. (PSB) on April 1, 2023 for total consideration of \$39.6 million. The transaction was accounted for as a business combination using the acquisition method of accounting. Accordingly, assets acquired and liabilities assumed were recorded at fair value on the acquisition date, including acquired loans with an aggregate fair value of \$363.0 million. Determining the acquired fair values, particularly in relation to the loan portfolio, is inherently subjective and involves significant judgment regarding the methods and assumptions used to estimate fair value. In determining the fair value of loans acquired, management must determine whether or not acquired loans have evidence of more-than-insignificant credit deterioration at acquisition, the amount and timing of cash flows expected to be collected, and market discount rates, among other assumptions. Changes in these assumptions could have a significant impact on the fair value of the loans acquired and the amount of goodwill recorded.

We identified the acquisition date fair value of acquired loans as a critical audit matter as auditing this estimate is especially complex and requires subjective auditor judgment. Auditing this estimate required a high level of judgment in evaluating management's identification of loans with evidence of credit deterioration, the need for specialized skill in development and application of subjective assumptions in estimated cash flows, and the size of the acquired loan portfolio.

How We Addressed the Matter in Our Audit

The primary audit procedures we performed to address this critical audit matter included the following:

- Obtaining an understanding and testing the design and operating effectiveness of the Company's business combination accounting practices, internal controls, and related management review controls, including the process of:
 - The appropriateness of the valuation approach and methodology.
 - Review of valuation specialist valuation, including financial information, data, assumptions utilized and key inputs, specifically as it relates to the valuation for acquired loans.
- Substantively testing management's process, including the use of our own valuation specialist to assess the Company's methods and significant assumptions utilized in determining the fair value of the acquired loan portfolio and evaluating whether the assumptions used were reasonable with respect to market participant views and other factors.
- Testing the completeness and accuracy of loans determined to have credit deterioration at acquisition and evaluating the reasonableness of the criteria utilized by management in making the determination.
- Testing the accuracy of the data utilized in the development of acquisition date fair values by confirming, on a sample basis, select data.

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

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

Winchester, Virginia
March 12, 2024

Consolidated Balance Sheets

<i>Dollars in thousands</i>	December 31,	
	2023	2022
ASSETS		
Cash and due from banks	\$ 21,834	\$ 16,469
Interest bearing deposits with other banks	30,398	28,248
Cash and cash equivalents	52,232	44,717
Debt securities available for sale (at fair value)	502,762	405,201
Debt securities held to maturity (at amortized cost; estimated fair value - \$88,319 - 2023, \$86,627 - 2022)	94,227	96,163
Less: allowance for credit losses	—	—
Debt securities held to maturity, net	94,227	96,163
Equity investments (at fair value)	10,958	29,494
Other investments	21,130	16,029
Loans net of unearned fees	3,681,612	3,082,818
Less: allowance for credit losses	(48,090)	(38,899)
Loans, net	3,633,522	3,043,919
Property held for sale	3,729	5,067
Premises and equipment, net	63,038	53,981
Accrued interest and fees receivable	20,004	15,866
Goodwill and other intangible assets, net	74,430	62,150
Cash surrender value of life insurance policies and annuities	85,679	71,640
Derivative financial instruments	33,145	40,506
Other assets	39,466	31,959
Total assets	\$ 4,634,322	\$ 3,916,692
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Non-interest bearing	\$ 593,576	\$ 553,616
Interest bearing	3,121,572	2,616,263
Total deposits	3,715,148	3,169,879
Short-term borrowings	302,957	225,999
Long-term borrowings	637	658
Subordinated debentures, net	103,782	103,296
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589
Other liabilities	52,001	42,741
Total liabilities	4,194,114	3,562,162
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, \$1.00 par value, authorized 250,000 shares; issued: 2023 and 2022 - 1,500 shares	14,920	14,920
Common stock and related surplus, \$2.50 par value; authorized 20,000,000 shares; issued and outstanding: 2023 - 14,683,457 shares, 2022 - 12,783,646 shares	129,990	90,696
Retained earnings	302,783	260,393
Accumulated other comprehensive loss	(7,485)	(11,479)
Total shareholders' equity	440,208	354,530
Total liabilities and shareholders' equity	\$ 4,634,322	\$ 3,916,692

See Notes to Consolidated Financial Statements

Consolidated Statements of Income

<i>Dollars in thousands (except per share amounts)</i>	For the Year Ended December 31,			
	2023	2022	2021	
Interest income				
Loans, including fees				
Taxable	\$ 217,615	\$ 145,188	\$ 112,268	
Tax-exempt	240	176	362	
Securities				
Taxable	18,412	8,442	5,884	
Tax-exempt	5,549	4,610	3,586	
Interest on interest bearing deposits with other banks	732	331	315	
Total interest income	242,548	158,747	122,415	
Interest expense				
Deposits	73,191	20,683	8,181	
Short-term borrowings	6,816	3,786	1,768	
Long-term borrowings and subordinated debentures	5,972	5,292	2,534	
Total interest expense	85,979	29,761	12,483	
Net interest income	156,569	128,986	109,932	
Provision for credit losses	12,250	6,950	4,000	
Net interest income after provision for credit losses	144,319	122,036	105,932	
Noninterest income				
Trust and wealth management fees	3,436	2,978	2,886	
Mortgage origination revenue	577	1,480	3,999	
Service charges on deposit accounts	6,977	6,150	5,032	
Bank card revenue	7,299	6,261	5,896	
Net realized (losses)/gains on debt securities	(266)	(708)	425	
Net gains on equity investments	740	265	202	
Bank owned life insurance and annuities income	1,576	1,211	1,026	
Other	537	516	742	
Total noninterest income	20,876	18,153	20,208	
Noninterest expenses				
Salaries, commissions and employee benefits	46,296	40,452	34,386	
Net occupancy expense	5,851	5,128	4,824	
Equipment expense	9,094	7,253	6,990	
Professional fees	1,775	1,628	1,578	
Advertising and public relations	1,113	893	697	
Amortization of intangibles	3,335	1,440	1,563	
FDIC premiums	2,458	1,224	1,449	
Bank card expense	3,429	2,928	2,668	
Foreclosed properties expense, net of (gains)/losses	89	236	1,745	
Acquisition-related expenses	6,444	114	1,224	
Other	14,909	11,583	11,615	
Total noninterest expenses	94,793	72,879	68,739	
Income before income tax expense	70,402	67,310	57,401	
Income tax expense	15,163	14,094	11,663	
Net income	\$ 55,239	\$ 53,216	\$ 45,738	
Preferred stock dividends	900	900	589	
Net income applicable to common shares	\$ 54,339	\$ 52,316	\$ 45,149	
Basic earnings per common share	\$ 3.82	\$ 4.10	\$ 3.49	
Diluted earnings per common share	\$ 3.81	\$ 4.08	\$ 3.47	

See Notes to Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

<i>Dollars in thousands</i>	For the Year Ended December 31,		
	2023	2022	2021
Net income	\$ 55,239	\$ 53,216	\$ 45,738
Other comprehensive income (loss):			
Net unrealized (loss) gain on cashflow hedges of:			
2023 - \$(6,641), net of deferred taxes of \$1,594; 2022 - \$22,203, net of deferred taxes of \$(5,329); 2021 - \$6,743, net of deferred taxes of \$(1,618)	(5,047)	16,874	5,125
Net unrealized gain (loss) on fair value hedge of available for sale securities of:			
2023 - \$439, net of deferred taxes of \$(105); 2022 - \$7,663, net of deferred taxes of \$(1,839); 2021 - \$(550), net of deferred taxes of \$132	334	5,824	(418)
Net unrealized gain (loss) on debt securities available for sale of:			
2023 - \$11,434, net of deferred taxes of \$(2,744) and reclassification adjustment for net realized losses included in net income of \$(266), net of tax of \$64	8,690		
2022 - \$(52,327) net of deferred taxes of \$12,558 and reclassification adjustment for net realized losses included in net income of \$(708), net of tax of \$170		(39,769)	
2021 - \$(6,510), net of deferred taxes of \$1,562 and reclassification adjustment for net realized gains included in net income of \$425, net of tax of \$(102)			(4,948)
Net change in actuarial (loss) gain on post-retirement benefits plan of:			
2023 - \$(33), net of deferred taxes of \$8; 2022 - \$214, net of deferred taxes of \$(51); 2021 - \$64, net of deferred taxes of \$(15)	(25)	163	49
Net change in actuarial gain (loss) on defined-benefit pension plan of:			
2023 - \$55, net of deferred taxes of \$(13); 2022 - \$(70), net of deferred taxes of \$17; 2021 - \$301, net of deferred taxes of \$(72)	42	(53)	229
Total other comprehensive income (loss)	3,994	(16,961)	37
Total comprehensive income	\$ 59,233	\$ 36,255	\$ 45,775

See Notes to Consolidated Financial Statements

Consolidated Statements of Shareholders' Equity

For the Years Ended December 31, 2023, 2022 and 2021

	Preferred Stock and Related Surplus	Common Stock and Related Surplus	Unallocated Common Stock Held by ESOP	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Shareholders' Equity
<i>Dollars in thousands (except per share amounts)</i>						
Balance, December 31, 2020	\$ —	\$ 94,964	\$ (472)	\$ 181,643	\$ 5,445	\$ 281,580
Net income	—	—	—	45,738	—	45,738
Other comprehensive income	—	—	—	—	37	37
Exercise of stock options and SARs - 10,604 shares	—	16	—	—	—	16
Vesting of RSUs - 4,171 shares	—	—	—	—	—	—
Share-based compensation expense	—	646	—	—	—	646
Issuance of 1,500 shares of preferred stock, net of issuance costs	14,920	—	—	—	—	14,920
Unallocated ESOP shares committed to be released - 23,002 shares	—	315	248	—	—	563
Purchase and retirement of 248,244 shares of common stock	—	(6,710)	—	—	—	(6,710)
Common stock issuances from reinvested dividends - 11,588 shares	—	294	—	—	—	294
Preferred stock cash dividends declared	—	—	—	(589)	—	(589)
Common stock cash dividends declared (\$0.70 per share)	—	—	—	(9,022)	—	(9,022)
Balance, December 31, 2021	14,920	89,525	(224)	217,770	5,482	327,473
Net income	—	—	—	53,216	—	53,216
Other comprehensive loss	—	—	—	—	(16,961)	(16,961)
Exercise of SARs - 5,841 shares	—	—	—	—	—	—
Vesting of RSUs - 6,205 shares	—	—	—	—	—	—
Share-based compensation expense	—	624	—	—	—	624
Unallocated ESOP shares committed to be released - 20,702 shares	—	344	224	—	—	568
Common stock issuances from reinvested dividends - 7,773 shares	—	203	—	—	—	203
Preferred stock cash dividends declared	—	—	—	(900)	—	(900)
Common stock cash dividends declared (\$0.76 per share)	—	—	—	(9,693)	—	(9,693)
Balance, December 31, 2022	14,920	90,696	—	260,393	(11,479)	354,530
Net income	—	—	—	55,239	—	55,239
Other comprehensive income	—	—	—	—	3,994	3,994
Exercise of SARs - 5,470 shares	—	—	—	—	—	—
Vesting of RSUs - 3,484 shares	—	—	—	—	—	—
Share-based compensation expense	—	739	—	—	—	739
Common stock issuances from reinvested dividends - 10,124 shares	—	249	—	—	—	249
Acquisition of PSB Holding Corp. - 1,880,732 shares, net of issuance costs	—	39,020	—	—	—	39,020
Purchase of minority interest	—	(714)	—	—	—	(714)
Preferred stock cash dividends declared	—	—	—	(900)	—	(900)
Common stock cash dividends declared (\$0.84 per share)	—	—	—	(11,949)	—	(11,949)
Balance, December 31, 2023	\$ 14,920	\$ 129,990	\$ —	\$ 302,783	\$ (7,485)	\$ 440,208

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

<i>Dollars in thousands</i>	For the Year Ended December 31,		
	2023	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 55,239	\$ 53,216	\$ 45,738
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	3,848	3,608	3,587
Provision for credit losses	12,250	6,950	4,000
Share-based compensation expense	739	624	646
Deferred income tax (benefit) expense	(303)	218	264
Loans originated for sale	(4,383)	(19,158)	(107,097)
Proceeds from sale of loans	4,460	19,712	111,020
Gains on loans held for sale	(77)	(327)	(2,153)
Realized losses (gains) on debt securities, net	266	708	(425)
Gains on equity investments	(740)	(265)	(202)
Gain on disposal of assets	(71)	(21)	(108)
Write-downs of foreclosed properties	132	187	1,417
Amortization of securities premiums, net	1,118	4,746	4,348
Accretion related to acquisition adjustments, net	(3,899)	(1,111)	(1,583)
Amortization of intangibles	3,335	1,440	1,563
Earnings on bank owned life insurance and annuities	(1,715)	(993)	(1,140)
(Increase) decrease in accrued interest receivable	(2,638)	(5,288)	1,563
Decrease in other assets	1,878	434	139
Increase in other liabilities	4,290	3,264	269
Net cash provided by operating activities	73,729	67,944	61,846
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturities and calls of debt securities available for sale	4,492	1,875	8,070
Proceeds from sales of debt securities available for sale	135,701	69,211	64,932
Principal payments received on debt securities available for sale	40,702	37,860	29,869
Purchases of debt securities available for sale	(125,547)	(168,928)	(226,427)
Purchase of equity investments	(744)	(8,619)	(20,000)
Purchases of other investments	(28,860)	(24,797)	(1,152)
Proceeds from redemptions of equity investments	21,413	—	—
Proceeds from redemptions of other investments	23,233	18,489	3,139
Net loan originations	(234,696)	(323,320)	(296,679)
Purchases of premises and equipment	(7,087)	(1,346)	(4,537)
Proceeds from disposal of premises and equipment	116	85	558
Improvements to property held for sale	(2)	(36)	100
Proceeds from sale of repossessed assets and property held for sale	1,531	4,732	4,715
Cash and cash equivalents from acquisitions, net of cash consideration paid - 2023 - \$595; 2021 - \$48,920	14,364	—	95,699
Purchases of life insurance contracts and annuities	(34)	(10,034)	(34)
Net cash used in investing activities	(155,418)	(404,828)	(341,747)

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows - continued

	For the Year Ended December 31,		
<i>Dollars in thousands</i>	2023	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in demand deposit, NOW and savings accounts	41,045	399,225	279,913
Net increase (decrease) in time deposits	7,335	(171,524)	(95,230)
Net increase in short-term borrowings	59,308	85,853	—
Repayment of long-term borrowings	(5,165)	(21)	(20)
Proceeds from subordinated debt	—	—	75,000
Proceeds from issuance of common stock, net of issuance costs	244	203	294
Proceeds from issuance of preferred stock, net of issuance costs	—	—	14,920
Purchase and retirement of common stock	—	—	(6,710)
Purchase of minority interest	(714)	—	—
Exercise of stock options	—	—	16
Dividends paid on common stock	(11,949)	(9,693)	(9,022)
Dividends paid on preferred stock	(900)	(900)	(589)
Net cash provided by financing activities	89,204	303,143	258,572
Increase (decrease) in cash and cash equivalents	7,515	(33,741)	(21,329)
Cash and cash equivalents			
Beginning	44,717	78,458	99,787
Ending	\$ 52,232	\$ 44,717	\$ 78,458
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash payments for:			
Interest	\$ 82,482	\$ 27,034	\$ 12,425
Income taxes	\$ 13,264	\$ 12,566	\$ 10,257
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Real property and other assets acquired in settlement of loans	\$ 217	\$ 6	\$ 532
Right of use assets obtained in exchange for lease obligations	\$ 3,950	\$ 370	\$ 2,023
SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS INCLUDED IN ACQUISITION			
Assets acquired	\$ 546,216	\$ —	\$ 58,054
Liabilities assumed	\$ 522,242	\$ —	\$ 164,085

See Notes to Consolidated Financial Statements

NOTE 1. BASIS OF PRESENTATION

We are a financial holding company headquartered in Moorefield, West Virginia. We offer community banking and trust and wealth management services through our community bank subsidiary, Summit Community Bank (“Summit Community”). We provide commercial and retail banking services primarily in the Eastern Panhandle, Southern and North Central regions of West Virginia, the Northern, Shenandoah Valley and Southwestern regions of Virginia, the Central region of Kentucky, the Eastern Shore of Maryland and Delaware.

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

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

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

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

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

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

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

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

Advertising: Advertising costs are expensed as incurred.

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

Transfer of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from us, the transferee obtains the right (free of condition that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and we do not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity date.

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

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

Mergers and Acquisitions	Note 3	Page 62
Fair Value Measurements	Note 4	Page 65
Debt Securities	Note 5	Page 69
Equity and Other Investments	Note 6	Page 74
Loans and Allowance for Credit Losses on Loans	Note 7	Page 74
Property Held for Sale	Note 8	Page 89
Premises and Equipment	Note 9	Page 89
Lease Commitments	Note 10	Page 89
Goodwill and Other Intangible Assets	Note 11	Page 90
Borrowed Funds	Note 13	Page 92
Derivative Financial Instruments	Note 14	Page 93
Income Taxes	Note 15	Page 95
Employee Benefits	Note 16	Page 97
Share-Based Compensation	Note 16	Page 97
Earnings Per Share	Note 20	Page 101
Accumulated Other Comprehensive (Loss) Income	Note 21	Page 102
Revenue From Contracts with Customers	Note 22	Page 103

NOTE 2. SIGNIFICANT NEW AUTHORITATIVE ACCOUNTING GUIDANCE*Recently Adopted*

In July 2023, the Financial Accounting Standards Board ("FASB") issued ASU No. 2023-03, *Presentation of Financial Statements (Topic 205), Income Statement—Reporting Comprehensive Income (Topic 220), Distinguishing Liabilities from Equity (Topic 480), Equity (Topic 505), and Compensation—Stock Compensation (Topic 718): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 120, SEC Staff Announcement at the March 24, 2022 EITF Meeting, and Staff Accounting Bulletin Topic 6.B, Accounting Series Release 280—General Revision of Regulation S-X: Income or Loss Applicable to Common Stock*. ASU 2023-03 amends the ASC for SEC updates pursuant to SEC Staff Accounting Bulletin No. 120; SEC Staff Announcement at the March 24, 2022 Emerging Issues Task Force ("EITF") Meeting; and Staff Accounting Bulletin Topic 6.B, Accounting Series Release 280 - General Revision of Regulation S-X: Income or Loss Applicable to Common Stock. These updates were immediately effective and did not have a significant impact on our consolidated financial statements.

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. ASU 2022-02 eliminates the accounting guidance for troubled debt restructurings in ASC Subtopic 310-40, *Receivables - Troubled Debt Restructurings by Creditors*, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Additionally, ASU 2022-02 requires entities to disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of ASC Subtopic 326-20, *Financial Instruments - Credit Losses - Measured at Amortized Cost*. ASU 2022-02 was effective for us on January 1, 2023 and its adoption did not have a significant impact on our consolidated financial statements.

In March 2022, the FASB issued ASU No. 2022-01, *Derivatives and Hedging (Topic 815), Fair Value Hedging—Portfolio Layer Method*. ASU 2022-01 clarifies the guidance in ASC 815 on fair value hedge accounting of interest rate risk for portfolios of financial assets and is intended to better align hedge accounting with an organization's risk management strategies. In 2017, FASB issued ASU 2017-12 to better align the economic results of risk management activities with hedge accounting. One of the major provisions of that standard was the addition of the last-of-layer hedging method. For a closed portfolio of fixed-rate prepayable financial assets or one or more beneficial interests secured by a portfolio of prepayable financial instruments, such as mortgages or mortgage-backed securities, the last-of-layer method allows an entity to hedge its exposure to fair value changes due to changes in interest rates for a portion of the portfolio that is not expected to be affected by prepayments, defaults, and other events affecting the timing and amount of cash flows. ASU 2022-01 renames that method the portfolio layer method. ASU 2022-01 was effective January 1, 2023 and its adoption did not have a material impact on our consolidated financial statements.

In October 2021, the FASB issued ASU 2021-08 *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. The ASU requires entities to apply Topic 606 to recognize and measure contract assets and contract liabilities in a business combination. The amendments improve comparability after the business combination by providing consistent recognition and measurement guidance for revenue contracts with customers acquired in a business combination and revenue contracts with customers not acquired in a business combination. The ASU was effective January 1, 2023 and its adoption did not have a material impact on our consolidated financial statements.

In March 2020, the 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 was effective January 1, 2023 and its adoption did not have any material adverse impact to our business operation or financial results during the period of transition.

Pending Adoption

In December 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. The amendments in this ASU require an entity to disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold, which is greater than five percent of the amount computed by multiplying pretax income by the entity's applicable statutory rate, on an annual basis. Additionally, the amendments in this ASU require an entity to disclose the amount of income taxes paid (net of refunds received) disaggregated by federal, state, and foreign taxes and the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions that are equal to or greater than five percent of total income taxes paid (net of refunds received). Lastly, the amendments in this ASU require an entity to disclose income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign and income tax expense (or benefit) from continuing operations disaggregated by federal, state, and foreign. This ASU is effective for annual periods beginning after December 15, 2024. Early adoption is permitted. The amendments should be applied on a prospective basis; however, retrospective application is permitted. We do not expect the adoption of ASU 2023-06 to have a material impact on our consolidated financial statements.

In October 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-06, *Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*. This ASU incorporates certain SEC disclosure requirements into the FASB Accounting Standards Codification. The amendments in the ASU are expected to clarify or improve disclosure and presentation requirements of a variety of Codification Topics, allow users to more easily compare entities subject to the SEC's existing disclosures with those entities that were not previously subject to the requirements, and align the requirements in the Codification with the SEC's regulations. For entities subject to the SEC's existing disclosure requirements and for entities required to file or furnish financial statements with or to the SEC in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer, the effective date for each amendment will be the date on which the SEC removes that related disclosure from its rules. For all other entities, the amendments will be effective two years later. However, if by June 30, 2027, the SEC has not removed the related disclosure from its regulations, the amendments will be removed from the Codification and not become effective for any entity. We do not expect the adoption of ASU 2023-06 to have a material impact on our consolidated financial statements.

In March 2023, the FASB issued ASU 2023-02, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*. These amendments allow reporting entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. The ASU is effective for public business entities for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted for all entities in any interim period. We do not expect the adoption of ASU 2023-02 to have a material impact on our consolidated financial statements.

In June 2022, the FASB issued ASU 2022-03, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*. ASU 2022-03 clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The ASU is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2023. Early adoption is permitted. We do not expect the adoption of ASU 2022-03 to have a material impact on our consolidated financial statements.

NOTE 3. MERGERS AND ACQUISITIONS

Pending Merger

On August 24, 2023, we entered into an Agreement and Plan of Reorganization with Burke & Herbert Financial Services Corp. ("Burke & Herbert"), a \$3.6 billion Virginia corporation headquartered in Alexandria, Virginia, pursuant to which Summit will merge with and into Burke & Herbert, with Burke & Herbert as the surviving entity. Subject to the terms and conditions of the merger agreement, at the effective time of the merger, each outstanding share of Summit common stock, par value \$2.50 per share will be converted into the right to receive 0.5043 shares of Burke & Herbert common stock, par value \$0.50 per share. Holders of Summit common stock will receive cash in lieu of fractional shares. The merger is intended to be a tax-free reorganization under Section 368(a) of the Internal Revenue Code.

We anticipate the merger will close in the second quarter of 2024, subject to customary closing conditions, including regulatory approval. Immediately following the merger, Summit Community Bank, Inc., Summit's wholly owned banking subsidiary, will be merged with and into Burke & Herbert's wholly owned banking subsidiary, Burke & Herbert Bank & Trust Company, with B&H Bank the surviving bank. Refer to our Form 8-K filed with the SEC on August 24, 2023 for further details.

PSB Holding Corp. Merger

On April 1, 2023, Summit acquired 100% of the ownership of PSB Holding Corp. ("PSB"), headquartered in Preston, Maryland. PSB merged with and into Summit, with Summit as the surviving entity (the "Merger"). Immediately following the Merger, Provident State Bank, Inc., PSB's wholly owned banking subsidiary, merged with and into Summit's wholly owned banking subsidiary, Summit Community Bank, Inc., ("Summit Community Bank"). Each PSB shareholder received 1.2347 shares of Summit common stock for each outstanding share of PSB common stock representing \$39.0 million stock consideration, or 1,880,732 shares of Summit common stock. In addition, cash consideration of \$595,000 was paid for settlement of outstanding stock options and payments for fractional shares. At consummation, PSB's assets and liabilities approximated \$568 million and \$528 million respectively.

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 PSB were recorded at their respective acquisition date fair values. The fair values of assets and liabilities were preliminary and subject to refinement for up to one year after acquisition date as additional information relative to the acquisition date fair values becomes available. We recognized preliminary goodwill of \$687,000 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. 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 1, 2023 in connection with the acquisition of PSB, the fair values of the assets acquired and liabilities assumed and the resulting preliminary goodwill.

	As Recorded by Provident	Estimated Fair Value Adjustments	Estimated Fair Values as Recorded by Summit
<i>(Dollars in thousands)</i>			
Cash consideration			\$ 595
Stock consideration			39,025
Total consideration			39,620
Identifiable assets acquired:			
Cash and cash equivalents	\$ 14,959	\$ —	\$ 14,959
Securities available for sale, at fair value	122,734	—	122,734
Securities held to maturity	20,466	(2,275)	18,191
Loans			
Purchased performing	363,446	(17,418)	346,028
Purchased credit deteriorated	18,473	(1,495)	16,978
Allowance for credit losses on loans	(3,341)	3,341	—
Premises and equipment	6,600	(425)	6,175
Core deposit intangibles	—	14,928	14,928
Other assets	24,981	(3,799)	21,182
Total identifiable assets acquired	\$ 568,318	\$ (7,143)	\$ 561,175
Identifiable liabilities assumed:			
Deposits	497,802	(249)	497,553
Short-term borrowings	17,650	—	17,650
Long-term borrowings	5,209	(66)	5,143
Other liabilities	7,284	(5,388)	1,896
Total identifiable liabilities assumed	\$ 527,945	\$ (5,703)	\$ 522,242
Net identifiable assets acquired	\$ 40,373	\$ (1,440)	\$ 38,933
Preliminary goodwill resulting from acquisition			\$ 687

MVB Bank Branches Acquisition

On July 10, 2021, Summit Community Bank, Inc. ("SCB"), a wholly-owned subsidiary of Summit, acquired four MVB Bank locations located in southern West Virginia: one in Kanawha County, one in Putnam County, and two in Cabell County. In addition, SCB acquired two MVB Bank drive-up banking locations in Cabell County. SCB assumed certain deposits and loans totaling approximately \$164 million and \$54 million, respectively. The purchase price was \$9.8 million equaling the average daily closing balance of the deposits for the thirty (30) day period prior to the closing multiplied by 6.00%.

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 were preliminary and subject to refinement for up to one year after the acquisition date as additional information relative to the acquisition date fair values became available. We recognized goodwill of \$10.33 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 July 10, 2021 in connection with the acquisition of the MVB Bank branches, the fair values of the assets acquired and liabilities assumed and the resulting goodwill.

<i>(Dollars in thousands)</i>	As Recorded by MVB	Estimated Fair Value Adjustments	Estimated Fair Values as Recorded by Summit
Cash consideration			\$ 9,807
Total consideration			9,807
Identifiable assets acquired:			
Cash and cash equivalents	\$ 946	\$ —	\$ 946
Loans			
Purchased performing	53,440	478	53,918
Purchased credit deteriorated	488	(91)	397
Premises and equipment	3,431	(129)	3,302
Core deposit intangibles	—	178	178
Other assets	260	—	260
Total identifiable assets acquired	\$ 58,565	\$ 436	\$ 59,001
Identifiable liabilities assumed:			
Deposits	163,081	959	164,040
Other liabilities	45	—	45
Total identifiable liabilities assumed	\$ 163,126	\$ 959	\$ 164,085
Net liabilities assumed	\$ (104,561)	\$ (523)	\$ (105,084)
Net cash received from MVB			94,753
Goodwill resulting from acquisition			\$ 10,331

The following is a description of the methods used to determine the fair values of significant assets and liabilities presented for each transaction 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, collectability, 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 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.

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.

Long-term borrowings: The fair value of long-term fixed-rate borrowings was estimated using by discounting future cash flows using current interest rates for similar financial instruments.

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 credit losses on loans.

In accordance with ASC 326, 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.

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 credit losses established at the acquisition date for purchased performing loans. A provision for credit losses is recorded for any deterioration in these loans subsequent to the acquisition.

The revenues and earnings of our acquired entities during 2023 and 2021, as if the business combinations occurred as of the beginning of the comparable prior annual reporting period, are impracticable to provide because each acquisition was integrated into our existing operations and financial information relative to the acquired entities is not maintained.

During 2023 and 2021, 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:

<i>Dollars in thousands</i>	For the Year Ended December 31,			
		2023		2021
Purchase price of PCD loans at acquisition	\$	18,473	\$	488
Allowance for credit losses - loans at acquisition		1,495		91
Non-credit discount at acquisition		729		(2)
Par value of PCD loans at acquisition		16,249		399

NOTE 4. FAIR VALUE MEASUREMENTS

In accordance with ASC 820 *Fair Value Measurements*, fair value is based upon the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A fair value hierarchy is utilized to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

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

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

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

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and our creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. Our valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes our valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein. A more detailed description of the valuation methodologies used for assets and liabilities measured at fair value is set forth below. Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally coincides with our monthly and/or quarterly valuation process.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis include the following:

Debt Securities Available for Sale: Debt securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 debt securities include U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets. Level 2 debt securities include U.S. agency securities, mortgage-backed securities, municipal bonds and corporate debt securities. Certain trust preferred securities classified as corporate debt securities are Level 3 due to limited market trades of these classes of securities.

Equity Investments: Equity investments are recorded at fair value on a recurring basis, with changes in fair value reported in net income. At December 31, 2023 and 2022, we held an investment in an S&P 500 index mutual fund with a fair value of \$6.6 million and \$5.2 million, respectively. The mutual fund is actively traded on an exchange, and we classify it as Level 1.

We purchased perpetual preferred stock of a bank holding company issued in October 2022 in a private offering. The perpetual preferred stock does not trade on an exchange or in an active over-the-counter market; therefore, we estimate its fair value using the present value of its future cash flows using observed discount rates of similar publicly-traded securities, adjusted for a liquidity premium. We classify the perpetual preferred stock as Level 2, and its fair value at December 31, 2023 and 2022 was \$2.8 million and \$2.9 million, respectively.

Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment. Such equity securities totaled \$1.6 million and \$800,000 at December 31, 2023 and 2022 respectively and are included in Equity Investments on the accompanying consolidated balance sheets.

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

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

<i>Dollars in thousands</i>	Balance at December 31, 2023	Fair Value Measurements Using:			
		Level 1	Level 2	Level 3	
Debt securities available for sale					
U.S. Government sponsored agencies	\$ 22,825	\$ —	\$ 22,825	\$ —	
Residential mortgage-backed securities:					
Government sponsored agencies	129,567	—	129,567	—	
Nongovernment sponsored entities	73,869	—	69,262	4,607	
State and political subdivisions	94,929	—	94,929	—	
Corporate debt securities	37,907	—	37,907	—	
Asset-backed securities	44,205	—	44,205	—	
Tax-exempt state and political subdivisions	99,460	—	99,460	—	
Total debt securities available for sale	\$ 502,762	\$ —	\$ 498,155	\$ 4,607	
Equity investments					
	\$ 10,958	\$ 6,557	\$ 4,401	\$ —	
Derivative financial assets					
Interest rate caps	\$ 24,314	\$ —	\$ 24,314	\$ —	
Interest rate swaps	8,831	—	8,831	—	

<i>Dollars in thousands</i>	Balance at	Fair Value Measurements Using:			
	December 31, 2022	Level 1	Level 2	Level 3	
Debt securities available for sale					
U.S. Government sponsored agencies	\$ 20,219	\$ —	\$ 20,219	\$ —	
Residential mortgage-backed securities:					
Government sponsored agencies	51,456	—	51,456	—	
Nongovernment sponsored entities	61,617	—	61,617	—	
State and political subdivisions	93,067	—	93,067	—	
Corporate debt securities	31,628	—	29,788	1,840	
Asset-backed securities	19,476	—	19,476	—	
Tax-exempt state and political subdivisions	127,738	—	127,738	—	
Total debt securities available for sale	\$ 405,201	\$ —	\$ 403,361	\$ 1,840	
Equity investments					
	\$ 29,494	\$ 25,766	\$ 3,728	\$ —	
Derivative financial assets					
Interest rate caps	\$ 30,601	\$ —	\$ 30,601	\$ —	
Interest rate swaps	9,905	—	9,905	—	

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

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

Collateral Dependent Loans with an ACLL: In accordance with ASC 326, 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 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.

Property Held for Sale: Property held for sale consists of real estate acquired in foreclosure or other settlement of loans. Foreclosed assets are initially recorded at fair value, less estimated selling costs, when acquired establishing a new cost basis. Such assets are carried on the balance sheet at the lower of the investment in the real estate or its fair value less estimated selling costs. The fair value of foreclosed properties is determined on a nonrecurring basis generally utilizing current appraisals performed by an independent, licensed appraiser applying an income or market value approach using observable market data (Level 2). Updated appraisals of foreclosed properties are generally obtained if the existing appraisal is more than 18 months old or more frequently if there is a known deterioration in value. However, if a current appraisal is not available, the original appraised value is discounted, as appropriate, to compensate for the estimated depreciation in the value of the real estate since the date of its original appraisal. Such discounts are generally estimated based upon management's knowledge of sales of similar property within the applicable market area and its knowledge of other real estate market-related data as well as general economic trends (Level 3). Upon foreclosure, any fair value adjustment is charged against the allowance for credit losses on loans. Subsequent fair value adjustments are recorded in the period incurred and included in other noninterest expense in the consolidated statements of income.

Assets measured at fair value on a nonrecurring basis are included in the tables below.

<i>Dollars in thousands</i>	Balance at December 31, 2023	Fair Value Measurements Using:			
		Level 1	Level 2	Level 3	
Collateral-dependent loans with an ACLL					
Commercial real estate	\$ 13,488	\$ —	\$ 13,488	\$ —	
Construction and development	248	—	248	—	
Residential real estate	637	—	637	—	
Total collateral-dependent loans with an ACLL	\$ 14,373	\$ —	\$ 14,373	\$ —	
Property held for sale					
Commercial real estate	\$ 297	\$ —	\$ 297	\$ —	
Construction and development	3,176	—	3,176	—	
Total property held for sale	\$ 3,473	\$ —	\$ 3,473	\$ —	

<i>Dollars in thousands</i>	Balance at December 31, 2022	Fair Value Measurements Using:			
		Level 1	Level 2	Level 3	
Collateral-dependent loans with an ACLL					
Commercial real estate	\$ 3,051	\$ —	\$ 3,051	\$ —	
Construction and development	350	—	350	—	
Residential real estate	182	—	182	—	
Total collateral-dependent loans with an ACLL	\$ 3,583	\$ —	\$ 3,583	\$ —	
Property held for sale					
Commercial real estate	\$ 297	\$ —	\$ 297	\$ —	
Construction and development	4,480	—	4,480	—	
Total property held for sale	\$ 4,777	\$ —	\$ 4,777	\$ —	

ASC Topic 825, *Financial Instruments*, requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The estimated fair value approximates carrying value for cash and cash equivalents, accrued interest and the cash surrender value of life insurance policies and annuities. The methodologies for other financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis are discussed below:

Loans: The estimated fair value approximates carrying value for variable-rate loans that reprice frequently and with no significant change in credit risk. The fair value of fixed-rate loans and variable-rate loans which reprice on an infrequent basis is estimated by discounting future cash flows using the current interest rates at which similar loans with similar terms would be made to borrowers of similar credit quality. An overall valuation adjustment is made for specific credit risks as well as general portfolio credit risk.

Other Investments: The carrying value of other investments, consisting principally of Federal Home Loan Bank stock, is a reasonable estimate of fair value of this stock. This stock is non-transferable and can only be redeemed at its par value by FHLB.

Deposits: The estimated fair value approximates carrying value for demand deposits. The fair value of fixed-rate deposit liabilities with defined maturities is estimated by discounting future cash flows using the interest rates currently offered for deposits of similar remaining maturities. The estimated fair value of deposits does not take into account the value of our long-term relationships with depositors, commonly known as core deposit intangibles, which are separate intangible assets, and not considered financial instruments. Nonetheless, we would likely realize a core deposit premium if our deposit portfolio were sold in the principal market for such deposits.

Borrowed Funds: The estimated fair value approximates carrying value for short-term borrowings. The fair value of long-term fixed-rate borrowings is estimated using quoted market prices, if available, or by discounting future cash flows using current interest rates for similar financial instruments.

Subordinated debentures: The fair value of subordinated debentures is estimated by discounting future cash flows using current interest rates.

The following tables present the carrying amount, fair value, and placement in the fair value hierarchy of our financial instruments as of December 31, 2023 and December 31, 2022.

	At December 31, 2023		Fair Value Measurements Using:			
	Estimated Fair					
<i>Dollars in thousands</i>	Carrying Value	Value	Level 1	Level 2	Level 3	
Financial assets						
Cash and cash equivalents	\$ 52,232	\$ 52,232	\$ 21,834	\$ 30,398	\$ —	
Debt securities available for sale	502,762	502,762	—	498,155	4,607	
Debt securities held to maturity	94,227	88,319	—	88,319	—	
Equity investments	10,958	10,958	6,557	4,401	—	
Other investments	21,130	21,130	—	21,130	—	
Loans, net	3,633,522	3,467,324	—	14,373	3,452,951	
Accrued interest receivable	20,004	20,004	—	20,004	—	
Cash surrender value of life insurance policies and annuities	85,679	85,679	—	85,679	—	
Derivative financial assets	33,145	33,145	—	33,145	—	
	\$ 4,453,659	\$ 4,281,553	\$ 28,391	\$ 795,604	\$ 3,457,558	
Financial liabilities						
Deposits	\$ 3,715,148	\$ 3,706,250	\$ —	\$ 3,706,250	\$ —	
Short-term borrowings	302,957	302,957	—	302,957	—	
Long-term borrowings	637	642	—	642	—	
Subordinated debentures	103,782	90,902	—	90,902	—	
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589	—	19,589	—	
Accrued interest payable	3,980	3,980	—	3,980	—	
	\$ 4,146,093	\$ 4,124,320	\$ —	\$ 4,124,320	\$ —	

	At December 31, 2022		Fair Value Measurements Using:			
	Estimated Fair					
<i>Dollars in thousands</i>	Carrying Value	Value	Level 1	Level 2	Level 3	
Financial assets						
Cash and cash equivalents	\$ 44,717	\$ 44,717	\$ 16,469	\$ 28,248	\$ —	
Debt securities available for sale	405,201	405,201	—	403,361	1,840	
Debt securities held to maturity	96,163	86,627	—	86,627	—	
Equity investments	29,494	29,494	25,766	3,728	—	
Other investments	16,029	16,029	—	16,029	—	
Loans, net	3,043,919	2,966,814	—	3,583	2,963,231	
Accrued interest receivable	15,866	15,866	—	15,866	—	
Cash surrender value of life insurance policies and annuities	71,640	71,640	—	71,640	—	
Derivative financial assets	40,506	40,506	—	40,506	—	
	\$ 3,763,535	\$ 3,676,894	\$ 42,235	\$ 669,588	\$ 2,965,071	
Financial liabilities						
Deposits	\$ 3,169,879	\$ 3,155,725	\$ —	\$ 3,155,725	\$ —	
Short-term borrowings	225,999	225,999	—	225,999	—	
Long-term borrowings	658	667	—	667	—	
Subordinated debentures	103,296	91,801	—	91,801	—	
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589	—	19,589	—	
Accrued interest payable	2,357	2,357	—	2,357	—	
	\$ 3,521,778	\$ 3,496,138	\$ —	\$ 3,496,138	\$ —	

NOTE 5. DEBT SECURITIES

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

Debt securities held to maturity: Certain debt securities for which we have the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts.

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

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

Allowance for Credit Losses – Debt Securities Available for Sale: For debt securities available for sale in an unrealized loss position, we first assess whether (i) we intend to sell or (ii) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis. If either case is affirmative, any previously recognized allowances are charged-off and the security's amortized cost is written down to fair value through income. If neither case is affirmative, the security is evaluated to determine whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency and any adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. Adjustments to the allowance are reported in our income statement as a component of the provision for credit losses. We have elected to exclude accrued interest receivable on available-for-sale securities from the estimate of credit losses. Debt securities available for sale are charged-off against the allowance or, in the absence of any allowance, written down through income when deemed uncollectible or when either of the aforementioned criteria regarding intent or requirement to sell is met.

Allowance for Credit Losses – Debt Securities Held to Maturity: The allowance for credit losses on debt securities held to maturity is a contra-asset valuation account, calculated in accordance with ASC 326, that is deducted from the amortized cost basis of debt securities held to maturities to present our best estimate of the net amount expected to be collected. Debt securities held to maturity are charged-off against the allowance when deemed uncollectible. Adjustments to the allowance are reported in our income statement as a component of the provision for credit losses. We measure expected credit losses on debt securities held to maturity 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. We made the accounting policy election to exclude accrued interest receivable on debt securities held to maturity from the estimate of credit losses.

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

Debt Securities Available for Sale

The amortized cost, unrealized gains, unrealized losses and estimated fair values of debt securities available for sale at December 31, 2023 and 2022, are summarized as follows:

	December 31, 2023			
	Amortized Cost	Unrealized		Fair Value
		Gains	Losses	
<i>Dollars in thousands</i>				
Debt Securities Available for Sale				
Taxable debt securities				
U.S. Government and agencies and corporations	\$ 23,295	\$ 38	\$ 508	\$ 22,825
Residential mortgage-backed securities:				
Government-sponsored agencies	133,709	729	4,871	129,567
Nongovernment-sponsored entities	78,350	22	4,503	73,869
State and political subdivisions				
General obligations	79,323	3	14,995	64,331
Various tax revenues	10,665	—	2,107	8,558
Other revenues	26,822	—	4,782	22,040
Corporate debt securities	39,618	52	1,763	37,907
Asset-backed securities	44,388	81	264	44,205
Total taxable debt securities	436,170	925	33,793	403,302
Tax-exempt debt securities				
State and political subdivisions				
General obligations	80,144	581	3,716	77,009
Other revenues	24,882	28	2,459	22,451
Total tax-exempt debt securities	105,026	609	6,175	99,460
Total debt securities available for sale	\$ 541,196	\$ 1,534	\$ 39,968	\$ 502,762

	December 31, 2022			
	Amortized Cost	Unrealized		Fair Value
		Gains	Losses	
<i>Dollars in thousands</i>				
Debt Securities Available for Sale				
Taxable debt securities				
U.S. Government and agencies and corporations	\$ 20,446	\$ 83	\$ 310	\$ 20,219
Residential mortgage-backed securities:				
Government-sponsored agencies	55,184	80	3,808	51,456
Nongovernment-sponsored entities	65,860	48	4,291	61,617
State and political subdivisions				
General obligations	82,410	9	19,924	62,495
Various tax revenues	10,699	—	2,591	8,108
Other revenues	29,044	—	6,580	22,464
Corporate debt securities	33,409	44	1,825	31,628
Asset-backed securities	20,009	—	533	19,476
Total taxable debt securities	317,061	264	39,862	277,463
Tax-exempt debt securities				
State and political subdivisions				
General obligations	93,910	281	6,719	87,472
Water and sewer revenues	17,560	120	1,154	16,526
Lease revenues	7,411	47	411	7,047
Various tax revenues	7,851	—	1,115	6,736
Other revenues	11,274	9	1,326	9,957
Total tax-exempt debt securities	138,006	457	10,725	127,738
Total debt securities available for sale	\$ 455,067	\$ 721	\$ 50,587	\$ 405,201

Accrued interest receivable on debt securities available for sale totaled \$3.1 million and \$3.0 million at December 31, 2023 and 2022, respectively and is included in accrued interest and fees receivable in the accompanying consolidated balance sheets.

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

	December 31, 2023			
		Unrealized		
<i>Dollars in thousands</i>	Amortized Cost	Gains	Losses	Fair Value
California	\$ 43,903	\$ —	\$ 8,423	\$ 35,480
Texas	29,284	220	3,604	25,900
Michigan	18,749	8	1,481	17,276
Oregon	14,719	—	3,006	11,713
Pennsylvania	11,214	19	1,231	10,002

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

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

<i>Dollars in thousands</i>	Proceeds from			Gross realized	
	Sales	Calls and Maturities	Principal Payments	Gains	Losses
Years ended December 31,					
2023	\$ 135,701	\$ 4,492	\$ 40,702	\$ 1,254	\$ 1,520
2022	69,211	1,875	37,860	288	996
2021	64,932	8,070	29,869	1,210	785

Residential mortgage-backed obligations having contractual maturities ranging from 1 to 49 years are included in the following maturity distribution schedules based on their anticipated average life to maturity, which ranges from 2 months to 17 years. Accordingly, discounts are accreted and premiums are amortized over the anticipated average life to maturity of the specific obligation.

The maturities, amortized cost and estimated fair values of securities available for sale at December 31, 2023, are summarized as follows:

<i>Dollars in thousands</i>	Amortized Cost	Fair Value
Due in one year or less	\$ 61,455	\$ 59,934
Due from one to five years	161,414	156,157
Due from five to ten years	112,930	105,048
Due after ten years	205,397	181,623
Total	\$ 541,196	\$ 502,762

At December 31, 2023 and 2022, securities with estimated carrying values of \$349.4 million and \$238.6 million respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

Provided below is a summary of debt securities available for sale which were in an unrealized loss position and for which an allowance for credit losses has not been recorded at December 31, 2023 and 2022.

<i>Dollars in thousands</i>	# of securities in loss position	2023					
		Less than 12 months		12 months or more		Total	
		Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Taxable debt securities							
U.S. Government agencies and corporations	39	\$ 11,809	\$ 287	\$ 9,329	\$ 221	\$ 21,138	\$ 508
Residential mortgage-backed securities:							
Government-sponsored agencies	133	68,815	1,528	32,902	3,343	101,717	4,871
Nongovernment-sponsored entities	35	27,804	1,493	40,274	3,010	68,078	4,503
State and political subdivisions:							
General obligations	54	—	—	63,336	14,995	63,336	14,995
Various tax revenues	7	—	—	8,558	2,107	8,558	2,107
Other revenues	21	1,530	56	18,854	4,726	20,384	4,782
Corporate debt securities	21	6,758	341	18,310	1,422	25,068	1,763
Asset-backed securities	17	23,823	110	9,961	154	33,784	264
Tax-exempt debt securities							
State and political subdivisions:							
General obligations	39	7,479	69	43,626	3,647	51,105	3,716
Other revenues	19	807	28	19,317	2,431	20,124	2,459
Total	385	\$ 148,825	\$ 3,912	\$ 264,467	\$ 36,056	\$ 413,292	\$ 39,968

Dollars in thousands	# of securities in loss position	2022						
		Less than 12 months		12 months or more		Total		
		Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	
Taxable debt securities								
U.S. Government agencies and corporations	28	\$ 8,012	\$ 99	\$ 9,577	\$ 211	\$ 17,589	\$ 310	
Residential mortgage-backed securities:								
Government-sponsored agencies	58	21,831	1,104	19,459	2,704	41,290	3,808	
Nongovernment-sponsored entities	27	35,727	2,974	10,041	1,317	45,768	4,291	
State and political subdivisions:								
General obligations	56	11,258	1,476	49,858	18,448	61,116	19,924	
Various tax revenues	7	1,352	276	6,756	2,315	8,108	2,591	
Other revenues	23	6,361	1,040	16,103	5,540	22,464	6,580	
Corporate debt securities	20	8,308	591	13,072	1,234	21,380	1,825	
Asset-backed securities	13	11,680	277	7,796	256	19,476	533	
Tax-exempt debt securities								
State and political subdivisions:								
General obligations	52	50,671	1,823	26,062	4,896	76,733	6,719	
Water and sewer revenues	13	8,800	403	4,471	751	13,271	1,154	
Lease revenues	2	3,330	11	1,985	400	5,315	411	
Various tax revenues	4	3,597	439	3,139	676	6,736	1,115	
Other revenues	7	2,900	393	4,812	933	7,712	1,326	
Total	310	\$ 173,827	\$ 10,906	\$ 173,131	\$ 39,681	\$ 346,958	\$ 50,587	

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 December 31, 2023 and 2022 are summarized as follows:

	December 31, 2023			
	Amortized Cost	Unrealized		Estimated Fair Value
		Gains	Losses	
<i>Dollars in thousands</i>				
Debt Securities Held to Maturity				
Tax-exempt debt securities				
State and political subdivisions				
General obligations	\$ 68,966	\$ —	\$ 4,029	\$ 64,937
Water and sewer revenues	7,816	—	417	7,399
Lease revenues	4,151	—	321	3,830
Sales tax revenues	4,446	—	409	4,037
Various tax revenues	5,425	—	536	4,889
Other revenues	3,423	—	196	3,227
Total Debt Securities Held to Maturity	\$ 94,227	\$ —	\$ 5,908	\$ 88,319

	December 31, 2022				
	Amortized	Unrealized		Estimated	
	Cost	Gains	Losses	Fair Value	
<i>Dollars in thousands</i>					
Debt Securities Held to Maturity					
Tax-exempt debt securities					
State and political subdivisions					
General obligations	\$ 70,401	\$ —	\$ 6,480	\$	63,921
Water and sewer revenues	8,006	—	672		7,334
Lease revenues	4,234	—	534		3,700
Sales tax revenues	4,515	—	689		3,826
Various tax revenues	5,511	—	871		4,640
Other revenues	3,496	—	290		3,206
Total Debt Securities Held to Maturity	\$ 96,163	\$ —	\$ 9,536	\$	86,627

Accrued interest receivable on debt securities held to maturity totaled \$1.1 million at December 31, 2023 and 2022 respectively, and is included in accrued interest and fees receivable in the accompanying consolidated balance sheets.

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.

<i>Dollars in thousands</i>	December 31, 2023				
	Amortized Cost	Unrealized		Estimated Fair Value	
		Gains	Losses		
Texas	\$ 14,795	\$ —	\$ 854	\$ 13,941	
California	9,450	—	454	8,996	
Pennsylvania	8,322	—	439	7,883	
Florida	7,331	—	637	6,694	
Michigan	6,772	—	503	6,269	

The following table displays the amortized cost of held to maturity securities by credit rating at December 31, 2023 and 2022.

	December 31, 2023						
<i>Dollars in thousands</i>	AAA	AA	A	BBB	Below Investment Grade		
Tax-exempt state and political subdivisions	\$ 14,866	\$ 72,086	\$ 7,275	\$ —	\$ —		

	December 31, 2022						
<i>Dollars in thousands</i>	AAA	AA	A	BBB	Below Investment Grade		
Tax-exempt state and political subdivisions	\$ 12,846	\$ 75,932	\$ 7,385	\$ —	\$ —		

We owned no past due or nonaccrual held to maturity debt securities at December 31, 2023 or 2022.

The maturities, amortized cost and estimated fair values of debt securities held to maturity at December 31, 2023, are summarized as follows:

<i>Dollars in thousands</i>	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ —	\$ —
Due from one to five years	—	—
Due from five to ten years	4,025	3,856
Due after ten years	90,202	84,463
Total	\$ 94,227	\$ 88,319

There were no proceeds from the calls and maturities of debt securities held to maturity for the year ended December 31, 2023, 2022, or 2021.

NOTE 6. EQUITY AND OTHER INVESTMENTS

Equity investments are carried at fair value, with changes in fair value reported in net income. See Note 4. *Fair Value Measurements* for information regarding the nature and fair values of the investments reflected on the accompanying consolidated balance sheets as Equity Investments.

We are a member bank of the Federal Home Loan Bank ("FHLB") system. Members are required to own a certain amount of stock based on the level of borrowings from FHLB and other factors. FHLB stock is carried at cost and periodically evaluated for impairment based on ultimate recovery of par value. Dividends are reported as income as earned. This stock totaled \$14.4 million and \$11.3 million at December 31, 2023 and 2022 and is included in Other Investments on the accompanying consolidated balance sheets.

We have invested in four limited partnerships which own interests in diversified portfolios of qualified affordable housing projects. Also, we have purchased substantially all the interest in a limited liability company owning a qualified rehabilitated multi-family housing project. As result of these investments, Summit is allocated its proportional share of each investees' operating losses and Federal Low-Income Housing and Rehabilitation Tax Credits. We use the proportional amortization method to account for each of these investments, whereby the cost of the investment is amortized in proportion to the amount of tax credits and other tax benefits received, and the net investment performance is recognized in the consolidated statements of income as a component of the provision for current income taxes. As of December 31, 2023 and 2022, our carrying value of these investments totaled \$6.6 million and \$4.8 million, respectively, and is included in Other Investments on the accompanying consolidated balance sheets. For the years ended December 31, 2023, 2022 and 2021, we realized \$1,590,000, \$1,309,000 and \$1,087,000, respectively, in tax credits and other tax benefits on these investments, against which we amortized these investments \$1,162,000, \$1,177,000 and \$877,000 and recognized income tax benefits of \$200,000, \$214,000 and \$206,000.

NOTE 7. LOANS AND ALLOWANCE FOR CREDIT LOSSES ON 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.

Loans

The following table presents the amortized cost of loans held for investment:

<i>Dollars in thousands</i>	2023	2022
Commercial	\$ 503,842	\$ 501,844
Commercial real estate - owner occupied		
Professional & medical	156,941	120,872
Retail	170,391	188,196
Other	217,776	157,982
Commercial real estate - non-owner occupied		
Hotels & motels	215,642	141,042
Mini-storage	68,517	51,109
Multifamily	302,298	272,705
Retail	254,246	192,270
Other	413,634	347,242
Construction and development		
Land & land development	145,258	106,362
Construction	374,026	282,935
Residential 1-4 family real estate		
Personal residence	362,733	265,326
Rental - small loan	142,665	121,548
Rental - large loan	116,614	92,103
Home equity	81,126	71,986
Mortgage warehouse lines	108,848	130,390
Consumer	43,756	35,372
Other		
Credit cards	2,286	2,182
Overdrafts	1,013	1,352
Total loans, net of unearned fees	3,681,612	3,082,818
Less allowance for credit losses - loans	48,090	38,899
Loans, net	\$ 3,633,522	\$ 3,043,919

Accrued interest and fees receivable on loans totaled \$14.1 million and \$10.4 million at December 31, 2023 and 2022, respectively and is included in accrued interest and fees receivable in the consolidated balance sheets. Included in the totals above are net unamortized loan fees of \$5.6 million and \$4.6 million at December 31, 2023 and 2022, respectively.

Past Due Loans and Non-Accrual Loans. Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on non-accrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. In determining whether or not a borrower may be unable to meet payment obligations for each class of loans, we consider the borrower's debt service capacity through the analysis of current financial information, if available, and/or current information with regards to our collateral position. Regulatory provisions would typically require the placement of a loan on non-accrual status if (i) principal or interest has been in default for a period of 90 days or more unless the loan is both well secured and in the process of collection or (ii) full payment of principal and interest is not expected. Loans may be placed on non-accrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income on non-accrual loans is recognized only to the extent that cash payments are received in excess of principal due. A loan may be returned to accrual status when all the principal and interest amounts contractually due are brought current and future principal and interest amounts contractually due are reasonably assured, which is typically evidenced by a sustained period (at least six months) of repayment performance by the borrower.

The following tables present the contractual aging of the amortized cost basis of past due loans by class.

<i>Dollars in thousands</i>	At December 31, 2023					
	Past Due				Current	90 days or more and Accruing
	30-59 days	60-89 days	90 days or more	Total		
Commercial	\$ 1,092	\$ 60	\$ 485	\$ 1,637	\$ 502,205	\$ —
Commercial real estate - owner occupied						
Professional & medical	327	—	357	684	156,257	—
Retail	195	165	119	479	169,912	—
Other	270	—	—	270	217,506	—
Commercial real estate - non-owner occupied						
Hotels & motels	—	—	—	—	215,642	—
Mini-storage	130	—	—	130	68,387	—
Multifamily	211	—	—	211	302,087	—
Retail	777	18	—	795	253,451	—
Other	—	—	—	—	413,634	—
Construction and development						
Land & land development	295	275	—	570	144,688	—
Construction	—	—	—	—	374,026	—
Residential 1-4 family real estate						
Personal residence	3,511	489	1,071	5,071	357,662	—
Rental - small loan	331	78	75	484	142,181	—
Rental - large loan	—	—	411	411	116,203	—
Home equity	1,723	269	466	2,458	78,668	307
Mortgage warehouse lines	—	—	—	—	108,848	—
Consumer	228	181	106	515	43,241	5
Other						
Credit cards	40	3	22	65	2,221	23
Overdrafts	—	—	—	—	1,013	—
Total	\$ 9,130	\$ 1,538	\$ 3,112	\$ 13,780	\$ 3,667,832	\$ 335

<i>Dollars in thousands</i>	At December 31, 2022					
	Past Due				Current	90 days or more and Accruing
	30-59 days	60-89 days	90 days or more	Total		
Commercial	\$ 2,982	\$ 201	\$ 34	\$ 3,217	\$ 498,627	\$ —
Commercial real estate - owner occupied						
Professional & medical	100	—	—	100	120,772	—
Retail	—	—	221	221	187,975	—
Other	376	135	37	548	157,434	—
Commercial real estate - non-owner occupied						
Hotels & motels	—	—	—	—	141,042	—
Mini-storage	—	—	—	—	51,109	—
Multifamily	—	—	58	58	272,647	—
Retail	165	—	438	603	191,667	—
Other	—	—	—	—	347,242	—
Construction and development						
Land & land development	317	852	—	1,169	105,193	—
Construction	—	—	—	—	282,935	—
Residential 1-4 family real estate						
Personal residence	3,768	741	1,969	6,478	258,848	—
Rental - small loan	1,093	582	816	2,491	119,057	—
Rental - large loan	—	—	—	—	92,103	—
Home equity	1,401	105	52	1,558	70,428	—
Mortgage warehouse lines	—	—	—	—	130,390	—
Consumer	182	71	—	253	35,119	—
Other						
Credit cards	9	13	12	34	2,148	12
Overdrafts	—	—	—	—	1,352	—
Total	\$ 10,393	\$ 2,700	\$ 3,637	\$ 16,730	\$ 3,066,088	\$ 12

The amount of interest recognized on nonaccrual loans during the periods presented is immaterial.

The following tables present the nonaccrual loans included in the net balance of loans.

	December 31, 2023		December 31, 2022	
	Nonaccrual	Nonaccrual with No Allowance for Credit Losses - Loans	Nonaccrual	Nonaccrual with No Allowance for Credit Losses - Loans
<i>Dollars in thousands</i>				
Commercial	\$ 1,088	\$ 2	\$ 93	\$ 48
Commercial real estate - owner occupied				
Professional & medical	395	—	—	—
Retail	525	—	350	—
Other	236	—	423	—
Commercial real estate - non-owner occupied				
Hotels & motels	—	—	—	—
Mini-storage	—	—	—	—
Multifamily	446	—	538	—
Retail	4,073	3,520	439	—
Other	—	—	—	—
Construction and development				
Land & land development	708	—	852	—
Construction	—	—	—	—
Residential 1-4 family real estate				
Personal residence	1,879	—	2,892	—
Rental - small loan	1,922	245	2,066	—
Rental - large loan	410	—	—	—
Home equity	313	—	158	—
Mortgage warehouse lines	—	—	—	—
Consumer	109	—	—	—
Other				
Credit cards	—	—	—	—
Overdrafts	—	—	—	—
Total	\$ 12,104	\$ 3,767	\$ 7,811	\$ 48

Modifications to Borrowers Experiencing Financial Difficulty

We adopted ASU 2022-02, *Financial Instruments - Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures* effective January 1, 2023. The amendments in ASU 2022-02 eliminated the recognition and measurement of troubled debt restructurings and enhanced disclosures for loan modifications to borrowers experiencing financial difficulty.

Generally, the modifications we grant are extensions of terms, deferrals of payments for an extended period or interest rate reductions. Occasionally, we may modify a loan by providing principal forgiveness. In some cases, we will modify a loan by providing multiple types, or combinations, of concessions.

The following table presents the amortized cost basis of loans as December 31, 2023 made to borrowers experiencing financial difficulty that were modified during the year ended December 31, 2023 and the percentage of those such loans to total loans in their respective loan classes. There were no commitments to lend additional funds under these modifications as of December 31, 2023.

	For the Year Ended December 31, 2023					% of Total Class of Loans
	Payment Delay	Term Extension	Combination Term Extension and Payment Delay	Total		
<i>Dollars in thousands</i>						
Commercial	\$ —	\$ 307	\$ —	\$ 307		0.1%
Commercial real estate - owner occupied						
Other	—	35	—	35		0.0%
Commercial real estate - non-owner occupied						
Multifamily	—	9,760	—	9,760		3.2%
Retail	—	387	—	387		0.2%
Residential 1-4 family real estate						
Personal residence	107	—	66	173		0.0%
Rental - small loan	—	345	—	345		0.2%
Total	\$ 107	\$ 10,834	\$ 66	\$ 11,007		0.3%

The ACLL incorporates an estimate of lifetime extended credit losses and is recorded on each loan upon origination or acquisition. We use a loss-rate, or cohort, method to estimate expected credit losses. The starting point for the estimate of the ACLL is historical loss information, which includes losses from modifications to borrowers experiencing financial difficulty. The assessment of whether a borrower is experiencing financial difficulty is made at the time of the modification.

Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the ACLL because of the measurement methodologies used to estimate the allowance, a change to the ACLL is generally not recorded upon modification. When principal forgiveness is granted, the amortized cost basis of the loan is written off against the ACLL.

The following table presents the financial effect of the modifications made to borrowers experiencing financial difficulty for the year ended December 31, 2023.

	For the Year Ended December 31, 2023	
	Weighted-Average Payment Delay in Months	Weighted-Average Term Extension in Months
<i>Dollars in thousands</i>		
Commercial	—	12
Commercial real estate - owner occupied		
Other	—	12
Commercial real estate - non-owner occupied		
Multifamily	—	6
Retail	—	20
Residential 1-4 family real estate		
Personal residence	8	5
Rental - small loan	—	16

The following table presents the amortized cost basis of loans that were modified during the year ended December 31, 2023 and subsequently defaulted. For purposes of this table, a default represents any loan that was more than 30 days past due at any time during the period or the loan was fully or partially charged off during the period.

	December 31, 2023	
	Term Extension	Combination Term Extension and Payment Delay
<i>Dollars in thousands</i>		
Commercial	\$ 278	\$ —
Residential 1-4 family real estate		
Personal residence	—	66
Rental - small loan	160	—
Total	\$ 438	\$ 66

Upon determination that a modified loan, or a portion of a loan, has subsequently been deemed uncollectible, the loan, or a portion of the loan, is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the ACLL is adjusted by the same amount.

The following table depicts an age analysis of loans that have been modified during the year ended December 31, 2023 on an amortized costs basis.

	December 31, 2023						
		Past Due					
<i>Dollars in thousands</i>	Current	30-59 Days	60-89 Days	90 Days or More	Total		
Commercial	\$ 307	\$ —	\$ —	\$ —	\$ 307		
Commercial real estate - owner occupied							
Other	35	—	—	—	35		
Commercial real estate - non-owner occupied							
Multifamily	9,760	—	—	—	9,760		
Retail	387	—	—	—	387		
Residential 1-4 family real estate							
Personal residence	173	—	—	—	173		
Rental - small loan	345	—	—	—	345		
Total	\$ 11,007	\$ —	\$ —	\$ —	\$ 11,007		

Troubled Debt Restructurings Prior to the Adoption of ASU 2022-02

The following table presents by class the TDRs that were restructured during the years ended December 31, 2022 and 2021. 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.

	2022			2021		
	Number of Modifications	Pre- modification Recorded Investment	Post- modification Recorded Investment	Number of Modifications	Pre- modification Recorded Investment	Post- modification Recorded Investment
<i>Dollars in thousands</i>						
Residential 1-4 family real estate						
Personal residence	9	\$ 692	\$ 692	4	\$ 294	\$ 294
Rental - large loan	1	671	671	—	—	—
Home equity	2	158	158	—	—	—
Total	12	\$ 1,521	\$ 1,521	4	\$ 294	\$ 294

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.

	2022		2021	
	Number of Defaults	Recorded Investment at Default Date	Number of Defaults	Recorded Investment at Default Date
<i>Dollars in thousands</i>				
Residential 1-4 family real estate				
Personal residence	1	\$ 22	1	\$ 44
Home equity	1	107	—	—
Total	2	\$ 129	1	\$ 44

Credit Quality Indicators: We analyze loans individually by classifying the loans as to credit risk. The appropriate risk grades are determined 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 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.

Special Mention: Loans categorized as Special Mention 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: Loans categorized as Substandard are inadequately protected by the borrower's ability to repay 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: 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.

We internally grade all loans at the time of loan origination. 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. In addition, during the renewal process of any loan, as well as if a loan becomes past due or if other relevant information becomes available, we will re-evaluate the loan risk grade.

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 December 31, 2023 and 2022, based on the most recent analysis performed, the risk category of loans based on year of origination is as follows:

December 31, 2023										
<i>Dollars in thousands</i>	Risk Rating	2023	2022	2021	2020	2019	Prior	Revolving	Revolving - Term	Total
Commercial	Pass	\$ 63,526	\$ 130,075	\$ 55,932	\$ 17,841	\$ 15,802	\$ 9,693	\$ 205,654	\$ —	\$ 498,523
	Special Mention	369	402	299	251	218	1,897	966	—	4,402
	Substandard	78	124	447	—	40	—	228	—	917
Total Commercial		63,973	130,601	56,678	18,092	16,060	11,590	206,848	—	503,842
Current Period Charge-Offs		—	—	(1)	—	—	(3)	(58)	—	(62)
Commercial Real Estate - Owner Occupied										
Professional & medical	Pass	20,453	18,882	53,241	9,522	7,668	42,993	1,723	—	154,482
	Special Mention	—	—	—	1,092	—	867	—	—	1,959
	Substandard	—	—	—	67	—	433	—	—	500
Total Professional & Medical		20,453	18,882	53,241	10,681	7,668	44,293	1,723	—	156,941
Current Period Charge-Offs		—	—	—	—	—	(3)	—	—	(3)
Retail	Pass	5,600	22,936	66,848	11,794	23,778	34,173	3,116	—	168,245
	Special Mention	—	—	—	—	—	1,756	—	—	1,756
	Substandard	—	—	—	—	—	390	—	—	390
Total Retail		5,600	22,936	66,848	11,794	23,778	36,319	3,116	—	170,391
Current Period Charge-Offs		—	—	—	—	—	—	—	—	—
Other	Pass	27,260	47,405	36,980	25,611	14,807	59,992	2,823	—	214,878
	Special Mention	—	—	53	—	128	1,670	—	—	1,851
	Substandard	—	—	—	—	367	644	36	—	1,047
Total Other		27,260	47,405	37,033	25,611	15,302	62,306	2,859	—	217,776
Current Period Charge-Offs		—	—	—	—	—	(28)	—	—	(28)
Total Commercial Real Estate - Owner Occupied		53,313	89,223	157,122	48,086	46,748	142,918	7,698	—	545,108
Commercial Real Estate - Non-Owner Occupied										
Hotels & motels	Pass	55,770	37,994	11,995	9,161	53,781	28,209	1,650	—	198,560
	Substandard	—	—	—	2,647	14,238	197	—	—	17,082
Total Hotels & Motels		55,770	37,994	11,995	11,808	68,019	28,406	1,650	—	215,642
Current Period Charge-Offs		—	—	—	—	—	—	—	—	—
Mini-storage	Pass	1,488	22,994	12,460	5,047	4,288	22,184	16	—	68,477
	Special Mention	—	—	—	—	—	40	—	—	40
Total Mini-storage		1,488	22,994	12,460	5,047	4,288	22,224	16	—	68,517
Current Period Charge-Offs		—	—	—	—	—	—	—	—	—
Multifamily	Pass	15,406	69,803	72,257	52,648	21,966	68,610	1,163	—	301,853
	Substandard	—	—	—	400	—	45	—	—	445
Total Multifamily		15,406	69,803	72,257	53,048	21,966	68,655	1,163	—	302,298
Current Period Charge-Offs		—	—	—	—	—	(57)	—	—	(57)

December 31, 2023										
<i>Dollars in thousands</i>	Risk Rating	2023	2022	2021	2020	2019	Prior	Revolving	Revolving - Term	Total
Retail	Pass	39,462	53,109	57,587	49,146	10,623	35,241	4,046	—	249,214
	Special Mention	—	—	66	—	—	893	—	—	959
	Substandard	—	—	—	—	3,520	553	—	—	4,073
Total Retail		39,462	53,109	57,653	49,146	14,143	36,687	4,046	—	254,246
Current Period Charge-Offs		—	—	—	—	(3,658)	—	—	—	(3,658)
Other	Pass	45,146	104,191	114,862	56,165	15,509	55,330	9,237	—	400,440
	Special Mention	—	5,466	—	—	—	176	—	—	5,642
	Substandard	—	—	—	—	2,237	5,315	—	—	7,552
Total Other		45,146	109,657	114,862	56,165	17,746	60,821	9,237	—	413,634
Current Period Charge-Offs		—	—	—	—	—	—	—	—	—
Total Commercial Real Estate - Non-Owner Occupied										
		157,272	293,557	269,227	175,214	126,162	216,793	16,112	—	1,254,337
Construction and Development										
Land & land development	Pass	56,159	26,369	20,843	9,383	4,008	15,072	11,486	—	143,320
	Special Mention	—	—	—	144	155	419	—	—	718
	Substandard	—	95	—	—	—	1,125	—	—	1,220
Total Land & land development		56,159	26,464	20,843	9,527	4,163	16,616	11,486	—	145,258
Current Period Charge-Offs		—	—	—	—	—	—	—	—	—
Construction	Pass	53,929	98,497	178,043	41,800	—	1,302	455	—	374,026
Total Construction		53,929	98,497	178,043	41,800	—	1,302	455	—	374,026
Current Period Charge-Offs		—	—	—	—	—	—	—	—	—
Total Construction and Development										
		110,088	124,961	198,886	51,327	4,163	17,918	11,941	—	519,284
Residential 1-4 Family Real Estate										
Personal residence	Pass	54,170	65,858	55,445	32,016	16,499	121,272	—	—	345,260
	Special Mention	217	73	51	—	176	8,889	—	—	9,406
	Substandard	—	—	66	—	533	7,468	—	—	8,067
Total Personal Residence		54,387	65,931	55,562	32,016	17,208	137,629	—	—	362,733
Current Period Charge-Offs		—	—	—	—	—	(89)	—	—	(89)
Rental - small loan	Pass	17,930	21,637	27,323	11,244	10,951	40,298	7,490	—	136,873
	Special Mention	—	280	219	99	182	2,283	—	—	3,063
	Substandard	534	153	—	—	—	1,942	100	—	2,729
Total Rental - Small Loan		18,464	22,070	27,542	11,343	11,133	44,523	7,590	—	142,665
Current Period Charge-Offs		—	—	—	—	—	—	—	—	—
Rental - large loan	Pass	7,490	43,818	35,605	10,185	2,379	9,554	3,028	—	112,059
	Special Mention	—	—	—	—	—	3,516	—	—	3,516
	Substandard	—	629	—	—	—	410	—	—	1,039
Total Rental - Large Loan		7,490	44,447	35,605	10,185	2,379	13,480	3,028	—	116,614
Current Period Charge-Offs		—	—	—	—	—	—	—	—	—
Home equity	Pass	—	100	326	97	82	1,756	76,234	—	78,595
	Special Mention	—	—	—	—	17	609	1,093	—	1,719
	Substandard	—	—	25	—	37	600	150	—	812
Total Home Equity		—	100	351	97	136	2,965	77,477	—	81,126
Current Period Charge-Offs		—	—	—	—	—	—	—	—	—
Total Residential 1-4 Family Real Estate										
		80,341	132,548	119,060	53,641	30,856	198,597	88,095	—	703,138
Mortgage warehouse lines	Pass	—	—	—	—	—	—	108,848	—	108,848
Total Mortgage Warehouse Lines		—	—	—	—	—	—	108,848	—	108,848
Current Period Charge-Offs		—	—	—	—	—	—	—	—	—
Consumer	Pass	21,206	11,580	3,953	1,720	695	1,011	912	—	41,077
	Special Mention	1,171	749	160	94	39	76	4	—	2,293
	Substandard	127	160	37	35	—	2	25	—	386
Total Consumer		22,504	12,489	4,150	1,849	734	1,089	941	—	43,756
Current Period Charge-Offs		(124)	(170)	(39)	(10)	(1)	(7)	—	—	(351)

December 31, 2023										
<i>Dollars in thousands</i>	Risk Rating	2023	2022	2021	2020	2019	Prior	Revolving	Revolving - Term	Total
Other										
Credit cards	Pass	2,286	—	—	—	—	—	—	—	2,286
Total Credit Cards		2,286	—	—	—	—	—	—	—	2,286
Current Period Charge-Offs		(93)	—	—	—	—	—	—	—	(93)
Overdrafts	Pass	1,013	—	—	—	—	—	—	—	1,013
Total Overdrafts		1,013	—	—	—	—	—	—	—	1,013
Current Period Charge-Offs		(503)	—	—	—	—	—	—	—	(503)
Total Other		3,299	—	—	—	—	—	—	—	3,299
Total		\$ 490,790	\$ 783,379	\$ 805,123	\$ 348,209	\$ 224,723	\$ 588,905	\$ 440,483	\$ —	3,681,612
Total Charge-Offs		\$ (720)	\$ (170)	\$ (40)	\$ (10)	\$ (3,659)	\$ (187)	\$ (58)	\$ —	(4,844)
December 31, 2022										
<i>Dollars in thousands</i>	Risk Rating	2022	2021	2020	2019	2018	Prior	Revolving	Revolving - Term	Total
Commercial	Pass	\$ 145,996	\$ 73,702	\$ 27,247	\$ 20,300	\$ 3,056	\$ 10,429	\$ 194,641	\$ —	\$ 475,371
	Special Mention	689	23,055	267	51	17	149	2,010	—	26,238
	Substandard	52	56	—	48	24	—	55	—	235
Total Commercial		146,737	96,813	27,514	20,399	3,097	10,578	196,706	—	501,844
Commercial Real Estate - Owner Occupied										
Professional & medical	Pass	13,750	47,010	10,312	6,621	3,981	35,476	2,090	—	119,240
	Special Mention	—	—	1,119	—	—	233	—	—	1,352
	Substandard	—	—	72	—	—	208	—	—	280
Total Professional & Medical		13,750	47,010	11,503	6,621	3,981	35,917	2,090	—	120,872
Retail	Pass	23,604	70,257	28,128	28,327	8,163	26,538	2,226	—	187,243
	Special Mention	—	—	—	—	—	603	—	—	603
	Substandard	—	—	—	—	—	350	—	—	350
Total Retail		23,604	70,257	28,128	28,327	8,163	27,491	2,226	—	188,196
Other	Pass	43,811	27,174	24,870	7,778	15,346	34,720	3,412	—	157,111
	Special Mention	—	56	—	—	—	392	—	—	448
	Substandard	—	—	—	—	107	316	—	—	423
Total Other		43,811	27,230	24,870	7,778	15,453	35,428	3,412	—	157,982
Total Commercial Real Estate - Owner Occupied		81,165	144,497	64,501	42,726	27,597	98,836	7,728	—	467,050
Commercial Real Estate - Non-Owner Occupied										
Hotels & motels	Pass	32,059	1,695	3,192	32,688	15,358	12,899	4,081	—	101,972
	Special Mention	—	—	—	36,131	—	—	—	—	36,131
	Substandard	—	—	2,716	—	—	223	—	—	2,939
Total Hotels & Motels		32,059	1,695	5,908	68,819	15,358	13,122	4,081	—	141,042
Mini-storage	Pass	2,868	13,191	7,679	3,776	13,017	10,419	115	—	51,065
	Special Mention	—	—	—	—	—	44	—	—	44
Total Mini-storage		2,868	13,191	7,679	3,776	13,017	10,463	115	—	51,109
Multifamily	Pass	57,727	56,073	53,558	29,479	21,359	53,244	646	—	272,086
	Special Mention	—	—	81	—	—	—	—	—	81
	Substandard	—	—	480	—	—	58	—	—	538
Total Multifamily		57,727	56,073	54,119	29,479	21,359	53,302	646	—	272,705
Retail	Pass	46,278	52,387	39,609	5,449	6,999	25,315	7,053	—	183,090
	Special Mention	—	—	—	—	—	964	—	—	964
	Substandard	—	—	—	7,778	—	438	—	—	8,216
Total Retail		46,278	52,387	39,609	13,227	6,999	26,717	7,053	—	192,270

December 31, 2022										
<i>Dollars in thousands</i>	Risk Rating	2022	2021	2020	2019	2018	Prior	Revolving	Revolving - Term	Total
Other	Pass	94,765	123,551	52,592	12,281	5,444	47,752	1,953	—	338,338
	Special Mention	5,465	—	—	—	538	—	—	—	6,003
	Doubtful	—	—	—	—	—	2,901	—	—	2,901
Total Other		100,230	123,551	52,592	12,281	5,982	50,653	1,953	—	347,242
Total Commercial Real Estate - Non-Owner Occupied		239,162	246,897	159,907	127,582	62,715	154,257	13,848	—	1,004,368
Construction and Development										
Land & land development	Pass	27,857	23,490	10,670	13,395	5,142	15,859	7,484	—	103,897
	Special Mention	—	—	149	109	—	473	—	—	731
	Substandard	—	—	—	—	—	1,734	—	—	1,734
Total Land & land development		27,857	23,490	10,819	13,504	5,142	18,066	7,484	—	106,362
Construction	Pass	82,650	140,764	54,584	317	1,355	—	2,940	—	282,610
	Substandard	—	—	—	—	325	—	—	—	325
Total Construction		82,650	140,764	54,584	317	1,680	—	2,940	—	282,935
Total Construction and Development		110,507	164,254	65,403	13,821	6,822	18,066	10,424	—	389,297
Residential 1-4 Family Real Estate										
Personal residence	Pass	38,783	39,416	30,297	16,003	16,581	105,822	—	—	246,902
	Special Mention	—	53	—	180	74	9,074	—	—	9,381
	Substandard	—	68	—	620	901	7,454	—	—	9,043
Total Personal Residence		38,783	39,537	30,297	16,803	17,556	122,350	—	—	265,326
Rental - small loan	Pass	22,692	26,654	11,609	10,995	8,103	30,508	5,784	—	116,345
	Special Mention	—	224	103	—	—	1,100	—	—	1,427
	Substandard	—	—	—	156	239	3,269	112	—	3,776
Total Rental - Small Loan		22,692	26,878	11,712	11,151	8,342	34,877	5,896	—	121,548
Rental - large loan	Pass	28,090	31,401	11,033	3,631	3,932	9,045	894	—	88,026
	Special Mention	—	—	—	—	—	26	—	—	26
	Substandard	670	—	—	—	—	3,381	—	—	4,051
Total Rental - Large Loan		28,760	31,401	11,033	3,631	3,932	12,452	894	—	92,103
Home equity	Pass	65	219	55	50	192	2,118	67,155	—	69,854
	Special Mention	—	—	—	—	125	626	757	—	1,508
	Substandard	51	—	—	—	58	461	54	—	624
Total Home Equity		116	219	55	50	375	3,205	67,966	—	71,986
Total Residential 1-4 Family Real Estate		90,351	98,035	53,097	31,635	30,205	172,884	74,756	—	550,963
Mortgage warehouse lines	Pass	—	—	—	—	—	—	130,390	—	130,390
Total Mortgage Warehouse Lines		—	—	—	—	—	—	130,390	—	130,390
Consumer	Pass	17,594	7,620	3,066	1,806	749	1,221	889	—	32,945
	Special Mention	1,332	362	179	83	18	102	6	—	2,082
	Substandard	207	75	31	—	3	1	28	—	345
Total Consumer		19,133	8,057	3,276	1,889	770	1,324	923	—	35,372
Other										
Credit cards	Pass	2,182	—	—	—	—	—	—	—	2,182
Total Credit Cards		2,182	—	—	—	—	—	—	—	2,182

	December 31, 2022									
<i>Dollars in thousands</i>	Risk Rating	2022	2021	2020	2019	2018	Prior	Revolving	Revolving - Term	Total
Overdrafts	Pass	1,352	—	—	—	—	—	—	—	1,352
Total Overdrafts		1,352	—	—	—	—	—	—	—	1,352
Total Other		3,534	—	—	—	—	—	—	—	3,534
Total		\$ 690,589	\$ 758,553	\$ 373,698	\$ 238,052	\$ 131,206	\$ 455,945	\$ 434,775	\$ —	\$ 3,082,818

Industry concentrations: At December 31, 2023 and 2022, we had no concentrations of loans to any single industry in excess of 10% of total loans.

Loans to related parties: We have had, and may be expected to have in the future, banking transactions in the ordinary course of business with our directors, principal officers, their immediate families and affiliated companies in which they are principal shareholders (commonly referred to as related parties). These transactions have been, in our opinion, on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others.

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

<i>Dollars in thousands</i>	2023	2022
Balance, beginning	\$ 49,309	\$ 53,212
Additions	1,417	516
Amounts collected	(3,648)	(4,419)
Other changes, net	(7,882)	—
Balance, ending	\$ 39,196	\$ 49,309

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. Secondly, 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. percentage 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 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.

The following table presents the activity in the ACLL by portfolio segment during 2023 and 2022:

For the Year Ended December 31, 2023							
Allowance for Credit Losses - Loans							
<i>Dollars in thousands</i>	Beginning Balance	Provision for Credit Losses - Loans	Adjustment for PCD Acquired Loans	Charge-offs	Recoveries	Ending Balance	
Commercial	\$ 4,941	\$ (570)	\$ —	\$ (62)	\$ 10	\$ 4,319	
Commercial real estate - owner occupied							
Professional & medical	966	216	28	(3)	—	1,207	
Retail	1,176	(716)	82	—	1	543	
Other	426	(181)	384	(28)	—	601	
Commercial real estate - non-owner occupied							
Hotels & motels	1,203	1,921	—	—	—	3,124	
Mini-storage	82	(3)	—	—	—	79	
Multifamily	2,907	288	1	(57)	5	3,144	
Retail	1,362	4,601	99	(3,658)	114	2,518	
Other	2,452	(349)	632	—	12	2,747	
Construction and development							
Land & land development	3,482	2,085	1	—	8	5,576	
Construction	11,138	3,145	—	—	—	14,283	
Residential 1-4 family real estate							
Personal residence	2,939	57	69	(89)	341	3,317	
Rental - small loan	1,907	(135)	68	—	31	1,871	
Rental - large loan	2,668	(112)	1	—	289	2,846	
Home equity	705	543	130	—	52	1,430	
Mortgage warehouse lines	—	—	—	—	—	—	
Consumer	174	251	—	(351)	131	205	
Other							
Credit cards	17	93	—	(93)	9	26	
Overdrafts	354	321	—	(503)	82	254	
Total	\$ 38,899	\$ 11,455	\$ 1,495	\$ (4,844)	\$ 1,085	\$ 48,090	

For the Year Ended December 31, 2022							
Allowance for Credit Losses - Loans							
<i>Dollars in thousands</i>	Beginning Balance	Provision for Credit Losses - Loans	Charge-offs	Recoveries	Ending Balance		
Commercial	\$ 3,218	\$ 1,774	\$ (237)	\$ 186	\$ 4,941		
Commercial real estate - owner occupied							
Professional & medical	1,092	(126)	—	—	966		
Retail	1,362	(79)	(108)	1	1,176		
Other	575	(88)	(61)	—	426		
Commercial real estate - non-owner occupied							
Hotels & motels	2,532	(1,329)	—	—	1,203		
Mini-storage	133	(51)	—	—	82		
Multifamily	1,821	1,080	—	6	2,907		
Retail	1,074	228	—	60	1,362		
Other	1,820	593	—	39	2,452		
Construction and development							
Land & land development	3,468	76	(71)	9	3,482		
Construction	6,346	4,792	—	—	11,138		
Residential 1-4 family real estate							
Personal residence	2,765	230	(112)	56	2,939		
Rental - small loan	2,834	(848)	(211)	132	1,907		
Rental - large loan	2,374	294	—	—	2,668		
Home equity	497	179	(8)	37	705		
Mortgage warehouse lines	—	—	—	—	—		
Consumer	163	70	(174)	115	174		
Other							
Credit cards	17	7	(24)	17	17		
Overdrafts	207	476	(433)	104	354		
Total	\$ 32,298	\$ 7,278	\$ (1,439)	\$ 762	\$ 38,899		

The following tables presents, as of December 31, 2023 and 2022 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.

	December 31, 2023					
	Loan Balances			Allowance for Credit Losses - Loans		
	Loans Individually Evaluated	Loans Collectively Evaluated (1)	Total	Loans Individually Evaluated	Loans Collectively Evaluated	Total
<i>Dollars in thousands</i>						
Commercial	\$ 92	\$ 503,750	\$ 503,842	\$ —	\$ 4,319	\$ 4,319
Commercial real estate - owner occupied						
Professional & medical	—	156,941	156,941	—	1,207	1,207
Retail	572	169,819	170,391	23	520	543
Other	—	217,776	217,776	—	601	601
Commercial real estate - non-owner occupied						
Hotels & motels	17,083	198,559	215,642	1,456	1,668	3,124
Mini-storage	—	68,517	68,517	—	79	79
Multifamily	—	302,298	302,298	—	3,144	3,144
Retail	3,906	250,340	254,246	103	2,415	2,518
Other	7,823	405,811	413,634	214	2,533	2,747
Construction and development						
Land & land development	708	144,550	145,258	460	5,116	5,576
Construction	—	374,026	374,026	—	14,283	14,283
Residential 1-4 family real estate						
Personal residence	—	362,733	362,733	—	3,317	3,317
Rental - small loan	1,247	141,418	142,665	104	1,767	1,871
Rental - large loan	1,256	115,358	116,614	—	2,846	2,846
Home equity	—	81,126	81,126	—	1,430	1,430
Mortgage warehouse lines	—	108,848	108,848	—	—	—
Consumer	—	43,756	43,756	—	205	205
Other						
Credit cards	—	2,286	2,286	—	26	26
Overdrafts	—	1,013	1,013	—	254	254
Total	\$ 32,687	\$ 3,648,925	\$ 3,681,612	\$ 2,360	\$ 45,730	\$ 48,090

1) Included in the loans collectively evaluated are \$9.2 million in fully guaranteed or cash secured loans, which are excluded from the pools collectively evaluated and carry no allowance.

	December 31, 2022					
	Loan Balances			Allowance for Credit Losses - Loans		
	Loans Individually Evaluated	Loans Collectively Evaluated (1)	Total	Loans Individually Evaluated	Loans Collectively Evaluated	Total
<i>Dollars in thousands</i>						
Commercial	\$ 104	\$ 501,740	\$ 501,844	\$ —	\$ 4,941	\$ 4,941
Commercial real estate - owner occupied						
Professional & medical	1,969	118,903	120,872	212	754	966
Retail	4,544	183,652	188,196	—	1,176	1,176
Other	—	157,982	157,982	—	426	426
Commercial real estate - non-owner occupied						
Hotels & motels	2,939	138,103	141,042	—	1,203	1,203
Mini-storage	—	51,109	51,109	—	82	82
Multifamily	—	272,705	272,705	—	2,907	2,907
Retail	9,906	182,364	192,270	95	1,267	1,362
Other	5,551	341,691	347,242	287	2,165	2,452
Construction and development						
Land & land development	1,398	104,964	106,362	502	2,980	3,482
Construction	—	282,935	282,935	—	11,138	11,138
Residential 1-4 family real estate						
Personal residence	—	265,326	265,326	—	2,939	2,939
Rental - small loan	1,159	120,389	121,548	282	1,625	1,907
Rental - large loan	3,675	88,428	92,103	—	2,668	2,668
Home equity	—	71,986	71,986	—	705	705
Mortgage warehouse lines	—	130,390	130,390	—	—	—
Consumer	—	35,372	35,372	—	174	174
Other						
Credit cards	—	2,182	2,182	—	17	17
Overdrafts	—	1,352	1,352	—	354	354
Total	\$ 31,245	\$ 3,051,573	\$ 3,082,818	\$ 1,378	\$ 37,521	\$ 38,899

1) Included in the loans collectively evaluated are \$8.5 million in fully guaranteed or cash secured loans, which are excluded from the pools collectively evaluated and carry no allowance.

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

	December 31, 2023			
	Real Estate Secured Loans	Non-Real Estate Secured Loans	Total Loans	Allowance for Credit Losses - Loans
<i>Dollars in thousands</i>				
Commercial	\$ —	\$ 92	\$ 92	\$ —
Commercial real estate - owner occupied				
Professional & medical	—	—	—	—
Retail	572	—	572	23
Other	—	—	—	—
Commercial real estate - non-owner occupied				
Hotels & motels	17,083	—	17,083	1,456
Mini-storage	—	—	—	—
Multifamily	—	—	—	—
Retail	3,906	—	3,906	103
Other	7,823	—	7,823	214
Construction and development				
Land & land development	708	—	708	460
Construction	—	—	—	—
Residential 1-4 family real estate				
Personal residence	—	—	—	—
Rental - small loan	1,247	—	1,247	104
Rental - large loan	1,256	—	1,256	—
Home equity	—	—	—	—
Consumer	—	—	—	—
Other				
Credit cards	—	—	—	—
Overdrafts	—	—	—	—
Total	\$ 32,595	\$ 92	\$ 32,687	\$ 2,360

	December 31, 2022			
	Real Estate Secured Loans	Non-Real Estate Secured Loans	Total Loans	Allowance for Credit Losses - Loans
<i>Dollars in thousands</i>				
Commercial	\$ —	\$ 104	\$ 104	\$ —
Commercial real estate - owner occupied				
Professional & medical	1,969	—	1,969	212
Retail	4,544	—	4,544	—
Other	—	—	—	—
Commercial real estate - non-owner occupied				
Hotels & motels	2,939	—	2,939	—
Mini-storage	—	—	—	—
Multifamily	—	—	—	—
Retail	9,906	—	9,906	95
Other	5,551	—	5,551	287
Construction and development				
Land & land development	1,398	—	1,398	502
Construction	—	—	—	—
Residential 1-4 family real estate				
Personal residence	—	—	—	—
Rental - small loan	1,159	—	1,159	282
Rental - large loan	3,675	—	3,675	—
Home equity	—	—	—	—
Consumer	—	—	—	—
Other				
Credit cards	—	—	—	—
Overdrafts	—	—	—	—
Total	\$ 31,141	\$ 104	\$ 31,245	\$ 1,378

NOTE 8. PROPERTY HELD FOR SALE

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

The following table presents the activity of property held for sale during 2023, 2022 and 2021.

<i>Dollars in thousands</i>	2023		2022		2021	
Beginning balance	\$	5,067	\$	9,858	\$	15,588
Acquisitions		217		6		532
Capitalized improvements		2		36		—
Dispositions		(1,425)		(4,646)		(4,845)
Valuation adjustments		(132)		(187)		(1,417)
Balance at year end	\$	3,729	\$	5,067	\$	9,858

At December 31, 2023, our foreclosed properties of consumer residential real estate totaled \$255,000.

NOTE 9. PREMISES AND EQUIPMENT

Land is carried at cost, while premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily by the straight-line method for premises and equipment over the estimated useful lives of the assets. The estimated useful lives employed are on average 30 years for premises and 3 to 10 years for furniture and equipment. Repairs and maintenance expenditures are charged to operating expenses as incurred. Major improvements and additions to premises and equipment, including construction period interest costs, are capitalized. No interest was capitalized during 2023 or 2022.

The major categories of premises and equipment and accumulated depreciation at December 31, 2023 and 2022 are summarized as follows:

<i>Dollars in thousands</i>	2023		2022	
Land	\$	14,708	\$	13,729
Buildings and improvements		53,370		44,620
Furniture and equipment		33,900		31,827
		101,978		90,176
Less accumulated depreciation		(38,940)		(36,195)
Total premises and equipment, net	\$	63,038	\$	53,981

Depreciation expense for the years ended December 31, 2023, 2022 and 2021 approximated \$3.85 million, \$3.61million and \$3.59 million, respectively.

NOTE 10. LEASE COMMITMENTS

We lease certain office facilities and office equipment under operating leases. Rent expense for all operating leases totaled \$1.4 million in 2023, \$999,000 in 2022 and \$904,000 in 2021. In accordance with ASU No. 2016-02, *Leases (Topic 842)* and its related amendments we recognize certain operating leases on our balance sheet as lease right-of-use assets (reported as a component of other assets) and related lease liabilities (reported as a component of other liabilities).

The components of total lease expense in 2023, 2022 and 2021 were as follows:

<i>Dollars in thousands</i>	2023		2022		2021	
Amortization of lease right-of-use assets	\$	1,245	\$	961	\$	858
Short-term lease expense		110		38		46
Total	\$	1,355	\$	999	\$	904

Right-of-use lease assets totaled \$8.7 million and \$6.0 million at December 31, 2023 and 2022, respectively, and are reported as a component of other assets on our accompanying consolidated balance sheets. The related lease liabilities totaled \$8.9 million and \$6.1 million at December 31, 2023 and 2022, respectively, and are reported as a component of other liabilities in the accompanying consolidated balance sheets. Lease payments under operating leases that were applied to our operating lease liability totaled \$988,000, \$859,000 and \$732,000 during 2023, 2022 and 2021, respectively. The following table reconciles future undiscounted lease payments due under non-cancelable operating leases (those amounts subject to recognition) to the aggregate operating lessee lease liability as of December 31, 2023:

Future Lease Payments

Dollars in thousands

2024	\$	1,309
2025		1,266
2026		1,202
2027		1,073
2028		948
Thereafter		4,562
Total undiscounted operating lease liability	\$	10,360
Imputed interest		(1,439)
Total operating lease liability included in the accompanying balance sheet	\$	8,921

The weighted average remaining lease term was 9.2 years and 8.6 years at December 31, 2023 and 2022, respectively, and the weighted average discount rate was 3.07 percent and 1.71 percent at December 31, 2023 and 2022, respectively.

NOTE 11. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and certain other intangible assets with indefinite useful lives are not amortized into net income over an estimated life, but rather are tested at least annually for impairment. Intangible assets determined to have definite useful lives are amortized over their estimated useful lives and also are subject to impairment testing. Our goodwill totaled \$56 million and \$55.3 million at December 31, 2023 and 2022, respectively.

In accordance with ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, during third quarter 2023, we performed the qualitative assessment of goodwill and determined that the fair value was more likely than not greater than its carrying value. In performing the qualitative assessment, we considered certain events and circumstances such as macroeconomic conditions, industry and market considerations, overall financial performance and cost factors when evaluating whether it is more likely than not that the fair value is less than the carrying value. No indicators of impairment were noted as of September 30, 2023.

At December 31, 2023 and December 31, 2022, we had \$18.40 million and \$6.80 million in unamortized identified intangible assets comprised of core deposit intangibles.

<i>Dollars in thousands</i>	Other Intangible Assets			
	December 31, 2023		December 31, 2022	
Identified intangible assets				
Gross carrying amount	\$	30,755	\$	15,828
Less: accumulated amortization		12,359		9,025
Net carrying amount	\$	18,396	\$	6,803

Amortization relative to our identified intangible assets is as follows:

<i>Dollars in thousands</i>	Core Deposit Intangible
Actual:	
2021	\$ 1,563
2022	1,440
2023	3,335
Expected:	
2024	3,669
2025	3,258
2026	2,846
2027	2,433
2028	2,021
Thereafter	4,099

NOTE 12. DEPOSITS

The following is a summary of interest bearing deposits by type as of December 31, 2023 and 2022:

<i>Dollars in thousands</i>	2023	2022
Demand deposits, interest bearing	\$ 2,164,522	\$ 1,743,299
Savings deposits	450,527	496,751
Time deposits	506,523	376,213
Total	\$ 3,121,572	\$ 2,616,263

Included in time deposits are deposits acquired through a third party (“brokered deposits”) totaling \$32.8 million at December 31, 2023 and 2022.

A summary of the scheduled maturities for all time deposits as of December 31, 2023 is as follows:

<i>Dollars in thousands</i>	Amount
2024	\$ 404,391
2025	57,841
2026	22,335
2027	9,842
2028	7,313
Thereafter	4,801
Total	\$ 506,523

Time certificates of deposit in denominations of \$250,000 or more totaled \$138.1 million at December 31, 2023. The following is a summary of the maturity distribution of such deposits.

<i>Dollars in thousands</i>	Amount
Three months or less	\$ 35,791
Three through six months	25,165
Six through twelve months	49,596
Over twelve months	27,593
Total	\$ 138,145

At December 31, 2023 and 2022, our deposits of related parties including directors, executive officers and their related interests approximated \$71.9 million and \$59.2 million.

NOTE 13. BORROWED FUNDS

Our subsidiary bank is a member of the Federal Home Loan Bank (“FHLB”). Membership in the FHLB makes available short-term and long-term advances under collateralized borrowing arrangements with each subsidiary bank. All FHLB advances are collateralized by a blanket lien of \$2.30 billion of residential mortgage loans, certain commercial loans, mortgage backed securities and securities of U. S. Government agencies and corporations. We had \$258.6 million available on a short term line of credit with the Federal Reserve Bank at December 31, 2023, which is primarily secured by a pledge of \$520.6 million of our consumer loans, construction loans and commercial and industrial loan portfolios. We also had \$6 million available on an unsecured line of credit with a correspondent bank.

At December 31, 2023, our subsidiary bank had additional borrowings availability of \$1.30 billion from the FHLB. Short-term FHLB advances are granted for terms of 1 to 365 days and bear interest at a fixed or variable rate set at the time of the funding request.

Short-term borrowings: At December 31, 2023, we had \$264.6 million borrowing availability through credit lines and Federal funds purchased agreements. A summary of short-term borrowing agreements is presented below.

	December 31,			
	2023		2022	
<i>Dollars in thousands</i>	Short-term FHLB Advances	Federal Funds Purchased and Short-term Repurchase Agreements	Short-term FHLB Advances	Federal Funds Purchased and Short-term Repurchase Agreements
Balance at December 31	\$ 302,800	\$ 157	\$ 225,850	\$ 149
Average balance outstanding for the period	229,850	8,502	204,118	147
Maximum balance outstanding at any month end during period	355,100	20,533	298,900	149
Weighted average interest rate for the period	5.53%	2.37%	2.37%	1.87%
Weighted average interest rate for balances outstanding at December 31	5.64%	5.50%	4.47%	4.50%

Long-term borrowings: Our long-term borrowings of \$637,000 and \$658,000 at December 31, 2023 and 2022, respectively, consisted of a fixed rate advance from the Federal Home Loan Bank (“FHLB”) maturing in 2026. The average interest rate paid on long-term borrowings during 2023 and 2022 was 5.34%.

Subordinated debentures: We issued \$75 million of subordinated debentures, net of \$1.74 million debt issuance costs, during fourth quarter 2021 in a private placement transaction, which had a net balance of \$74.0 million at December 31, 2023 and \$73.7 million at December 31, 2022. 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 3.25% per year, from and including November 16, 2021 to, but excluding, December 1, 2026, payable semi-annually in arrears. From and including December 1, 2026 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 230 basis points, payable quarterly in arrears. This debt has a 10 years term and generally, is not prepayable by us within the first five years.

We issued \$30 million of subordinated debentures, net of \$681,000 debt issuance costs, during third quarter 2020 in a private placement transaction, with a net balance of \$29.8 million at December 31, 2023 and \$29.6 million at December 31, 2022. 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. 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. Our subordinated debentures totaled \$19.6 million at December 31, 2023 and 2022.

In October 2002, we sponsored SFG Capital Trust I, in March 2004, we sponsored SFG Capital Trust II and in December 2005, we sponsored SFG Capital Trust III, of which 100% of the common equity of each trust is owned by us. SFG Capital Trust I issued \$3.5 million in capital securities and \$109,000 in common securities and invested the proceeds in \$3.61 million of debentures. SFG Capital Trust II issued \$7.5 million in capital securities and \$232,000 in common securities and invested the proceeds in \$7.73 million of debentures. SFG Capital Trust III issued \$8.0 million in capital securities and \$248,000 in common securities and invested the proceeds in \$8.25 million of debentures. Distributions on the capital securities issued by the trusts are payable quarterly at a variable interest rate equal to 3 month LIBOR plus 345 basis points for SFG Capital Trust I, 3 month LIBOR plus 280 basis points for SFG Capital Trust II and 3 month LIBOR plus 145 basis points for SFG Capital Trust III and equals the interest rate earned on the debentures held by the trusts and is recorded as interest expense by us. The capital securities are subject to mandatory redemption in whole or in part, upon repayment of the debentures. We have entered into agreements which, taken collectively, fully and unconditionally guarantee the capital securities subject to the terms of the guarantee. The debentures of each Capital Trust are redeemable by us quarterly.

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

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

<i>Dollars in thousands</i>	Long-term borrowings		Subordinated debentures		Subordinated debentures owed to unconsolidated subsidiary trusts
2024	\$	23	\$	—	\$ —
2025		24		—	—
2026		590		—	—
2027		—		—	—
2028		—		—	—
Thereafter		—		105,000	19,589
Total	\$	637	\$	105,000	\$ 19,589

NOTE 14. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

The ineffective portion of all hedges is recognized in current period earnings as a component of the interest income section of the related hedged item.

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

Cash Flow Hedges

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

- A \$20 million notional interest rate swap with an effective date of October 18, 2021 and expiring on October 18, 2024, designated as a cash flow hedge of \$20 million of forecasted series of short-term fixed rate Federal Home Loan Bank advances. Under the terms of this swap, we pay a fixed rate of 1.1055% and receive a variable rate equal to three month LIBOR.
- A \$50 million notional interest rate swap with an effective date May 18, 2023 and expiring on May 18, 2025, designated as a cash flow hedge of \$50 million of forecasted series of short-term fixed rate Federal Home Loan Bank advances. Under the terms of this swap, we pay a fixed rate of 3.768% and receive a variable rate equal to daily SOFR.
- A \$50 million notional interest rate swap with an effective date of July 18, 2023 and expiring on January 18, 2026, designated as a cash flow hedge of \$50 million of forecasted series of short-term fixed rate Federal Home Loan Bank advances. Under the terms of this swap, we pay a fixed rate of 4.36% and receive a variable rate equal to daily SOFR.

In addition, we have purchased two interest rate caps as follows:

- A \$100 million notional interest rate cap with an effective date of July 20, 2020, and expiring on April 18, 2030, designated as a cash flow hedge of \$100 million of forecasted series of short-term fixed rate Federal Home Loan Bank advances. Under the terms of this cap, we hedge the variability of cash flows when three month LIBOR is above 0.75%.
- A \$100 million notional interest rate cap with an effective date of December 29, 2020 and expiring on December 18, 2025, designated as a cash flow hedge of \$100 million of certain indexed interest bearing demand deposit accounts. Under the terms of this cap, we hedge the variability of cash flows when the indexed rate of daily SOFR is above 0.50%.

Fair Value Hedges

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

- An original \$9.95 million (current \$6.6 million) notional amortizing interest rate swap with an effective date of January 15, 2015 and expiring on January 15, 2025, designated to hedge the variability in fair value of a fixed rate commercial loan with the same principal, amortization, and maturity terms of the swap. Under the terms of this swap, we pay a fixed rate of 4.33% and receive a variable rate equal to three month LIBOR plus 2.23%.
- An original \$11.3 million (current \$9.6 million) notional amortizing interest rate swap with an effective date of December 18, 2015 and expiring on January 15, 2026, designated to hedge the variability in fair value of a fixed rate commercial loan with the same principal, amortization, and maturity terms as the swap. Under the terms of this swap, we pay a fixed rate of 4.30% and receive a variable rate equal to one month LIBOR plus 2.18%.
- A \$71.5 million notional pay fixed/receive variable interest rate swap with an effective date of April 1, 2024 (hedge designated on October 27, 2021) and expiring on February 1, 2031 to hedge the variability in fair value of a designated portfolio of available for sale taxable municipal securities. Under the terms of this swap, we will pay a fixed rate of 1.587% and will receive a variable rate equal to Federal funds.

A summary of our derivative financial instruments as of December 31, 2023 and 2022 follows:

	December 31, 2023				
		Derivative Fair Value			Net Ineffective Hedge Gains/(Losses)
<i>Dollars in thousands</i>	Notional Amount	Asset	Liability		
CASH FLOW HEDGES					
Pay-fixed/receive-variable interest rate swaps hedging:					
Short term borrowings	\$ 120,000	\$ 1,059	\$ 375	\$	—
Interest rate caps hedging :					
Short term borrowings	\$ 100,000	\$ 17,578	\$ —	\$	—
Indexed interest bearing demand deposit accounts	100,000	6,736	—		—
FAIR VALUE HEDGES					
Pay-fixed/receive-variable interest rate swaps hedging:					
Commercial real estate loans	\$ 16,175	\$ 583	\$ —	\$	—
Available for sale taxable municipal securities	71,245	7,564	—		1
Total	\$ 407,420	\$ 33,520	\$ 375	\$	1

	December 31, 2022				
		Derivative Fair Value			Net Ineffective Hedge Gains/(Losses)
<i>Dollars in thousands</i>	Notional Amount	Asset	Liability		
CASH FLOW HEDGES					
Pay-fixed/receive-variable interest rate swaps hedging:					
Short term borrowings	\$ 40,000	\$ 1,871	\$ —	\$	—
Interest rate caps hedging:					
Short term borrowings	\$ 100,000	\$ 20,554	\$ —	\$	—
Indexed interest bearing demand deposit accounts	100,000	10,047	—		—
FAIR VALUE HEDGES					
Pay-fixed/receive-variable interest rate swaps hedging:					
Commercial real estate loans	\$ 16,876	\$ 911	\$ —	\$	—
Available for sale taxable municipal securities	71,245	7,123	—		(12)
Total	\$ 328,121	\$ 40,506	\$ —	\$	(12)

NOTE 15. INCOME TAXES

Income taxes, computed on the separate return basis with the benefit of filing a consolidated return being recorded at the holding company, include Federal and state income taxes and are based on pretax net income reported in the consolidated financial statements, adjusted for transactions that may never enter into the computation of income taxes payable (permanent differences). Deferred tax assets and liabilities are determined based on the differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Valuation allowances are established, when deemed necessary, to reduce deferred tax assets to the amount expected to be realized.

A tax position that meets a "probable recognition threshold" for the benefit of the uncertain tax position is recognized in the financial statements. A tax position that fails to meet the probable recognition threshold will result in either reduction of a current or deferred tax asset or receivable, or recording a current or deferred tax liability. We concluded that there were no significant uncertain tax positions requiring recognition in the consolidated financial statements. The evaluation was performed for the years ended 2020 through 2023, the tax years which remain subject to examination by major tax jurisdictions.

The components of applicable income tax expense (benefit) for the years ended December 31, 2023, 2022 and 2021, are as follows:

<i>Dollars in thousands</i>	2023		2022		2021	
Current						
Federal	\$	13,432	\$	12,222	\$	10,189
State		2,034		1,654		1,210
		15,466		13,876		11,399
Deferred						
Federal		(265)		191		231
State		(38)		27		33
		(303)		218		264
Total	\$	15,163	\$	14,094	\$	11,663

Reconciliation between the amount of reported income tax expense and the amount computed by multiplying the statutory income tax rates by book pretax income for the years ended December 31, 2023, 2022 and 2021 is as follows:

<i>Dollars in thousands</i>	2023		2022		2021	
	Amount	Percent	Amount	Percent	Amount	Percent
Computed tax at applicable statutory rate	\$ 14,784	21	\$ 14,135	21	\$ 12,054	21
Increase (decrease) in taxes resulting from:						
Tax-exempt interest and dividends, net	(1,216)	(2)	(1,005)	(2)	(829)	(1)
Low-income housing and rehabilitation tax credits	(200)	—	(214)	—	(206)	—
State income taxes, net of Federal income tax benefit	1,577	2	1,328	2	982	2
Other, net	218	—	(150)	—	(338)	(1)
Applicable income taxes	\$ 15,163	21	\$ 14,094	21	\$ 11,663	21

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

The tax effects of temporary differences, which give rise to our deferred tax assets and liabilities as of December 31, 2023 and 2022, are as follows:

<i>Dollars in thousands</i>	2023	2022
Deferred tax assets		
Allowance for credit losses	\$ 13,400	\$ 11,003
Foreclosed properties	504	789
Deferred compensation	5,156	4,830
Other deferred costs and accrued expenses	1,343	1,096
Lease liability	2,141	—
Net unrealized loss on debt securities available for sale	9,224	11,968
Net unrealized loss on equity investments	49	17
Acquisition accounting adjustments and goodwill	434	—
Total	32,251	29,703
Deferred tax liabilities		
Depreciation	627	726
Accretion on tax-exempt securities	73	8
Right of use asset	2,088	—
Net unrealized gain on interest rate swaps	6,811	8,299
Other post-retirement benefits	52	46
Acquisition accounting adjustments and goodwill	—	2,944
Total	9,651	12,023
Net deferred tax assets	\$ 22,600	\$ 17,680

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

We are currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2020 through 2022.

NOTE 16. EMPLOYEE BENEFITS

Retirement Plans: We have defined contribution profit-sharing plans with 401(k) provisions covering substantially all employees. Contributions to the plans are at the discretion of the Board of Directors. Contributions made to the plans and charged to expense were \$981,000, \$829,000 and \$792,000 for the years ended December 31, 2023, 2022 and 2021, respectively.

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

The expense recognized by us is based on cash contributed or committed to be contributed by us to the ESOP during the year. Contributions to the ESOP for the years ended December 31, 2023, 2022 and 2021 were \$1.04 million, \$1.2 million and \$882,000 respectively. Dividends paid by us to the ESOP are reported as a reduction of retained earnings. The ESOP owned 560,914 shares of our common stock at December 31, 2023 and 549,330 shares of common stock at December 31, 2022, all of which were purchased at the prevailing market price and are considered outstanding for earnings per share computations.

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

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

The ESOP shares as of December 31 are as follows:

	At December 31,	
	2023	2022
Allocated shares	560,914	528,628
Shares committed to be released	—	20,702
Unallocated shares	—	—
Total ESOP shares	560,914	549,330

Supplemental Executive Retirement Plans: We have certain non-qualified Supplemental Executive Retirement Plans ("SERP") with certain senior officers, which provide participating officers with an income benefit payable at retirement age or death. The liabilities accrued for the SERP's at December 31, 2023 and 2022 were \$12.3 million and \$11.3 million, respectively, which are included in other liabilities. Included in salaries, commissions and employee benefits was \$1.2 million, \$1.2 million and \$967,000 expense related to these SERPs for the years December 31, 2023, 2022 and 2021, respectively.

Share-Based Compensation: The 2014 Long-Term Incentive Plan ("2014 LTIP") was adopted by our shareholders in May 2014 to enhance the ability of the Company to attract and retain exceptionally qualified individuals to serve as key employees. The LTIP provides for the issuance of up to 800,000 shares of common stock, in the form of equity awards including stock options, restricted stock, restricted stock units ("RSUs"), stock appreciation rights ("SARs"), performance units, other share-based awards or any combination thereof, to our key employees. Stock options awarded under the 2009 Officer Stock Option Plan and the 1998 Officer Stock Option Plan (collectively, the "Plans") were not altered by the 2014 LTIP and remain subject to the

terms of the Plans. However, under the terms of the 2014 LTIP, all shares of common stock remaining issuable under the Plans at the time the 2014 LTIP was adopted ceased to be available for future issuance.

Under the 2014 LTIP and the Plans, stock options, 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 share based compensation to individual employees.

During first quarter 2023, we granted 67,637 SARs with an \$8.77 grant date fair value per SAR that become exercisable ratably over seven years (14.3% per year) and expire ten years after the grant date. Also during 2023, we granted 108,747 SARs with an \$8.63 grant date fair value per SAR that become exercisable ratably over five years (20% per year) and expire ten years after the grant date. There were no grants of SARs or stock options during 2022. During 2021, we granted 54,947 SARs with a \$8.97 grant date fair value per SAR that become exercisable ratably over seven years (14.3% per year) and expire ten years after the grant date. Also during 2021, we granted 122,542 SARs with a \$8.40 grant date fair value per SAR that become exercisable ratably over five years (20% per year) and expire ten years after the grant date.

The fair value of our employee stock options and SARs granted under the Plans is estimated at the date of grant using the Black-Scholes option-pricing model. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. Additionally, there may be other factors that would otherwise have a significant effect on the value of employee stock options and SARs granted but are not considered by the model. Because our employee stock options and SARs have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options and SARs at the time of grant. The assumptions used to value SARs granted in 2023 and 2021 is as follows:

	2023 Grants		2021 Grants	
	7 year expiration	5 year expiration	7 year expiration	5 year expiration
Risk-free interest rate	3.79%	3.87%	1.06%	0.74%
Expected dividend yield	3.00%	3.00%	3.00%	3.00%
Expected common stock volatility	40.76%	40.76%	55.59%	55.59%
Expected life (in years)	7	6.5	7	5.5

A summary of SAR and option activity during 2021, 2022 and 2023 is as follows:

<i>Dollars in thousands, except per share amounts</i>	SARs/Options	Aggregate Intrinsic Value	Weighted Average	
			Remaining Contractual Term (Yrs.)	Exercise Price
Outstanding, December 31, 2020	329,203			\$ 20.47
Granted	177,489			21.85
Exercised	(14,900)			8.92
Forfeited	—			—
Expired	—			—
Outstanding, December 31, 2021	491,792			\$ 21.32
Granted	—			—
Exercised	(18,580)			20.21
Forfeited	—			—
Expired	—			—
Outstanding, December 31, 2022	473,212			\$ 21.36
Granted	176,384			26.37
Exercised	(10,000)			12.01
Forfeited	(45,035)			23.99
Expired	—			—
Outstanding, December 31, 2023	594,561	\$ 4,686	6.17	\$ 22.81
Exercisable Options/SARs:				
December 31, 2023	290,418	\$ 2,839	4.12	\$ 20.92
December 31, 2022	259,037	1,262	4.57	20.33
December 31, 2021	204,116	1,683	4.81	19.20

The total intrinsic value of options and SARs exercised in 2023, 2022 and 2021 was \$145,000, \$172,000 and \$255,000, respectively. The total fair value of options and SARs vested during 2023, 2022 and 2021 was \$524,000, \$672,000 and \$396,000, respectively.

Grants of RSUs include time-based vesting conditions that generally vest ratably over a period of 3 to 5 years. There were no grants of RSUs during 2023. During 2022, we granted 707 RSUs which will vest ratably over 3 years. During 2021, we granted 1,500 RSUs which will vest ratably over 3 years. A summary of our RSU activity and related information is as follows.

<i>Dollars in thousands, except per share amounts</i>	RSUs	Weighted Average Grant Date Fair Value
Nonvested, December 31, 2020	15,686	\$ 20.40
Granted	1,500	27.63
Forfeited	—	—
Vested	(4,171)	20.38
Nonvested, December 31, 2021	13,015	\$ 21.24
Granted	707	28.28
Forfeited	(313)	26.63
Vested	(6,205)	22.65
Nonvested, December 31, 2022	7,204	\$ 20.49
Granted	—	—
Forfeited	(1,321)	18.93
Vested	(3,484)	20.23
Nonvested, December 31, 2023	2,399	\$ 21.73

Total stock compensation expense for all share-based arrangements totaled \$739,000, \$624,000 and \$646,000 for the years ended December 31, 2023, 2022 and 2021, respectively, and the related income tax benefits recognized in 2023, 2022 and 2021 were \$177,000, \$150,000 and \$155,000 respectively. We recognize compensation expense based on the estimated number of stock awards expected to actually vest, exclusive of the awards expected to be forfeited. At December 31, 2023, our total unrecognized compensation expense related to all nonvested awards not yet recognized totaled \$2.3 million and on a weighted- average basis, will be recognized over the next 2.04 years.

NOTE 17. COMMITMENTS AND CONTINGENCIES

Off-Balance Sheet Arrangements

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

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

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

<i>Dollars in thousands</i>	December 31, 2023	December 31, 2022
Commitments to extend credit:		
Revolving home equity and credit card lines	\$ 118,742	\$ 104,475
Construction loans	283,842	271,062
Other loans	488,734	493,592
Standby letters of credit	58,683	56,528
Total	\$ 950,001	\$ 925,657

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 and generally are of a term of no greater than one year.

Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of 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 7.

The provision for credit losses on unfunded commitments was \$795,000 and \$(328,000) for the years ended December 31, 2023 and 2022. The ACL on off-balance sheet credit exposures totaled \$7.74 million and \$6.95 million for the year ended December 31, 2023 and 2022 and is included in other liabilities on the accompanying consolidated balance sheets.

Employment Agreements

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

Legal Contingencies

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

NOTE 18. PREFERRED STOCK

In April 2021, we sold through a private placement 1,500 shares or \$15.0 million of Series 2021 6% Fixed-Rate Non-Cumulative Perpetual Preferred Stock, \$1.00 par value, with a liquidation preference of \$10,000 per share (the "Preferred Stock"). The Preferred Stock is non-convertible and will pay noncumulative dividends, if and when declared by the Summit board of directors, at a rate of 6.0% per annum. Dividends declared will be payable quarterly in arrears on the 15th day of March, June, September and December of each year.

NOTE 19. REGULATORY MATTERS

The primary source of funds for our dividends paid to our shareholders is dividends received from our subsidiaries. Dividends paid by the subsidiary bank are subject to restrictions by banking law and regulations and require approval by the Bank's regulatory agency if dividends declared in any year exceed the bank's current year's net income, as defined, plus its retained net profits of the two preceding years. During 2023, the Bank will have \$90.1 million plus net income for the interim periods through the date of declaration, available for dividends for distribution to us.

Our subsidiary bank may be required to maintain reserve balances with the Federal Reserve Bank. The required reserve balance was zero at December 31, 2023 and 2022.

Our bank subsidiary, Summit Community Bank, Inc. ("Summit Community"), is subject to various regulatory capital requirements administered by the banking regulatory agencies. Under the capital adequacy guidelines and the regulatory framework for prompt corrective action, Summit Community must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Our bank subsidiary's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Quantitative measures established by regulation to ensure capital adequacy require Summit Community to maintain minimum amounts and ratios of Common Equity Tier 1 ("CET1"), Total capital and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). We believe, as of December 31, 2023, 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 ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments*. We elected to this optional phase-in period upon adoption of the ASU effective January 1, 2020.

The following tables present Summit's, as well as Summit Community's, actual and required minimum regulatory capital amounts and ratios as of December 31, 2023 and December 31, 2022. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended.

<i>Dollars in thousands</i>	Actual		Minimum Required Capital - Basel III		Minimum Required To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2023						
CET1 (to risk weighted assets)						
Summit	\$ 369,935	9.1%	\$ 285,338	7.0%	N/A	N/A
Summit Community	475,785	11.7%	284,873	7.0%	264,525	6.5%
Tier I Capital (to risk weighted assets)						
Summit	403,855	9.9%	346,481	8.5%	N/A	N/A
Summit Community	475,785	11.7%	345,917	8.5%	325,569	8.0%
Total Capital (to risk weighted assets)						
Summit	556,590	13.7%	428,006	10.5%	N/A	N/A
Summit Community	524,737	12.9%	427,309	10.5%	406,961	10.0%
Tier I Capital (to average assets)						
Summit	403,855	8.7%	186,747	4.0%	N/A	N/A
Summit Community	475,785	10.2%	186,057	4.0%	232,571	5.0%
As of December 31, 2022						
CET1 (to risk weighted assets)						
Summit	\$ 299,993	8.6%	\$ 245,141	7.0%	N/A	N/A
Summit Community	405,430	11.6%	244,502	7.0%	227,038	6.5%
Tier I Capital (to risk weighted assets)						
Summit	333,913	9.5%	297,672	8.5%	N/A	N/A
Summit Community	405,430	11.6%	296,896	8.5%	279,431	8.0%
Total Capital (to risk weighted assets)						
Summit	472,955	13.5%	367,712	10.5%	N/A	N/A
Summit Community	441,177	12.6%	366,754	10.5%	349,289	10.0%
Tier I Capital (to average assets)						
Summit	333,913	8.5%	156,852	4.0%	N/A	N/A
Summit Community	405,430	10.4%	156,338	4.0%	195,422	5.0%

NOTE 20. EARNINGS PER SHARE

The computations of basic and diluted earnings per share follow:

	For the Year Ended December 31,								
	2023			2022			2021		
<i>Dollars in thousands, except per share amounts</i>	Income (Numerator)	Common Shares (Denominator)	Per Share	Income (Numerator)	Common Shares (Denominator)	Per Share	Income (Numerator)	Common Shares (Denominator)	Per Share
Net income	\$ 55,239			\$ 53,216			\$ 45,738		
Less preferred stock dividends	(900)			(900)			(589)		
Basic EPS	\$ 54,339	14,206,811	\$ 3.82	\$ 52,316	12,760,649	\$ 4.10	\$ 45,149	12,943,883	\$ 3.49
Effect of dilutive securities:									
Stock options		—			—			44	
SARs		39,847			56,616			53,964	
RSUs		2,471			4,268			5,537	
Diluted EPS	\$ 54,339	14,249,129	\$ 3.81	\$ 52,316	12,821,533	\$ 4.08	\$ 45,149	13,003,428	\$ 3.47

Stock option and SAR grants are disregarded in this computation if they are determined to be anti-dilutive. At December 31, 2023, anti-dilutive SARs totaled 518,902 need to confirm. At December 31, 2022, our anti-dilutive SARs totaled 224,424. At December 31, 2021, our anti-dilutive SARs totaled 400,229. All RSUs were dilutive for all periods presented.

NOTE 21. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The following are the changes in accumulated other comprehensive (loss) income by component, net of tax, for the years ended December 31, 2023, 2022 and 2021.

	December 31, 2023					
	Gains and Losses on Pension Plan	Gains and Losses on Other Post- Retirement Benefits	Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Debt Securities Available for Sale	Unrealized Gains on Securities Fair Value Hedge	Total
<i>Dollars in thousands</i>						
Beginning balance	\$ (23)	\$ 172	\$ 20,867	\$ (37,901)	\$ 5,406	\$ (11,479)
Other comprehensive income (loss) before reclassification, net of tax	42	(25)	(5,047)	8,488	334	3,792
Amounts reclassified from accumulated other comprehensive loss, net of tax	—	—	—	202	—	202
Net current period other comprehensive income (loss)	42	(25)	(5,047)	8,690	334	3,994
Ending balance	\$ 19	\$ 147	\$ 15,820	\$ (29,211)	\$ 5,740	\$ (7,485)

	December 31, 2022						
	Gains and Losses on Pension Plan	Gains on Other Post-Retirement Benefits	Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Debt Securities Available for Sale	Unrealized Gains and Losses on Securities Fair Value Hedge	Total	
<i>Dollars in thousands</i>							
Beginning balance	\$ 30	\$ 9	\$ 3,993	\$ 1,868	\$ (418)	\$	5,482
Other comprehensive (loss) income before reclassification, net of tax	(53)	163	16,874	(40,307)	5,824		(17,499)
Amounts reclassified from accumulated other comprehensive loss, net of tax	—	—	—	538	—		538
Net current period other comprehensive (loss) income	(53)	163	16,874	(39,769)	5,824		(16,961)
Ending balance	\$ (23)	\$ 172	\$ 20,867	\$ (37,901)	\$ 5,406	\$	(11,479)

	December 31, 2021					
	Gains and Losses on Pension Plan	Gains and Losses on Other Post- Retirement Benefits	Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Debt Securities Available for Sale	Unrealized Losses on Securities Fair Value Hedge	Total
<i>Dollars in thousands</i>						
Beginning balance	\$ (199)	\$ (40)	\$ (1,132)	\$ 6,816	\$ —	\$ 5,445
Other comprehensive income (loss) before reclassification, net of tax	229	49	5,125	(4,625)	(418)	360
Amounts reclassified from accumulated other comprehensive income, net of tax	—	—	—	(323)	—	(323)
Net current period other comprehensive income (loss)	229	49	5,125	(4,948)	(418)	37
Ending balance	\$ 30	\$ 9	\$ 3,993	\$ 1,868	\$ (418)	\$ 5,482

NOTE 22. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

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

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

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

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

Insurance commissions principally consisted of commissions we earned as agents of insurers for selling group employee benefit and property and casualty insurance products to clients. Group employee benefit insurance commissions were recognized over time (generally monthly) as the related customary implied servicing obligations of group policyholders were fulfilled. Property and casualty insurance commissions were recognized using methods which approximated the time of placement of the underlying policy. We were paid insurance commissions ratably as the related policy premiums were paid by clients and they are included on the line item Other in Noninterest income of consolidated statements of income.

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:

<i>Dollars in thousands</i>	For the Year Ended December 31,		
	2023	2022	2021
Service fees on deposit accounts	\$ 6,977	\$ 6,150	\$ 5,032
Bank card revenue	7,299	6,261	5,896
Trust and wealth management fees	3,436	2,978	2,886
Other	552	516	626
Net revenue from contracts with customers	18,264	15,905	14,440
Non-interest income within the scope of other ASC topics	2,612	2,248	5,768
Total noninterest income	\$ 20,876	\$ 18,153	\$ 20,208

Gain or loss on sale of foreclosed properties is recorded when control of the property transfers to the buyer, which generally occurs at the time of transfer of the deed. If Summit finances the sale of a foreclosed property to the buyer, we assess whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed property is derecognized and the gain or loss on sale is recorded upon transfer of control of the property to the buyer. For the years ended December 31, 2023, 2022 and 2021 net gains/(losses) on sales of foreclosed properties were \$106,000, \$64,000 and \$(7,000), respectively.

NOTE 23. CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY

Information relative to our parent company balance sheets at December 31, 2023 and 2022 and the related statements of income and cash flows for the years ended December 31, 2023, 2022 and 2021, are presented as follows:

Balance Sheets

<i>Dollars in thousands</i>	December 31,	
	2023	2022
Assets		
Cash	\$ 31,459	\$ 11,043
Investment in subsidiaries	531,138	445,048
Equity investments (at fair value)	6,436	25,858
Other investments	82	—
Premises and equipment	115	92
Other assets	1,905	1,802
Total assets	\$ 571,135	\$ 483,843
Liabilities and Shareholders' Equity		
Subordinated debentures, net	\$ 103,782	\$ 103,296
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589
Other liabilities	7,556	6,428
Total liabilities	130,927	129,313
Preferred stock, \$1.00 par value, authorized 250,000 shares; issued: 2023 and 2022 - 1,500 shares	14,920	14,920
Common stock and related surplus, \$2.50 par value; authorized 20,000,000 shares; issued and outstanding: 2023 - 14,683,457 shares, 2022 - 12,783,646 shares	129,990	90,696
Retained earnings	302,783	260,393
Accumulated other comprehensive loss	(7,485)	(11,479)
Total shareholders' equity	440,208	354,530
Total liabilities and shareholders' equity	\$ 571,135	\$ 483,843

Statements of Income

<i>Dollars in thousands</i>	For the Year Ended December 31,		
	2023	2022	2021
Income			
Dividends from subsidiaries	\$ 17,300	\$ 15,800	\$ 12,100
Other dividends and interest income	500	26	16
Net gains on equity investments	740	265	202
Management and service fees from subsidiaries	1,776	2,088	1,920
Total income	20,316	18,179	14,238
Expense			
Interest expense	5,937	5,256	2,497
Operating expenses	3,812	3,283	3,736
Total expenses	9,749	8,539	6,233
Income before income taxes and equity in undistributed income of subsidiaries	10,567	9,640	8,005
Income tax (benefit)	(1,345)	(1,251)	(830)
Income before equity in undistributed income of subsidiaries	11,912	10,891	8,835
Equity in undistributed income of subsidiaries	43,327	42,325	36,903
Net income	\$ 55,239	\$ 53,216	\$ 45,738
Preferred stock dividends	900	900	589
Net income applicable to common shares	\$ 54,339	\$ 52,316	\$ 45,149

Statements of Cash Flows

<i>Dollars in thousands</i>	For the Year Ended December 31,		
	2023	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 55,239	\$ 53,216	\$ 45,738
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiaries	(43,327)	(42,325)	(36,903)
Deferred tax benefit	(112)	(14)	(164)
Depreciation	39	37	46
Gain on equity investments	(740)	(265)	(202)
Share-based compensation expense	274	231	244
Earnings on bank owned life insurance	10	17	4
Decrease in other assets	131	432	163
Increase in other liabilities	1,614	1,209	584
Net cash provided by operating activities	13,128	12,538	9,510
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of equity investments	(744)	(5,384)	(20,000)
Redemption of equity investments	21,413	—	—
Investment in bank subsidiary	—	—	(55,000)
Purchases of premises and equipment	(62)	—	(124)
Proceeds from transfer of premises and equipment	—	—	47
Net cash provided by (used in) investing activities	20,607	(5,384)	(75,077)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on preferred stock	(900)	(900)	(589)
Dividends paid on common stock	(11,949)	(9,693)	(9,022)
Exercise of stock options	—	—	16
Proceeds from issuance of subordinated debt	—	—	75,000
Purchase and retirement of common stock	—	—	(6,710)
Purchase of minority interest	(714)	—	—
Proceeds from issuance of preferred stock, net of issuance costs	—	—	14,920
Proceeds from issuance of common stock, net of issuance costs	244	203	294
Net cash (used in) provided by financing activities	(13,319)	(10,390)	73,909
Increase (decrease) in cash	20,416	(3,236)	8,342
Cash:			
Beginning	11,043	14,279	5,937
Ending	\$ 31,459	\$ 11,043	\$ 14,279
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash payments for:			
Interest	\$ 5,048	\$ 4,786	\$ 2,195

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

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures: Our management, including the Chief Executive Officer and Chief Financial Officer, have conducted as of December 31, 2023, an evaluation of the effectiveness of disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures as of December 31, 2023 were effective.

Management’s Report on Internal Control Over Financial Reporting: Information required by this item is set forth on page 50.

Attestation Report of the Registered Public Accounting Firm: Information required by this item is set forth on page 51.

Changes in Internal Control Over Financial Reporting: There were no changes in our internal control over financial reporting during the quarter ended December 31, 2023, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

(a) None

(b) Rule 10b5-1 and Non-Rule 10b5-1 Trading Arrangements.

None

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

None

PART III.

Item 10. Directors, Executive Officers and Corporate Governance

Information required by this item is set forth under the headings "Item 1 - ELECTION OF DIRECTORS" and "EXECUTIVE OFFICERS" and under the captions "Delinquent Section 16(a) Reports", "Compensation and Nominating Committee" and "Audit and Compliance Committee" in our *2024 Proxy Statement* and is incorporated herein by reference.

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

There have been no material changes to the procedures by which shareholders may recommend nominees since the disclosure of the procedures in our 2023 proxy statement.

Item 11. Executive Compensation

Information required by this item is set forth under the headings "COMPENSATION DISCUSSION AND ANALYSIS", "EXECUTIVE COMPENSATION" and "COMPENSATION AND NOMINATING COMMITTEE REPORT" in our *2024 Proxy Statement* and is incorporated herein by reference.

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

The following table provides information on our equity compensation plans as of December 31, 2023.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (#) (1)	Weighted-average exercise price of outstanding options, warrants and rights (\$)	Number of securities remaining available for future issuance under equity compensation plans (#) (2)
Equity compensation plans approved by stockholders	155,102	\$ 22.81	39,446
Equity compensation plans not approved by stockholders	—	—	—
Total	155,102	\$ 22.81	39,446

(1) The number of securities issuable upon exercise of currently outstanding SARs includes 152,703 shares issuable, based upon our December 31, 2023 closing stock price of \$30.69, relative to 594,561 SARs issued under the Summit Financial Group, Inc. 2014 Long-Term Incentive Plan and 2,399 shares issuable pursuant to outstanding RSUs. Since RSUs have no exercise price, they are not included in the weighted average exercise price calculation.

(2) Under the Amended and Restated Summit Financial Group, Inc. 2014 Long-Term Incentive Plan, approved by our shareholders on May 20, 2021, we may make equity awards up to 800,000 shares of common stock. During 2023, we issued 176,384 SARs with an exercise price of \$26.37 and no RSUs. During 2022, we issued 707 RSUs and no SARs. During 2021, we issued 177,489 SARs with an exercise price of \$21.85 and 1,500 RSUs. During 2020, we issued 13,758 RSUs. During 2019, we issued 138,125 SARs with an exercise price of \$23.94 and 2,892 RSUs. During 2017, we issued 87,615 SARs with an exercise price of \$26.01. During 2015, we issued 166,717 SARs with an exercise price of \$12.01.

The remaining information required by this item is set forth under the headings "OWNERSHIP OF SECURITIES BY DIRECTORS, NOMINEES AND EXECUTIVE OFFICERS" and "PRINCIPAL SHAREHOLDERS" in our *2024 Proxy Statement* and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions and Director Independence

Information required by this item is set forth under the captions "Transactions with Related Persons" and "Independence of Directors and Nominees" in our *2024 Proxy Statement* and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

Information required by this item is set forth under the caption "Fees to Independent Registered Public Accounting Firm" in our *2024 Proxy Statement* and is incorporated herein by reference.

PART IV.
Item 15. Exhibits, Financial Statement Schedules

All financial statements and financial statement schedules required to be filed by this Form or by Regulation S-X, which are applicable to the Registrant, have been presented in the financial statements and notes thereto in Item 8 in Management's Discussion and Analysis of Financial Condition and Results of Operation in Item 7 or elsewhere in this filing where appropriate. The listing of exhibits follows:

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference*		
			Form	Exhibit	Filing Date
(2) Plan of acquisition, reorganization, arrangement, liquidation or succession:					
(i)	Agreement and Plan of Merger dated as of September 17, 2019 by and between Summit Financial Group, Inc. and Cornerstone Financial Services, Inc.		8-K	2.1	9/18/2019
(ii)	Purchase and Assumption Agreement dated as of November 21, 2019 by and between Summit Community Bank, Inc. and MVB Bank, Inc.		8-K	2.1	11/22/2019
(iii)	Agreement and Plan of Merger dated as of September 28, 2020 by and between Summit Community Bank, Inc. SMME Thoroughbred Opportunities, Inc. and WinFirst Financial Corp.		8-K	2.1	9/28/2020
(iv)	Purchase and Assumption Agreement dated April 22, 2021 by and between Summit Community Bank Inc. and MVB Bank, Inc.		8-K	2.1	4/23/2021
(v)	Agreement and Plan of Merger, dated as of December 9, 2022, by and between Summit Financial Group, Inc. and PSB Holding Corp.		8-K	2.1	12/9/2022
(vi)	Agreement and Plan of Reorganization, dated as of August 24, 2023, by and between Burke & Herbert Financial Services Corp. and Summit Financial Group, Inc.		8-K	2.1	8/25/2023
(3) Articles of Incorporation and By-Laws:					
(i)	Amended and Restated Articles of Incorporation of Summit Financial Group, Inc.		8-K	3.2	4/30/2021
(ii)	Articles of Amendment 2009		8-K	3.1	9/30/2009
(iii)	Articles of Amendment 2011		8-K	3.1	11/3/2011
(iv)	Articles of Amendment 2021		8-K	3.1	4/30/2021
(v)	Amended and Restated By-laws of Summit Financial Group, Inc.		8-K	3.1	3/2/2022
(4) Instruments Defining the Rights of Securities Holders, Including Indentures					
(i)	Description of Registrant's Securities Registered Pursuant to Section 12 of the Securities and Exchange Act of 1934		10-K	4.1	3/6/2020
(ii)	Specimen stock certificate representing Summit Financial Group, Inc. Common Stock		S-3	4.1	5/7/2010
(iii)	Form of 5.00% Fixed-to-Floating Rate Subordinated Notes due 2030 (included as Exhibit A to the Form of Subordinated Note Purchase Agreement dated as of September 22, 2020, by and between Summit Financial Group, Inc. and each of the Purchasers)		8-K	10.1	9/23/2020
(iv)	Forms of 3.25% Fixed-to-Floating Rate Subordinated Note due 2031 (included as Exhibit A-1 and Exhibit A-2 to the Indenture, dated as of November 16, 2021, by and between Summit Financial Group, Inc. and UMB Bank, N.A., as Trustee)		8-K	4.1	11/17/2021
(v)	Indenture, dated as of November 16, 2021, by and between Summit Financial Group, Inc. and UMB Bank, N.A., as Trustee Indenture, dated as of November 16, 2021, by and between Summit Financial Group, Inc. and UMB Bank, N.A., as Trustee		8-K	4.1	11/17/2021
(10) Material Contracts					
(i)	Amended and Restated Employment Agreement with H. Charles Maddy, III		10-K	10.1	3/16/2009
(ii)	First Amendment to Amended and Restated Employment Agreement with H. Charles Maddy, III		8-K	10.1	2/4/2010
(iii)	Second Amendment to Amended and Restated Employment Agreement with H. Charles Maddy, III		8-K	10.1	12/14/2010

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference*		
			Form	Exhibit	Filing Date
(iv)	Third Amendment to Amended and Restated Employment Agreement with H. Charles Maddy, III		8-K	10.1	2/23/2012
(v)	Fourth Amendment to Amended and Restated Employment Agreement with H. Charles Maddy, III		8-K	10.1	2/21/2013
(vi)	Fifth Amendment to Amended and Restated Employment Agreement with H. Charles Maddy, III		8-K	10.1	2/25/2014
(vii)	Sixth Amendment to Amended and Restated Employment Agreement with H. Charles Maddy, III		8-K	10.1	2/23/2015
(viii)	Seventh Amendment to Amended and Restated Employment Agreement with H. Charles Maddy, III		8-K	10.1	2/17/2016
(ix)	Eighth Amendment to Amended and Restated Employment Agreement with H. Charles Maddy, III		8-K	10.1	2/15/2017
(x)	Ninth Amendment to Amended and Restated Employment Agreement with H. Charles Maddy, III		8-K	10.1	2/9/2018
(xi)	Tenth Amendment to Amended and Restated Employment Agreement with H. Charles Maddy, III		8-K	10.1	2/7/2019
(xii)	Eleventh Amendment to Amended and Restated Employment Agreement with H. Charles Maddy, III		8-K	10.1	2/12/2020
(xiii)	Twelfth Amendment to Amended and Restated Employment Agreement with H. Charles Maddy, III		8-K	10.1	2/17/2021
(xiv)	Thirteenth Amendment to Amended and Restated Employment Agreement with H. Charles Maddy, III		8-K	10.1	2/18/2022
(xv)	Fourteenth Amendment to Amended and Restated Employment Agreement with H. Charles Maddy, III		8-K	10.1	2/13/2023
(xvi)	Change in Control Agreement with H. Charles Maddy, III		10-K	10.2	3/16/2009
(xvii)	Executive Salary Continuation Agreement with H. Charles Maddy, III		10-K	10.3	3/16/2009
(xviii)	Form of Amended and Restated Employment Agreement entered into with Robert S. Tissue, Patrick N. Frye and Scott C. Jennings		10-K	10.4	3/16/2009
(xix)	First Amendment to Amended and Restated Employment Agreement with Patrick N. Frye		10-K	10.8	3/1/2012
(xx)	Form of Executive Salary Continuation Agreement entered into with Robert S. Tissue, Patrick N. Frye and Scott C. Jennings		10-K	10.5	3/16/2009
(xxi)	Amended and Restated Employment Agreement with Bradford E. Ritchie		10-K	10.12	3/1/2012
(xxii)	Executive Salary Continuation Agreement with Bradford E. Ritchie		10-K	10.13	3/1/2012
(xxiii)	Form of Indemnification Agreement between Summit and each Director of Summit		8-K	1.01	2/12/2009
(xxiv)	1998 Officers Stock Option Plan		10-QSB	10	8/17/1998
(xxv)	Summit Financial Group, Inc. Directors Deferral Plan		10-K	10.10	3/14/2006
(xxvi)	Amendment No. 1 to Directors Deferral Plan		10-K	10.11	3/14/2006
(xxvii)	Amendment No. 2 to Directors Deferral Plan		10-K	10.14	3/16/2009
(xxviii)	Summit Community Bank, Inc. Amended and Restated Directors Deferral Plan		10-K	10.15	3/16/2009
(xxix)	Rabbi Trust for The Summit Financial Group, Inc. Directors Deferral Plan		10-K	10.16	3/16/2009
(xxx)	Amendment No. One to Rabbi Trust for Summit Financial Group, Inc. Directors Deferral Plan		10-K	10.2	3/16/2009
(xxxi)	Amendment No. One to Rabbi Trust for Summit Community Bank, Inc. (successor in interest to Capital State Bank, Inc.) Directors Deferral Plan		10-K	10.2	3/16/2009
(xxxii)	Amendment No. One to Rabbi Trust for Summit Community Bank, Inc. (successor in interest to Shenandoah Valley National Bank, Inc.) Directors Deferral Plan		10-K	10.2	3/16/2009

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference*		
			Form	Exhibit	Filing Date
(xxxiii)	Amendment No. One to Rabbi Trust for Summit Community Bank, Inc. (successor in interest to South Branch Valley National Bank) Directors Deferral Plan		10-K	10.2	3/16/2009
(xxxiv)	Form of Non-Qualified Stock Option Grant Agreement		10-Q	10.3	5/10/2006
(xxxv)	Form of First Amendment to Non-Qualified Stock Option Grant Agreement		10-Q	10.4	5/10/2006
(xxxvi)	2009 Officer Stock Option Plan		8-K	10.1	5/14/2009
(xxxvii)	SFGI 2014 Long-Term Incentive Plan		S-8	4	9/25/2014
(xxxviii)	Form of Summit Financial Group, Inc. 2014 Long-Term Incentive Plan Stock-Settled Stock Appreciation Rights Agreement 2015 award		8-K	10.1	4/29/2015
(xxxix)	Form of Summit Financial Group, Inc. 2014 Long-Term Incentive Plan Stock-Settled Stock Appreciation Rights Agreement 2017 award		8-K/A	10.3	2/15/2017
(xl)	Form of Summit Financial Group, Inc. 2014 Long-Term Incentive Plan Stock-Settled Stock Appreciation Rights Agreement 2019 award		8-K	10.3	2/7/2019
(xli)	Form of Summit Financial Group, Inc. 2014 Long-Term Incentive Plan Stock-Settled Stock Appreciation Rights Agreement 2021 award		8-K	10.2	7/21/2021
(xlii)	Securities Purchase Agreement with Castle Creek Capital Partners V, L.P.		8-K	10.1	8/25/2014
(xliii)	Executive Officer Management Incentive Plan for 2023		8-K	10.2	2/13/2023
(10.1)	Board Attendance and Compensation Policy, as amended		8-K	10.1	3/2/2022
(21)	Subsidiaries of Registrant	X			
(23)	Consent of Yount, Hyde & Barbour, P.C.	X			
(24)	Power of Attorney	X			
(31.1)	Sarbanes-Oxley Act Section 302 Certification of Chief Executive Officer	X			
(31.2)	Sarbanes-Oxley Act Section 302 Certification of Chief Financial Officer	X			
(32.1)**	Sarbanes-Oxley Act Section 906 Certification of Chief Executive Officer	X			
(32.2)**	Sarbanes-Oxley Act Section 906 Certification of Chief Financial Officer	X			
(97.1)	Summit Financial Group, Inc. Compensation Recoupment Policy	X			
(101)	Interactive data file (Inline XBRL)	X			
(104)	Cover Page Interactive Data File (formatted as inline XBRL and contained in the Exhibit 101)	X			

* The SEC reference number for all exhibits incorporated by reference is 0-16587.

** Furnished, not filed.

Item 16. Form 10-K Summary

Registrants may voluntarily include a summary of information required by Form 10-K under this Item 16. We have elected not to include such summary information.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.
a West Virginia Corporation
(registrant)

<u>/s/ H. Charles Maddy, III</u>	<u>3/12/2024</u>
H. Charles Maddy, III	Date
President & Chief Executive Officer	

<u>/s/ Julie R. Markwood</u>	<u>3/12/2024</u>
Julie R. Markwood	Date
Executive Vice President & Chief Accounting Officer	

<u>/s/ Robert S. Tissue</u>	<u>3/12/2024</u>
Robert S. Tissue	Date
Executive Vice President & Chief Financial Officer	

The Directors of Summit Financial Group, Inc. executed a power of attorney appointing Robert S. Tissue and/or Julie R. Markwood their attorneys-in-fact, empowering them to sign this report on their behalf.

<u>/s/ Robert S. Tissue</u>	<u>3/12/2024</u>
Robert S. Tissue	Date
Attorney-in-fact	

SUBSIDIARIES OF REGISTRANT

The following lists the subsidiaries of Summit Financial Group, Inc., a West Virginia Corporation.

SFG II, Inc., a second-tier bank holding company organized under the laws of the State of West Virginia

Summit Community Bank, Inc., a state banking corporation organized under the laws of the State of West Virginia

SFG Capital Trust I, a statutory business trust organized under the laws of the State of Delaware

SFG Capital Trust II, a statutory business trust organized under the laws of the State of Delaware

SFG Capital Trust III, a statutory business trust organized under the laws of the State of Delaware

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statements No. 333-255715, 333-199598, 333-166662 and 333-153517 on Form S-3, No. 333-198941, on Form S-8 and Amendment No. 1 to the Registration Statement No. 333-262451 and related Prospectus on Form S-4 of Summit Financial Group, Inc. of our reports dated March 12, 2024, relating to the consolidated financial statements and the effectiveness of internal control over financial reporting, appearing in the Annual Report on Form 10-K of Summit Financial Group, Inc. for the year ended December 31, 2023.

/s/ Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 12, 2024

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below, constitutes and appoints Robert S. Tissue and Julie R. Markwood or either of them his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign Summit Financial Group, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2023, and all amendments thereto, and file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

/s/ Oscar M. Bean

Oscar M. Bean

/s/ Gary L. Hinkle

Gary L. Hinkle

/s/ Jill S. Upson

Jill S. Upson

/s/ Jason A. Kitzmiller

Jason A. Kitzmiller

/s/ James M. Cookman

James M. Cookman

/s/ H. Charles Maddy, III

H. Charles Maddy, III

/s/ J. Scott Bridgeforth

J. Scott Bridgeforth

/s/ Charles S. Piccirillo

Charles S. Piccirillo

/s/ James P. Geary, II

James P. Geary, II

/s/ David H. Wilson Sr.

David H. Wilson Sr.

/s/ Georgette R. George

Georgette R. George

/s/ Ronald L. Bowling

Ronald L. Bowling

/s/ Ronald B. Spencer

Ronald B. Spencer

SARBANES-OXLEY ACT SECTION 302
CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

1. I have reviewed this annual report on Form 10-K 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: March 12, 2024

SARBANES-OXLEY ACT SECTION 302
CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Robert S. Tissue, certify that:

1. I have reviewed this annual report on Form 10-K 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

Exec. Vice President and Chief Financial Officer

Date: March 12, 2024

SARBANES-OXLEY ACT SECTION 906
CERTIFICATION OF CHIEF EXECUTIVE OFFICER

In connection with this Annual Report of Summit Financial Group, Inc. ("Summit") on Form 10-K for the year ending December 31, 2023 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 results of operations of Summit.

/s/ H. Charles Maddy, III

H. Charles Maddy, III

President and Chief Executive Officer

Date: March 12, 2024

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.

SARBANES-OXLEY ACT SECTION 906
CERTIFICATION OF CHIEF FINANCIAL OFFICER

In connection with this Annual Report of Summit Financial Group, Inc. ("Summit") on Form 10-K for the year ending December 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert S. Tissue, Senior 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 results of operations of Summit.

/s/ Robert S. Tissue

Robert S. Tissue,

Exec. Vice President and Chief Financial Officer

Date: March 12, 2024

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.

SUMMIT FINANCIAL GROUP, INC. COMPENSATION RECOUPMENT POLICY

1. Purpose. The purpose of this Summit Financial Group, Inc. (the “Company”) Compensation Recoupment Policy (this “Policy”) is to enable the Company to recover Erroneously Awarded Compensation from Covered Executive Officers in the event that the Company is required to prepare an Accounting Restatement. This Policy is designed to comply with, and shall be interpreted to be consistent with, Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as codified in Section 10D of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), Rule 10D-1 promulgated under the Exchange Act (“Rule 10D-1”) and Listing Rule 5608 of the corporate governance rules of The Nasdaq Stock Market (“Nasdaq”) (the “Listing Standards”). Unless otherwise defined in this Policy, capitalized terms shall have the meaning ascribed to such terms in Section 2.

2. Definitions. As used in this Policy, the following capitalized terms shall have the meanings set forth below.

a. “Accounting Restatement” means an accounting restatement of the Company’s financial statements due to the Company’s material noncompliance with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period.

b. “Accounting Restatement Date” means the earlier to occur of (i) the date the Board, a committee of the Board, or the officer or officers of the Company authorized to take such action if the Board’s action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement and (ii) the date a court, regulator, or other legally authorized body directs the Company to prepare an Accounting Restatement.

c. “Applicable Period” means, with respect to any Accounting Restatement, the three completed fiscal years immediately preceding the Accounting Restatement Date, as well as any transition period (that results from a change in the Company’s fiscal year) within or immediately following those three completed fiscal years (except that a transition period that comprises a period of at least nine months shall count as a completed fiscal year).

d. “Board” means the board of directors of the Company.

e. “Code” means the U.S. Internal Revenue Code of 1986, as amended.

f. “Covered Executive Officer” means an individual who is currently or previously served as the Company’s principal executive officer, principal financial officer, principal accounting officer (or, if there is no such accounting officer, the controller), vice president of the Company in charge of a principal business unit, division, or function (such as sales, administration, or finance), an officer who performs (or performed) a policy-making function, or any other person who performs (or performed) similar policy-making functions for

the Company or is otherwise determined to be an executive officer of the Company pursuant to Item 401(b) of Regulation S-K. An executive officer of the Company’s parent or subsidiary is deemed a “Covered Executive Officer” if the executive officer performs (or performed) such policy-making functions for the Company.

g. “ Erroneously Awarded Compensation” means, in the event of an Accounting Restatement, the amount of Incentive-Based Compensation previously received that exceeds the amount of Incentive-Based Compensation that otherwise would have been received had it been determined based on the restated amounts in such Accounting Restatement, and must be computed without regard to any taxes paid by the relevant Covered Executive Officer; provided, however, that for Incentive-Based Compensation based on stock price or total shareholder return, where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in an Accounting Restatement: (i) the amount of Erroneously Awarded Compensation must be based on a reasonable estimate of the effect of the Accounting Restatement on the stock price or total shareholder return upon which the Incentive- Based Compensation was received and (ii) the Company must maintain documentation of the determination of that reasonable estimate and provide such documentation to NASDAQ.

h. “ Financial Reporting Measure” means any measure that is determined and presented in accordance with the accounting principles used in preparing the Company’s financial statements and any measure that is derived wholly or in part from such measure. A Financial Reporting Measure is not required to be presented within the Company’s financial statements or included in a filing with the U.S. Securities and Exchange Commission to qualify as a “Financial Reporting Measure.”

i. “ Incentive-Based Compensation” means any compensation that is granted, earned, or vested based wholly or in part upon the attainment of a Financial Reporting Measure. Incentive-Based Compensation is deemed “received” for purposes of this Policy in the Company’s fiscal period during which the Financial Reporting Measure specified in the Incentive-Based Compensation award is attained, even if the payment or grant of such Incentive-Based Compensation occurs after the end of that period.

3. Administration. This Policy shall be administered by the Compensation and Nominating Committee of the Board (the “Compensation Committee”) For purposes of this Policy, the body charged with administering this Policy shall be referred to herein as the “Administrator.” The Administrator is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate or advisable for the administration of this Policy, in each case, to the extent permitted under the Listing Standards and in compliance with (or pursuant to an exemption from the application of) Section 409A of the Code. All determinations and decisions made by the Administrator pursuant to the provisions of this Policy shall be final, conclusive and binding on all persons, including the Company, its affiliates, its shareholders and Covered Executive Officer.

4. Application of this Policy. This Policy applies to all Incentive-Based Compensation received by a person: (a) after beginning service as a Covered Executive Officer; (b) who served as a Covered Executive Officer at any time during the performance period for such Incentive- Based Compensation; (c) while the Company had a listed class of securities on a national securities exchange; and (d) during the Applicable Period. For the avoidance of doubt, Incentive-Based

Compensation that is subject to both a Financial Reporting Measure vesting condition and a service-based vesting condition shall be considered received when the relevant Financial Reporting Measure is achieved, even if the Incentive-Based Compensation continues to be subject to the service-based vesting condition.

5. Recovery Erroneously Awarded Compensation. In the event of an Accounting Restatement, the Company must recover Erroneously Awarded Compensation reasonably promptly, in amounts determined pursuant to this Policy. The Company's obligation to recover Erroneously Awarded Compensation is not dependent on the filing of restated financial statements. Recovery under this Policy with respect to a Covered Executive Officer shall not require the finding of any misconduct by such Covered Executive Officer or such Covered Executive Officer being found responsible for the accounting error leading to an Accounting Restatement. In the event of an Accounting Restatement, the method for recouping Erroneously Awarded Compensation shall be determined by the Administrator in its sole and absolute discretion, to the extent permitted under the Listing Standards and in compliance with (or pursuant to an exemption from the application of) Section 409A of the Code, and the regulations promulgated thereunder. Recovery may include, without limitation, (i) reimbursement of all or a portion of any incentive compensation award, (ii) cancellation of incentive compensation awards, whether vested or unvested or paid or unpaid, (iii) forfeiture of deferred compensation, subject to compliance with Section 409A of the Code and the regulations promulgated thereunder, and (iv) any other method authorized by applicable law or contract. Subject to compliance with any applicable law, the Administrator may affect recovery under this Policy from any amount otherwise payable to the Covered Executive, including amounts payable to such individual under any otherwise applicable Company plan or program, including base salary, bonuses or commissions and compensation previously deferred by the Covered Executive. The Company is authorized and directed pursuant to this Policy to recover Erroneously Awarded Compensation in compliance with this Policy unless the Compensation Committee has determined that recovery would be impracticable solely for the following limited reasons, and subject to the following procedural and disclosure requirements:

a. The direct expenses paid to a third party to assist in enforcing this Policy would exceed the amount to be recovered. Before reaching such conclusion, the Administrator must make a reasonable attempt to recover such Erroneously Awarded Compensation, document such reasonable attempt(s) to recover, and provide that documentation to NASDAQ; or

b. Recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the applicable requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and regulations thereunder.

6. Prohibition on Indemnification and Insurance Reimbursement. The Company is prohibited from indemnifying any Covered Executive Officer against the loss of any Erroneously Awarded Compensation. Further, the Company is prohibited from paying or reimbursing a Covered Executive Officer for the cost of purchasing insurance to cover any such loss. The Company is also prohibited from entering into any agreement or arrangement whereby this Policy would not apply or fail to be enforced against a Covered Executive Officer.

7. Required Policy-Related Disclosure and Filings. The Company shall file all disclosures with respect to this Policy in accordance with the requirements of federal securities laws, including disclosures required by U.S. Securities and Exchange Commission filings. A copy

of this Policy and any amendments hereto shall be filed as an exhibit to the Company's annual report on Form 10-K.

8. Acknowledgement. Each Covered Executive Officer shall sign and return to the Company within thirty (30) calendar days following the later of (i) the effective date of this Policy set forth below or (ii) the date such individual becomes a Covered Executive Officer, the Acknowledgement Form attached hereto as **Exhibit A**, pursuant to which the Covered Executive Officer agrees to be bound by, and to comply with, the terms and conditions of this Policy.

9. Amendment; Termination. The Board may amend this Policy from time to time in its sole and absolute discretion and shall amend this Policy as it deems necessary to reflect the Listing Standards or to comply with (or maintain an exemption from the application of) Section 409A of the Code. The Board may terminate this Policy at any time; provided, that the termination of this Policy would not cause the Company to violate any federal securities laws, or rules promulgated by the U.S. Securities and Exchange Commission or the Listing Standards.

10. Other Recovery Obligations; General Rights. The Board intends that this Policy shall be applied to the fullest extent of the law. Any employment agreement, equity award agreement, compensatory plan or any other agreement or arrangement with a Covered Executive Officer shall be deemed to include, as a condition to the grant of any benefit thereunder, an agreement by the Covered Executive Officer to abide by the terms of this Policy. All Incentive- Based Compensation that is received under the 2014 Long-Term Incentive Plan by Covered Executive Officers on or after Effective Date shall be subject to this Policy. To the extent that the application of this Policy would provide for recovery of Incentive-Based Compensation that the Company already recovered pursuant to Section 304 of the Sarbanes-Oxley Act or other recovery obligations, any such amount recovered from a Covered Executive Officer will be credited to any recovery required under this Policy in respect of such Covered Executive Officer. The application and enforcement of this Policy does not preclude the Company from taking any other action to enforce a Covered Executive Officer's obligations to the Company, including termination of employment or institution of legal proceedings. Nothing in this Policy restricts the Company from seeking recoupment under any other compensation recoupment Policy or any applicable provisions in plans, agreements, awards or other arrangements that contemplate the recoupment of compensation from a Covered Executive Officer. If a Covered Executive Officer fails to repay Erroneously Awarded Incentive-Based Compensation that is owed to the Company under this Policy, the Company shall take all appropriate action to recover such Erroneously Awarded Incentive-Based Compensation from the Covered Executive Officer, and the Covered Executive Officer shall be required to reimburse the Company for all expenses (including legal expenses) incurred by the Company in recovering such Erroneously Awarded Incentive-Based Compensation.

11. Effective Date. This Policy shall be effective as of October 2, 2023 (the "Effective Date"). The terms of this Policy shall apply to any Incentive-Based Compensation that is received by Covered Executive Officers on or after the Effective Date, even if such Incentive-Based Compensation was approved, awarded or granted to Covered Executive Officers prior to the Effective Date.

EXHIBIT A
SUMMIT FINANCIAL GROUP, INC. COMPENSATION RECOUPMENT POLICY ACKNOWLEDGEMENT FORM

By signing below, the undersigned acknowledges and confirms that the undersigned has received and reviewed a copy of the Summit Financial Group, Inc. (the “Company”) Compensation Recoupment Policy (the “Policy”).

By signing this Acknowledgement Form, the undersigned acknowledges and agrees that the undersigned is and will continue to be subject to the Policy and that the Policy will apply both during and after the undersigned’s employment with the Company. Further, by signing below, the undersigned agrees to abide by the terms of the Policy, including, without limitation, by returning any Erroneously Awarded Incentive-Based Compensation (as defined in the Policy) to the Company to the extent required by, and in a manner consistent with, the Policy.

COVERED EXECUTIVE OFFICER

Signature

Print Name

Date