Annual Report 2022

Summit
FINANCIAL GROUP
Strength. Vision. Prosperity.

CORPORATE PROFILE

Summit Financial Group, Inc. is the $3.9 billion financial holding company for Summit Community Bank, Inc. Its talented bankers serve commercial and individual clients throughout West Virginia, the Washington, D.C. metropolitan area, Virginia, and Kentucky. Summit's focus on in-market commercial lending and providing other business banking services in dynamic markets is designed to leverage its highly efficient operations and core deposits in strong legacy locations. Residential and consumer lending, trust and wealth management, and other retail financial services are offered through convenient digital and mobile banking platforms, including MySummit.bank, and 44 full-service branch locations. For more information regarding Summit Financial Group, Inc., please visit us at www.summitfgi.com.

COMMON STOCK AND DIVIDEND INFORMATION

ANTICIPATED 2023 DIVIDEND DATES

Quarter	Payment Date
1st	March 31, 2023
2nd	June 30, 2023
3rd	September 29, 2023
4th	December 29, 2023

2022 DIVIDEND DATA

Quarter	Record Date	Payment Date	Per Share
1st	March 15, 2022	March 31, 2022	$ 0.18
2nd	June 15, 2022	June 30, 2022	0.18
3rd	September 15, 2022	September 30, 2022	0.20
4th	December 15, 2022	December 30, 2022	0.20

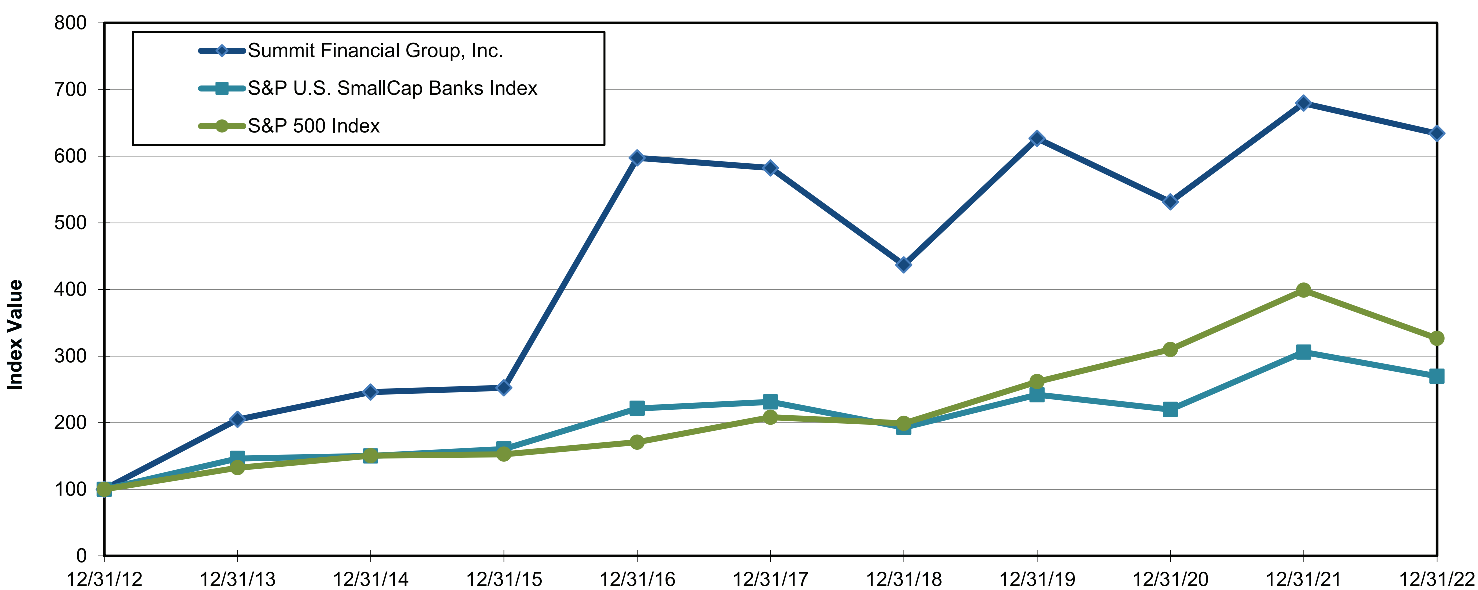
COMMON STOCK

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Dividends	$ 0.76	$ 0.70	$ 0.68	$ 0.59	$ 0.53	$ 0.44	$ 0.40	$ 0.32	$ -	$ -
High Bid	30.83	28.00	27.10	27.83	28.00	28.16	30.06	13.09	12.70	10.00
Low Bid	24.58	20.00	13.48	19.23	17.94	19.13	11.13	11.27	8.89	4.89
Close	24.89	27.45	22.08	27.09	19.31	26.32	27.53	11.88	11.90	9.91

10- YEAR TOTAL RETURN TO SHAREHOLDERS

The below graph assumes an initial investment of $100.00 on December 31, 2012 and reinvestment of all dividends.

TOTAL RETURN PERFORMANCE



Forward-Looking Statement Disclosure

This annual report contains forward-looking statements, including certain plans, expectations, goals and projections that are subject to numerous assumptions, risks, and uncertainties. Actual results could differ materially from those contained in or implied by Summit's statements due to a variety of factors including, but not limited to, those described under the heading "Risk Factors" in Summit's Form 10-K for the year ended December 31, 2022, and other factors described from time to time in Summit's other filings with the Securities and Exchange Commission.

FINANCIAL HIGHLIGHTS

Dollars in thousands, except per share amounts	For the Year Ended (unless otherwise noted) 2022	2021	2020	2019	2018
Summary of Operations					
Interest income	$ 158,747	$ 122,415	$ 115,003	$ 107,071	$ 95,409
Interest expense	29,761	12,483	19,521	29,987	25,612
Net interest income	128,986	109,932	95,482	77,084	69,797
Provision for credit losses	6,950	4,000	14,500	1,550	2,250
Noninterest income	18,153	20,208	20,083	19,203	17,422
Noninterest expense	72,879	68,739	62,311	55,154	49,873
Income tax expense	14,094	11,663	7,428	7,717	7,024
Net income	53,216	45,738	31,326	31,866	28,072
Preferred stock dividends	900	589	-	-	-
Net income applicable to common shares	$ 52,316	$ 45,149	$ 31,326	$ 31,866	$ 28,072
Balance Sheet Data (at year end)					
Assets	$ 3,916,692	$ 3,576,719	$ 3,106,384	$ 2,403,492	$ 2,200,586
Debt securities available for sale	405,201	401,103	286,127	276,355	293,147
Debt securities held to maturity	96,163	98,060	99,914	-	-
Loans, net	3,043,919	2,729,093	2,379,907	1,900,425	1,682,005
Intangible assets	62,150	63,590	55,123	23,022	25,842
Deposits	3,169,879	2,943,089	2,595,651	1,913,237	1,634,826
Short-term borrowings	225,999	140,146	140,146	199,345	309,084
Long-term borrowings	658	679	699	717	735
Shareholders' equity	354,530	327,473	281,580	247,764	219,830
Credit Quality					
Net loan charge-offs	$ 677	$ 954	$ 1,703	$ 1,523	$ 1,768
Nonperforming assets	12,890	22,554	35,923	30,803	36,462
Allowance for credit losses on loans	38,899	32,298	32,246	13,074	13,047
Allowance for credit losses on unfunded loan commitments	6,947	7,275	4,190	-	-
Per Share Data					
Earnings per share					
Basic earnings	$ 4.10	$ 3.49	$ 2.42	$ 2.55	$ 2.27
Diluted earnings	4.08	3.47	2.41	2.53	2.26
Book value per common share (at year end)	26.57	24.53	21.76	19.97	17.85
Tangible book value per common share (at year end)	21.70	19.54	17.50	18.11	15.75
Cash dividends per share	0.76	0.70	0.68	0.59	0.53
Performance Ratios					
Return on average equity	15.83%	14.76%	11.80%	13.43%	13.43%
Return on average tangible common equity	21.03%	19.51%	14.73%	15.65%	16.09%
Return on average assets	1.42%	1.36%	1.13%	1.40%	1.32%
Capital Ratios					
Equity to assets	9.1%	9.2%	9.1%	10.3%	10.0%
Tangible common equity to tangible assets	7.2%	7.1%	7.4%	9.4%	8.9%
Dividend payout ratio	18.2%	19.9%	28.2%	23.1%	23.3%

TO OUR SHAREHOLDERS

We are delighted to present another year of strong, balanced, and consistent growth for our company. The unwavering focus on our core values of integrity, community, and excellence has resulted in annualized double-digit loan growth, strong deposit growth, as well as substantial increase in revenue and earnings for the year.

This year's financial results reflect our continued success in executing our strategy of maintaining a strong balance sheet and operational efficiency. We remain optimistic in our resolve and ability to continue this momentum and deliver long-term value to our stakeholders.

Looking forward, our prospects for continued growth and success are encouraging. We have several initiatives and milestones planned for the upcoming year, including:

- <u>Expansion to New Locations</u>: In 2023, we are expanding to two new locations in Huntington and Manassas, enabling us to better serve our customers in these markets. Summit is also expanding its community banking footprint to the Eastern Shore of Maryland and Delaware with the acquisition of PSB Holding Company.
- <u>Community Involvement</u>: We believe that giving back to our communities is an integral part of our mission. In the upcoming year, we will be launching new community development initiatives and partnering with local organizations to support economic growth and development.
- <u>Enhanced Digital Banking Services</u>: We remain committed to providing our customers with the latest digital banking services, and in the upcoming year, we will be launching new mobile banking applications and online services to make banking with us even more convenient and accessible.
- <u>Cybersecurity and Fraud Management</u>: We recognize the importance of cybersecurity and fraud prevention and will continue to invest in cutting-edge technology and systems to keep our customers' information secure.
- <u>Prudent Underwriting Standards</u>: We will continue to maintain high standards in underwriting, focusing on risk management and credit quality.

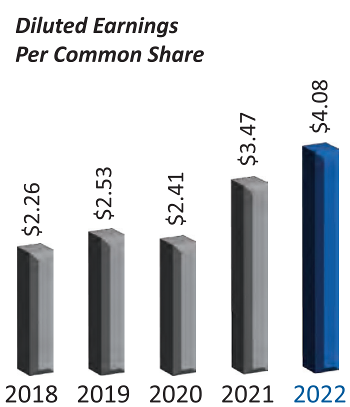
These initiatives and milestones demonstrate our unwavering commitment to delivering exceptional value to our customers and continued growth and success for our shareholders.

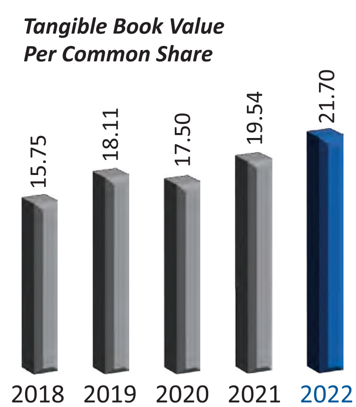
Operational Excellence

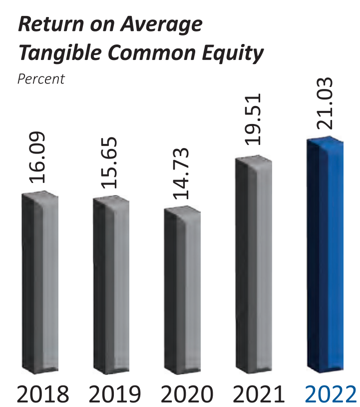
We are pleased with our financial results this year and our success was attributed to the strong contributions from each of our team members. Our company experienced impressive growth, and we believe our efforts have resulted in a strong balance sheet, improved operational efficiency, and increased revenue and earnings. Our disciplined underwriting standards consistently provide stable asset quality metrics and improved throughout the year.

Our total assets at year-end reached $3.9 billion, representing 9.5 percent growth from the $3.6 billion recorded at the end of 2021. Furthermore, our total loans, excluding mortgage warehouse lines of credit and Paycheck Protection Program ("PPP") lending, increased by 17.1 percent to $3.0 billion, while our total deposits grew by 7.7 percent to $3.2 billion.

Our tremendous operating results in 2022, pending merger with PSB Holding Corp. and the strength of our balance sheet well-positions us for continued growth in 2023.







Other key items for 2022 included:

- Record net income of $53.2 million, or $4.08 per diluted share, which grew by 16.3 percent from the year prior.
- Return on average equity improved 107 basis points for the year to 15.83 percent while return on average tangible common equity increased 152 basis points to 21.03 percent.
- Net interest margin (NIM) improved 19 basis points this year to 3.73 percent, well above our peer banks' median of 3.39 percent.
- Revenue grew to $147.1 million, up 13.1 percent from 2021 and outpacing the 6.0 percent noninterest expense increase.
- Asset quality metrics continued to improve, with a 30-basis point reduction in nonperforming assets (NPAs) to 0.33 percent of total assets, excluding restructured assets.
- Announced the acquisition of PSB Holding Corp., which is expected to close in the second quarter of 2023, provides Summit with an opportunity to expand its community banking footprint to the Eastern Shore of Maryland and Delaware and offer enhanced banking services to both Summit and PSB clients.

These results are a testament to our dedication of maintaining high standards in underwriting, risk management, and credit quality. We are confident in our ability to continue building on this momentum and achieving even greater success in the future.

Community Support

Summit's commitment to community involvement accelerated this year as we firmly believe in supporting and giving back to the communities in which we operate.

In 2022, Summit Community Bank provided approximately $31.8 million in community development loans and invested $50.2 million in qualified community development projects. We also donated approximately $292,000 to various charities, community organizations, food pantries, and schools. Our employees demonstrated a strong commitment to community service, having devoted over 10,000 hours to volunteering in their respective local communities.

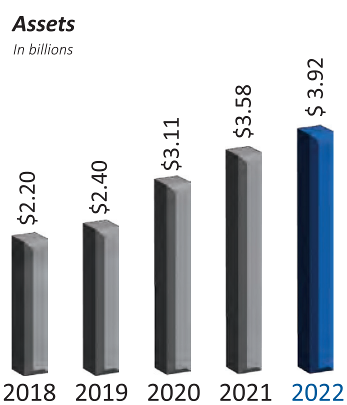
We are proud of our community development efforts and recognize the importance of investing in the communities we serve. We believe that by helping to build strong, vibrant communities, we are not only contributing to the success of our company but also the well-being of our customers and communities.

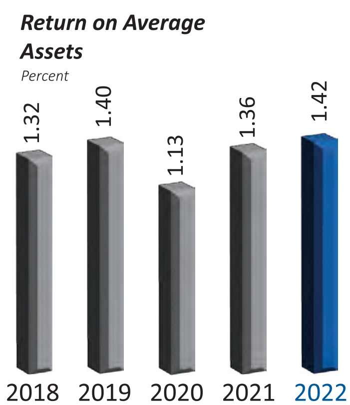
50 Years of Dedication

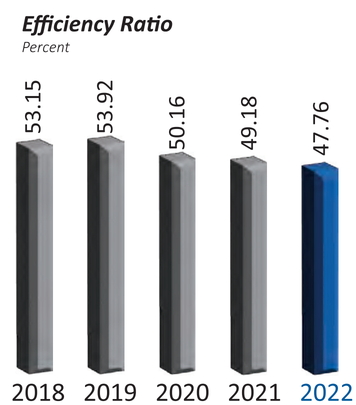
We especially want to recognize Kathleen Simerly, an esteemed employee who has been with Summit Financial for 50 years. Her story is a testament to the opportunities that can arise from dedication while embodying our core values of integrity, community, and excellence. Kathleen started at the Bank in 1973, at the age of 19, as part of a starter program. Over the years, Kathleen has held positions across the Bank including bookkeeping, teller, accounts payable, payroll and Human Resources. We are proud to have Kathleen as a valuable member of our team and extend our gratitude for her many years of hard work and dedication.

Acquisition of PSB Holding Corp.

We are pleased to announce that our 100% stock-for-stock merger agreement with PSB Holding Corp. and its bank subsidiary, Provident State Bank has been approved by the boards of both companies and is expected to close very soon. All regulatory approvals and the approval of PSB shareholders have been completed. The combined company is expected to have approximate total assets of $4.6 billion, gross loans of $3.6 billion, and deposits of $3.7 billion at consummation.







This acquisition provides Summit with an opportunity to expand its community banking footprint to the Eastern Shore of Maryland and Delaware and offer enhanced banking services to both Summit and PSB clients. We are confident that the acquisition will create long-term value for our shareholders and strengthen our position in the market.

As a result of the acquisition, David H. Wilson, Sr., the former chairman of the Board of Directors of PSB Holding Corp. and a director of Provident State Bank since 1989, will join our Board of Directors. Mr. Wilson will stand for election at the May 18, 2023 Shareholder Meeting.

All-star Recognition

We are delighted to announce that Summit Financial has been named among the top 35 small-cap banks and thrifts in the country by Piper Sandler, earning the Sm-All Star status for the Class of 2022. The recognition is a result of Summit's outstanding growth, profitability, credit quality, and capital strength, meeting the stringent criteria for the Sm-All Stars Class of 2022. To be included in the list, companies needed to have a market cap below $2.5 billion while outperforming industry medians in four metrics: growth, profitability, credit quality, and capital strength.

The performance metrics of the 35 institutions that made the cut are remarkable, delivering bottom line results that are markedly better than the industry as a whole. The Mid-Atlantic and Midwest regions led this year's Sm-All Stars class, each contributing nine of the 35 members. We are proud to have received this recognition and remain committed to maintaining the high standards that have earned us a place among the country's top small-cap banks and thrifts.

2023 and Beyond

As we enter a new year, Summit Financial Group is well-positioned to build on our strong performance and deliver long-term value to our shareholders. Despite the turmoil resulting from the two recent high-profile bank failures, our liquidity position is strong, totaling approximately $1.6 billion, or 40.33% of total consolidated assets at December 31, 2022. Our liquidity management process has established contingent liquidity funding plans under various scenarios in order to be prepared for unexpected liquidity shortages or events. We remain confident in our ability to continue to grow and innovate while maintaining our commitment to our core values of integrity, community, and excellence.

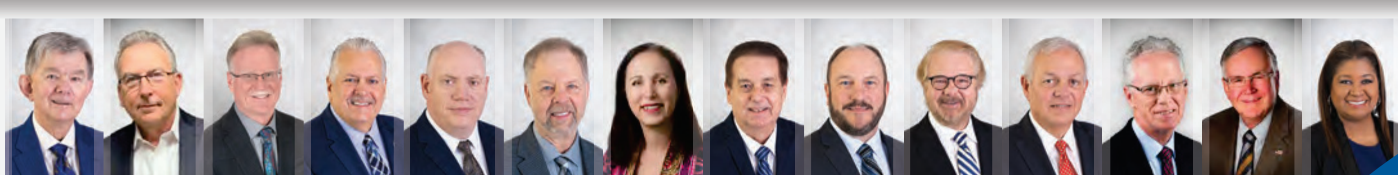
We will continue to prioritize risk management and credit quality to ensure we maintain the highest standards in underwriting. We will prioritize our investments in cutting-edge technology and systems to further enhance our digital banking services and streamline our operations.

We are grateful to our dedicated employees, loyal shareholders, and valued customers for their ongoing support, and we look forward to building on our solid foundation and delivering strong, balanced, and consistent growth in the years to come.

Oscar M. Bean
Oscar M. Bean
Chairman of the Board

H. Charles Maddy, III
President & Chief Executive Officer

2022 BOARD OF DIRECTORS



Oscar M. Bean, Chairman
Ronald L. Bowling
J. Scott Bridgeforth
James M. Cookman
John W. Crites II
James (Jay) P. Geary, II
Georgette R. George
Gary L. Hinkle
Jason A. Kitzmiller
H. Charles Maddy, III
Charles S. Piccirillo
John H. Shott
Ronald B. Spencer
Jill S. Upson

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, 2022

Commission File Number **0-16587**

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

West Virginia	**55-0672148**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
300 N. Main Street **Moorefield, West Virginia** (Address of principal executive offices)	26836 (Zip Code)

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

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

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

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

Indicate by check mark whether the registrant 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, 2022 was approximately $305,343,000. 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 7, 2023 was 12,784,168.

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 25, 2023	**Part III - Items 10, 11, 12, 13 and 14**

SUMMIT FINANCIAL GROUP, INC
Form 10-K Index

Summit
FINANCIAL GROUP

PART I.

Item 1. Business

Summit Financial Group, Inc. ("Company" or "Summit") is a $3.92 billion financial holding company headquartered in Moorefield, West Virginia 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 and the Central region of Kentucky. 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 $441.2 million as of December 31, 2022. As of this date, we had loans approximating $86.5 million which exceeded the above regulatory LTV guidelines, as follows:

	million
Undeveloped land	$ 9.2
Land development	$ 4.7
Land development - Finished building lots	$ 1.0
Construction:	
Commercial, multifamily and other non-residential	$ 14.1
1-4 family residential, consumer borrower	$ 0.2
1-4 family residential, pre-sold, commercial borrower	$ 0.7
1-4 family residential, spec, commercial borrower	$ 0.8
Improved property:	
Residential real estate - nonowner occupied	$ 6.3
Commercial real estate - owner occupied	$ 14.2
Commercial real estate - nonowner occupied	$ 14.0
Owner occupied 1-4 family	$ 21.0
Home equity	$ 0.3

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 pubic with information on recent material events.

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

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 few 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 Volker 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, 2022 are set forth in the table in Note 19 of the notes to the consolidated financial statements beginning on page 105.

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.

The Office of the Comptroller of the Currency ("OCC"), the Federal Reserve Board and the FDIC issued a joint notice of proposed rulemaking on May 5, 2022, proposing revisions to the CRA regulations. Comments on the proposed rulemaking were due by August 5, 2022. In September, 2022, legislation was introduced to significantly revise the CRA to add a number of new substantive and procedural requirements. This legislation may delay the pending proposed rulemaking by the banking regulators.

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 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 1A. Risk Factors for a further discussion of risks related to cybersecurity.

Transactions with Affiliates

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

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

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

Incentive Compensation

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

The federal bank regulatory agencies 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 is required to adopt a clawback policy within 60 days after such listing standard becomes effective.

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, 2022, we employed 432 full-time equivalent team members. We have acquired five whole banks and eight branches of another bank over the last six years resulting in an overall increase of approximately 209 full-time employees. The average tenure of our full-time employees, including time employed by the banks we acquired is 9.98 years, while the average tenure of our executive management team is approximately 24.74 years. We have 4 employees that have been with the Company more than 40 years; 70 employees that have been with the Company more than 20 years and 233 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 both 2018 and 2022. 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 $500 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 2022 of 6%. As of December 31, 2022, the ESOP owned 4.3% 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. 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, 2022, there is no guarantee that we will not have a decline in our capital category in the future. In the event of such a capital category decline, we would be subject to increased regulatory restrictions that could have a material adverse effect on our business, financial condition, results of operations, cash flows and/or future prospects.

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

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

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

Our decisions regarding credit risk could be inaccurate and our allowance for 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, 2022, our allowance for credit losses on loans totaled $38.9 million, which represents approximately 1.26% 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 on our financial performance. Accordingly, we cannot be assured of our ability to raise additional capital, if needed or on terms acceptable to us. If we cannot raise additional capital when needed, it may have a material adverse effect on our financial condition, results of operations and prospects.

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

We have frequently utilized, as a source of funds, certificates of deposit obtained through third parties that solicit funds from their customers for deposit with us, or brokered deposits. Brokered deposits, when compared to retail deposits attracted through a branch network, are generally more sensitive to changes in interest rates and volatility in the capital markets and could reduce our net interest spread and net interest margin. In addition, brokered deposit funding sources may be more sensitive to significant changes in our financial condition. As of December 31, 2022, brokered deposits totaled $32.8 million, or approximately 1.0% of our total deposits, compared to brokered deposits in the amount of $14.7 million or approximately 0.5% of our total deposits at December 31, 2021. Our ability to continue to acquire brokered deposits is subject to our ability to price these deposits at competitive levels, which may increase our funding costs and the confidence of the market. In addition, if our capital ratios fall below the levels necessary to be considered "well capitalized" under current regulatory guidelines, we could be restricted from using brokered deposits as a funding source.

We also have borrowings with the Federal Home Loan Bank of Pittsburgh, or the FHLB. As of December 31, 2022, our FHLB borrowings maturing within one year totaled $225.9 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 46 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 WinFirst Financial Corp. ("WinFirst") on December 14, 2020, Cornerstone Financial Services, Inc. ("Cornerstone") on January 1, 2020, the Peoples Bankshares, Inc. ("Peoples") acquisition on January 1, 2019, the First Century Bankshares, Inc. ("FCB") acquisition in April 2017 and the acquisition of Highland County Bankshares, Inc. ("HCB") in October 2016. 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 December 9, 2022, we entered into an agreement to acquire PSB Holding Corp. that we expect to close in the second quarter of 2023. Although our business strategy emphasizes organic expansion, we continue, from time to time in the ordinary course of business, to engage in preliminary discussions with potential acquisition targets. There can be no assurance that, in the future, we will successfully identify suitable acquisition candidates, complete acquisitions and successfully integrate acquired operations into our existing operations or expand into new markets. The consummation of any future acquisitions may dilute shareholder value or may have an adverse effect upon our operating results while the operations of the acquired business are being integrated into our operations. In addition, once integrated, acquired operations may not achieve levels of profitability comparable to those achieved by our existing operations, or otherwise perform as expected. Further, transaction-related expenses may adversely affect our earnings. These adverse effects on our earnings and results of operations may have a negative impact on the value of our common stock. Acquiring banks, bank branches or other businesses involves risks commonly associated with acquisitions, including:

- We may be exposed to potential asset quality issues or unknown or contingent liabilities of the banks, businesses, assets, and liabilities we acquire. If these issues or liabilities exceed our estimates, our results of operations and financial condition may be materially negatively affected;

- Prices at which acquisitions can be made fluctuate with market conditions. We have experienced times during which acquisitions could not be made in specific markets at prices we considered acceptable and expect that we will experience this condition in the future;

- The acquisition of other entities generally requires integration of systems, procedures and personnel of the acquired entity into our company to make the transaction economically successful. This integration process is complicated and time consuming and can also be disruptive to the customers of the acquired business. If the integration process is not conducted successfully and with minimal effect on the acquired business and its customers, we may not realize the anticipated economic benefits of particular acquisitions within the expected time frame, and we may lose customers or employees of the acquired business. We may also experience greater than anticipated customer losses even if the integration process is successful.

- To the extent our costs of an acquisition exceed the fair value of the net assets acquired, the acquisition will generate goodwill. As discussed below, we are required to assess our goodwill for impairment at least annually, and any goodwill impairment charge could have a material adverse effect on our results of operations and financial condition; and

- To finance an acquisition, we may borrow funds, thereby increasing our leverage and diminishing our liquidity, or issue additional shares, which could dilute the interests of our existing stockholders.

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.

Uncertainty relating to LIBOR calculation process and potential phasing out of LIBOR may adversely affect us.

The United Kingdom's Financial Conduct Authority and the administrator of LIBOR have announced that the publication of the most commonly used U.S. dollar London Interbank Offered Rate ("LIBOR") settings will cease to be published or cease to be representative after June 30, 2023. The publication of all other LIBOR settings ceased to be published as of December 31, 2021. The bank regulatory agencies indicated that entering into new contracts that use LIBOR as a reference rate after December 31, 2021, would create safety and soundness risks and that they would examine bank practices accordingly. The Adjustable Interest Rate (LIBOR) Act, enacted in March 2022, provides a statutory framework to replace U.S. dollar LIBOR with a benchmark rate based on the Secured Overnight Financing Rate ("SOFR") for contracts governed by U.S. law that have no or ineffective fallback, and in December 2022, the Federal Reserve Board adopted related implementing rules.

We discontinued originating LIBOR-based loans prior to December 31, 2021 and are now negotiating loans using SOFR.

There continues to be substantial uncertainty as to the ultimate effects of the LIBOR transition. Since SOFR rates are calculated differently, payments under contracts referencing new rates will differ from those referencing LIBOR, which may lead to increased volatility as compared to LIBOR. The transition has impacted our market risk profiles and required changes to our risk and pricing models, valuation tools, product design and hedging strategies. Furthermore, failure to adequately manage this transition process with our customers could adversely impact our reputation. Although we are currently unable to assess what the ultimate impact of the transition from LIBOR will be, failure to adequately manage the transition could 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 and the central region of Kentucky. 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. Inflation has risen sharply since the end of 2021 and throughout 2022 at levels not seen for over 40 years. Inflationary pressures are currently expected to remain elevated throughout 2023. 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 for certain investment securities, whether caused by changes in market conditions, interest rates, credit risk of the issuer, the expected yield of the security, or actual defaults in the portfolio could result in significant fluctuations in the value of the securities as well as any regulatory rulemaking which could exclude or limit the holdings of certain investment securities. This could have a material adverse impact on our accumulated other comprehensive income and shareholders' equity depending on the direction of the fluctuations. Furthermore, future downgrades, defaults or prepayments, including the liquidation of the underlying collateral in certain securities, could result in future classifications as other-than-temporarily impaired. This could have a material impact on our future earnings, although the impact on shareholders' equity will be offset by any amount already included in other comprehensive income for securities that were temporarily impaired.

RISKS RELATING TO 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, 2023, our executive officers and directors beneficially own 13.5% (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, 2022 and 2021.

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 an 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 2022, our total interest payments on the debentures approximated $747,000 and the total interest paid on the subordinated notes was $4.0 million. Based on current rates, our quarterly interest payment obligation on the debentures is approximately $338,000 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 in the future, which could have a material adverse effect on our financial condition and results of our operations.

We operate in a very competitive industry and market.

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

We 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 and other factors could have a negative impact on the economy of the Mid-Atlantic regions in which we operate. An additional economic downturn in our markets would likely contribute to the deterioration of the quality of our loan portfolio by impacting the ability of our customers to repay loans, the value of the collateral securing loans and may reduce the level of deposits in our bank and the stability of our deposit funding sources. An additional economic downturn could also have a significant impact on the demand for our products and services. The cumulative effect of these matters on our results of operations and financial condition could be adverse and material.

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 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, 2022, Summit Community operated 44 banking offices in three states as follows:

	Number of Offices		
Office Locations by State	**Owned**	**Leased**	**Total**
Summit Community Bank			
West Virginia	26	3	29
Virginia	10	4	14
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 94.

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 104.

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, 2023, there were approximately 1,102 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.

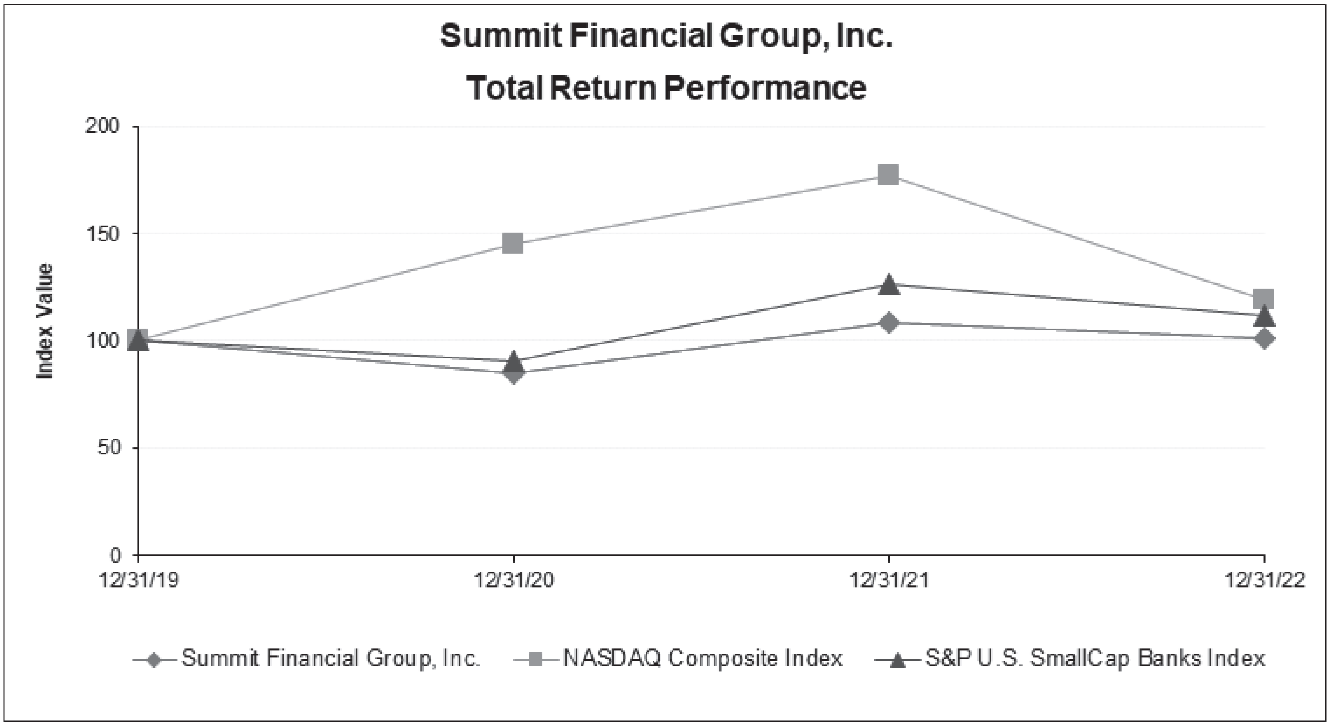
In February 2020, the Board of Directors authorized the open market repurchase of up to 750,000 shares of the issued and outstanding shares of Summit's common stock ("February 2020 Repurchase Plan"). The timing and quantity of purchases under this stock repurchase plan are at the discretion of management. 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, 2022.

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, 2022 - October 31, 2022	—	$ —	—	426,423
November 1, 2022 - November 30, 2022	—	—	—	426,423
December 1, 2022 - December 31, 2022	—	—	—	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, 2022.

The cumulative total shareholder return assumes a $100 investment on December 31, 2017 in the common stock of Summit and each index and the cumulative return is measured as of each subsequent fiscal year-end. There is no assurance that Summit's common stock performance will continue in the future with the same or similar trends as depicted in the graph.



	For the Year Ended					
Index	**12/31/2017**	**12/31/2018**	**12/31/2019**	**12/31/2020**	**12/31/2021**	**12/31/2022**
Summit Financial Group, Inc.	100.00	75.02	107.62	91.28	116.70	108.91
NASDAQ Composite	100.00	97.16	132.81	192.47	235.15	158.65
S&P U.S. SmallCap Banks Index	100.00	83.44	104.69	95.08	132.36	116.69

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 $3.92 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 44 banking offices located in West Virginia, Virginia and Kentucky. 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 2022

- Our earnings per diluted share increased from $3.47 in 2021 to $4.08 in 2022.
- Our return on average equity increased to 15.83% from 14.76% and return on average tangible common equity increased from 19.51% to 21.03%.
- 2022 net income applicable to common shares was $52.3 million ($4.08 per diluted share) compared to $45.1 million ($3.47 per diluted share) in 2021.
- Net interest margin increased 19 basis points in 2022, principally due to a 64 basis point increase in our yield on interest earning assets compared to an increase of 57 basis points in our cost of interest bearing funds.
- Net revenues increased $17.0 million, or 13.1 percent during 2022 primarily as result of increased interest income related to loan growth.
- We achieved loan growth, excluding mortgage warehouse lines of credit and PPP loans, of 17.1 percent, or $431.7 million during 2022.
- Nonperforming assets declined to their lowest level since 2005, representing 0.33 percent of total assets at year end 2022 compared to 0.63 percent at the prior year end.
- Cash dividends paid on our common stock in 2022 totaled $0.76 per share compared to $0.70 paid per share in 2021.

OUTLOOK

The year just concluded represents another significant milestone relative to Summit's goal to be a consistent growth, high-performing community banking institution. Our solid lending activity and strong core operating performance of the past year offer significant evidence of our progress. In addition, our acquisition strategy continued to present us with significant opportunities for ongoing performance enhancement. Looking forward to 2023, 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 15.9% during 2022 to $52.3 million, compared to $45.1 million in 2021 and $31.3 million in 2020. Net income applicable to common shares was $4.08, $3.47 and $2.41 per diluted share for 2022, 2021 and 2020, respectively, representing a 17.6% increase in 2022 and a 44.0% increase in 2021. Return on average equity was 15.83% in 2022 compared to 14.76% in 2021 and 11.80% in 2020. Return on average assets for the year ended December 31, 2022 was 1.42% compared to 1.36% in 2021 and 1.13% in 2020.

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.

2020 net income was positively impacted by higher net interest income of $18.4 million (or $1.42 per diluted share), $1.5 million (or $0.12 per diluted share) higher realized securities gains and a $2.0 million increase (or $0.16 per diluted share) in mortgage origination revenue. The $13.0 million increase in provision for credit losses (or $1.00 per diluted share), lower insurance commission revenue of $1.7 million (or $0.13 per diluted share) as result of the sale of our former insurance subsidiary during 2019 (which generated a 2019 gain of $1.9 million pre-tax, or $0.15 per diluted share) and higher salaries and employee benefits of $3.1 million (or $0.24 per diluted share) partially offset these positive impacts.

Net Interest Income

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

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, 2022, approximately 31.3% of our loans had a fixed interest rate, while approximately 33.5% had adjustable rates and approximately 35.2% 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") or the London Interbank Offered Rates ("LIBOR"). We discontinued originating LIBOR-based loans effective December 31, 2021 and have begun to negotiate loans using our preferred replacement index, a benchmark derived based upon SOFR. For our currently outstanding LIBOR-based loans, the timing and manner in which each customer's contract transitions from LIBOR to another rate will vary on a case-by-case basis. Our goal is to complete all transitions by the end of first quarter of 2023.

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

	2022	2021	2020
Federal funds -- high target	1.87%	0.25%	0.54%
Interest on reserve balances	1.76	0.13	0.39
Prime	4.86	3.25	3.54
1-Month LIBOR	1.91	0.10	0.52
3-Month LIBOR	2.39	0.16	0.65
1-Month Term SOFR (1)	1.86	0.04	0.35
3-Month Term SOFR (1)	2.18	0.05	0.34

(1) 1-Month Term SOFR and 3-Month Term SOFR market data are the property of Chicago Mercantile Exchange, Inc. or its licensors as applicable. All rights reserved, or otherwise licensed by Chicago Mercantile Exchange, Inc.

As of December 31, 2022, the target range for the federal funds rate was 4.25% to 4.50%. In December 2022, the Federal Reserve released projections whereby the midpoint of the projected appropriate target range for the federal funds rate would rise to 5.1% by the end of 2023 and subsequently decrease to 4.1% by the end of 2024. 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 increase in the Federal funds rate during 2023, followed by a 100 basis point decrease in 2024. The target rate for the Federal funds rate was increased 25 basis points from 4.50% to 4.75% effective February 2, 2023.

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 2018 through 2022 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 $130.3 million, $111.0 million and $96.5 million for the years ended December 31, 2022, 2021 and 2020, respectively, representing an increase of 17.4% in 2022 and 15.0% in 2021. During 2022, 2021 and 2020, the volumes of both interest earning assets and interest bearing liabilities increased.

During 2022, our earnings on interest earning assets increased $36.6 primarily million 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.

During 2020, our earnings on interest earning assets increased $8.03 million due to higher volumes while the cost of interest bearing liabilities decreased $10.5 million due to lower cost of funds.

Total average earning assets increased 11.4% to $3.49 billion for 2022 from $3.13 billion in 2021. Total average interest bearing liabilities increased 12.0% to $2.78 billion at December 31, 2022, compared to $2.49 billion at December 31, 2021.

Our net interest margin was 3.73% for 2022 compared to 3.54% and 3.71% for 2021 and 2020, respectively. Our net interest margin increased 19 basis points during 2022 due to higher volumes of interest earning assets. Our net interest margin decreased 17 basis points during 2021 due to higher volumes of interest earning assets and lower cost of interest bearing funds.

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

Dollars in thousands	2022	2021	2020	2019	2018
ASSETS					
Interest earning assets					
Loans, net of unearned interest (1)					
Taxable	$ 2,949,350	$ 2,487,885	$ 2,150,294	$ 1,782,477	$ 1,626,725
Tax-exempt (2)	4,961	9,681	15,352	15,315	15,776
Securities					
Taxable	295,264	301,446	256,893	205,340	170,912
Tax-exempt (2)	195,558	159,266	122,386	90,823	136,913
Interest bearing deposits with other banks	46,248	175,615	56,399	39,408	38,148
	$ 3,491,381	$ 3,133,893	$ 2,601,324	$ 2,133,363	$ 1,988,474
Noninterest earning assets					
Cash and due from banks	17,473	19,582	16,139	12,939	9,517
Premises and equipment	55,219	54,762	50,418	41,778	36,025
Other assets	230,860	178,535	143,284	107,456	107,856
Allowance for credit losses on loans	(34,630)	(33,491)	(26,915)	(13,225)	(12,830)
Total assets	$ 3,760,303	$ 3,353,281	$ 2,784,250	$ 2,282,311	$ 2,129,042
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities					
Interest bearing liabilities					
Interest bearing demand deposits	$ 1,350,227	$ 1,044,817	$ 789,064	$ 586,938	$ 471,725
Savings deposits	627,630	673,259	539,625	317,569	320,184
Time deposits	479,545	569,420	598,085	660,910	621,659
Short-term borrowings	204,265	140,146	130,411	194,450	228,142
Long-term borrowings and subordinated debentures	123,331	58,974	28,396	20,315	44,132
	2,784,998	2,486,616	2,085,581	1,780,182	1,685,842
Noninterest bearing liabilities					
Demand deposits	597,199	518,311	401,502	244,559	218,541
Other liabilities	42,005	38,545	31,712	20,341	15,574
Total liabilities	3,424,202	3,043,472	2,518,795	2,045,082	1,919,957
Shareholders' equity - preferred	14,920	10,327	-	-	-
Shareholders' equity - common	321,181	299,482	265,455	237,229	209,085
Total shareholders' equity	336,101	309,809	265,455	237,229	209,085
Total liabilities and shareholders' equity	$ 3,760,303	$ 3,353,281	$ 2,784,250	$ 2,282,311	$ 2,129,042
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 $1,980,000, $1,414,000, $1,210,000, $960,000 and $839,000 for the years ended December 31, 2022, 2021, 2020, 2019 and 2018, 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 $1,272,000, $1,050,000, $997,000, $922,000 and $1,280,000 for the years ended December 31, 2022, 2021, 2020, 2019 and 2018, respectively.

Interest Earnings/Expense					Average Yield/Rate				
2022	2021	2020	2019	2018	2022	2021	2020	2019	2018
$ 145,188	$ 112,268	$ 104,986	$ 96,499	$ 84,716	4.92%	4.51%	4.88%	5.41%	5.21%
222	458	732	780	718	4.47%	4.73%	4.77%	5.09%	4.55%
8,442	5,884	5,996	6,511	5,341	2.86%	1.95%	2.33%	3.17%	3.13%
5,836	4,540	4,020	3,608	5,375	2.98%	2.85%	3.28%	3.97%	3.93%
331	315	266	595	539	0.72%	0.18%	0.47%	1.51%	1.41%
$ 160,019	$ 123,465	$ 116,000	$ 107,993	$ 96,689	4.58%	3.94%	4.46%	5.06%	4.86%
$ 13,863	$ 1,408	$ 2,187	$ 6,394	$ 4,205	1.03%	0.13%	0.28%	1.09%	0.89%
4,155	2,471	4,178	3,969	3,233	0.66%	0.37%	0.77%	1.25%	1.01%
2,665	4,302	9,679	13,334	10,237	0.56%	0.76%	1.62%	2.02%	1.65%
3,786	1,768	2,330	5,303	5,993	1.85%	1.26%	1.79%	2.73%	2.63%
5,292	2,534	1,147	987	1,944	4.29%	4.30%	4.04%	4.86%	4.40%
29,761	12,483	19,521	29,987	25,612	1.07%	0.50%	0.94%	1.68%	1.52%
$ 130,258	$ 110,982	$ 96,479	$ 78,006	$ 71,077					
					3.73%	3.54%	3.71%	3.66%	3.57%

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

	2022 Versus 2021 Increase (Decrease) Due to Change in:			2021 Versus 2020 Increase (Decrease) Due to Change in:		
Dollars in thousands	Volume	Rate	Net	Volume	Rate	Net
Interest earned on						
Loans						
Taxable	$ 22,094	$ 10,826	$ 32,920	$ 15,641	$ (8,359)	$ 7,282
Tax-exempt	(212)	(24)	(236)	(268)	(6)	(274)
Securities						
Taxable	(123)	2,682	2,559	952	(1,064)	(112)
Tax-exempt	1,075	220	1,295	1,100	(580)	520
Interest bearing deposits with other banks	(369)	385	16	293	(244)	49
Total interest earned on interest earning assets	22,465	14,089	36,554	17,718	(10,253)	7,465
Interest paid on						
Interest bearing demand deposits	527	11,928	12,455	568	(1,347)	(779)
Savings deposits	(177)	1,861	1,684	861	(2,568)	(1,707)
Time deposits	(612)	(1,025)	(1,637)	(444)	(4,933)	(5,377)
Short-term borrowings	996	1,022	2,018	164	(726)	(562)
Long-term borrowings and subordinated debentures	2,761	(3)	2,758	1,309	78	1,387
Total interest paid on interest bearing liabilities	3,495	13,783	17,278	2,458	(9,496)	(7,038)
Net interest income	$ 18,970	$ 306	$ 19,276	$ 15,260	$ (757)	$ 14,503

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	2022	2021
Provision for credit losses-loans		
Due to changes in:		
Volume and mix	$ 8,971	$ 7,804
Loss experience	(2,703)	(2,137)
Reasonable and supportable economic forecasts & other qualitative factors	1,727	(3,916)
Individually evaluated credits	(717)	(1,629)
Acquired loans	—	793
Total provision for credit losses - loans	7,278	915
Provision for credit losses-unfunded commitments		
Due to changes in:		
Volume and mix	521	5,245
Loss experience	(616)	(587)
Reasonable and supportable economic forecasts & other qualitative factors	(233)	(1,713)
Acquired loan commitments	—	140
Total provision for credit losses - unfunded commitments	(328)	3,085
Total provision for credit losses - debt securities	—	—
Total provision for credit losses	$ 6,950	$ 4,000

Noninterest Income

Noninterest income totaled 0.48% 0.60% and 0.72% of average assets in 2022, 2021 and 2020, respectively. Noninterest income totaled $18.2 million in 2022 compared to $20.2 million in 2021 and $20.1 million in 2020. During 2022, service 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. During 2021 mortgage origination revenue and bank card revenue increased $1.2 million and $1.4 million, respectively, while realized gains on debt securities decreased $3.0 million. Further detail regarding noninterest income is reflected in the following table.

Table IV - Noninterest Income

Dollars in thousands	2022	2021	2020
Trust and wealth management fees	$ 2,978	$ 2,886	$ 2,495
Mortgage origination revenue	1,480	3,999	2,799
Service charges on deposit accounts	6,150	5,032	4,588
Bank card revenue	6,261	5,896	4,494
Net gains on equity investments	265	202	—
Net realized (losses)/gains on debt securities	(708)	425	3,472
Bank owned life insurance and annuities income	1,211	1,026	1,567
Other	516	742	668
Total	$ 18,153	$ 20,208	$ 20,083

Noninterest Expense

Noninterest expense totaled $72.9 million, $68.7 million and $62.3 million, or 1.9%, 2.0%, and 2.2% of average assets for each of the years ended December 31, 2022, 2021 and 2020. Total noninterest expense increased $4.1 million in 2022 compared to 2021 and increased $6.4 million in 2021 compared to 2020. Our most notable changes in noninterest expense during 2022 were increased salaries and employee benefits, decreased foreclosed properties expense and decreased acquisition related expense and during 2021 were increased salaries and employee benefits, increased equipment expense and increased other expenses. 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

		Change			Change		
Dollars in thousands	2022	$	%	2021	$	%	2020
Salaries, commissions and employee benefits	$ 40,452	$ 6,066	17.6%	$ 34,386	$ 3,106	9.9%	$ 31,280
Net occupancy expense	5,128	304	6.3%	4,824	861	21.7%	3,963
Equipment expense	7,253	263	3.8%	6,990	1,225	21.2%	5,765
Professional fees	1,628	50	3.2%	1,578	40	2.6%	1,538
Advertising and public relations	893	196	28.1%	697	101	16.9%	596
Amortization of intangibles	1,440	(123)	(7.9)%	1,563	(96)	(5.8)%	1,659
FDIC premiums	1,224	(225)	(15.5)%	1,449	593	69.3%	856
Bank card expense	2,928	260	9.7%	2,668	443	19.9%	2,225
Foreclosed properties expense, net of gains/losses	236	(1,509)	(86.5)%	1,745	(745)	(29.9)%	2,490
Acquisition-related expense	114	(1,110)	(90.7)%	1,224	(447)	(26.8)%	1,671
Other	11,583	(32)	(0.3)%	11,615	1,347	13.1%	10,268
Total	$ 72,879	$ 4,140	6.0%	$ 68,739	$ 6,428	10.3%	$ 62,311

Salaries, commissions and employee benefits: These expenses are 17.6% higher in 2022 compared to 2021 primarily due to general merit increases and increased group health insurance premiums and accrued expenses related to employee bonus plans. These expenses were 9.9% higher in 2021 compared to 2020 primarily due to general merit increases and the increased average number of annual full-time equivalent employees related to the southern West Virginia MVB branches acquisition in Q3 2021 and the WinFirst acquisition in Q4 2020.

Equipment: The 2022 and 2021 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.

FDIC premiums: The decrease during 2022 was primarily due to improved quarterly assessment multipliers and the increase during 2021 was primarily due to a higher assessment base resulting from our balance sheet growth.

Acquisition-related expense: These expenses are comprised of data processing conversion costs, employee severance costs, write-downs of equipment and professional and legal fees related to recent acquisitions.

Foreclosed properties expense, net of gains/losses: Foreclosed properties expense, net of gains/losses decreased for 2022 and 2021 primarily as a result of lower writedowns of theses properties to their estimated fair values, fewer losses realized on sales of these properties and lower operating expenses due to fewer of these properties.

Other: 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. During 2022, we purchased investments to hedge the changes in the deferred director Plan participants' phantom investments which should serve to significantly reduce the volatility of the Plan's impact on our statements of income. The 2021 increase in other expenses is primarily due to $259,000 increase in internet banking expense due to increased internet activity by customers, $306,000 increase in debit card costs due to increased usage by customers and $318,000 increased fraud losses.

Income Tax Expense

Income tax expense for the years ended December 31, 2022, 2021 and 2020 totaled $14.1 million, $11.7 million and $7.4 million, respectively. Our effective tax rates (income tax expense as a percentage of income before taxes) for 2022, 2021 and 2020 were 20.9%, 20.3% and 19.2%, 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 2022 to $3.76 billion, an increase of 12.1% above 2021's average of $3.35 billion, and our year end December 31, 2022 assets were $340.0 million more than December 31, 2021. Average assets increased 20.4% in 2021 from 2020's average of $2.78 billion.

Table VI - Summary of Significant Changes in Financial Position 2022 versus 2021

Dollars in thousands	December 31, 2021	Change	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
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	36,880	10,945	47,825
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**

Table VII - Summary of Significant Changes in Financial Position 2021 versus 2020

Dollars in thousands	December 31, 2020	Impact of MVB Branches Acquisition (Southern WV)	Other Changes	December 31, 2021
Assets				
Cash and cash equivalents	$ 99,787	$ 95,699	$ (117,028)	$ 78,458
Debt securities available for sale	286,127	—	114,976	401,103
Debt securities held to maturity	99,914	—	(1,854)	98,060
Equity investments	—	—	20,609	20,609
Other investments	14,185	—	(3,288)	10,897
Loans, net of unearned fees	2,412,153	54,315	294,923	2,761,391
Less: allowance for credit losses	(32,246)	—	(52)	(32,298)
Loans, net	2,379,907	54,315	294,871	2,729,093
Property held for sale	15,588	—	(5,730)	9,858
Premises and equipment	52,537	3,302	532	56,371
Goodwill and other intangibles	55,123	10,509	(2,042)	63,590
Cash surrender value of life insurance policies and annuities	59,438	—	1,175	60,613
Derivative financial instruments	6,653	—	4,534	11,187
Other assets	37,125	260	(505)	36,880
Total assets	**$ 3,106,384**	**$ 164,085**	**$ 306,250**	**$ 3,576,719**
Liabilities				
Non-interest bearing deposits	$ 440,818	$ 47,381	$ 80,787	$ 568,986
Interest bearing deposits	2,154,833	116,659	102,611	2,374,103
Total deposits	2,595,651	164,040	183,398	2,943,089
Short-term borrowings	140,146	—	—	140,146
Long-term borrowings	699	—	(20)	679
Subordinated debentures	29,364	—	73,527	102,891
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	—	—	19,589
Other liabilities	39,355	45	3,452	42,852
Shareholders' equity - preferred	—	—	14,920	14,920
Shareholders' equity - common	281,580	—	30,973	312,553
Total liabilities and shareholders' equity	**$ 3,106,384**	**$ 164,085**	**$ 306,250**	**$ 3,576,719**

As highlighted in table VI, 2022's balance sheet growth was primarily loans. As highlighted in table VII, the majority of the changes in our financial position in 2021 versus 2020 resulted from growth in loans and securities. 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. The 2021 net reduction of $117.0 million is primarily attributable to funding loan growth and the purchase of available for sale mortgage-backed securities and taxable and tax-exempt municipal securities with cash provided by increased customer deposits and the issuance of $75 million subordinated debentures.

Loan Portfolio

Total loans averaged $3.0 billion in 2022, which represented 79% of total average assets compared to $2.5 billion in 2021, or 74% of total average assets. We experienced 16.5% loan growth, excluding mortgage warehouse lines, which increased $418.9 million in 2022, primarily in the commercial real estate and construction and development portfolios primarily in the DC Metro market and the state of West Virginia, following 2021's growth of $373.1 million or 17.3% and 2020's growth of $373.1

million or 20.9%.   Mortgage warehouse lines of credit declined $97.5 million in 2022 and $23.9 million in 2021 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. Refer to Note 7 of the accompanying consolidated financial statements for our loan maturities and a discussion of our adjustable rate loans as of December 31, 2022.

Table VIII presents contractual loan maturities at December 31, 2022 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

Dollars in thousands	Within 1 Year	After 1 but within 5 Years	After 5 but within 15 Years	After 15 Years
Commercial	$ 136,720	$ 248,545	$ 115,065	$ 1,514
Commercial real estate - owner occupied				
Professional & medical	5,020	29,061	49,718	37,073
Retail	1,137	42,460	106,607	37,992
Other	5,582	12,807	61,977	77,616
Commercial real estate - non-owner occupied				
Hotels & motels	4,446	31,472	31,740	73,384
Mini-storage	—	212	15,417	35,480
Multifamily	12,973	83,057	56,024	120,651
Retail	8,527	42,990	82,287	58,466
Other	6,269	167,425	130,437	43,111
Construction and development				
Land & land development	44,360	24,129	23,481	14,392
Construction	67,503	131,315	24,823	59,294
Residential 1-4 family real estate				
Personal residence	1,198	8,940	63,294	191,894
Rental - small loan	6,632	7,235	39,441	68,240
Rental - large loan	6,527	6,887	22,515	56,174
Home equity	430	2,330	11,309	57,917
Mortgage warehouse lines	112,168	18,222	—	—
Consumer	2,629	24,932	7,644	167
Other				
Credit cards	2,182	—	—	—
Overdrafts	1,352	—	—	—
Total	$ 425,655	$ 882,019	$ 841,779	$ 933,365

Table IX - Loan Interest Rate Sensitivity

	Loans maturing after one year with:		
Dollars in thousands	Fixed Interest Rates	Floating Interest Rates	Adjustable Interest Rates
Commercial	$ 99,193	$ 234,323	$ 31,609
Commercial real estate - owner occupied			
Professional & medical	14,306	55,602	45,944
Retail	71,717	32,118	83,224
Other	34,235	23,901	94,264
Commercial real estate - non-owner occupied			
Hotels & motels	29,700	10,845	96,051
Mini-storage	5,296	18,233	27,580
Multifamily	75,186	87,320	97,226
Retail	66,481	16,456	100,805
Other	121,009	79,997	139,967
Construction and development			
Land & land development	26,916	10,550	24,536
Construction	51,458	81,081	82,894
Residential 1-4 family real estate			
Personal residence	192,184	51	71,893
Rental - small loan	23,958	11,859	79,098
Rental - large loan	23,070	3,939	58,567
Home equity	218	71,338	—
Mortgage warehouse lines	-	18,222	—
Consumer	31,832	911	—
Other			
Credit cards	—	—	—
Overdrafts	—	—	—
Total	$ 866,759	$ 756,746	$ 1,033,658

(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 12.8% of total assets at December 31, 2022 compared to 14.0% at December 31, 2021. Average debt securities approximated $490.8 million for 2022 or 6.5% more than 2021's average of $460.7 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 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. The 2021 net increase of $115.0 million is principally a result of purchases of taxable municipal securities and tax-exempt 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, 2022, 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	
(At amortized cost, dollars in thousands)	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**
State and political subdivisions	$ —	—%	$ —	—%	$ 2,811	2.5%	$ 93,352	2.5%
Total	$ —	—%	$ —	—%	$ 2,811	2.5%	$ 93,352	2.5%

Derivative Financial Instruments

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, 2022 increased $226.8 million or 7.7% compared to December 31, 2021. Total deposits at December 31, 2021 increased $347.4 million or 13.4% compared to December 31, 2020. Deposits acquired in conjunction with the purchase of southern West Virginia MVB Bank branches in 2021 totaled $164.0 million. We have increased new commercial account relationships as we have strengthened our focus on growing core transaction accounts. Core transaction accounts grew $598.3 million or 35.3% during 2022 while our internet-only high yielding savings product decreased $166.3 million, retail savings declined $35.1 million, retail time deposits declined $189.7 million and brokered CDs increased $18.1 million.

Table XI - Deposits

Dollars in thousands	**2022**	**2021**
Noninterest bearing demand	$ 553,616	$ 568,986
Interest bearing demand	1,743,299	1,127,298
Savings	496,751	698,156
Time deposits	376,213	548,649
Total deposits	$ 3,169,879	$ 2,943,089

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, 2022.

Borrowings

Lines of Credit: We have a remaining available line of credit from the Federal Home Loan Bank of Pittsburgh ("FHLB") totaling $1.0 billion at December 31, 2022. 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 $284.4 million available on a short term line of credit with the Federal Reserve Bank at December 31, 2022, 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 $226.0 million at December 31, 2022 compared to $140.1 million at December 31, 2021. 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 $658,000 and $679,000 at December 31, 2022 and 2021 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 2022, tangible book value per common share ("TBVPCS") increased $2.16, or 11.1%, to $21.70, despite unrealized net losses on debt securities available for sale of $3.11 per common share (net of deferred income taxes) recorded in Other Comprehensive Income ("OCI"), partially offset by increases in the fair values of derivative financial instruments hedging against higher interest rates totaling $1.78 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

	December 31,	
Dollars in thousands	**2022**	**2021**
Total shareholders' equity	$ 354,530	$ 327,473
Less preferred stock	14,920	14,920
Common shareholders' equity	339,610	312,553
Less goodwill and intangible assets	62,150	63,590
Tangible common equity (TCE)	$ 277,460	$ 248,963
Common shares outstanding	12,783,646	12,743,125
Book value per common share(1)	$ 26.57	$ 24.53
Tangible book value per common share(2)	$ 21.70	$ 19.54

(1) Common shareholders' equity divided by common shares outstanding
(2) TCE divided by common shares outstanding

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

Dollars in thousands	**2022**	**2021**
Accruing loans past due 90 days or more		
Commercial	$ —	$ —
Commercial real estate	—	—
Residential construction & development	—	—
Residential 1-4 family real estate	—	—
Consumer	12	4
Other	—	—
Total accruing loans 90+ days past due	12	4
Nonaccrual loans		
Commercial	93	740
Commercial real estate	1,750	4,603
Commercial construction & development	—	—
Residential construction & development	851	1,560
Residential 1-4 family real estate	5,117	5,772
Consumer	—	17
Other	—	—
Total nonaccrual loans	7,811	12,692
Foreclosed properties		
Commercial	—	—
Commercial real estate	297	1,389
Commercial construction & development	2,187	2,332
Residential construction & development	2,293	5,561
Residential 1-4 family real estate	290	576
Total foreclosed properties	5,067	9,858
Repossessed assets	—	—
Total nonperforming assets	$ 12,890	$ 22,554
Total nonperforming loans as a percentage of total loans	0.25%	0.46%
Total nonperforming assets as a percentage of total assets	0.33%	0.63%
Allowance for credit losses on loans as a percentage of period end loans	1.26%	1.17%
Total nonaccrual loans as a percentage of total loans	0.25%	0.46%
Allowance for credit losses on loans as a percentage of nonaccrual loans	498.00%	254.47%

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, 2022, Summit Community's percentage with respect to above Guideline 1 was 88.2%, within the recommended 100% limit, and with respect to above Guideline 2, its percentage was 315.9%, 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 credit 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, 2022 and 2021, our allowance for credit losses on loans totaled $38.9 million, or 1.26% of total loans and $32.3 million, or 1.17% 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

	2022			2021		
Dollars in thousands	**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	$ 4,941	0.16%	16.3%	$ 3,218	0.12%	13.2%
Commercial real estate	10,574	0.34%	47.7%	10,409	0.38%	48.9%
Construction and development	14,620	0.47%	12.6%	9,814	0.36%	8.9%
Residential 1-4 family real estate	8,219	0.27%	17.9%	8,470	0.31%	19.4%
Mortgage warehouse lines	—	—%	4.2%	—	—%	8.3%
Consumer	174	0.01%	1.1%	163	0.01%	1.2%
Other	371	0.01%	0.1%	224	0.01%	0.1%
Total	$ 38,899	1.26%	100.0%	$ 32,298	1.17%	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

Dollars in thousands	**Provision for Credit Loss - Loans Expense (Benefit)**	**(Net Charge-offs) Recoveries**	**Average Loans**	**Ratio of Net Charge-Offs (Recoveries) to Average Loans**
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%
2020				
Commercial	85	(66)		
Commercial real estate	5,904	(1,098)		
Construction and development	4,361	35		
Residential 1-4 family real estate	1,941	(141)		
Mortgage warehouse lines	—	—		
Consumer	166	(91)		
Other	286	(342)		
Total	$ 12,743	$ (1,703)	$ 2,165,646	0.08%

At December 31, 2022 and 2021, we had approximately $5.1 million and $9.9 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 $1.6 billion or 40.33% of total consolidated assets at December 31, 2022.

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 $1.27 billion, which is collateralized by $1.80 billion of residential mortgage loans, commercial loans, mortgage backed securities and securities of U. S. Government agencies and corporations. At December 31, 2022, we had available borrowing capacity of $1.04 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, 2022 was approximately $284 million, which is secured by a pledge of $506.3 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 2022, our loan growth was funded primarily by deposits and short-term borrowings as our loans increased approximately $321.4 million, while total deposits increased $226.8 million and short-term borrowings increased $85.9 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 $1.6 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 unemcumbered loans and securities totaling $758 million aside from its FHLB line, which would result in a funding source of approximately $507 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 2022, we spent approximately $1.3 million on capital expenditures for premises and equipment. We expect our capital expenditures to approximate $7.0 - $8.0 million in 2023, primarily for new branch site construction and equipment and technological upgrades.

Capital Compliance: Our capital position is strong. Stated as a percentage of total assets, our equity ratio was 9.1% at December 31, 2022 compared to 9.2% at December 31, 2021. 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 $126.0 million, $91.9 million and $210.0 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 2022, we retained $42.6 million of earnings and the net change in accumulated other comprehensive income was $17.0 million, principally resulting from $39.8 million unrealized net losses on securities available for sale and $22.7 million unrealized net gains 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 $0.76 and $0.70 during 2022 and 2021, respectively, representing dividend payout ratios of 18.2% and 19.9%, respectively. It is our intention to continue to pay dividends on a quarterly basis during 2023. 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 2023, the net retained profits available for distribution to Summit as dividends without regulatory approval are approximately $80.4 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:

	2022			
Dollars in thousands, except per share amounts	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
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

	2021			
Dollars in thousands, except per share amounts	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Interest income	$ 29,762	$ 29,955	$ 30,882	$ 31,817
Net interest income	26,252	26,811	28,037	28,832
Net income	10,360	10,560	12,238	12,580
Basic earnings per share	$ 0.80	$ 0.80	$ 0.93	$ 0.96
Diluted earnings per share	$ 0.80	$ 0.80	$ 0.92	$ 0.95

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, 2022 was asset sensitive. That is, absent any changes in the volumes of our interest earning assets or interest bearing liabilities, assets are likely to reprice faster than liabilities, resulting in an increase in net income in a rising rate environment. Net income would decrease in a falling interest rate environment. Net interest income is also subject to changes in the shape of the yield curve. In general, a flattening yield curve would decrease our earnings due to the compression of earning asset yields and funding rates, while a steepening would 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, 2022. 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.

	Estimated % Change in Net Interest Income over:	
Change in Interest Rates	**0 - 12 Months**	**13 - 24 Months**
Down 100 basis points (1)	-0.6%	3.1%
Up 200 basis points (1)	-1.3%	7.8%
Up 400 basis points (2)	-1.3%	6.6%

(1) assumes a parallel shift in the yield curve over 12 months, with no change thereafter
(2) assumes a parallel shift in the yield curve over 24 months, with no change thereafter

In the short-term, it is projected that our net interest income, absent any changes in the volumes of interest earning assets and interest bearing liabilities will likely be essentially flat or fall in both a rising and falling rate environment. This is due primarily to shifts in the slope 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. When these rates converge or invert, the profit spread we realize between loan yields and deposit rates narrows.

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, 2022. 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, 2022, 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.

President and Chief Executive Officer	Executive Vice President and Chief Financial Officer	Executive Vice President and Chief Accounting Officer

Moorefield, West Virginia
March 10, 2023

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, 2022, 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, 2022, 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, 2022 and 2021, 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, 2022, and the related notes to the consolidated financial statements of the Company and our report dated March 10, 2023 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.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 10, 2023

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, 2022 and 2021, 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, 2022, 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, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, 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, 2022, 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 10, 2023 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 matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates 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 matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

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 $37.52 million, the total ACL for loans was $38.90 million and total loans, net of unearned fees, were $3.08 billion as of December 31, 2022. The ACL on off-balance sheet credit exposures totaled $6.95 million with related unfunded commitments totaling $925.66 million as of December 31, 2022. 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 qualitive 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.

Yount, Hyde & Barbour, P.C.

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

Winchester, Virginia
March 10, 2023

Consolidated Balance Sheets

Dollars in thousands	December 31, 2022	2021
ASSETS		
Cash and due from banks	$ **16,469**	$ 21,006
Interest bearing deposits with other banks	**28,248**	57,452
Cash and cash equivalents	**44,717**	78,458
Debt securities available for sale (at fair value)	**405,201**	401,103
Debt securities held to maturity (at amortized cost; estimated fair value - $86,627 - 2022, $101,242 - 2021)	**96,163**	98,060
Less: allowance for credit losses	—	—
Debt securities held to maturity, net	**96,163**	98,060
Equity investments (at fair value)	**29,494**	20,609
Other investments	**16,029**	10,897
Loans held for sale	**—**	227
Loans net of unearned fees	**3,082,818**	2,761,391
Less: allowance for credit losses	**(38,899)**	(32,298)
Loans, net	**3,043,919**	2,729,093
Property held for sale	**5,067**	9,858
Premises and equipment, net	**53,981**	56,371
Accrued interest and fees receivable	**15,866**	10,578
Goodwill and other intangible assets, net	**62,150**	63,590
Cash surrender value of life insurance policies and annuities	**71,640**	60,613
Derivative financial instruments	**40,506**	11,187
Other assets	**31,959**	26,075
Total assets	$ **3,916,692**	$ 3,576,719
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Non-interest bearing	$ **553,616**	$ 568,986
Interest bearing	**2,616,263**	2,374,103
Total deposits	**3,169,879**	2,943,089
Short-term borrowings	**225,999**	140,146
Long-term borrowings	**658**	679
Subordinated debentures, net	**103,296**	102,891
Subordinated debentures owed to unconsolidated subsidiary trusts	**19,589**	19,589
Other liabilities	**42,741**	42,852
Total liabilities	**3,562,162**	3,249,246
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, $1.00 par value, authorized 250,000 shares; issued: 2022 and 2021 - 1,500 shares	**14,920**	14,920
Common stock and related surplus, $2.50 par value; authorized 20,000,000 shares; issued: 2022 - 12,783,646 shares, 2021 - 12,763,827 shares; outstanding: 2022 - 12,783,646 shares, 2021 - 12,743,125 shares	**90,696**	89,525
Unallocated common stock held by Employee Stock Ownership Plan - 2021 - 20,702 shares	**—**	(224)
Retained earnings	**260,393**	217,770
Accumulated other comprehensive (loss) income	**(11,479)**	5,482
Total shareholders' equity	**354,530**	327,473
Total liabilities and shareholders' equity	$ **3,916,692**	$ 3,576,719

See Notes to Consolidated Financial Statements

Consolidated Statements of Income

Dollars in thousands (except per share amounts)	For the Year Ended December 31, 2022	2021	2020
Interest income			
Loans, including fees			
Taxable	$ **145,188**	$ 112,268	$ 104,986
Tax-exempt	**176**	362	578
Securities			
Taxable	**8,442**	5,884	5,997
Tax-exempt	**4,610**	3,586	3,176
Interest on interest bearing deposits with other banks	**331**	315	266
Total interest income	**158,747**	122,415	115,003
Interest expense			
Deposits	**20,683**	8,181	16,044
Short-term borrowings	**3,786**	1,768	2,330
Long-term borrowings and subordinated debentures	**5,292**	2,534	1,147
Total interest expense	**29,761**	12,483	19,521
Net interest income	**128,986**	109,932	95,482
Provision for credit losses	**6,950**	4,000	14,500
Net interest income after provision for credit losses	**122,036**	105,932	80,982
Noninterest income			
Trust and wealth management fees	**2,978**	2,886	2,495
Mortgage origination revenue	**1,480**	3,999	2,799
Service charges on deposit accounts	**6,150**	5,032	4,588
Bank card revenue	**6,261**	5,896	4,494
Net realized (losses)/gains on debt securities	**(708)**	425	3,472
Net gains on equity investments	**265**	202	—
Bank owned life insurance and annuities income	**1,211**	1,026	1,567
Other	**516**	742	668
Total noninterest income	**18,153**	20,208	20,083
Noninterest expenses			
Salaries, commissions and employee benefits	**40,452**	34,386	31,280
Net occupancy expense	**5,128**	4,824	3,963
Equipment expense	**7,253**	6,990	5,765
Professional fees	**1,628**	1,578	1,538
Advertising and public relations	**893**	697	596
Amortization of intangibles	**1,440**	1,563	1,659
FDIC premiums	**1,224**	1,449	856
Bank card expense	**2,928**	2,668	2,225
Foreclosed properties expense, net of (gains)/losses	**236**	1,745	2,490
Acquisition-related expenses	**114**	1,224	1,671
Other	**11,583**	11,615	10,268
Total noninterest expenses	**72,879**	68,739	62,311
Income before income tax expense	**67,310**	57,401	38,754
Income tax expense	**14,094**	11,663	7,428
Net income	$ **53,216**	$ 45,738	$ 31,326
Preferred stock dividends	**900**	589	—
Net income applicable to common shares	$ **52,316**	$ 45,149	$ 31,326
Basic earnings per common share	$ **4.10**	$ 3.49	$ 2.42
Diluted earnings per common share	$ **4.08**	$ 3.47	$ 2.41

See Notes to Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

Dollars in thousands	For the Year Ended December 31, 2022	2021	2020
Net income	$ **53,216**	$ 45,738	$ 31,326
Other comprehensive (loss) income:			
Net unrealized gain (loss) on cashflow hedges of:			
2022 - $22,203, net of deferred taxes of $(5,329); 2021 - $6,743, net of deferred taxes of $(1,618); 2020 - $(808), net of deferred taxes of $194	**16,874**	5,125	(614)
Net unrealized gain (loss) on fair value hedge of available for sale securities of:			
2022 - $7,663, net of deferred taxes of $(1,839); 2021 - $(550), net of deferred taxes of $132	**5,824**	(418)	—
Net unrealized (loss) gain on debt securities available for sale of:			
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)	
2020 - $4,830, net of deferred taxes of $(1,159) and reclassification adjustment for net realized gains included in net income of $3,472, net of tax of $(833)			3,671
Net change in actuarial gain (loss) on post-retirement benefits plan of:			
2022 - $214, net of deferred taxes of $(51); 2021 - $64, net of deferred taxes of $(15); 2020- $(116), net of deferred taxes of $28	**163**	49	(88)
Net change in actuarial (loss) gain on defined-benefit pension plan of:			
2022 - $(70), net of deferred taxes of $17; 2021 - $301, net of deferred taxes of $(72); 2020 - $(78), net of deferred taxes of $19	**(53)**	229	(59)
Total other comprehensive (loss) income	**(16,961)**	37	2,910
Total comprehensive income	$ **36,255**	$ 45,775	$ 34,236

See Notes to Consolidated Financial Statements

Consolidated Statements of Shareholders' Equity
For the Years Ended December 31, 2022, 2021 and 2020

Dollars in thousands (except per share amounts)	Preferred Stock and Related Surplus	Common Stock and Related Surplus	Unallocated Common Stock Held by ESOP	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, December 31, 2019	$ —	$ 80,084	$ (714)	$ 165,859	$ 2,535	$ 247,764
Impact of adoption of ASC 326	—	—	—	(6,756)	—	(6,756)
Net income	—	—	—	31,326	—	31,326
Other comprehensive income					2,910	2,910
Exercise of SARs - 499 shares	—	—	—	—	—	—
Vesting of RSUs - 964 shares	—	—	—	—	—	—
Share-based compensation expense	—	527	—	—	—	527
Unallocated ESOP shares committed to be released - 22,395 shares	—	178	242	—	—	420
Purchase and retirement of 75,333 shares of common stock	—	(1,444)	—	—	—	(1,444)
Acquisition of Cornerstone Financial Services, Inc. - 570,000 shares, net of issuance costs	—	15,354	—	—	—	15,354
Common stock issuances from reinvested dividends - 14,937 shares	—	265	—	—	—	265
Common stock cash dividends declared ($0.68 per share)	—	—	—	(8,786)	—	(8,786)
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**

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

	For the Year Ended December 31,		
Dollars in thousands	**2022**	**2021**	**2020**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ **53,216**	$ 45,738	$ 31,326
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**3,608**	3,587	3,223
Provision for credit losses	**6,950**	4,000	14,500
Share-based compensation expense	**624**	646	527
Deferred income tax expense (benefit)	**218**	264	(4,201)
Loans originated for sale	**(19,158)**	(107,097)	(97,805)
Proceeds from sale of loans	**19,712**	111,020	98,933
Gains on loans held for sale	**(327)**	(2,153)	(1,806)
Realized losses (gains) on debt securities, net	**708**	(425)	(3,472)
Gains on equity investments	**(265)**	(202)	—
(Gain) loss on disposal of assets	**(21)**	(108)	221
Write-downs of foreclosed properties	**187**	1,417	1,783
Amortization of securities premiums, net	**4,746**	4,348	3,024
Accretion related to acquisition adjustments, net	**(1,111)**	(1,583)	(1,571)
Amortization of intangibles	**1,440**	1,563	1,659
Earnings on bank owned life insurance and annuities	**(993)**	(1,140)	(1,716)
(Increase) decrease in accrued interest receivable	**(5,288)**	1,563	(1,996)
Decrease in other assets	**434**	139	314
Increase in other liabilities	**3,264**	269	1,738
Net cash provided by operating activities	**67,944**	61,846	44,681
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturities and calls of debt securities available for sale	**1,875**	8,070	3,525
Proceeds from maturities and calls of debt securities held to maturity	—	—	1,000
Proceeds from sales of debt securities available for sale	**69,211**	64,932	124,809
Principal payments received on debt securities available for sale	**37,860**	29,869	24,654
Purchases of debt securities available for sale	**(168,928)**	(226,427)	(64,740)
Purchases of debt securities held to maturity	—	—	(101,994)
Purchase of equity investments	**(8,619)**	(20,000)	—
Purchases of other investments	**(24,797)**	(1,152)	(14,700)
Proceeds from redemptions of other investments	**18,489**	3,139	16,461
Net loan originations	**(323,320)**	(296,679)	(301,654)
Purchases of premises and equipment	**(1,346)**	(4,537)	(8,637)
Proceeds from disposal of premises and equipment	**85**	558	293
Improvements to property held for sale	**(36)**	100	(1,352)
Proceeds from sale of repossessed assets and property held for sale	**4,732**	4,715	4,191
Cash and cash equivalents from acquisitions, net of cash consideration paid - 2021 - $9,807; 2020 - $48,920	**—**	95,699	175,013
Purchases of life insurance contracts and annuities	**(10,034)**	(34)	(9,332)
Net cash used in investing activities	**(404,828)**	(341,747)	(152,463)

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows - continued

	For the Year Ended December 31,		
Dollars in thousands	**2022**	**2021**	**2020**
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in demand deposit, NOW and savings accounts	**399,225**	279,913	376,704
Net decrease in time deposits	**(171,524)**	(95,230)	(160,373)
Net increase (decrease) in short-term borrowings	**85,853**	—	(62,199)
Repayment of long-term borrowings	**(21)**	(20)	(21,301)
Proceeds from subordinated debt	**—**	75,000	30,000
Purchase of interest rate caps	—	—	(7,098)
Proceeds from issuance of common stock, net of issuance costs	**203**	294	178
Proceeds from issuance of preferred stock, net of issuance costs	**—**	14,920	—
Purchase and retirement of common stock	**—**	(6,710)	(1,444)
Exercise of stock options	**—**	16	—
Dividends paid on common stock	**(9,693)**	(9,022)	(8,786)
Dividends paid on preferred stock	**(900)**	(589)	—
Net cash provided by financing activities	**303,143**	258,572	145,681
(Decrease) increase in cash and cash equivalents	**(33,741)**	(21,329)	37,899
Cash and cash equivalents			
Beginning	**78,458**	99,787	61,888
Ending	$ **44,717**	$ 78,458	$ 99,787
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash payments for:			
Interest	$ **27,034**	$ 12,425	$ 19,975
Income taxes	$ **12,566**	$ 10,257	$ 11,440
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Real property and other assets acquired in settlement of loans	$ **6**	$ 532	$ 1,146
Right of use assets obtained in exchange for lease obligations	$ **370**	$ 2,023	$ 5,147
SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS INCLUDED IN ACQUISITION			
Assets acquired	$ —	$ 58,054	$ 302,333
Liabilities assumed	$ —	$ 164,085	$ 494,596

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 and the Central region of Kentucky.

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.

Acquisitions	Note 3	Page 62
Fair Value Measurements	Note 4	Page 67
Debt Securities	Note 5	Page 73
Equity and Other Investments	Note 6	Page 78
Loans and Allowance for Credit Losses on Loans	Note 7	Page 79
Property Held for Sale	Note 8	Page 94
Premises and Equipment	Note 9	Page 94
Lease Commitments	Note 10	Page 94
Goodwill and Other Intangible Assets	Note 11	Page 95
Borrowed Funds	Note 13	Page 97
Derivative Financial Instruments	Note 14	Page 98
Income Taxes	Note 15	Page 100
Employee Benefits	Note 16	Page 102
Share-Based Compensation	Note 16	Page 102
Earnings Per Share	Note 20	Page 107
Accumulated Other Comprehensive Income	Note 21	Page 108
Revenue Recognition	Note 22	Page 109

NOTE 2. SIGNIFICANT NEW AUTHORITATIVE ACCOUNTING GUIDANCE

Pending Adoption

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 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2022. Entities should apply the amendments prospectively and early adoption is permitted. We do not expect the adoption of ASU 2021-08 to have a material impact on our consolidated financial statements.

In March 2022, the Financial Accounting Standards Board (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. For public business entities, ASU 2022-01 is effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. We do not expect the adoption of ASU 2022-01 to have a material 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 will be effective for us on January 1, 2023 though early adoption is permitted. The adoption of ASU 2022-02 is not expected to have a significant impact on our 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.

In December 2022, the FASB issued ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*. In 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provided optional guidance to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform. The objective of the guidance in Topic 848 was to provide relief during the temporary transition period and the FASB included a sunset provision based on expectations of when the London Interbank Offered Rate (LIBOR) would cease being published. The United Kingdom Financial Conduct Authority has announced that the intended LIBOR cessation date has been extended from December 31, 2021 to June 30, 2023. As such, ASU 2022-06 defers the sunset date previously set to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848; moreover, it applies to all entities, subject to meeting certain criteria, that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The ASU is effective for all entities upon issuance. At this time, we do not anticipate any material adverse impact to our business operation or financial results during the period of transition.

NOTE 3. ACQUISITIONS

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.

Dollars in thousands	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**

WinFirst Financial Corp. Acquisition

On December 15, 2020, SCB acquired 100% of the ownership of WinFirst Financial Corp. ("WinFirst") and its subsidiary WinFirst Bank, headquartered in Winchester, Kentucky. Pursuant to the Agreement and Plan of Merger dated September 28, 2020, WinFirst's shareholders received $328.05 for each share of WinFirst common stock they owned, or approximately $21.7 million in the aggregate. With this transaction, Summit expanded its footprint into Kentucky. At acquisition, WinFirst's assets and liabilities approximated $143 million and $127 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 WinFirst 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 the acquisition date as additional information relative to the acquisition date fair values became available. We recognized goodwill of $6.73 million in connection with the acquisition (not deductible for income tax purposes), which is not amortized for financial reporting purposes, but is subject to annual impairment testing. 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 December 15, 2020 in connection with the acquisition of WinFirst, the fair values of the assets acquired and liabilities assumed and the resulting goodwill.

Dollars in thousands	As Recorded by WinFirst	Estimated Fair Value Adjustments	Estimated Fair Values as Recorded by Summit
Cash consideration			$ 21,705
Total consideration			21,705
Identifiable assets acquired:			
Cash and cash equivalents	$ 13,030	$ —	$ 13,030
Securities available for sale, at fair value	1,613	19	1,632
Loans			
Purchased performing	123,754	(968)	122,786
Purchased credit deteriorated	—	—	—
Allowance for credit losses on loans	(1,227)	1,227	—
Premises and equipment	171	(27)	144
Property held for sale	196	(50)	146
Core deposit intangibles	—	81	81
Other assets	5,898	477	6,375
Total identifiable assets acquired	$ 143,435	$ 759	$ 144,194
Identifiable liabilities assumed:			
Deposits	103,599	1,065	104,664
Short-term borrowings	3,000	—	3,000
Long-term borrowings	20,585	697	21,282
Other liabilities	270	—	270
Total identifiable liabilities assumed	$ 127,454	$ 1,762	$ 129,216
Net identifiable assets acquired	$ 15,981	$ (1,003)	$ 14,978
Goodwill resulting from acquisition			**$ 6,727**

MVB Bank Branches Acquisition

On April 24, 2020, SCB expanded its presence in the Eastern Panhandle of West Virginia by acquiring three MVB Bank locations in Berkeley County, West Virginia and one MVB Bank location in Jefferson County, West Virginia. Summit assumed certain deposit liabilities and other liabilities and acquired certain assets totaling approximately $188.2 million and $38.4 million, respectively. The purchase price, equaling the average daily closing balance of the deposits for the thirty (30) day period prior to the closing multiplied by 8.00%, totaled $13.0 million.

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. The fair values of assets and liabilities are preliminary and subject to refinement for up to one year after the acquisition date as additional information relative to the acquisition date fair values becomes available. We recognized goodwill of $14.7 million in connection with the acquisition (deductible for income tax purposes), which is not amortized for financial reporting purposes, but is subject to annual impairment testing. The core deposit intangible represents the value of long-term deposit relationships acquired in this transaction and will be amortized over an estimated weighted average life of 10 years using an accelerated method which approximates the estimated run-off of the acquired deposits. The following table details the total consideration paid on April 24, 2020 in connection with the acquisition of the MVB Bank branches, the fair values of the assets acquired and liabilities assumed and the resulting goodwill.

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

Cornerstone Financial Services Inc. Acquisition

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

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

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

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, collectibility, fixed or variable interest rate, term of loan, amortization status and current market rates. Loans were grouped together according to similar characteristics and were treated in the aggregate when applying various valuation techniques. The discount rates used for loans are based on current market rates for new originations of comparable loans and include adjustments for liquidity concerns, if any.

Premises and equipment: The fair value 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. All loans considered to be PCI prior to January 1, 2020 were converted to PCD on that date.

Loans not designated PCD loans as of the acquisition date are designated purchased performing loans. We account for purchased performing loans using the contractual cash flows method of recognizing discount accretion based on the acquired loans' contractual cash flows. Purchased performing loans are recorded at fair value, including a credit discount. The fair value discount is accreted as an adjustment to yield over the estimated lives of the loans. There is no allowance for 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 2021 and 2020, 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 2021 and 2020, we purchased loans, for which there was, at the time of acquisition, more than significant deterioration of credit quality since origination (PCD loans). The carrying amount of these loans at acquisition is as follows:

	For the Year Ended December 31,	
Dollars in thousands	**2021**	**2020**
Purchase price of PCD loans at acquisition	$ 488	$ 12,649
Allowance for credit losses - loans at acquisition	91	796
Non-credit discount at acquisition	(2)	568
Par value of PCD loans at acquisition	399	11,285

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, 2022, we held an investment in an S&P 500 index mutual fund with a fair value of $5.2 million. 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, 2022 was $2.9 million.

In addition, in December 2021, we invested as a limited partner in a hedge fund that primarily trades S&P 500 index options. The average duration of the option positions employed by the fund ranges 14 to 17 business days. Investors may withdraw funds at the end of any month with 30 calendar days prior written notice. As permitted by ASC 820, as a practical expedient, we estimate the fair value of this investment using the net asset value ("NAV") per share of the investment as of the reporting entity's measurement date. Accordingly, we classify this investment as Level 1, and its fair value was $20.5 million and $20.2 million at December 31, 2022 and 2021, 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 $800,000 and $407,000 at December 31, 2022 and 2021 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.

Dollars in thousands	Balance at December 31, 2022	Fair Value Measurements Using: 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	—

Dollars in thousands	Balance at December 31, 2021	Fair Value Measurements Using: Level 1	Level 2	Level 3
Debt securities available for sale				
U.S. Government sponsored agencies	$ 36,629	$ —	$ 36,629	$ —
Residential mortgage-backed securities:				
Government sponsored agencies	62,211	—	62,211	—
Nongovernment sponsored entities	26,586	—	26,586	—
State and political subdivisions	137,786	—	137,786	—
Corporate debt securities	30,278	—	30,278	—
Asset-backed securities	24,883	—	24,883	—
Tax-exempt state and political subdivisions	82,730	—	82,730	—
Total debt securities available for sale	$ 401,103	$ —	$ 401,103	$ —
Equity investments	$ 20,609	$ 20,202	$ 407	$ —
Derivative financial assets				
Interest rate caps	$ 11,187	$ —	$ 11,187	$ —
Derivative financial liabilities				
Interest rate swaps	$ 1,124	$ —	$ 1,124	$ —

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.

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

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.

Dollars in thousands	Balance at December 31, 2022	Fair Value Measurements Using: Level 1	Level 2	Level 3
Residential mortgage loans held for sale	$ —	$ —	$ —	$ —
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	—
Residential real estate	—	—	—	—
Total property held for sale	$ 4,777	$ —	$ 4,777	$ —

Dollars in thousands	Balance at December 31, 2021	Fair Value Measurements Using: Level 1	Level 2	Level 3
Residential mortgage loans held for sale	$ 227	$ —	$ 227	$ —
Collateral-dependent impaired loans				
Commercial real estate	$ 2,417	$ —	$ 2,417	$ —
Construction and development	693	—	693	—
Residential real estate	528	—	528	—
Total collateral-dependent impaired loans	$ 3,638	$ —	$ 3,638	$ —
Property held for sale				
Commercial real estate	$ 1,170	$ —	$ 1,170	$ —
Construction and development	7,893	—	7,893	—
Residential real estate	27	—	27	—
Total property held for sale	$ 9,090	$ —	$ 9,090	$ —

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.

The following tables present the carrying amount, fair value, and placement in the fair value hierarchy of our financial instruments as of December 31, 2022 and December 31, 2021.

Dollars in thousands	At December 31, 2022 Carrying Value	Estimated Fair Value	Fair Value Measurements Using: 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 held for sale, net	—	—	—	—	—
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	$ 3,166,762	$ —	$ 3,166,762	$ —
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	$ 3,507,175	$ —	$ 3,507,175	$ —

Dollars in thousands	At December 31, 2021 Carrying Value	Estimated Fair Value	Fair Value Measurements Using: Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$ 78,458	$ 78,458	$ 21,006	$ 57,452	$ —
Debt securities available for sale	401,103	401,103	—	401,103	—
Debt securities held to maturity	98,060	101,242	—	101,242	—
Equity investments	20,609	20,609	20,202	407	—
Other investments	10,897	10,897	—	10,897	—
Loans held for sale, net	227	227	—	227	—
Loans, net	2,729,093	2,726,959	—	3,638	2,723,321
Accrued interest receivable	10,578	10,578	—	10,578	—
Cash surrender value of life insurance policies and annuities	60,613	60,613	—	60,613	—
Derivative financial assets	11,187	11,187	—	11,187	—
	$ 3,420,825	$ 3,421,873	$ 41,208	$ 657,344	$ 2,723,321
Financial liabilities					
Deposits	$ 2,943,089	$ 2,944,722	$ —	$ 2,944,722	$ —
Short-term borrowings	140,146	140,146	—	140,146	—
Long-term borrowings	679	795	—	795	—
Subordinated debentures	102,891	103,623	—	103,623	—
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589	—	19,589	—
Accrued interest payable	788	788	—	788	—
Derivative financial liabilities	1,124	1,124	—	1,124	—
	$ 3,208,306	$ 3,210,787	$ —	$ 3,210,787	$ —

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.

Prior to the adoption of ASC 326, declines in the fair value of debt securities held to maturity and available for sale below their cost that were deemed to be other than temporary were reflected in earnings as realized losses. In estimating other-than-temporary impairment losses prior to January 1, 2020, management considered, among other things, (i) the length of time and the extent to which the fair value had been less than cost, (ii) the financial condition and near-term prospects of the issuer and (iii) the intent and our ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

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, 2022 and 2021, are summarized as follows:

Dollars in thousands	December 31, 2022 Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
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

Dollars in thousands	December 31, 2021 Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Debt Securities Available for Sale				
Taxable debt securities				
U.S. Government and agencies and corporations	$ 36,820	$ 169	$ 360	$ 36,629
Residential mortgage-backed securities:				
Government-sponsored agencies	61,646	1,153	588	62,211
Nongovernment-sponsored entities	26,839	26	279	26,586
State and political subdivisions				
General obligations	78,627	377	1,323	77,681
Water and sewer revenues	9,839	294	—	10,133
Lease revenues	6,401	215	26	6,590
Income tax revenues	6,487	250	3	6,734
Sales tax revenues	6,909	19	99	6,829
Various tax revenues	13,031	218	203	13,046
Utility revenues	7,153	137	130	7,160
Other revenues	9,291	331	9	9,613
Corporate debt securities	30,524	78	324	30,278
Asset-backed securities	24,873	97	87	24,883
Total taxable debt securities	318,440	3,364	3,431	318,373
Tax-exempt debt securities				
State and political subdivisions				
General obligations	47,583	1,526	270	48,839
Water and sewer revenues	10,618	375	15	10,978
Lease revenues	7,974	553	31	8,496
Other revenues	14,028	405	16	14,417
Total tax-exempt debt securities	80,203	2,859	332	82,730
Total debt securities available for sale	$ 398,643	$ 6,223	$ 3,763	$ 401,103

Accrued interest receivable on debt securities available for sale totaled $3.0 million and $2.3 million at December 31, 2022 and 2021, 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, 2022			
		Unrealized		
Dollars in thousands	Amortized Cost	Gains	Losses	Fair Value
California	$ 47,586	$ —	$ 11,020	$ 36,566
Texas	38,457	228	5,089	33,596
Michigan	23,956	55	2,489	21,522
Washington	20,655	11	1,784	18,882
Oregon	15,760	—	4,173	11,587

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

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

Dollars in thousands	Proceeds from			Gross realized	
Years ended December 31,	Sales	Calls and Maturities	Principal Payments	Gains	Losses
2022	$ 69,211	$ 1,875	$ 37,860	$ 288	$ 996
2021	64,932	8,070	29,869	1,210	785
2020	124,809	3,525	24,654	3,489	17

Residential mortgage-backed obligations having contractual maturities ranging from 2 to 49 years are included in the following maturity distribution schedules based on their anticipated average life to maturity, which ranges from 6 months to 16 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, 2022, are summarized as follows:

Dollars in thousands	Amortized Cost	Fair Value
Due in one year or less	$ 43,819	$ 42,123
Due from one to five years	85,057	80,169
Due from five to ten years	73,253	66,365
Due after ten years	252,938	216,544
Total	$ 455,067	$ 405,201

At December 31, 2022 and 2021, securities with estimated carrying values of $238.6 million and $234.3 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, 2022 and 2021.

	2022						
		Less than 12 months		12 months or more		Total	
Dollars in thousands	# of securities in loss position	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
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

	2021						
		Less than 12 months		12 months or more		Total	
Dollars in thousands	# of securities in loss position	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Taxable debt securities							
U.S. Government agencies and corporations	41	$ 6,630	$ 23	$ 21,061	$ 337	$ 27,691	$ 360
Residential mortgage-backed securities:							
Government-sponsored agencies	19	19,828	376	6,886	212	26,714	588
Nongovernment-sponsored entities	6	4,345	61	7,591	218	11,936	279
State and political subdivisions:							
General obligations	41	62,543	1,286	1,055	37	63,598	1,323
Lease revenues	2	1,564	14	494	12	2,058	26
Income tax revenues	1	721	3	—	—	721	3
Sales tax revenues	2	6,052	99	—	—	6,052	99
Various tax revenues	5	8,389	203	—	—	8,389	203
Utility revenues	3	5,175	130	—	—	5,175	130
Other revenues	1	744	9	—	—	744	9
Corporate debt securities	10	10,534	314	990	10	11,524	324
Asset-backed securities	8	10,522	86	751	1	11,273	87
Tax-exempt debt securities							
State and political subdivisions:							
General obligations	13	25,555	261	853	9	26,408	270
Water and sewer revenues	1	904	15	—	—	904	15
Lease revenues	1	2,396	31	—	—	2,396	31
Other revenues	3	3,558	15	156	1	3,714	16
Total	157	$ 169,460	$ 2,926	$ 39,837	$ 837	$ 209,297	$ 3,763

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, 2022 and 2021 are summarized as follows:

	December 31, 2022			
	Amortized	Unrealized		Estimated
Dollars in thousands	Cost	Gains	Losses	Fair Value
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

	December 31, 2021			
	Amortized	Unrealized		Estimated
Dollars in thousands	Cost	Gains	Losses	Fair Value
Debt Securities Held to Maturity				
Tax-exempt debt securities				
State and political subdivisions				
General obligations	$ 71,807	$ 2,583	$ —	$ 74,390
Water and sewer revenues	8,192	210	—	8,402
Lease revenues	4,316	74	—	4,390
Sales tax revenues	4,582	106	—	4,688
Other revenues	9,163	214	5	9,372
Total Debt Securities Held to Maturity	$ 98,060	$ 3,187	$ 5	$ 101,242

Accrued interest receivable on debt securities held to maturity totaled $1.1 million at December 31, 2022 and 2021 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.

	December 31, 2022			
	Amortized	Unrealized		Estimated
Dollars in thousands	Cost	Gains	Losses	Fair Value
Texas	$ 15,101	$ —	$ 1,301	$ 13,800
California	9,665	—	759	8,906
Pennsylvania	8,479	—	726	7,753
Florida	7,465	—	1,020	6,445
Michigan	6,904	—	797	6,107

The following table displays the amortized cost of held to maturity securities by credit rating at December 31, 2022 and 2021.

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

	December 31, 2021				
Dollars in thousands	**AAA**	**AA**	**A**	**BBB**	**Below Investment Grade**
Tax-exempt state and political subdivisions	$ 15,450	$ 75,119	$ 7,491	$ —	$ —

We owned no past due or nonaccrual held to maturity debt securities at December 31, 2022 or 2021.

The maturities, amortized cost and estimated fair values of debt securities held to maturity at December 31, 2022, are summarized as follows:

Dollars in thousands	**Amortized Cost**	**Estimated Fair Value**
Due in one year or less	$ —	$ —
Due from one to five years	—	—
Due from five to ten years	2,811	2,613
Due after ten years	93,352	84,014
Total	$ 96,163	$ 86,627

There were no proceeds from the calls and maturities of debt securities held to maturity for the year ended December 31, 2022 or 2021. The proceeds from calls and maturities of debt securities held to maturity totaled $1.0 million for the year ended December 31, 2020.

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 $11.3 million and $6.8 million at December 31, 2022 and 2021 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, 2022 and 2021, our carrying value of these investments totaled $4.8 million and $4.1 million, respectively, and is included in Other Investments on the accompanying consolidated balance sheets.. For the years ended December 31, 2022, 2021 and 2020, we realized $1,440,000, $1,087,000 and $746,000, respectively, in tax credits and other tax benefits on these investments, against which we amortized these investments $1,177,000, $877,000 and $549,000 and recognized income tax benefits of $214,000, $206,000 and $248,000.

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:

Dollars in thousands	2022	2021
Commercial	$ 501,844	$ 365,301
Commercial real estate - owner occupied		
Professional & medical	120,872	150,759
Retail	188,196	190,304
Other	157,982	143,645
Commercial real estate - non-owner occupied		
Hotels & motels	141,042	128,450
Mini-storage	51,109	59,045
Multifamily	272,705	233,157
Retail	192,270	162,758
Other	347,242	282,621
Construction and development		
Land & land development	106,362	100,805
Construction	282,935	146,038
Residential 1-4 family real estate		
Personal residence	265,326	262,805
Rental - small loan	121,548	121,989
Rental - large loan	92,103	79,108
Home equity	71,986	72,112
Mortgage warehouse lines	130,390	227,869
Consumer	35,372	31,923
Other		
Credit cards	2,182	1,891
Overdrafts	1,352	811
Total loans, net of unearned fees	3,082,818	2,761,391
Less allowance for credit losses - loans	38,899	32,298
Loans, net	$ 3,043,919	$ 2,729,093

Accrued interest and fees receivable on loans totaled $10.4 million and $7.2 million at December 31, 2022 and 2021, 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 $4.6 million and $4.0 million at December 31, 2022 and 2021, 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.

	At December 31, 2022					
	Past Due					
Dollars in thousands	30-59 days	60-89 days	90 days or more	Total	Current	90 days or more and Accruing
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

	At December 31, 2021											
	Past Due										90 days or more and Accruing	
Dollars in thousands	**30-59 days**		**60-89 days**		**90 days or more**		**Total**		**Current**			
Commercial	$	736	$	15	$	613	$	1,364	$	363,937	$	—
Commercial real estate - owner occupied												
Professional & medical		409		—		—		409		150,350		—
Retail		—		405		144		549		189,755		—
Other		208		—		150		358		143,287		—
Commercial real estate - non-owner occupied												
Hotels & motels		—		—		—		—		128,450		—
Mini-storage		2		—		—		2		59,043		—
Multifamily		—		—		55		55		233,102		—
Retail		66		—		338		404		162,354		—
Other		—		—		—		—		282,621		—
Construction and development												
Land & land development		38		7		962		1,007		99,798		—
Construction		—		—		—		—		146,038		—
Residential 1-4 family real estate												
Personal residence		2,283		1,211		1,384		4,878		257,927		—
Rental - small loan		429		247		1,093		1,769		120,220		—
Rental - large loan		—		—		—		—		79,108		—
Home equity		236		80		175		491		71,621		—
Mortgage warehouse lines		—		—		—		—		227,869		—
Consumer		98		101		7		206		31,717		—
Other												
Credit cards		12		10		4		26		1,865		4
Overdrafts		—		—		—		—		811		—
Total	$	4,517	$	2,076	$	4,925	$	11,518	$	2,749,873	$	4

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, 2022		December 31, 2021	
Dollars in thousands	**Nonaccrual**	**Nonaccrual with No Allowance for Credit Losses - Loans**	**Nonaccrual**	**Nonaccrual with No Allowance for Credit Losses - Loans**
Commercial	$ 93	$ 48	$ 740	$ 96
Commercial real estate - owner occupied				
Professional & medical	—	—	—	—
Retail	350	—	775	—
Other	423	—	341	—
Commercial real estate - non-owner occupied				
Hotels & motels	—	—	3,085	—
Mini-storage	—	—	—	—
Multifamily	538	—	55	—
Retail	439	—	338	—
Other	—	—	9	—
Construction and development				
Land & land development	852	—	1,560	—
Construction	—	—	—	—
Residential 1-4 family real estate				
Personal residence	2,892	—	2,504	—
Rental - small loan	2,066	—	3,094	—
Rental - large loan	—	—	—	—
Home equity	158	—	174	—
Mortgage warehouse lines	—	—	—	—
Consumer	—	—	17	—
Other				
Credit cards	—	—	—	—
Overdrafts	—	—	—	—
Total	$ 7,811	$ 48	$ 12,692	$ 96

Troubled Debt Restructurings. The restructuring of a loan is considered a troubled debt restructuring ("TDR") if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules, payment deferrals, reductions in collateral and other actions intended to minimize potential losses.

At December 31, 2022, we had TDRs of $20.6 million, of which $18.6 million were current with respect to restructured contractual payments. At December 31, 2021, our TDRs totaled $20.9 million, of which $18.7 million were current with respect to restructured contractual payments. There were no commitments to lend additional funds under these restructurings at either balance sheet date.

The following tables 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.

Dollars in thousands	2022 Number of Modifications		2022 Pre-modification Recorded Investment		2022 Post-modification Recorded Investment	2021 Number of Modifications		2021 Pre-modification Recorded Investment		2021 Post-modification Recorded Investment
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

Dollars in thousands	2020 Number of Modifications		2020 Pre-modification Recorded Investment		2020 Post-modification Recorded Investment
Commercial real estate - owner occupied					
Other	1	$	361	$	361
Residential 1-4 family real estate					
Personal residence	1		48		48
Rental - small loan	1		399		399
Total	3	$	808	$	808

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

Dollars in thousands	2022 Number of Defaults		2022 Recorded Investment at Default Date	2021 Number of Defaults		2021 Recorded Investment at Default Date	2020 Number of Defaults		2020 Recorded Investment at Default Date
Commercial real estate - owner occupied									
Other	—	$	—	—	$	—	1	$	361
Residential 1-4 family real estate									
Personal residence	1		22	1		44	1		48
Rental - small loan	—		—	—		—	1		399
Home equity	1		107	—		—	—		—
Total	2	$	129	1	$	44	3	$	808

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, 2022 and 2021, based on the most recent analysis performed, the risk category of loans based on year of origination is as follows:

		December 31, 2022								
Dollars in thousands	**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

		December 31, 2022								
Dollars in thousands	**Risk Rating**	**2022**	**2021**	**2020**	**2019**	**2018**	**Prior**	**Revolving**	**Revolving - Term**	**Total**
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
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
	Substandard	—	—	—	—	—	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

		December 31, 2022								
Dollars in thousands	**Risk Rating**	**2022**	**2021**	**2020**	**2019**	**2018**	**Prior**	**Revolving**	**Revolving - Term**	**Total**
Other										
Credit cards	Pass	2,182	—	—	—	—	—	—	—	2,182
Total Credit Cards		2,182	—	—	—	—	—	—	—	2,182
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

		December 31, 2021								
Dollars in thousands	**Risk Rating**	**2021**	**2020**	**2019**	**2018**	**2017**	**Prior**	**Revolving**	**Revolving - Term**	**Total**
Commercial	Pass	$123,890	$ 36,339	$ 31,116	$ 5,549	$ 8,831	$ 14,061	$ 141,003	$ —	$360,789
	Special Mention	693	279	69	41	60	539	1,984	—	3,665
	Substandard	135	45	110	48	18	7	484	—	847
Total Commercial		124,718	36,663	31,295	5,638	8,909	14,607	143,471	—	365,301
Commercial Real Estate - Owner Occupied										
Professional & medical	Pass	72,417	11,869	7,046	4,595	22,939	27,905	2,366	—	149,137
	Special Mention	—	1,146	—	—	—	187	—	—	1,333
	Substandard	—	72	—	—	217	—	—	—	289
Total Professional & Medical		72,417	13,087	7,046	4,595	23,156	28,092	2,366	—	150,759
Retail	Pass	78,780	29,749	33,114	8,813	9,318	25,296	2,464	—	187,534
	Special Mention	—	—	—	—	—	671	—	—	671
	Substandard	—	—	1,324	—	549	226	—	—	2,099
Total Retail		78,780	29,749	34,438	8,813	9,867	26,193	2,464	—	190,304
Other	Pass	32,805	30,897	13,216	16,716	7,501	38,796	2,782	—	142,713
	Special Mention	59	—	—	—	—	532	—	—	591
	Substandard	—	—	—	—	—	303	38	—	341
Total Other		32,864	30,897	13,216	16,716	7,501	39,631	2,820	—	143,645
Total Commercial Real Estate - Owner Occupied		184,061	73,733	54,700	30,124	40,524	93,916	7,650	—	484,708
Commercial Real Estate - Non-Owner Occupied										
Hotels & motels	Pass	1,736	3,313	32,634	15,949	6,953	20,308	7,531	—	88,424
	Special Mention	—	—	36,941	—	—	—	—	—	36,941
	Substandard	—	2,830	—	—	—	255	—	—	3,085
Total Hotels & Motels		1,736	6,143	69,575	15,949	6,953	20,563	7,531	—	128,450
Mini-storage	Pass	13,294	7,641	9,218	14,209	4,506	10,109	21	—	58,998
	Special Mention	—	—	—	—	—	47	—	—	47
Total Mini-storage		13,294	7,641	9,218	14,209	4,506	10,156	21	—	59,045
Multifamily	Pass	55,367	39,105	45,016	23,665	14,629	51,155	3,372	—	232,309
	Special Mention	—	582	—	—	—	43	169	—	794
	Substandard	—	—	—	—	—	54	—	—	54
Total Multifamily		55,367	39,687	45,016	23,665	14,629	51,252	3,541	—	233,157
Retail	Pass	52,533	42,177	20,763	7,653	6,778	24,958	6,586	—	161,448
	Special Mention	—	—	—	—	—	972	—	—	972
	Substandard	—	—	—	—	—	338	—	—	338
Total Retail		52,533	42,177	20,763	7,653	6,778	26,268	6,586	—	162,758

Dollars in thousands	**Risk Rating**	**2021**	**2020**	**2019**	**2018**	**2017**	**Prior**	**Revolving**	**Revolving - Term**	**Total**
		December 31, 2021								
Other	Pass	107,962	82,846	14,211	8,443	11,421	51,587	2,620	—	279,090
	Special Mention	—	—	—	572	—	—	—	—	572
	Doubtful	—	—	—	—	—	2,959	—	—	2,959
Total Other		107,962	82,846	14,211	9,015	11,421	54,546	2,620	—	282,621
Total Commercial Real Estate - Non-Owner Occupied		230,892	178,494	158,783	70,491	44,287	162,785	20,299	—	866,031
Construction and Development										
Land & land development	Pass	26,671	14,050	20,275	5,627	2,927	21,875	6,721	—	98,146
	Special Mention	—	155	117	—	—	591	—	—	863
	Substandard	—	—	—	—	—	1,796	—	—	1,796
Total Land & land development		26,671	14,205	20,392	5,627	2,927	24,262	6,721	—	100,805
Construction	Pass	64,352	64,022	7,438	1,407	—	—	8,320	—	145,539
	Substandard	—	—	—	329	—	170	—	—	499
Total Construction		64,352	64,022	7,438	1,736	—	170	8,320	—	146,038
Total Construction and Development		91,023	78,227	27,830	7,363	2,927	24,432	15,041	—	246,843
Residential 1-4 Family Real Estate										
Personal residence	Pass	39,637	34,962	18,974	18,784	14,597	115,384	—	—	242,338
	Special Mention	—	—	184	62	534	10,377	—	—	11,157
	Substandard	—	—	475	847	456	7,532	—	—	9,310
Total Personal Residence		39,637	34,962	19,633	19,693	15,587	133,293	—	—	262,805
Rental - small loan	Pass	30,342	13,990	14,093	11,524	6,567	33,936	4,630	—	115,082
	Special Mention	229	107	57	250	1	1,579	9	—	2,232
	Substandard	—	132	133	374	513	3,388	135	—	4,675
Total Rental - Small Loan		30,571	14,229	14,283	12,148	7,081	38,903	4,774	—	121,989
Rental - large loan	Pass	34,558	14,069	5,971	5,283	2,790	11,776	1,078	—	75,525
	Special Mention	—	—	—	—	—	29	—	—	29
	Substandard	—	—	—	—	—	3,554	—	—	3,554
Total Rental - Large Loan		34,558	14,069	5,971	5,283	2,790	15,359	1,078	—	79,108
Home equity	Pass	27	115	11	50	78	1,380	68,293	—	69,954
	Special Mention	—	—	—	—	—	94	1,399	—	1,493
	Substandard	—	—	—	—	—	407	258	—	665
Total Home Equity		27	115	11	50	78	1,881	69,950	—	72,112
Total Residential 1-4 Family Real Estate		104,793	63,375	39,898	37,174	25,536	189,436	75,802	—	536,014
Mortgage warehouse lines	Pass	—	—	—	—	—	—	227,869	—	227,869
Total Mortgage Warehouse Lines		—	—	—	—	—	—	227,869	—	227,869
Consumer	Pass	14,134	6,333	4,444	1,767	540	1,691	902	—	29,811
	Special Mention	904	381	210	66	87	53	11	—	1,712
	Substandard	199	96	40	11	3	22	29	—	400
Total Consumer		15,237	6,810	4,694	1,844	630	1,766	942	—	31,923
Other										
Credit cards	Pass	1,891	—	—	—	—	—	—	—	1,891
Total Credit Cards		1,891	—	—	—	—	—	—	—	1,891
Overdrafts	Pass	811	—	—	—	—	—	—	—	811
Total Overdrafts		811	—	—	—	—	—	—	—	811
Total Other		2,702	—	—	—	—	—	—	—	2,702
Total		$753,426	$437,302	$317,200	$152,634	$122,813	$486,942	$ 491,074	$ —	$2,761,391

Industry concentrations: At December 31, 2022 and 2021, 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):

Dollars in thousands		**2022**		**2021**
Balance, beginning	$	53,212	$	55,092
Additions		516		2,677
Amounts collected		(4,419)		(4,557)
Balance, ending	$	49,309	$	53,212

Allowance for Credit Losses - Loans

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

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

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

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

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

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

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

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

One Q-Factor adjustment to our loss rates is consideration of reasonable and supportable forecasts of economic conditions. In arriving at a reasonable and supportable economic forecast, we primarily consider the forecasted unemployment rates for the U.S., West Virginia and Virginia as loss drivers for each segmented loan pool. Secondarily, we consider the following forecasted economic data for one or more of our segmented loan pools depending on the nature of the underlying loan pool: housing price indices (U.S., West Virginia & Virginia), single-family housing starts (West Virginia & Virginia), multi-family housing starts (West Virginia & Virginia), personal income growth (U.S., West Virginia & Virginia), U.S. consumer confidence, rental vacancy rates (U.S.), and U.S. 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 2022 and 2021:

Allowance for Credit Losses - Loans	**For the Year Ended December 31, 2022**				
Dollars in thousands	**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

	For the Year Ended December 31, 2021					
Dollars in thousands	**Beginning Balance**	**Provision for Credit Losses - Loans**	**Adjustment for PCD Acquired Loans**	**Charge-offs**	**Recoveries**	**Ending Balance**
Commercial	$ 2,304	$ 1,112	$ —	$ (222)	$ 24	$ 3,218
Commercial real estate - owner occupied						
Professional & medical	954	71	71	(4)	—	1,092
Retail	3,173	(1,812)	—	—	1	1,362
Other	610	(35)	—	—	—	575
Commercial real estate - non-owner occupied						
Hotels & motels	2,135	397	—	—	—	2,532
Mini-storage	337	(204)	—	—	—	133
Multifamily	1,547	265	—	—	9	1,821
Retail	981	93	—	—	—	1,074
Other	1,104	947	—	(233)	2	1,820
Construction and development						
Land & land development	4,084	(628)	—	—	12	3,468
Construction	4,648	1,698	—	—	—	6,346
Residential 1-4 family real estate						
Personal residence	3,559	(548)	—	(365)	119	2,765
Rental - small loan	2,736	177	20	(189)	90	2,834
Rental - large loan	3,007	(633)	—	—	—	2,374
Home equity	713	(206)	—	(26)	16	497
Mortgage warehouse lines	—	—	—	—	—	—
Consumer	216	(44)	—	(131)	122	163
Other						
Credit cards	17	10	—	(16)	6	17
Overdrafts	121	255	—	(321)	152	207
Total	$ 32,246	$ 915	$ 91	$ (1,507)	$ 553	$ 32,298

The following tables presents, as of December 31, 2022 and 2021 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, 2022					
	Loan Balances			Allowance for Credit Losses - Loans		
Dollars in thousands	**Loans Individually Evaluated**	**Loans Collectively Evaluated (1)**	**Total**	**Loans Individually Evaluated**	**Loans Collectively Evaluated**	**Total**
Commercial	$ 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.

	December 31, 2021					
	Loan Balances			Allowance for Credit Losses - Loans		
Dollars in thousands	**Loans Individually Evaluated**	**Loans Collectively Evaluated (1)**	**Total**	**Loans Individually Evaluated**	**Loans Collectively Evaluated**	**Total**
Commercial	$ 177	$ 365,124	$ 365,301	$ —	$ 3,218	$ 3,218
Commercial real estate - owner occupied						
Professional & medical	2,073	148,686	150,759	199	893	1,092
Retail	5,559	184,745	190,304	—	1,362	1,362
Other	—	143,645	143,645	—	575	575
Commercial real estate - non-owner occupied						
Hotels & motels	3,085	125,365	128,450	669	1,863	2,532
Mini-storage	1,058	57,987	59,045	—	133	133
Multifamily	—	233,157	233,157	—	1,821	1,821
Retail	2,693	160,065	162,758	—	1,074	1,074
Other	5,726	276,895	282,621	69	1,751	1,820
Construction and development						
Land & land development	2,004	98,801	100,805	723	2,745	3,468
Construction	—	146,038	146,038	—	6,346	6,346
Residential 1-4 family real estate						
Personal residence	—	262,805	262,805	—	2,765	2,765
Rental - small loan	1,463	120,526	121,989	436	2,398	2,834
Rental - large loan	3,162	75,946	79,108	—	2,374	2,374
Home equity	523	71,589	72,112	—	497	497
Mortgage warehouse lines	—	227,869	227,869	—	—	—
Consumer	—	31,923	31,923	—	163	163
Other						
Credit cards	—	1,891	1,891	—	17	17
Overdrafts	—	811	811	—	207	207
Total	$ 27,523	$ 2,733,868	$ 2,761,391	$ 2,096	$ 30,202	$ 32,298

1) Included in the loans collectively evaluated are $19.8 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:

Dollars in thousands	December 31, 2022 Real Estate Secured Loans	Non-Real Estate Secured Loans	Total Loans	Allowance for Credit Losses - Loans
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

Dollars in thousands	December 31, 2021 Real Estate Secured Loans	Non-Real Estate Secured Loans	Total Loans	Allowance for Credit Losses - Loans
Commercial	$ —	$ 177	$ 177	$ —
Commercial real estate - owner occupied				
Professional & medical	2,073	—	2,073	199
Retail	5,559	—	5,559	—
Other	—	—	—	—
Commercial real estate - non-owner occupied				
Hotels & motels	3,085	—	3,085	669
Mini-storage	1,058	—	1,058	—
Multifamily	—	—	—	—
Retail	2,693	—	2,693	—
Other	5,726	—	5,726	69
Construction and development				
Land & land development	2,004	—	2,004	723
Construction	—	—	—	—
Residential 1-4 family real estate				
Personal residence	—	—	—	—
Rental - small loan	1,463	—	1,463	436
Rental - large loan	3,162	—	3,162	—
Home equity	523	—	523	—
Consumer	—	—	—	—
Other				
Credit cards	—	—	—	—
Overdrafts	—	—	—	—
Total	$ 27,346	$ 177	$ 27,523	$ 2,096

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 2022, 2021 and 2020.

Dollars in thousands	2022	2021	2020
Beginning balance	$ 9,858	$ 15,588	$ 19,276
Acquisitions	6	532	1,132
Acquisition of WinFirst	—	—	146
Capitalized improvements	36	—	1,352
Dispositions	(4,646)	(4,845)	(4,535)
Valuation adjustments	(187)	(1,417)	(1,783)
Balance at year end	$ 5,067	$ 9,858	$ 15,588

At December 31, 2022, our foreclosed properties of consumer residential real estate totaled $290,000.

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 2022 or 2021.

The major categories of premises and equipment and accumulated depreciation at December 31, 2022 and 2021 are summarized as follows:

Dollars in thousands	2022	2021
Land	$ 13,729	$ 13,786
Buildings and improvements	44,620	44,121
Furniture and equipment	31,827	31,188
	90,176	89,095
Less accumulated depreciation	(36,195)	(32,724)
Total premises and equipment, net	$ 53,981	$ 56,371

Depreciation expense for the years ended December 31, 2022, 2021 and 2020 approximated $3.61 million, $3.59 million and $3.22 million, respectively.

NOTE 10. LEASE COMMITMENTS

We lease certain office facilities and office equipment under operating leases. Rent expense for all operating leases totaled $999,000 in 2022, $904,000 in 2021 and $606,000 in 2020. 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 2022, 2021 and 2020 were as follows:

Dollars in thousands		2022		2021		2020
Amortization of lease right-of-use assets	$	961	$	858	$	540
Short-term lease expense		38		46		66
Total	$	999	$	904	$	606

Right-of-use lease assets totaled $6.0 million and $6.4 million at December 31, 2022 and 2021, respectively, and are reported as a component of other assets on our accompanying consolidated balance sheets. The related lease liabilities totaled $6.1 million and $6.6 million at December 31, 2022 and 2021, 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 $859,000, $732,000 and $358,000 during 2022, 2021 and 2020, 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, 2022:

Future Lease Payments

Dollars in thousands		
2023	$	868
2024		851
2025		800
2026		759
2027		650
Thereafter		2,621
Total undiscounted operating lease liability	$	6,549
Imputed interest		(468)
Total operating lease liability included in the accompanying balance sheet	$	6,081

The weighted average remaining lease term was 8.6 years and 9 years at December 31, 2022 and 2021, respectively, and the weighted average discount rate was 1.71 percent and 1.46 percent at December 31, 2022 and 2021, 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 $55.3 million at December 31, 2022 and 2021.

In accordance with ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, during third quarter 2022, 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, 2022.

At December 31, 2022 and December 31, 2021, we had $6.80 million and $8.24 million in unamortized identified intangible assets comprised of core deposit intangibles.

	Other Intangible Assets			
Dollars in thousands		December 31, 2022		December 31, 2021
Identified intangible assets				
Gross carrying amount	$	15,828	$	15,828
Less: accumulated amortization		9,025		7,585
Net carrying amount	$	6,803	$	8,243

Amortization relative to our identified intangible assets is as follows:

Dollars in thousands		Core Deposit Intangible
Actual:		
2020	$	1,659
2021		1,563
2022		1,440
Expected:		
2023		1,299
2024		1,158
2025		1,019
2026		878
2027		737
Thereafter		1,642

NOTE 12. DEPOSITS

The following is a summary of interest bearing deposits by type as of December 31, 2022 and 2021:

Dollars in thousands		2022		2021
Demand deposits, interest bearing	$	1,743,299	$	1,127,298
Savings deposits		496,751		698,156
Time deposits		376,213		548,649
Total	$	2,616,263	$	2,374,103

Included in time deposits are deposits acquired through a third party ("brokered deposits") totaling $32.8 million and $14.7 million at December 31, 2022 and 2021, respectively.

A summary of the scheduled maturities for all time deposits as of December 31, 2022 is as follows:

Dollars in thousands		Amount
2023	$	207,317
2024		106,859
2025		33,723
2026		14,370
2027		8,185
Thereafter		5,759
Total	$	376,213

Time certificates of deposit in denominations of $250,000 or more totaled $88.0 million at December 31, 2022. The following is a summary of the maturity distribution of such deposits.

Dollars in thousands		Amount
Three months or less	$	21,703
Three through six months		5,760
Six through twelve months		12,062
Over twelve months		48,489
Total	$	88,014

At December 31, 2022 and 2021, our deposits of related parties including directors, executive officers and their related interests approximated $59.2 million and $63.9 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 $1.80 billion of residential mortgage loans, certain commercial loans, mortgage backed securities and securities of U. S. Government agencies and corporations. We had $284.4 million available on a short term line of credit with the Federal Reserve Bank at December 31, 2022, which is primarily secured by a pledge of $506.0 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, 2022, our subsidiary bank had additional borrowings availability of $1.04 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, 2022, we had $290.4 million borrowing availability through credit lines and Federal funds purchased agreements. Federal funds purchased mature the next business day and totaled $149,000 and $146,000 at December 31, 2022 and 2021. A summary of short-term FHLB advances is presented below.

	December 31,	
	2022	**2021**
Dollars in thousands	**Short-term FHLB Advances**	
Balance at December 31	$ 225,850	$ 140,000
Average balance outstanding for the period	204,118	140,000
Maximum balance outstanding at any month end during period	298,900	140,000
Weighted average interest rate for the period	2.37%	0.33%
Weighted average interest rate for balances outstanding at December 31	4.47%	0.26%

Long-term borrowings: Our long-term borrowings of $658,000 and $679,000 at December 31, 2022 and 2021, 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 2022 and 2021 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 $73.7 million at December 31, 2022 and $73.4 million at December 31, 2021.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 $29.6 million at December 31, 2022 and $29.5 million at December 31, 2021.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, 2022 and 2021.

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:

Dollars in thousands	**Long-term borrowings**	**Subordinated debentures**	**Subordinated debentures owed to unconsolidated subsidiary trusts**
2023	$ 22	$ —	$ —
2024	23	—	—
2025	24	—	—
2026	589	—	—
2027	—	—	—
Thereafter	—	105,000	19,589
Total	$ 658	$ 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 two 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, 2023, was designated as a cash flow hedge of $20 million of variable rate Federal Home Loan Bank advances. Under the terms of this swap we will pay a fixed rate of 1.07% and receive a variable rate equal to three month LIBOR.

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

In addition, we have entered into 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, was designated as a cash flow hedge of $100 million of fixed rate Federal Home Loan Bank advances. Under the terms of this cap we will hedge the variability of cash flows when three month LIBOR is above .75%.

- A $100 million notional interest rate cap with an effective date of December 29, 2020 and expiring on December 18, 2025, was designated as a cash flow hedge of $100 million of certain indexed interest bearing demand deposit accounts. Under the terms of this cap we will hedge the variability of cash flows when the indexed rate of SOFR is above 0.50%.

Fair Value Hedges

We have entered into two pay fixed/receive variable interest rate swaps to hedge fair value variability of two commercial fixed rate loans with the same principal, amortization, and maturity terms of the underlying loans, which are designated as fair value hedges with a total original notional amount of $21.3 million.

We have also entered into a pay fixed/receive variable interest rate swap to hedge fair value variability of certain available for sale taxable municipal securities, which is designated as a fair value hedge with a total original notional amount of $71.2 million.

A summary of our derivative financial instruments as of December 31, 2022 and 2021 follows:

	December 31, 2022			
		Derivative Fair Value		Net Ineffective Hedge
Dollars in thousands	Notional Amount	Asset	Liability	Gains/(Losses)
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)

	December 31, 2021			
		Derivative Fair Value		Net Ineffective Hedge
Dollars in thousands	Notional Amount	Asset	Liability	Gains/(Losses)
CASH FLOW HEDGES				
Pay-fixed/receive-variable interest rate swaps hedging:				
Short term borrowings	$ 40,000	$ —	$ 83	$ —
Interest rate caps hedging:				
Short term borrowings	$ 100,000	$ 8,336	$ —	$ —
Indexed interest bearing demand deposit accounts	100,000	2,851	—	—
FAIR VALUE HEDGES				
Pay-fixed/receive-variable interest rate swaps hedging:				
Commercial real estate loans	$ 17,548	$ —	$ 512	$ —
Available for sale taxable municipal securities	71,245	—	529	22

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 2019 through 2022, 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, 2022, 2021 and 2020, are as follows:

Dollars in thousands	2022	2021	2020
Current			
Federal	$ 12,222	$ 10,189	$ 10,189
State	1,654	1,210	1,440
	13,876	11,399	11,629
Deferred			
Federal	191	231	(3,673)
State	27	33	(528)
	218	264	(4,201)
Total	$ 14,094	$ 11,663	$ 7,428

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, 2022, 2021 and 2020 is as follows:

	2022		2021		2020	
Dollars in thousands	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Computed tax at applicable statutory rate	$ 14,135	21	$ 12,054	21	$ 8,138	21
Increase (decrease) in taxes resulting from:						
Tax-exempt interest and dividends, net	(1,005)	(2)	(829)	(1)	(788)	(2)
Low-income housing and rehabilitation tax credits	(214)	—	(206)	—	(248)	(1)
State income taxes, net of Federal income tax benefit	1,328	2	982	2	720	2
Other, net	(150)	—	(338)	(1)	(394)	(1)
Applicable income taxes	$ 14,094	21	$ 11,663	21	$ 7,428	19

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, 2022 and 2021, are as follows:

Dollars in thousands	2022	2021
Deferred tax assets		
Allowance for credit losses	$ 11,003	$ 9,497
Foreclosed properties	789	2,089
Deferred compensation	4,830	4,803
Other deferred costs and accrued expenses	1,096	970
Net unrealized loss on debt securities available for sale	11,968	—
Net unrealized loss on equity investments	17	
Net unrealized loss on derivative financial instruments	—	—
Total	29,703	17,359
Deferred tax liabilities		
Depreciation	726	630
Accretion on tax-exempt securities	8	9
Net unrealized gain on debt securities available for sale	—	590
Net unrealized gain on interest rate swaps	8,299	1,136
Other post-retirement benefits	46	12
Acquisition accounting adjustments and goodwill	2,944	2,440
Total	12,023	4,817
Net deferred tax assets	$ 17,680	$ 12,542

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, 2019 through 2021. Tax years 2020 through 2021 remain subject to West Virginia State examination.

NOTE 16. EMPLOYEE BENEFITS

Retirement Plans: We have defined contribution profit-sharing plans with 401(k) provisions covering substantially all employees. Contributions to the plans are at the discretion of the Board of Directors. Contributions made to the plans and charged to expense were $829,000, $792,000 and $678,000 for the years ended December 31, 2022, 2021 and 2020, 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, 2022, 2021 and 2020 were $1.2 million, $882,000 and $816,000 respectively. Dividends paid by us to the ESOP are reported as a reduction of retained earnings. The ESOP owned 549,330 shares of our common stock at December 31, 2022 and 547,858 shares of common stock at December 31, 2021, 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,	
	2022	**2021**
Allocated shares	528,628	504,154
Shares committed to be released	20,702	23,002
Unallocated shares	—	20,702
Total ESOP shares	549,330	547,858
Market value of unallocated shares (in thousands)	$ —	$ 568

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, 2022 and 2021 were $11.3 million and $10.3 million, respectively, which are included in other liabilities. Included in salaries, commissions and employee benefits was $1.2 million, $967,000 and $787,000 expense related to these SERPs for the years December 31, 2022, 2021 and 2020, 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.

There were no grants of SARS or stock options during 2022 or 2020. 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 2021 is as follows:

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

A summary of SAR and option activity during 2020, 2021 and 2022 is as follows:

			Weighted Average	
Dollars in thousands, except per share amounts	**SARs/Options**	**Aggregate Intrinsic Value**	**Remaining Contractual Term (Yrs.)**	**Exercise Price**
Outstanding, December 31, 2019	330,703			$ 20.44
Granted	—			—
Exercised	(1,400)			12.01
Forfeited	—			—
Expired	(100)			18.26
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	$ 1,760	5.98	$ 21.36
Exercisable Options/SARs:				
December 31, 2022	259,037	$ 1,262	4.57	$ 20.33
December 31, 2021	204,116	1,683	4.81	19.20
December 31, 2020	177,875	1,118	5.27	17.07

The total intrinsic value of options and SARs exercised in 2022, 2021 and 2020 was $172,000, $255,000 and $9,000, respectively. The total fair value of options and SARs vested during 2022, 2021 and 2020 was $672,000, $396,000 and $596,000, respectively.

Grants of RSUs include time-based vesting conditions that generally vest ratably over a period of 3 to 5 years. 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. During 2020, we granted 2,763 RSUs which will fully vest on the two years anniversary of the grant date and 10,995 RSUs which will vest ratably over 4 years. A summary of our RSU activity and related information is as follows.

Dollars in thousands, except per share amounts	**RSUs**	**Weighted Average Grant Date Fair Value**
Nonvested, December 31, 2019	2,892	$ 25.93
Granted	13,758	19.63
Forfeited	—	—
Vested	(964)	25.93
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

Total stock compensation expense for all share-based arrangements totaled $624,000, $646,000 and $527,000 for the years ended December 31, 2022, 2021 and 2020, respectively, and the related income tax benefits recognized in 2022, 2021 and 2020 were $150,000, $155,000 and $127,000 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, 2022, our total unrecognized compensation expense related to all nonvested awards not yet recognized totaled $1.6 million and on a weighted-average basis, will be recognized over the next 1.87 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:

Dollars in thousands	**December 31, 2022**	**December 31, 2021**
Commitments to extend credit:		
Revolving home equity and credit card lines	$ 104,475	$ 97,540
Construction loans	271,062	265,056
Other loans	493,592	325,897
Standby letters of credit	56,528	22,859
Total	$ 925,657	$ 711,352

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 $(328,000) and $3.09 million for the years ended December 31, 2022 and 2021. The ACL on off-balance sheet credit exposures totaled $6.95 million and $7.28 million for the year ended December 31, 2022 and 2021 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 2022, the Bank will have $80.4 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, 2022 and 2021.

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, 2022, 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, 2022 and December 31, 2021. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended.

	Actual		Minimum Required Capital - Basel III		Minimum Required To Be Well Capitalized	
Dollars in thousands	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of 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%
As of December 31, 2021						
CET1 (to risk weighted assets)						
Summit	$ 257,122	8.4%	$ 214,268	7.0%	N/A	N/A
Summit Community	364,125	11.9%	214,191	7.0%	198,892	6.5%
Tier I Capital (to risk weighted assets)						
Summit	291,042	9.5%	260,406	8.5%	N/A	N/A
Summit Community	364,125	11.9%	260,089	8.5%	244,790	8.0%
Total Capital (to risk weighted assets)						
Summit	420,045	13.8%	319,599	10.5%	N/A	N/A
Summit Community	390,236	12.8%	320,115	10.5%	304,872	10.0%
Tier I Capital (to average assets)						
Summit	291,042	8.3%	140,261	4.0%	N/A	N/A
Summit Community	364,125	10.4%	140,048	4.0%	175,060	5.0%

NOTE 20. EARNINGS PER SHARE

The computations of basic and diluted earnings per share follow:

	For the Year Ended December 31,								
	2022			**2021**			**2020**		
Dollars in thousands, except per share amounts	Income (Numerator)	Common Shares (Denominator)	Per Share	Income (Numerator)	Common Shares (Denominator)	Per Share	Income (Numerator)	Common Shares (Denominator)	Per Share
Net income	$ 53,216			$ 45,738			$ 31,326		
Less preferred stock dividends	(900)			(589)			—		
Basic EPS	$ 52,316	12,760,649	$4.10	$ 45,149	12,943,883	$3.49	$ 31,326	12,935,430	$2.42
Effect of dilutive securities:									
Stock options		—			44			4,320	
SARs		56,616			53,964			34,785	
RSUs		4,268			5,537			850	
Diluted EPS	$ 52,316	12,821,533	$4.08	$ 45,149	13,003,428	$3.47	$ 31,326	12,975,385	$2.41

Stock option and SAR grants are disregarded in this computation if they are determined to be anti-dilutive. At December 31, 2022, anti-dilutive SARs totaled 224,424. At December 31, 2021, our anti-dilutive SARs totaled 400,229. At December 31, 2020, our anti-dilutive options were 200 and our anti-dilutive SARs totaled 222,740. 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, 2022, 2021 and 2020.

	December 31, 2022					
Dollars in thousands	**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**
Beginning balance	$ 30	$ 9	$ 3,993	$ 1,868	$ (418)	$ 5,482
Other comprehensive income (loss) 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 income (loss)	(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					
Dollars in thousands	**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 Losses on Securities Fair Value Hedge**	**Total**
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

Dollars in thousands	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	Total
	December 31, 2020				
Beginning balance	$ (140)	$ 48	$ (518)	$ 3,145	$ 2,535
Other comprehensive income (loss) before reclassification, net of tax	(59)	(88)	(614)	6,310	5,549
Amounts reclassified from accumulated other comprehensive income, net of tax	—	—	—	(2,639)	(2,639)
Net current period other comprehensive income (loss)	(59)	(88)	(614)	3,671	2,910
Ending balance	$ (199)	$ (40)	$ (1,132)	$ 6,816	$ 5,445

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:

Dollars in thousands	For the Year Ended December 31, 2022	2021	2020
Service fees on deposit accounts	$ 6,150	$ 5,032	$ 4,588
Bank card revenue	6,261	5,896	4,494
Trust and wealth management fees	2,978	2,886	2,495
Other	516	626	567
Net revenue from contracts with customers	15,905	14,440	12,144
Non-interest income within the scope of other ASC topics	2,248	5,768	7,939
Total noninterest income	$ 18,153	$ 20,208	$ 20,083

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, 2022, 2021 and 2020 net gains/(losses) on sales of foreclosed properties were $64,000, $(7,000) and $(323,000), respectively.

NOTE 23. CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY

Information relative to our parent company balance sheets at December 31, 2022 and 2021 and the related statements of income and cash flows for the years ended December 31, 2022, 2021 and 2020, are presented as follows:

Balance Sheets

	December 31,	
Dollars in thousands	**2022**	**2021**
Assets		
Cash	$ 11,043	$ 14,279
Investment in subsidiaries	445,048	419,557
Equity investments (at fair value)	25,858	20,209
Other investments	—	—
Premises and equipment	92	129
Other assets	1,802	1,971
Total assets	$ 483,843	$ 456,145
Liabilities and Shareholders' Equity		
Subordinated debentures, net	$ 103,296	$ 102,891
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589
Other liabilities	6,428	6,192
Total liabilities	129,313	128,672
Preferred stock, $1.00 par value, authorized 250,000 shares; issued: 2022 and 2021 - 1,500 shares	14,920	14,920
Common stock and related surplus, $2.50 par value, authorized 20,000,000 shares; issued: 12,783,646 shares 2022, 12,763,827 shares 2021; outstanding: 12,783,646 shares 2022, 12,743,125 shares 2021	90,696	89,525
Unallocated common stock held by Employee Stock Ownership Plan - 2021 - 20,702 shares	—	(224)
Retained earnings	260,393	217,770
Accumulated other comprehensive (loss) income	(11,479)	5,482
Total shareholders' equity	354,530	327,473
Total liabilities and shareholders' equity	$ 483,843	$ 456,145

Statements of Income

	For the Year Ended December 31,		
Dollars in thousands	**2022**	**2021**	**2020**
Income			
Dividends from subsidiaries	$ 15,800	$ 12,100	$ 10,000
Other dividends and interest income	26	16	33
Net gains on equity investments	265	202	—
Management and service fees from subsidiaries	2,088	1,920	1,856
Total income	18,179	14,238	11,889
Expense			
Interest expense	5,256	2,497	1,109
Operating expenses	3,283	3,736	3,306
Total expenses	8,539	6,233	4,415
Income before income taxes and equity in undistributed income of subsidiaries	9,640	8,005	7,474
Income tax (benefit)	(1,251)	(830)	(519)
Income before equity in undistributed income of subsidiaries	10,891	8,835	7,993
Equity in undistributed income of subsidiaries	42,325	36,903	23,333
Net income	$ 53,216	$ 45,738	$ 31,326
Preferred stock dividends	900	589	—
Net income applicable to common shares	$ 52,316	$ 45,149	$ 31,326

Statements of Cash Flows

Dollars in thousands	For the Year Ended December 31, 2022	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 53,216	$ 45,738	$ 31,326
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiaries	(42,325)	(36,903)	(23,333)
Deferred tax benefit	(14)	(164)	(141)
Depreciation	37	46	57
Gain on equity investments	(265)	(202)	—
Share-based compensation expense	231	244	211
Earnings on bank owned life insurance	17	4	1
Decrease (increase) in other assets	432	163	(285)
Increase in other liabilities	1,209	584	977
Net cash provided by operating activities	12,538	9,510	8,813
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of equity investments	(5,384)	(20,000)	—
Investment in bank subsidiary	—	(55,000)	(25,000)
Purchases of premises and equipment	—	(124)	(9)
Proceeds from transfer of premises and equipment	—	47	—
Net cash used in investing activities	(5,384)	(75,077)	(25,009)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on preferred stock	(900)	(589)	—
Dividends paid on common stock	(9,693)	(9,022)	(8,786)
Exercise of stock options	—	16	—
Proceeds from issuance of subordinated debt	—	75,000	30,000
Purchase and retirement of common stock	—	(6,710)	(1,444)
Proceeds from issuance of preferred stock, net of issuance costs	—	14,920	—
Proceeds from issuance of common stock, net of issuance costs	203	294	178
Net cash (used in) provided by financing activities	(10,390)	73,909	19,948
(Decrease) increase in cash	(3,236)	8,342	3,752
Cash:			
Beginning	14,279	5,937	2,185
Ending	$ 11,043	$ 14,279	$ 5,937
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash payments for:			
Interest	$ 4,786	$ 2,195	$ 1,145

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, 2022, 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, 2022 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, 2022, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

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 *2023 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 2022 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 *2023 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, 2022.

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	71,493	$ 21.36	214,510
Equity compensation plans not approved by stockholders	—	—	—
Total	71,493	$ 21.36	214,510

(1) The number of securities issuable upon exercise of currently outstanding SARs includes 64,288 shares issuable, based upon our December 31, 2022 closing stock price of $24.89, relative to 473,212 SARs issued under the Summit Financial Group, Inc. 2014 Long-Term Incentive Plan and 7,205 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 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 *2023 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 *2023 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 *2023 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. SMMF 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
(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

Exhibit Number		Exhibit Description	Filed Herewith	Incorporated by Reference*		
				Form	Exhibit	Filing Date
	(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
	(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, LP		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			
(101)	Interactive Date file (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)

3/10/2023
H. Charles Maddy, III — Date
President & Chief Executive Officer

3/10/2023
Julie R. Markwood — Date
Executive Vice President &
Chief Accounting Officer

3/10/2023
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.

3/10/2023
Robert S. Tissue — Date
Attorney-in-fact

Summit
FINANCIAL GROUP

MANAGEMENT

H. Charles Maddy, III
President and
Chief Executive Officer

Danyl R. Freeman
Executive Vice President and
Chief Human Resources Officer

Patrick N. Frye
Executive Vice President and
Chief of Credit Administration

Joe Hager
Executive Vice President and
Chief Risk Officer

Scott C. Jennings
Executive Vice President and
Chief Operating Officer

Julie R. Markwood
Executive Vice President and
Chief Accounting Officer

Patricia L. Owens
Executive Vice President and
Chief Banking Officer

Phillip Quintana
Regional President
Summit Community Bank

Bradford E. Ritchie
Executive Vice President and
President, Summit Community Bank

Geoffrey Sheils
Regional President
Summit Community Bank

Robert S. Tissue
Executive Vice President and
Chief Financial Officer

Frank Wilkinson
Regional President
Summit Community Bank

SHAREHOLDER INFORMATION

Stock Transfer Agent

Shareholders requesting information about share balances, change of name or address, lost certificates, dividend reinvestment, or other shareholder account matters should contact the Transfer Agent:

Computershare
PO Box 505000
Louisville, KY 40233-5000
(800) 368-5948
www.computershare.com/investor

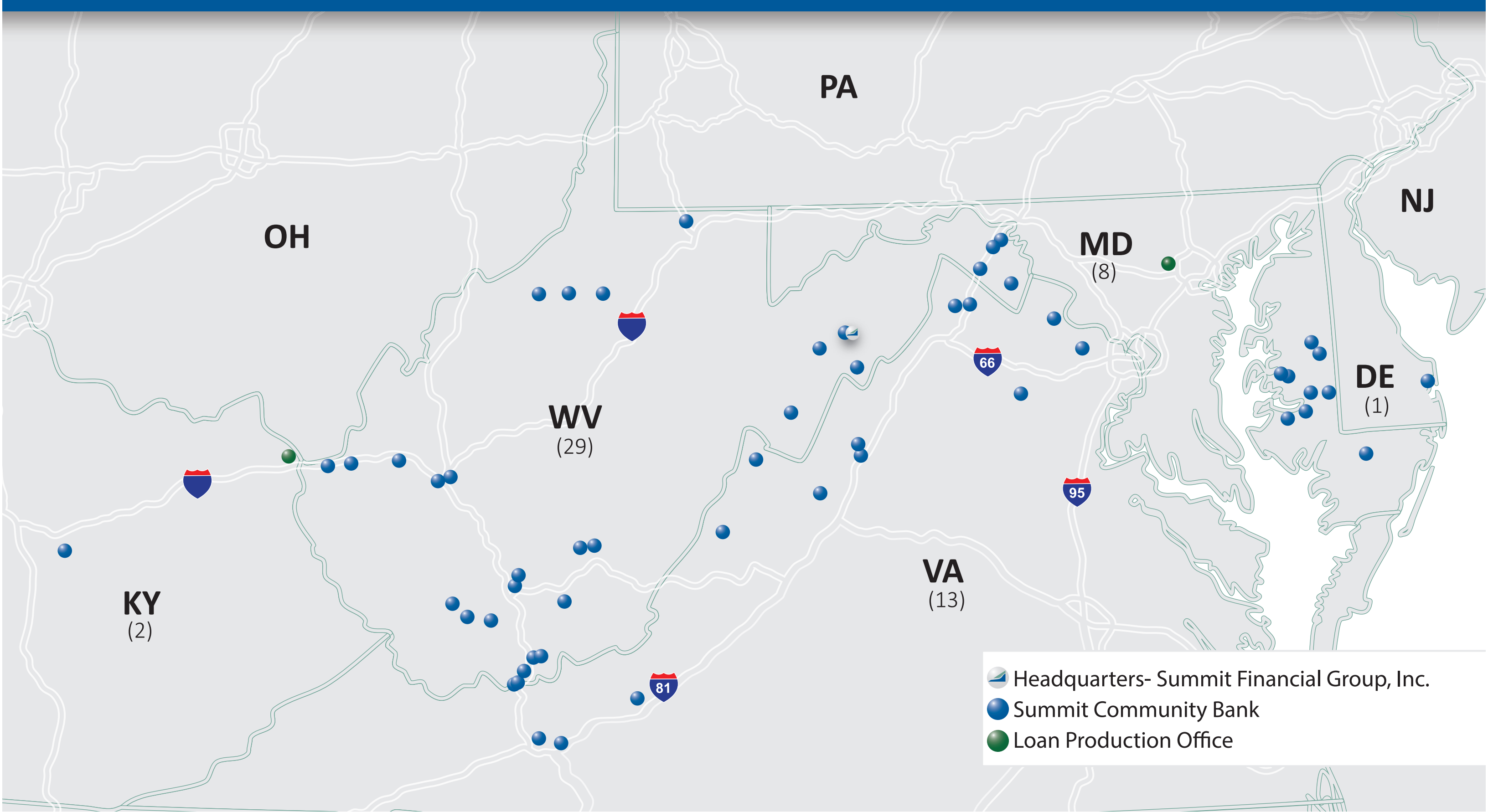
Common Stock Listing

The common stock of Summit Financial Group, Inc. is traded on the NASDAQ Global Select Market under the symbol SMMF.

Information

A copy of this annual report can be found on our Company website at www.summitfgi.com. Other shareholder inquiries or to request a printed copy of this annual report contact the Company at:

Summit Financial Group, Inc.
Attn: Teresa Ely
Director of Shareholder Relations
300 North Main Street
PO Box 179
Moorefield, WV 26836
Direct dial: (304) 530-0526
Email: tely@summitfgi.com



Summit
FINANCIAL GROUP

Strength. Vision. Prosperity.

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