

SUMMIT FINANCIAL GROUP INC  
Form 10-K  
March 02, 2015

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

FORM 10-K

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

For the fiscal year ended December 31, 2014

Commission File Number 0-16587

Summit Financial Group, Inc.  
(Exact name of registrant as specified in its charter)  
West Virginia  
(State or other jurisdiction of  
incorporation or organization)

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

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

26836  
(Zip Code)

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

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

Common  
(Title of Class)

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

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

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

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

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Indicate by check mark whether the registrant has submitted electronically and posted on its Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant at June 30, 2014, was approximately \$62,389,000. Registrant has assumed that all of its executive officers and directors are affiliates. Such assumption shall not be deemed to be conclusive for any other purpose.

The number of shares of the Registrant's Common Stock outstanding on February 26, 2015 was 8,301,746.

#### Documents Incorporated by Reference

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

Document	Part of Form 10-K into which document is incorporated
Portions of the Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held May 21, 2015	Part III - Items 10, 11, 12, 13, and 14

SUMMIT FINANCIAL GROUP, INC

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## PART I.

### Item 1. Business

Summit Financial Group, Inc. (“Company” or “Summit”) is a \$1.44 billion financial holding company headquartered in Moorefield, West Virginia. We provide community banking services primarily in the Eastern Panhandle and South Central regions of West Virginia and the Northern region of Virginia. We provide these services through our community bank subsidiary, Summit Community Bank (“Summit Community” or “Bank”). We also operate Summit Insurance Services, LLC in Moorefield, West Virginia and Leesburg, Virginia.

#### Community Banking

We provide a wide range of community banking services, including demand, savings and time deposits; commercial, real estate and consumer loans; letters of credit; 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 ranging from \$300,000 to \$30 million and providing owner-occupied real estate loans to individuals. Typically, our customers have financing requirements between \$50,000 and \$1 million. We generally do not seek loans of more than \$5 million but will consider larger lending relationships exhibiting above-average credit quality. Under our commercial banking strategy, we focus on offering a broad line of financial products and services to small and medium-sized businesses through full service banking offices. Summit Community Bank has senior management with extensive lending experience. These managers exercise substantial authority over credit and pricing decisions, subject to loan committee approval for larger credits.

We segment our loan portfolio in to the following major lending categories: commercial, commercial real estate, construction and development, residential real estate, and consumer. 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.

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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%
Construction:		
Commercial, multifamily, and other non-residential	80%	80%
1-4 family residential, consumer borrower	85%	85%
1-4 family residential, commercial borrower	85%	80%
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 \$161.8 million as of December 31, 2014. As of this date, we had loans approximating \$48.1 million which exceeded the above regulatory LTV guidelines, as follows:

Undeveloped land	\$0.7	million
Land development	\$6.7	million
Construction:		
Commercial, multifamily, and other non-residential	\$—	
1-4 family residential, consumer borrower	\$—	
1-4 family residential, commercial borrower	\$—	
Improved property:		
Residential real estate - nonowner occupied	\$6.7	million
Commercial real estate - owner occupied	\$18.9	million
Commercial real estate - nonowner occupied	\$2.5	million
Owner occupied 1-4 family	\$11.8	million
Home equity	\$0.8	million

Our underwriting standards and practice are designed to originate both fixed and variable rate loan products, consistent with the underwriting guidelines discussed above. Adjustable rate and variable rate loans are underwritten, giving consideration both to the loan’s initial rate and to higher assumed rates, commensurate with reasonably anticipated market conditions. Accordingly, we want to insure that adequate primary repayment capacity exists to address both future increases in interest rates and fluctuations in the underlying cash flows available for



repayment. Historically, we have not offered “payment option ARM” 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).

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## 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 redemption, when aggregated with the net consideration paid by us for all such purchases or redemptions during the preceding 12 months is equal to ten percent (10%) or more of our consolidated net worth. Prior notice is not required if (i) both before and immediately after the redemption, the financial holding company is well capitalized; (ii) the financial holding company is well managed and (iii) the financial holding company is not the subject of any unresolved supervisory issues.

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

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

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

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

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

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

On July 21, 2010, sweeping financial regulatory reform legislation, entitled the “Dodd-Frank Wall Street Reform and Consumer Protection Act” (the “Dodd-Frank Act”), was signed into law. The Dodd-Frank Act, which is complex and broad in scope, established the Bureau of Consumer Financial Protection (the “CFPB”), which has extensive regulatory and enforcement powers over consumer financial products and services, and the Financial Stability Oversight Council, which has oversight authority for monitoring systemic risk. We will be required to comply with the Consumer Financial Protection Act and the CFPB’s rules; however, these rules will be enforced by our primary regulator, the FRB, not the CFPB. In addition, the Dodd-Frank Act alters the authority and duties of the federal banking and securities regulatory agencies, implements certain corporate governance requirements for all public companies, including financial institutions with regard to executive compensation, proxy access by shareholders, and certain whistleblower provisions, and restricts certain proprietary trading and hedge fund and private equity activities of banks and their affiliates. Although the regulations that directly affect our business have been adopted, many of the provisions of the Dodd-Frank Act are subject to final rulemaking by the U.S. financial regulatory agencies, and the implications of the Dodd-Frank Act for our business will depend to some extent on how such rules are adopted and implemented by the primary U.S. financial regulatory agencies.

## Bank Holding Company Activities

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

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

To maintain financial holding company status, a financial holding company and all of its depository institution subsidiaries must be “well capitalized” and “well managed.” A depository institution subsidiary is considered to be “well capitalized” if it satisfies the requirements for this status discussed in the sections captioned “Capital Requirements” and “Prompt Corrective Action,” 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.

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

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

The Dodd-Frank Act amends the BHC Act to require the federal financial regulatory agencies to adopt rules that prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds). The statutory provision is commonly called the “Volcker Rule”. The Volcker Rule became effective on July 21, 2012. On December 10, 2013, the Federal Reserve adopted final rules implementing the Volcker Rule. Compliance with the final rule became effective on April 1, 2014; however, the Federal Reserve issued an order on December 18, 2014 extending the period which institutions have to conform their activities and investments to the requirements of the Volcker Rule to July 21, 2016. The Federal Reserve also announced its intention to grant an additional one-year extension of the conformance period until July 21, 2017. On January 14, 2014, the banking agencies approved an interim rule to permit banking entities to retain interests in certain collateralized debt obligations backed primarily by trust preferred securities from the investment prohibitions of the Volcker Rule. Although we continue to evaluate the impact of the Volcker Rule and the final rules adopted thereunder, we do not anticipate that the Volcker Rule will have a material effect on our operations as we do not generally engage in the activities prohibited by the Volcker Rule. We may incur costs to adopt additional policies and systems to ensure compliance with the Volcker Rule, but any such costs are not expected to be material.

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

#### Dividends

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

In addition, the Company and Summit Community are subject to other regulatory policies and requirements relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The appropriate federal regulatory authority is authorized to determine under certain circumstances relating to the financial

condition of a bank holding company or a bank that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. The appropriate federal regulatory authorities have stated that paying dividends that deplete a bank's capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only out of current operating earnings. In addition, in the current financial and economic environment, the FRB has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

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## 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

Regulatory Capital Rules in Effect Year End 2014. As a financial holding company, we are subject to FRB risk-based capital guidelines. The federal regulatory authorities' current risk-based capital guidelines are based upon the 1988 capital accord ("Basel I") of the Basel Committee on Banking Supervision (the "Basel Committee"). The guidelines establish a systematic analytical framework that makes regulatory capital requirements more sensitive to differences in risk profiles among banking organizations, takes off-balance sheet exposures into explicit account in assessing capital adequacy, and minimizes disincentives to holding liquid, low-risk assets. Under the guidelines and related policies, financial holding companies must maintain capital sufficient to meet both a risk-based asset ratio test and leverage ratio test on a consolidated basis. The risk-based ratio is determined by allocating assets and specified off-balance sheet commitments into four weighted categories, with higher levels of capital being required for categories perceived as representing greater risk. Summit Community is subject to substantially similar capital requirements adopted by its applicable regulatory agencies.

Under the requirements, banking organizations are required to maintain minimum ratios for Tier 1 capital and total capital to risk-weighted assets (including certain off-balance sheet items, such as letters of credit). For purposes of calculating the ratios, a banking organization's assets and some of its specified off-balance sheet commitments and obligations are assigned to various risk categories. A depository institution's or holding company's capital, in turn, is classified in one of two tiers, depending on type:

Core Capital (Tier 1). Tier 1 capital includes common equity, retained earnings, qualifying non-cumulative perpetual preferred stock, minority interests in equity accounts of consolidated subsidiaries (and, under existing standards, a limited amount of qualifying trust preferred securities and qualifying cumulative perpetual preferred stock at the holding company level), less goodwill, most intangible assets and certain other assets.



Supplementary Capital (Tier 2). Tier 2 capital includes, among other things, perpetual preferred stock and trust preferred securities not meeting the Tier 1 definition, qualifying mandatory convertible debt securities, qualifying subordinated debt, and allowances for loan and lease losses, subject to limitations.

We, like other financial holding companies, currently are required to maintain Tier 1 capital and “total capital” (the sum of Tier 1 and Tier 2 capital) equal to at least 4.0% and 8.0%, respectively, of our total risk-weighted assets (including various off-balance-sheet items, such as letters of credit). Summit Community, like other depository institutions, is required to maintain similar capital levels under capital adequacy guidelines. In addition, for a depository institution to be considered “well capitalized” under the regulatory framework for prompt corrective action, its Tier 1 and total capital ratios must be at least 6.0% and 10.0% on a risk-adjusted basis, respectively.

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Financial holding companies and banks are also currently required to comply with minimum leverage ratio requirements. The leverage ratio is the ratio of a banking organization's Tier 1 capital to its total adjusted quarterly average assets (as defined for regulatory purposes). The requirements necessitate a minimum leverage ratio of 3.0% for bank holding companies and member banks that either have the highest supervisory rating or have implemented the appropriate federal regulatory authority's risk-adjusted measure for market risk. All other bank holding companies and member banks are required to maintain a minimum leverage ratio of 4.0%, unless a different minimum is specified by an appropriate regulatory authority. In addition, for a depository institution to be considered "well capitalized" under the regulatory framework for prompt corrective action, its leverage ratio must be at least 5.0%.

Our regulatory capital ratios and Summit Community's capital ratios as of year end 2014 are set forth in the table in Note 18 of the notes to the consolidated financial statements beginning on page 83.

**Basel III Capital Rules Effective Beginning 2015.** In July 2013, the Company's and Summit Community's federal banking regulators published the Basel III Capital Rules establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The Basel III Capital Rules substantially revise the risk-based capital requirements applicable to financial holding companies and depository institutions, including the Company and Summit Community, compared to the current U.S. risk-based capital rules. The Basel III Capital Rules define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. The Basel III Capital Rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replace the existing risk-weighting approach, which was derived from the Basel I capital accords of the Basel Committee, with a more risk-sensitive approach based, in part, on the standardized approach in the Basel Committee's 2004 "Basel II" capital accords. The Basel III Capital Rules also implement the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking agencies' rules. The Basel III Capital Rules are effective for the Company and Summit Community on January 1, 2015 (subject to a phase-in period).

The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1" ("CET1"), (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments as compared to existing regulations.

When fully phased in on January 1, 2019, the Basel III Capital Rules will require the Company and Summit Community to maintain (i) a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7% upon full implementation), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation), (iii) a minimum ratio of Total capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation) and (iv) a minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to average assets (as compared to a current minimum leverage ratio of 3% for banking organizations that either have the highest supervisory rating or have implemented the appropriate federal regulatory authority's risk-adjusted measure for market risk).

The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer will face regulatorily prescribed limitations on dividend payments, discretionary payments on tier 1 capital instruments, share buybacks, and discretionary bonus payments to certain Company officers based on the amount of

the shortfall.

Under the Basel III Capital Rules, the initial minimum capital ratios as of January 1, 2015 are as follows:

- 4.5% CET1 to risk-weighted assets.
- 6.0% Tier 1 capital to risk-weighted assets.
- 8.0% Total capital to risk-weighted assets.

The Basel III Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of

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CET1. Furthermore, the effects of accumulated other comprehensive income items included in capital are excluded for the purposes of determining regulatory capital ratios under current capital standards. However, under the Basel III Capital Rules, the effects of certain accumulated other comprehensive items are not excluded; however, certain banking organizations, including the Company and Summit Community, may make a one-time permanent election to continue to exclude these items. The Company and Summit Community expect to make this election in order to minimize variations in the level of capital.

The Basel III Capital Rules also preclude certain hybrid securities, such as trust preferred securities, as Tier 1 capital of bank holding companies, subject to phase-out. However, for holding companies of depository institutions with less than \$15 billion in consolidated total assets as of December 31, 2009, the rules do not require a phase out of trust preferred securities issued prior to May 19, 2010. This means that all of our trust preferred securities are permanently grandfathered as Tier 1 capital instruments.

Implementation of the deductions and other adjustments to CET1 began on January 1, 2015 and will be phased-in over a four-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

With respect to Summit Community, the Basel III Capital Rules also revise the “prompt corrective action” regulations pursuant to Section 38 of the Federal Deposit Insurance Act, as discussed below under “Prompt Corrective Action.”

The Basel III Capital Rules prescribe a standardized approach for risk weightings that expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories. Specific changes to current rules impacting our determination of risk-weighted assets include, among other things:

- Applying a 150% risk weight instead of a 100% risk weight for certain high volatility commercial real estate acquisition, development and construction loans.
- Assigning a 150% risk weight to exposures (other than residential mortgage exposures) that are 90 days past due.
- Providing for a 20% credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable (currently set at 0%).
- Providing for a risk weight, generally not less than 20% with certain exceptions, for securities lending transactions based on the risk weight category of the underlying collateral securing the transaction.

In addition, the Basel III Capital Rules provide more advantageous risk weights for derivatives and repurchase-style transactions cleared through a qualifying central counterparty and increase the scope of eligible guarantors and eligible collateral for purposes of credit risk mitigation.

The Basel III Capital Rules continue to apply the existing risk-based standard for residential mortgage loans which includes a 50% risk-weight for prudently underwritten first-lien mortgages that are not past due.

As of December 31, 2014, the Company's and Summit Community Bank's pro forma regulatory capital ratios computed as if Basel III Capital Rules applied are as follows:

	Company	Summit Community
CET1 to risk-weighted assets	9.9%	13.2%
Tier 1 capital to risk-weighted assets	12.4%	13.2%
Total capital to risk-weighted assets	13.8%	14.2%

Accordingly, the Company and Summit Community Bank exceed all capital adequacy requirements, including applicable conservation buffers, under the Basel III Capital Rules as if such requirements were currently in effect on a fully phased-in basis.

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"

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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.

By regulation, an institution is "well-capitalized" if it has a total risk-based capital ratio of ten percent (10%) or greater, a Tier 1 risk-based capital ratio of six percent (6%) or greater and a Tier 1 leverage ratio of five percent (5%) or greater and is not subject to a regulatory order, agreement or directive to meet and maintain a specific capital level for any capital measure. Summit Community was a "well capitalized" institution as of December 31, 2014. Well-capitalized institutions are permitted to engage in a wider range of banking activities, including among other things, the accepting of "brokered deposits," and the offering of interest rates on deposits higher than the prevailing rate in their respective markets.

The Basel III Capital Rules revise the current prompt corrective action requirements effective January 1, 2015 by (i) introducing a CET1 ratio requirement at each level (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category (other than critically undercapitalized), with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the current 6%); and (iii) eliminating the current provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized. The Basel III Capital Rules do not change the total risk-based capital requirement for any prompt corrective action category.

#### 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. On December 8, 1993, the Federal regulators jointly announced proposed regulations to simplify enforcement of the CRA by substituting the present twelve (12) categories with three (3) assessment categories for use in calculating CRA ratings (the "December 1993 Proposal"). In response to comments received by the regulators regarding the December 1993 Proposal, the federal bank regulators issued revised CRA proposed regulations on September 26, 1994 (the "Revised CRA Proposal"). The Revised CRA Proposal, compared to the December 1993 Proposal, essentially broadens the scope of CRA performance examinations and more explicitly considers community development activities. Moreover, in 1994, the Department of Justice became more actively involved in enforcing fair lending laws.

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

#### Graham-Leach-Bliley Act of 1999

The enactment of the Graham-Leach-Bliley Act of 1999 (the "GLB Act") represents a pivotal point in the history of the financial services industry. The GLB Act swept away large parts of a regulatory framework that had its origins in the Depression Era of the 1930s. New opportunities were available for banks, other depository institutions, insurance companies and securities firms to enter into combinations that permit a single financial services organization to offer

customers a more complete array of financial products and services. The GLB Act provides a new regulatory framework through the financial holding company, which has as its “umbrella regulator” the FRB. Functional regulation of the financial holding company’s separately regulated subsidiaries is conducted by their primary functional regulators. The GLB Act makes a CRA rating of satisfactory or above necessary for insured depository institutions and their financial holding companies to engage in new financial activities. The GLB Act specifically gives the FRB the authority, by regulation or order, to expand the list of “financial” or “incidental” activities, but requires consultation with the U.S. Treasury Department, and gives the FRB authority to allow a financial holding company to engage in any activity that is “complementary” to a financial activity and does not “pose a substantial risk to the safety and soundness of depository institutions or the financial system generally.”

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

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### Deposit Acquisition Limitation

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

### Consumer Laws and Regulations

In addition to the banking laws and regulations discussed above, bank subsidiaries are also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. Among the more prominent of such laws and regulations are the Truth in Lending Act, the Home Mortgage Disclosure Act and Regulation C, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Fair Debt Collection Act, the Right to Financial Privacy Act, and the Fair Housing Act. These laws and regulations mandate certain 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. Banks with less than \$10 billion in assets, such as Summit Community, will be subject to these federal consumer financial laws, but will continue to be examined for compliance by the FDIC, its primary federal banking regulator.

On January 10, 2013, the CFPB 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. The ATR/QM standards are effective for loan applications taken on or after January 10, 2014.

### 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.

Pursuant to Title V of the Gramm-Leach-Bliley 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. Sarbanes-Oxley Act of 2002

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

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included information in Summit's Quarterly and Annual Reports about their evaluation and whether there have been significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the evaluation.

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

#### 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.

#### 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 loan losses. Summit Community evaluated the risks and rewards of lending up to this legal lending limit, and established a self-imposed lending limit equal to 75 percent of its legal lending limit. Accordingly, institutions larger than Summit Community have a natural competitive advantage to serve the loan needs of larger clients as their legal lending limits are proportionally greater than ours.

In addition to competing with other banks and mortgage companies, we compete with other financial institutions engaged in the business of making loans or accepting deposits, such as savings and loan associations, credit unions, industrial loan associations, insurance companies, small loan companies, finance companies, real estate investment

trusts, certain governmental agencies, credit card organizations and other enterprises. In addition, competition for money market accounts from securities brokers has also intensified. Additional competition for deposits comes from government and private issues of debt obligations and other investment alternatives for depositors, such as money market funds. We take an aggressive competitive posture, and intend to continue vigorously competing for market share within our service areas by offering competitive rates and terms on both loans and deposits.

#### Employees

At February 23, 2015, we employed 222 full-time equivalent employees.

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## Available Information

Our Internet website address is [www.summitfgi.com](http://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 also available at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. You may read and copy any materials that we file with the SEC at the Public Reference Room on official business days during the hours of 10:00 a.m. to 3:00 p.m. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

## Statistical Information

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

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## Item 1A. Risk Factors

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

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

### RISKS RELATING TO THE ECONOMIC ENVIRONMENT

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

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

The U.S. economy was in recession from December 2007 through June 2009. Business activity across a wide range of industries and regions in the U.S. was greatly reduced. Although economic conditions have improved, certain sectors continue to recover and significant numbers of individuals are underemployed or have even given up seeking employment. Financial stress on borrowers as a result of an uncertain economic environment could have an adverse effect on our borrowers or customers, which could adversely affect our financial condition and results of operations. In addition, local governments and many businesses are still experiencing difficulty due to lower consumer spending and decreased liquidity in the credit markets. Deterioration in local economic conditions, particularly within our geographic regions and markets, could drive losses beyond that which is provided for in our allowance for loan losses. We may also face the following risks in connection with these events:

- Economic conditions that negatively affect real estate values and the job market have resulted, and may continue to result, in deterioration in credit quality of our loan portfolios, and such deterioration in credit quality has had, and could continue to have, a negative impact on our business.
- Market developments may affect consumer confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies and default rates on loans and other credit facilities.
- Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage and underwrite our customers become less predictive of future charge-offs.
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We expect to face increased regulation of our industry, and compliance with such regulation may increase our costs, limit our ability to pursue business opportunities and increase compliance challenges.

As the above conditions or similar ones continue to exist or worsen, we could experience continuing or increased adverse effects on our financial condition and results of operations.

The soundness of other financial institutions could adversely affect us.

Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties and routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, or other institutional firms. Defaults by financial services institutions,

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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.

## RISKS RELATING TO OUR BUSINESS

We are subject to extensive government regulation and supervision.

The Company and Summit Community are subject to extensive federal and state regulation and supervision, which vests a significant amount of discretion in the various regulatory authorities. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds 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, enacted in July 2010, 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, 2014, 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.

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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. An exception to this rule is made, however, that provides that banks (i) with assets of less than \$100.0 million, (ii) that are categorized as “well capitalized,” (iii) that were found to be well managed and whose composite rating was outstanding and (iv) that have not been subject to a change in control during the last twelve (12) months, need only be examined by the FDIC once every eighteen (18) months.

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

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

We attempt to maintain an appropriate allowance for loan losses to provide for estimated probable credit losses inherent in our loan portfolio. As of December 31, 2014, our allowance for loan losses totaled \$11.2 million, which represents approximately 1.08% of our total loans. There is no precise method of predicting loan losses, and therefore, we always face the risk that charge-offs in future periods will exceed our allowance for loan losses and that we would need to make additional provisions to our allowance for loan losses.

Our methodology for the determination of the adequacy of the allowance for loan losses for impaired loans is based on classifications of loans into various categories and the application of generally accepted accounting principles in the United States. For non-classified loans, the estimated allowance is based on historical loss experiences as adjusted for changes in trends and conditions on at least an annual basis. In addition, on a quarterly basis, the estimated allowance for non-classified loans is adjusted for the probable effect that current environmental factors could have on the historical loss factors currently in use. While our allowance for loan losses is established in different portfolio components, we maintain an allowance that we believe is sufficient to absorb all estimated probable credit losses inherent in our portfolio.

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

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

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

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

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. In addition, we may elect to raise additional capital to support our business or to finance acquisitions, if any, or we may otherwise elect to raise additional capital. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets, economic conditions and a number of other factors, many of which are

outside our control, and on our financial performance. Accordingly, we cannot be assured of our ability to raise additional capital, if needed or on terms acceptable to us. If we cannot raise additional capital when needed, it may have a material adverse effect on our financial condition, results of operations and prospects.

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

We have frequently utilized, as a source of funds, certificates of deposit obtained through third parties that solicit funds from their customers for deposit with us, or brokered deposits. Brokered deposits, when compared to retail deposits attracted through a branch network, are generally more sensitive to changes in interest rates and volatility in the capital markets and could reduce our net interest spread and net interest margin. In addition, brokered deposit funding sources may be more sensitive to significant changes in our financial condition. As of December 31, 2014, brokered deposits totaled \$146.9 million, or approximately 13.8% of our total deposits, compared to brokered deposits in the amount of \$160.8 million or approximately

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16.0% of our total deposits at December 31, 2013. As of December 31, 2014, approximately \$40.5 million in brokered deposits, or approximately 27.6% of our total brokered deposits, mature within one year. Our ability to continue to acquire brokered deposits is subject to our ability to price these deposits at competitive levels, which may increase our funding costs and the confidence of the market. In addition, if our capital ratios fall below the levels necessary to be considered “well capitalized” under current regulatory guidelines, we could be restricted from using brokered deposits as a funding source.

We also have borrowings with the Federal Home Loan Bank of Pittsburgh, or the FHLB. As of December 31, 2014, our FHLB borrowings maturing within one year totaled \$121.0 million. If we were unable to borrow from the FHLB in the future, we may be required to seek higher cost funding sources, which could materially and adversely affect our net interest income.

One aspect of our liquidity management process is establishing contingent liquidity funding plans under various scenarios in order to prepare for unexpected liquidity shortages or events. 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 \$631 million in available sources of liquid funds which could be drawn upon to fund maturing brokered deposits until Summit Community had restored its capital to well capitalized status.

- Would first seek to restore its capital to well capitalized status through capital contributions from Summit, its parent holding company.

- Would generally have no more than \$100 million in brokered deposits maturing in any one year time frame, which is well within its presently available sources of liquid funds, if in the event Summit does not have the capital resources to restore Summit Community’s capital to well capitalized status. One year would give Summit Community ample time to raise alternative funds either through retail deposits or the sale of assets, and obtain capital resources to restore it to well capitalized status.

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

- Would severely curtail lending and other growth activities until such time as access to this line could be restored, thus eliminating the need for net new advances.

- Would still have available current liquid funding sources secured by unencumbered loans and securities totaling \$295 million aside from its FHLB line, which would result in a funding source of approximately \$228 million.

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

- Presently has \$631 million in available sources of liquid funds which could be drawn upon immediately to fund any “net run off” of deposits from this activity.

- Would severely curtail lending and other growth activities so as to preserve the availability of as much contingency funds as possible.

- Would begin offering its own competitive deposit program when deemed prudent so as to restore the retail deposits lost to the competition.

We 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

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that govern us. As a result, these non-bank competitors have advantages over us in providing certain services. Our profitability depends upon our ability to attract loans and deposits. There is a risk that aggressive competition could result in our controlling a smaller share of our markets. A decline in market share could adversely affect our results of operations and financial condition.

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

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

Changes in interest rates could negatively impact our future earnings.

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

Our business is subject to significant government regulation.

We operate in a highly regulated environment and are subject to supervision and regulation by a number of governmental regulatory agencies, including the West Virginia Division of Financial Institutions, the FRB and the FDIC. Regulations adopted by these agencies, which are generally intended to provide protection for depositors and customers rather than for the benefit of shareholders, govern a comprehensive range of matters relating to ownership and control of our shares, our acquisition of other companies and businesses, permissible activities for us to engage in, maintenance of adequate capital levels and other aspects of our operations. The bank regulatory agencies possess broad authority to prevent or remedy unsafe or unsound practices or violations of law.

As a result, significant new legislation and regulatory reforms passed in the past three (3) years and future legislation and government policy could adversely affect the banking industry as a whole, including our results of operations. New legislation or regulation may limit the manner in which we may conduct our business, including our ability to offer new products, assess fees, obtain financing, attract deposits, make loans and achieve satisfactory interest spreads.

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. We have not established a detailed management succession plan. Accordingly, should we lose the services of any of our senior executive officers, our Board of Directors may have to search outside of Summit Financial Group for a qualified permanent replacement. This search may be prolonged, and we cannot assure you that we will be able to locate and hire a qualified replacement. If any of our senior executive officers leaves his or her respective position, our business, financial condition, results of operations, cash flows and/or future prospects may suffer.

An interruption or breach in security of our information systems may result in a loss of customer business and have an adverse effect on our results of operations, financial condition and cash flows.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposits, servicing or loan origination systems. Although we have policies and procedures designed to prevent or minimize the

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effect of a failure, interruption or breach in security of our communications or information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur, or, if they do occur, that they will be adequately addressed. The occurrence of any such failures, interruptions or security breaches could result in a loss of customer business and have a negative effect on our results of operations, financial condition and cash flows.

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

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

Our vendors could fail to fulfill their contractual obligations, resulting in a material interruption in, or disruption to, our business and a negative impact on results of operations.

We have entered into subcontracts for the supply of current and future services, such as data processing, mortgage loan processing and servicing. These services must be available on a continuous and timely basis and be in compliance with any regulatory requirements. Failure to do so could substantially harm our business.

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

If an existing agreement expires or a certain service is discontinued by a vendor, then we may not be able to continue to offer our customers the same breadth of products, and our operating results would likely suffer unless we are able to find an alternate supply of a similar service.

Agreements we may negotiate in the future may commit us to certain minimum spending obligations. It is possible that we will not be able to create the market demand to meet such obligations.

If market demand for our products increases suddenly, our current vendors might not be able to fulfill our commercial needs, which would require us to seek new arrangements or new sources of supply and may result in substantial delays in meeting market demand.

We may not be able to control or adequately monitor the quality of services we receive from our vendors. Poor quality services could damage our reputation with our customers.

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

Changes in accounting standards could impact reported earnings.

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

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

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success depends in part upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience, as well as create additional efficiencies in its operations. Many of our competitors have substantially greater resources to invest in technological

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improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers, which may negatively affect our results of operations, financial condition and cash flows.

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

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

## 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 either our common stock or our Series 2009 or Series 2011 preferred stock. The inability to receive dividends from Summit Community could have a material adverse effect on our business, financial condition and results of operations.

The market price for shares of our common stock may fluctuate.

The market price of our common stock could be subject to significant fluctuations due to a change in sentiment in the market regarding our operations or business prospects. Such risks may include:

- Operating results that vary from the expectations of management, securities analysts and investors;
- Developments in our business or in the financial sector generally;
- Regulatory changes affecting our industry generally or our businesses and operations;
- Regulatory changes affecting our industry generally or our businesses and operations;
- Announcements of strategic developments, acquisitions and other material events by us or our competitors;
- Changes in the credit, mortgage and real estate markets, including the markets for mortgage-related securities;
- Changes in global financial markets and global economies and general market conditions, such as interest or foreign exchange rates, stocks, commodity, credit or asset valuations or volatility;
- Changes in securities analysts' estimates of financial performance;
- Volatility of stock market prices and volumes;
- Rumors or erroneous information;
- Changes in market valuations of similar companies;
- Changes in interest rates;
- New developments in the banking industry;
- Variations in our quarterly or annual operating results;
- New litigation or changes in existing litigation; and
- Regulatory actions

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

As of February 24, 2015 our executive officers and directors beneficially own 24.58% (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.

Your share ownership will be diluted by the conversion of our Series 2009 and Series 2011 Preferred Stock and may be diluted by the issuance of additional shares of our common stock in the future.

At December 31, 2014, we have issued and outstanding 3,610 shares of our Series 2009 Preferred Stock and 11,914 shares of our Series 2011 Preferred Stock, which are convertible into 656,363 common shares and 1,489,250 common shares, respectively. Our Board of Directors has authorized the conversion of all of the Series 2009 and Series 2011 Preferred Stock to common stock on March 12, 2015, which will dilute the ownership interest of our existing common shareholders.

Your share ownership may be diluted by the issuance of additional shares of our common stock in the future. In 1998, we adopted a stock option plan (the "1998 Plan") that provided for the granting of stock options to our directors, executive officers and other employees. Although the 1998 Plan expired in May 2008, as of December 31, 2014, 149,170 shares of our common stock are still issuable under options granted in connection with our 1998 Plan. At our 2009 Annual Meeting of shareholders, a new officer stock option plan was approved, providing for 350,000 shares of common stock to be available for issuance under the plan. As of December 31, 2014, 8,000 shares of our common stock are issuable under options granted in connection with our 2009 Plan. It is probable that the stock options will be exercised during their respective terms if the fair market value of our common stock exceeds the exercise price of the particular option. If the stock options are exercised, your share ownership will be diluted.

At our 2014 Annual Meeting of Shareholders, our shareholders approved the Summit Financial Group, Inc. 2014 Long-Term Incentive Plan authorizing the issuance of up to 500,000 shares of our common stock upon the exercise of stock options, stock appreciation rights, restricted stock, and restricted stock units granted under the plan. In addition, we have agreed to sell 1,057,137 shares of common stock (representing approximately 9.9% of our outstanding common stock) at the price of \$9.75 per share to Castle Creek Capital Partners V, LP ("Castle Creek") in a private placement. The private placement with Castle Creek consists of two (2) closings. The first closing for the purchase of 819,384 shares of common stock at an aggregate price of \$7,988,994 was consummated on November 25, 2014. The consummation of the second closing for the purchase of 237,753 shares of common stock at an aggregate price of \$2,318,092 is conditioned upon, among other things, the conversion into shares of common stock of all of the outstanding shares of our 8% Non-Cumulative Convertible Preferred Stock, Series 2009 and our 8% Non-Cumulative Convertible Preferred Stock, Series 2011, in accordance with the terms of our Articles of Incorporation, as amended.

In addition, our amended and restated articles of incorporation authorize the issuance of up to 20,000,000 shares of common stock, but do not provide for preemptive rights to the holders of our common stock. Any authorized but unissued shares are available for issuance by our Board of Directors. As a result, if we issue additional shares of common stock to raise additional capital or for other corporate purposes, you may be unable to maintain your pro rata ownership in Summit Financial Group.

Changes in United States tax laws may have a detrimental impact on the after-tax return on investment.

Changes in the tax law or a failure by Congress to extend or make permanent certain provisions of the Internal Revenue Code may adversely affect the after-tax return on investment by holders of our preferred stock or common

stock. Specifically, the designation of dividends as qualified dividends currently results in a lower rate of taxation to certain taxpayers, including individuals. This provision is currently set to expire, and will no longer be available for tax years beginning after December 31, 2010. We can give no assurances that this provision will be extended or made permanent or that other detrimental changes in current tax law will not be enacted.

The conversion of the Series 2009 or Series 2011 preferred stock may dilute the appreciation of our common stock.

Although our common stock may appreciate in value, the conversion of the Series 2009 and Series 2011 preferred stock in March 2015 may dilute such appreciation. There is no guarantee that an investor in our common stock will recognize an increase in value after the impact of the conversion of the Series 2009 and Series 2011 preferred stock despite overall positive performance.

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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 or preferred 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 after this offering or the perception that such sales could occur. The conversion of the Series 2009 and Series 2011 preferred stock will dilute the ownership interest of our existing common shareholders. Any sales in the public market of our common stock issuable upon such conversion could adversely affect prevailing market prices of the outstanding shares of our common stock.

Holders of our junior subordinated debentures and our subordinated debt 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, 2014 and 2013.

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

Payments of the principal and interest on the trust preferred securities of the statutory trusts are conditionally guaranteed by us. The junior subordinated debentures are senior to our shares of common stock. As a result, we must make payments on the junior subordinated debentures before any dividends can be paid on our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the junior subordinated debentures must be satisfied before any distributions can be made on our common stock. We have the right to defer distributions on the junior subordinated debentures (and the related trust preferred securities) for up to five (5) years, during which time no dividends may be paid on our common stock. In 2014, our total interest payments on these junior subordinated debentures approximated \$514,000. Based on current rates, our quarterly interest payment obligation on our junior subordinated debentures is approximately \$129,000.

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

We have also issued \$16.8 million of subordinated debt. In 2008, \$10.0 million of this debt was issued to an unaffiliated financial institution, bears a variable interest rate of 1 month LIBOR plus 275 basis points, a term of seven and one-half (7.5) years, and is not prepayable by us within the first two and one-half (2.5) years. During 2009, \$5.0 million was issued to an affiliate of a director of Summit, and \$1.0 million and \$0.8 million was issued to two

unrelated parties. These 2009 issuances bear an interest rate of ten percent (10%) per annum, a term of ten (10) years, and are not prepayable by us within the first five (5) years. In January 2015, we repaid the entire \$6.8 million subordinated debt issued in 2009 and prepaid \$2.5 million of the subordinated debt issued in 2008. Like the junior subordinated debentures, the subordinated debt is senior to our common stock and we must make payments on the subordinated debt before any dividends can be paid on our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the subordinated debt must be satisfied before any distributions can be made on our common stock. The subordinated debt qualifies as Tier 2 capital under FRB guidelines, until the debt is within five (5) years of its maturity; thereafter, the amount qualifying as Tier 2 capital is reduced by twenty percent (20%) each year until maturity. Our total interest payments on this subordinated debt in 2014 were approximately \$984,000. Based upon the current rate, our quarterly interest payment obligation on this debt is approximately \$55,000.

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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.

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, among other things:

- Actual or anticipated negative variations in quarterly results of operations;
- Negative recommendations by securities analysts;
- Poor operating and stock price performance of other companies that investors deem comparable to us;
- News reports relating to negative trends, concerns, and other issues in the financial services industry or the economy in general;
- Negative perceptions in the marketplace regarding us and/or our competitors;
- New technology used, or services offered, by competitors;
- Adverse changes in interest rates or a lending environment with prolonged low interest rates;
- Adverse changes in the real estate market;
- Negative economic news;
- Failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- Adverse changes in government regulations; and
- Geopolitical conditions such as acts or threats of terrorism or military conflicts.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to decrease, regardless of operating results.

Your shares are not an insured deposit.

Your investment in our common stock is not a bank deposit and is not insured or guaranteed by the FDIC or any other government agency. Your investment is subject to investment risk, and you must be capable of affording the loss of your entire investment.

## OTHER RISKS

Additional factors could have a negative effect on our financial performance and the value of our common stock. Some of these factors are general economic and financial market conditions, continuing consolidation in the financial services industry, new litigation or changes in existing litigation, regulatory actions, and losses.

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## Item 1B. Unresolved Staff Comments

Not applicable.

## Item 2. Properties

Our principal executive office is located at 300 North Main Street, Moorefield, West Virginia, in a building owned by Summit Community. Summit Community's headquarters and branch locations occupy offices which are either owned or operated under lease arrangements. At December 31, 2014, Summit Community operated 15 banking offices. Summit Insurance Services, LLC operates out of the Moorefield, West Virginia, and Leesburg, Virginia, offices of Summit Community, and also leases a location in Leesburg, Virginia.

Office Location	Number of Offices		Total
	Owned	Leased	
Summit Community Bank			
Moorefield, West Virginia	1	—	1
Mathias, West Virginia	1	—	1
Franklin, West Virginia	1	—	1
Petersburg, West Virginia	1	—	1
Charleston, West Virginia	2	—	2
Rainelle, West Virginia	1	—	1
Rupert, West Virginia	1	—	1
Winchester, Virginia	1	1	2
Leesburg, Virginia	1	—	1
Harrisonburg, Virginia	1	1	2
Warrenton, Virginia	—	1	1
Martinsburg, West Virginia	1	—	1
Summit Insurance Services, LLC			
Leesburg, Virginia	—	1	1

We believe that the premises occupied by us and our subsidiaries generally are well located and suitably equipped to serve as financial services facilities. See Notes 7 and 8 of our consolidated financial statements on page 72.

## Item 3. Legal Proceedings

Information required by this item is set forth under the caption "Litigation" in Note 15 of our consolidated financial statements beginning on page 80.

## Item 4. Mine Safety Disclosures

Not applicable.

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## PART II.

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

**Common Stock Dividend and Market Price Information:** Our stock trades on the NASDAQ Capital Market under the symbol "SMMF." The following table presents cash dividends paid per share and information regarding bid prices per share of Summit's common stock for the periods indicated. The bid prices presented are based on information reported by NASDAQ and may reflect inter-dealer prices, without retail mark-up, mark-down or commission, and not represent actual transactions.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2014				
Dividends paid	\$—	\$—	\$—	\$—
High Bid	11.00	11.23	10.98	12.70
Low Bid	8.89	9.75	9.17	9.61
2013				
Dividends paid	\$—	\$—	\$—	\$—
High Bid	7.41	9.55	9.50	10.00
Low Bid	4.89	6.55	7.75	8.32

The payment of dividends is subject to the restrictions set forth in the West Virginia Business Corporation Act and the limitations imposed by the FRB. Payment of dividends by Summit is primarily dependent upon receipt of dividends from Summit Community. Payment of dividends by Summit Community is regulated by the Federal Reserve System and generally, the prior approval of the FRB is required if the total dividends declared by a state member bank in any calendar year exceeds its net profits, as defined, for that year combined with its retained net profits for the preceding two years. Additionally, prior approval of the FRB is required when a state member bank has deficit retained earnings but has sufficient current year's net income, as defined, plus the retained net profits of the two preceding years. The FRB may prohibit dividends if it deems the payment to be an unsafe or unsound banking practice. The FRB has issued guidelines for dividend payments by state member banks emphasizing that proper dividend size depends on the bank's earnings and capital. See Note 18 of our consolidated financial statements on page 83. We were restricted from paying dividends on our common stock as a result of memoranda of understanding with our regulatory authorities but all such restrictions were terminated by February 26, 2015 with the release of the final memorandum.

As of February 24, 2015, there were approximately 1,204 shareholders of record of Summit's common stock.

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

The following table sets forth certain information regarding Summit's purchase of its common stock under Summit's ESOP for the quarter ended December 31, 2014.

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
October 1, 2014 - October 31, 2014	—	\$—	—	—

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November 1, 2014 - November 30, 2014	—	—	—	—
December 1, 2014 - December 31, 2014	100	10.95	—	—

(a) Shares purchased under the Employee Stock Ownership Plan.

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## Item 6. Selected Financial Data

The following consolidated selected financial data is derived from our audited financial statements as of and for the five (5) years ended December 31, 2014. The selected financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and related notes contained elsewhere in this report.

Dollars in thousands, except per share amounts	For the Year Ended (unless otherwise noted)				
	2014	2013	2012	2011	2010
<b>Summary of Operations</b>					
Interest income	\$57,626	\$57,280	\$63,884	\$71,047	\$79,672
Interest expense	15,241	18,477	24,064	31,203	39,520
Net interest income	42,385	38,803	39,820	39,844	40,152
Provision for loan losses	2,250	4,500	8,500	10,000	21,350
Net interest income after provision for loan losses	40,135	34,303	31,320	29,844	18,802
Noninterest income	11,223	11,209	12,879	11,906	10,998
Noninterest expense	35,324	34,756	37,267	36,641	34,730
Income (loss) before income taxes	16,034	10,756	6,932	5,109	(4,930 )
Income tax expense (benefit)	4,678	2,688	1,219	1,035	(2,955 )
Net income (loss)	11,356	8,068	5,713	4,074	(1,975 )
Dividends on preferred shares	771	775	777	371	297
Net income (loss) applicable to common shares	\$10,585	\$7,293	\$4,936	\$3,703	\$(2,272 )
<b>Balance Sheet Data (at year end)</b>					
Assets	\$1,443,568	\$1,386,227	\$1,387,104	\$1,450,121	\$1,477,570
Securities available for sale	282,834	288,780	281,539	286,599	271,730
Loans	1,019,842	937,070	937,168	965,516	995,319
Deposits	1,061,314	1,003,812	1,027,125	1,016,500	1,036,939
Short-term borrowings	123,633	62,769	3,958	15,956	1,582
Long-term borrowings	77,490	163,516	203,268	270,254	304,109
Shareholders' equity	131,644	111,072	108,555	102,566	89,821
<b>Credit Quality</b>					
Net loan charge-offs	\$3,742	\$9,774	\$8,279	\$9,512	\$21,126
Nonperforming assets	50,244	72,346	93,954	116,641	92,235
Allowance for loan losses	11,167	12,659	17,933	17,712	17,224
<b>Per Share Data</b>					
<b>Earnings per share</b>					
Basic earnings	\$1.40	\$0.98	\$0.66	\$0.50	\$(0.31 )
Diluted earnings	1.17	0.84	0.60	0.49	(0.31 )
Book value per common share (at year end) (A)	12.60	11.55	11.31	10.68	11.01
Tangible book value per common share (at year end) (A)	11.86	10.72	10.44	9.78	9.90
Cash dividends	—	—	—	—	—
<b>Performance Ratios</b>					
Return on average equity	9.54	% 7.38	% 5.36	% 4.32	% (2.60 )%
Return on average assets	0.80	% 0.58	% 0.40	% 0.28	% (0.15 )%

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Equity to assets	9.1	% 8.0	% 7.8	% 7.1	% 6.1	%
Tangible equity to tangible assets	8.6	% 7.5	% 7.3	% 6.5	% 5.5	%
Tangible common equity to tangible assets	8.0	% 6.8	% 6.6	% 5.9	% 5.3	%

(A)- Assumes conversion of convertible preferred stock

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

### FORWARD LOOKING STATEMENTS

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

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

### DESCRIPTION OF BUSINESS

We are a \$1.44 billion community-based financial services company providing a full range of banking and other financial services to individuals and businesses through our two operating segments: community banking and insurance. Our community bank, Summit Community Bank, has a total of 15 banking offices located in West Virginia and Virginia. In addition, we also operate an insurance agency, Summit Insurance Services, LLC with an office in Moorefield, West Virginia which offers both commercial and personal lines of insurance and two offices in Leesburg, Virginia, primarily specializing in group health, life and disability benefit plans. See Note 19 of the accompanying consolidated financial statements for our segment information. Summit Financial Group, Inc. employs approximately 222 full time equivalent employees.

### OVERVIEW

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

#### Key Items in 2014

Net income for 2014 totaled \$10.59 million compared to \$7.29 million in 2013. Net income grew despite significant charges related to the writedowns of foreclosed properties to fair value.

Net interest margin improved 17 basis points in 2014, principally due to a 39 basis point reduction in our cost of funds, resulting from repayment of long term borrowings funded with lower-cost short term borrowings.

We achieved loan growth of 8.6%, or \$81.3 million during 2014.

Our allowance for loan losses totaled 1.08% of total loans at December 31, 2014, compared to 1.33% at December 31, 2013, with our provision for loan losses totaling \$2.3 million in 2014 compared to \$4.5 million during 2013.

In 2014, nonperforming assets decreased each quarter, reaching \$50.2 million at year end, their lowest levels since 2008.

At December 31, 2014, our regulatory capital ratios were robust, with our leverage ratio at its highest level in fifteen years and our total risk-based capital ratio at its highest level in fourteen years.

## OUTLOOK

Summit has now largely recovered from the impact of the effects of the economic downturn of the last decade. Our earnings improvements, growing loan portfolio, increasing revenues, improved net interest earnings, strengthened capital, reductions in our portfolio of problem assets and the recent lifting of regulatory memoranda, all serve as evidence of our recovery. Looking forward, while we will be challenged by a variety of economic uncertainties, management anticipates continuing positive earnings trends, as a result of a growing balance sheet, higher revenues, and lower costs of problem assets.

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## CRITICAL ACCOUNTING POLICIES

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

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

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

**Allowance for Loan Losses:** The allowance for loan losses represents our estimate of probable credit losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset type on our consolidated balance sheet. To the extent actual outcomes differ from our estimates, additional provisions for loan losses may be required that would negatively impact earnings in future periods. Note 6 to the accompanying consolidated financial statements describes the methodology used to determine the allowance for loan losses and a discussion of the factors driving changes in the amount of the allowance for loan losses is included in the Asset Quality section of this financial review.

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

**Community Banking –** During third quarter 2014, we performed the Step 0 assessment of our goodwill of our community banking reporting unit and determined that it was not more likely than not that the fair value was less than its carrying value. In performing the qualitative Step 0 assessments, we considered certain events and

circumstances such as macroeconomic conditions, industry and market considerations, overall financial performance and cost factors when evaluating whether it is more likely than not that the fair value is less than its carrying amount. No indicators of impairment were noted as of September 30, 2014.

Insurance Services – During third quarter 2014, we performed the Step 0 assessment of our goodwill of our insurance services reporting unit. We considered certain events and circumstances specific to the reporting unit, such as macroeconomic conditions, industry and market considerations, overall financial performance and cost factors when evaluating whether it is more likely than not that the fair value of our insurance services reporting unit is less than its carrying value and deemed it necessary to perform the further 2-step impairment test. We performed an internal valuation utilizing the income approach to determine the fair value of our insurance services reporting unit. This methodology consisted of discounting the expected future cash flows of this unit based upon a forecast of its operations considering

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long-term key business drivers such as anticipated commission revenue growth. The long term growth rate used in determining the terminal value was estimated at 2%, and a discount rate of 10.0% was applied to the insurance services unit's estimated future cash flows. We did not fail this Step 1 test as of September 30, 2014, therefore Step 2 testing was not necessary.

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

**Fair Value Measurements:** ASC Topic 820 Fair Value Measurements and Disclosures provides a definition of fair value, establishes a framework for measuring fair value, and requires expanded disclosures about fair value measurements. Fair value is the price that could be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Based on the observability of the inputs used in the valuation techniques, we classify our financial assets and liabilities measured and disclosed at fair value in accordance with the three-level hierarchy (e.g., Level 1, Level 2 and Level 3) established under ASC Topic 820. Fair value determination in accordance with this guidance requires that we make a number of significant judgments. In determining the fair value of financial instruments, we use market prices of the same or similar instruments whenever such prices are available. We do not use prices involving distressed sellers in determining fair value. If observable market prices are unavailable or impracticable to obtain, then fair value is estimated using modeling techniques such as discounted cash flow analyses. These modeling techniques incorporate our assessments regarding assumptions that market participants would use in pricing the asset or the liability, including assumptions about the risks inherent in a particular valuation technique and the risk of nonperformance.

Fair value is used on a recurring basis for certain assets and liabilities in which fair value is the primary basis of accounting. Additionally, fair value is used on a non-recurring basis to evaluate assets or liabilities for impairment or for disclosure purposes in accordance with ASC Topic 825 Financial Instruments.

**Deferred Income Tax Assets:** At December 31, 2014, we had net deferred tax assets of \$10.4 million. Based on our ability to offset the net deferred tax asset against taxable income in carryback years and expected future taxable income in carryforward years, there was no impairment of the deferred tax asset at December 31, 2014. All available evidence, both positive and negative, was considered to determine whether, based on the weight of that evidence, impairment should be recognized. However, our forecast process includes judgmental and quantitative elements that may be subject to significant change. If our forecast of taxable income within the carryback/carryforward periods available under applicable law is not sufficient to cover the amount of net deferred tax assets, such assets may become impaired.

## BUSINESS SEGMENT RESULTS

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

Dollars in thousands	2014	2013	2012	
Community banking	\$12,488	\$9,576	\$7,005	
Insurance & financial services	468	150	290	
Parent and other	(2,371	) (2,433	) (2,359	)
Consolidated net income	\$10,585	\$7,293	\$4,936	

## Earnings Summary

Net income applicable to common shares increased 45.1% during 2014 reaching \$10.6 million, compared to \$7.3 million in 2013, which was 47.8% greater than 2012's \$4.9 million. On a per share basis, the income applicable to common shares was \$1.17, \$0.84, and \$0.60 per diluted share for 2014, 2013, and 2012, respectively, representing 39.3% and 40.0% increases in 2014 and 2013, respectively. Return on average equity was 9.54% in 2014 compared to 7.38% in 2013 and 5.36% in 2012. Return on average assets for the year ended December 31, 2014 was 0.80% compared to 0.58% in 2013 and 0.40% in 2012. Included in 2014's net income was \$3.8 million of write-downs of foreclosed properties to fair value. A summary of the significant factors influencing our results of operations and related ratios is included in the following discussion.

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## Net Interest Income

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

Net interest income on a fully tax equivalent basis, average balance sheet amounts, and corresponding average yields on interest earning assets and costs of interest bearing liabilities for the years 2014, 2013, 2012, 2011 and 2010 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 \$43.9 million, \$40.2 million, and \$41.3 million for the years ended December 31, 2014, 2013, and 2012, respectively, representing an increase of 9.1% in 2014 and a decrease of 2.7% in 2013. During 2014, the volumes of both interest earning assets and interest bearing liabilities increased, while during 2013 and 2012, the volumes of both declined. During 2014, our earnings on interest earning assets increased \$415,000 as the increase in earnings due to higher volumes more than offset the reduction in yield, while the cost of interest bearing liabilities declined \$3.2 million primarily due to maturing long term borrowings which were replaced with substantially lower cost short term borrowings. During 2013, the decline in earnings on interest earning assets of \$6.7 million was partially offset by a reduction in the volume of interest bearing liabilities and a reduction in the cost of interest bearing liabilities. During 2012, these reductions were nearly offset by lower yields on both interest earning assets and interest bearing liabilities. Total average earning assets increased 3.8% to \$1.30 billion at December 31, 2014 from \$1.25 billion at December 31, 2013. Total average interest bearing liabilities increased 1.4% to \$1.19 billion at December 31, 2014, compared to \$1.17 billion at December 31, 2013. As identified in Table II, tax equivalent net interest income increased \$3.7 million in 2014 and decreased \$1.1 million during 2013.

Our net interest margin was 3.39% for 2014 compared to 3.22% and 3.19% for 2013 and 2012, respectively. Our net interest margin increased 17 basis points in 2014 and 3 basis points in 2013. The continuing low interest rate environment throughout 2014 and 2013 has served to positively impact our net interest margin due to our liability sensitive balance sheet. The cost of interest bearing liabilities decreased 30 and 41 basis points for 2014 and 2013, respectively, which more than offset the 14 and 35 basis point decrease in 2014 and 2013, respectively, in the yield on interest earning assets. See Tables I and II for further details regarding changes in volumes and rates of average assets and liabilities and how those changes affect our net interest income.

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

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

Dollars in thousands	Average Balances				
	2014	2013	2012	2011	2010
<b>ASSETS</b>					
Interest earning assets					
Loans, net of unearned interest (1)					
Taxable	\$984,723	\$949,616	\$963,209	\$987,315	\$1,082,537
Tax-exempt (2)	7,823	5,440	6,628	5,105	5,965
Securities					
Taxable	211,700	208,588	233,560	252,901	253,529
Tax-exempt (2)	81,549	75,707	71,937	63,894	40,048
Federal Funds sold and interest bearing deposits with other banks	9,325	7,821	19,731	33,690	16,373
	1,295,120	1,247,172	1,295,065	1,342,905	1,398,452
Noninterest earning assets					
Cash and due from banks	3,756	4,381	4,188	4,022	4,267
Premises and equipment	20,346	20,926	21,578	22,620	23,742
Other assets	112,504	125,629	118,427	118,408	104,907
Allowance for loan losses	(11,724)	(15,152)	(18,157)	(18,161)	(19,226)
Total assets	\$1,420,002	\$1,382,956	\$1,421,101	\$1,469,794	\$1,512,142
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Liabilities					
Interest bearing liabilities					
Interest bearing demand deposits	\$192,190	\$181,413	\$170,698	\$152,552	\$147,513
Savings deposits	238,340	195,398	203,908	207,226	188,233
Time deposits	513,110	556,644	548,044	601,925	605,663
Short-term borrowings	100,786	34,098	13,248	4,238	16,172
Long-term borrowings and subordinated debentures	142,213	202,237	276,092	315,900	380,235
	1,186,639	1,169,790	1,211,990	1,281,841	1,337,816
Noninterest bearing liabilities					
Demand deposits	104,262	94,943	94,243	85,247	73,971
Other liabilities	10,119	8,951	8,256	8,474	9,597
Total liabilities	1,301,020	1,273,684	1,314,489	1,375,562	1,421,384
Shareholders' equity					
Shareholders' equity - preferred	9,276	9,313	9,326	4,738	3,519
Shareholders' equity - common	109,706	99,959	97,286	89,494	87,239
Total shareholders' equity	118,982	109,272	106,612	94,232	90,758
Total liabilities and shareholders' equity	\$1,420,002	\$1,382,956	\$1,421,101	\$1,469,794	\$1,512,142

## Net Interest Earnings

## Net Interest Margin

For purposes of this table, nonaccrual loans are included in average loan balances. Included in interest and fees on (1) loans are loan fees of \$546,000, \$689,000, and \$720,000 for the years ended December 31, 2014, 2013, and 2012, respectively.

(2)

For purposes of this table, interest income on tax-exempt securities and loans has been adjusted assuming an effective combined Federal and state tax rate of 34% for all years presented. The tax equivalent adjustment results in an increase in interest income of \$1,465,000, \$1,396,000, and \$1,500,000 for the years ended December 31, 2014, 2013 and 2012, respectively.

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

Dollars in thousands	Interest Earnings/Expense					Average Yield/Rate				
	2014	2013	2012	2011	2010	2014	2013	2012	2011	2010
<b>ASSETS</b>										
Interest earning assets										
Loans, net of unearned interest (1)										
Taxable	\$50,078	\$50,505	\$55,248	\$58,911	\$65,643	5.09 %	5.32 %	5.74 %	5.97 %	6.06 %
Tax-exempt (2)	533	388	483	402	476	6.81 %	7.13 %	7.29 %	7.87 %	7.98 %
Securities										
Taxable	4,692	4,131	5,689	9,106	11,922	2.22 %	1.98 %	2.44 %	3.60 %	4.70 %
Tax-exempt (2)	3,780	3,647	3,929	4,080	2,670	4.64 %	4.82 %	5.46 %	6.39 %	6.67 %
Federal Funds sold and interest bearing deposits with other banks										
	8	5	35	72	31	0.09 %	0.06 %	0.18 %	0.21 %	0.19 %
	59,091	58,676	65,384	72,571	80,742	4.56 %	4.70 %	5.05 %	5.40 %	5.77 %

**LIABILITIES AND SHAREHOLDERS'**

**EQUITY**

Liabilities

Interest bearing liabilities

Interest bearing demand deposits	222	255	325	391	583	0.12 %	0.14 %	0.19 %	0.26 %	0.40 %
Savings deposits	1,580	1,152	1,361	1,899	2,323	0.66 %	0.59 %	0.67 %	0.92 %	1.23 %
Time deposits	7,193	8,985	11,472	15,983	18,131	1.40 %	1.61 %	2.09 %	2.66 %	2.99 %
Short-term borrowings	306	95	31	8	80	0.30 %	0.28 %	0.23 %	0.19 %	0.49 %
Long-term borrowings subordinated debentures	5,940	7,991	10,875	12,921	18,403	4.18 %	3.95 %	3.94 %	4.09 %	4.84 %
	15,241	18,478	24,064	31,202	39,520	1.28 %	1.58 %	1.99 %	2.43 %	2.95 %

\$43,850 \$40,198 \$41,320 \$41,369 \$41,222

3.39 % 3.22 % 3.19 % 3.08 % 2.95 %

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

Dollars in thousands	2014 Versus 2013 Increase (Decrease) Due to Change in:			2013 Versus 2012 Increase (Decrease) Due to Change in:		
	Volume	Rate	Net	Volume	Rate	Net
Interest earned on						
Loans						
Taxable	\$1,830	\$(2,257)	\$(427)	\$(771)	\$(3,972)	\$(4,743)
Tax-exempt	163	(18)	145	(85)	(10)	(95)
Securities						
Taxable	63	498	561	(567)	(991)	(1,558)
Tax-exempt	274	(141)	133	199	(481)	(282)
Federal funds sold and interest bearing deposits with other banks	1	2	3	(14)	(16)	(30)
Total interest earned on interest earning assets	2,331	(1,916)	415	(1,238)	(5,470)	(6,708)
Interest paid on						
Interest bearing demand deposits	14	(47)	(33)	19	(89)	(70)
Savings deposits	273	155	428	(55)	(154)	(209)
Time deposits	(669)	(1,123)	(1,792)	177	(2,664)	(2,487)
Short-term borrowings	202	9	211	57	7	64
Long-term borrowings and subordinated debentures	(2,486)	435	(2,051)	(2,918)	34	(2,884)
Total interest paid on interest bearing liabilities	(2,666)	(571)	(3,237)	(2,720)	(2,866)	(5,586)
Net interest income	\$4,997	\$(1,345)	\$3,652	\$1,482	\$(2,604)	\$(1,122)

## Noninterest Income

Noninterest income totaled 0.79%, 0.81%, and 0.91%, of average assets in 2014, 2013, and 2012, respectively. Noninterest income totaled \$11.2 million in 2014 compared to \$11.2 million in 2013, and \$12.9 million in 2012. Further detail regarding noninterest income is reflected in the following table.

Table III - Noninterest Income

Dollars in thousands	2014	2013	2012
Insurance commissions	\$4,400	\$4,429	\$4,433
Service fees related to deposit accounts	4,405	4,326	4,255
Realized securities gains	213	240	2,348
Other-than-temporary impairment of securities	(1)	(118)	(451)
Bank owned life insurance income	1,071	994	1,109
Other	1,135	1,338	1,185
Total	\$11,223	\$11,209	\$12,879

Other-than-temporary impairment of securities: We do not anticipate material charges for other-than-temporary impairment of securities in the near term.

## Noninterest Expense

Noninterest expense was well controlled in both 2014 and 2013. These expenses totaled \$35.3 million, \$34.8 million, and \$37.3 million, or 2.5%, 2.5%, and 2.6% of average assets for each of the years ended December 31, 2014, 2013,

and 2012. Total noninterest expense increased \$568,000 in 2014 compared to 2013 and decreased \$2.5 million in 2013 compared to 2012. Our most notable change in noninterest expense during 2013 was the reduction in write-downs of foreclosed properties. Table IV below shows the breakdown of these changes.

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Table IV - Noninterest Expense

Dollars in thousands	2014	Change		2013	Change		2012
		\$	%		\$	%	
Salaries, commissions, and employee benefits	\$ 16,185	\$ 7	—	% \$ 16,178	\$ 646	4.2	% \$ 15,532
Net occupancy expense	2,023	170	9.2	% 1,853	(86 )	(4.4 )	% 1,939
Equipment expense	2,086	(217 )	(9.4 )	% 2,303	(46 )	(2.0 )	% 2,349
Professional fees	1,429	248	21.0	% 1,181	20	1.7	% 1,161
Amortization of intangibles	250	(101 )	(28.8 )	% 351	—	—	% 351
FDIC premiums	1,792	(268 )	(13.0 )	% 2,060	(7 )	(0.3 )	% 2,067
Foreclosed properties expense	1,020	(25 )	(2.4 )	% 1,045	(176 )	(14.4 )	% 1,221
Loss on sales of foreclosed properties	827	309	59.7	% 518	(159 )	(23.5 )	% 677
Write-downs of foreclosed properties	3,771	49	1.3	% 3,722	(3,140 )	(45.8 )	% 6,862
Other	5,941	396	7.1	% 5,545	437	8.6	% 5,108
Total	\$ 35,324	\$ 568	1.6	% \$ 34,756	\$(2,511 )	(6.7 )	% \$ 37,267

Professional fees: Professional fees increased 21% in 2014, as a result of higher legal fees related to matters in litigation.

FDIC premiums: FDIC premiums decreased 13% during 2014, reflecting a reduction in rate due to Summit Community's release from its MOU. Further such reductions will be realized throughout 2015.

Write-downs of foreclosed properties: These write-downs were comparable to the prior year due to reappraisals of the foreclosed properties portfolio. Management expects such write-downs to decline modestly in the near term.

Other: Other expenses increased principally due to recognition of a \$461,000 fraud loss in 2014. The increase in other expenses during 2013 is primarily attributable to four categories: 1) debit card expense increased \$146,000 due to increased usage, and an increase in service provider charges, 2) internet banking expense increased \$87,000 due to higher volume of users, 3) deferred director compensation plan expense increased \$210,000 due to increase in market value of liabilities and 4) controllable write-offs increased \$112,000 due to consumer loan fee refunds.

#### Income Tax Expense/Benefit

Income tax expense for the years ended December 31, 2014, 2013, and 2012 totaled \$4.7 million, \$2.7 million, and \$1.2 million, respectively. Refer to Note 13 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 2014 to \$1.42 billion, an increase of 2.7% above 2013's average of \$1.38 billion, and our year end December 31, 2014 assets were \$57.3 million more than December 31, 2013. Average assets decreased 2.7% in 2013, from \$1.42 billion in 2012. Significant changes in the components of our balance sheet in 2014 and 2013 are discussed below.

#### Loan Portfolio

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

Table V - Loans by Type

Dollars in thousands	2014		2013		2012		2011		2010		Percent of Total
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	
Commercial	\$88,688	8.6 %	\$88,405	9.3 %	\$85,908	9.0 %	\$99,101	10.1 %	\$97,261	9.6 %	
Commercial real estate	475,343	46.0 %	430,804	45.3 %	430,837	45.0 %	429,531	43.5 %	423,011	41.7 %	
Construction and development	96,630	9.4 %	86,712	9.1 %	83,155	8.7 %	96,013	9.8 %	112,840	11.1 %	
Residential mortgage	340,269	33.0 %	321,541	33.8 %	331,980	34.7 %	334,688	34.0 %	352,328	34.7 %	
Consumer	19,500	1.9 %	19,900	2.1 %	20,658	2.2 %	22,377	2.3 %	23,886	2.4 %	
Other	11,522	1.1 %	3,279	0.4 %	3,703	0.4 %	2,765	0.3 %	4,840	0.5 %	
Total loans	\$1,031,952	100.0 %	\$950,641	100.0 %	\$956,241	100.0 %	\$984,475	100.0 %	\$1,014,166	100.0 %	

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Total net loans averaged \$992.5 million in 2014, which represented 70% of total average assets compared to \$955.1 million in 2013, or 69% of total average assets. An improving economic environment in our market area contributed to 8.6% loan growth in 2014, representing the first year of such growth since the onset of the economic downturn in 2008.

Refer to Note 5 of the accompanying consolidated financial statements for our loan maturities and a discussion of our adjustable rate loans as of December 31, 2014.

In the normal course of business, we make various commitments and incur certain contingent liabilities, which are disclosed in Note 15 of the accompanying consolidated financial statements but not reflected in the accompanying consolidated financial statements. There have been no significant changes in these types of commitments and contingent liabilities and we do not anticipate any material losses as a result of these commitments.

### Securities

Securities comprised approximately 19.6% of total assets at December 31, 2014 compared to 20.8% at December 31, 2013. Average securities approximated \$293.2 million for 2014 or 3.2% more than 2013's average of \$284.3 million. Refer to Note 4 of the accompanying consolidated financial statements for details of amortized cost, the estimated fair values, unrealized gains and losses as well as the security classifications by type.

All of our securities are classified as available for sale to provide us with flexibility to better manage our balance sheet structure and react to asset/liability management issues as they arise. Pursuant to ASC Topic 320 Investments—Debt and Equity Securities, anytime that we carry a security with an unrealized loss that has been determined to be “other-than-temporary”, we must recognize that loss in income. During 2014, 2013 and 2012, we took other-than-temporary non-cash impairment charges of \$1,000, \$118,000 and \$451,000, respectively, related to certain nongovernment sponsored residential mortgage-backed securities.

At December 31, 2014, we did not own securities of any one issuer that were not issued by the U.S. Treasury or a U.S. Government agency that exceeded ten percent of shareholders' equity. The maturity distribution of the securities portfolio at December 31, 2014, together with the weighted average yields for each range of maturity, is summarized in Table VI. The stated average yields are stated on a tax equivalent basis.

Table VI - Securities Maturity Analysis

(At amortized cost, dollars in thousands)	Within one year		After one but within five years		After five but within ten years		After ten years		
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	
U. S. Government agencies and corporations	\$75	4.1	% \$532	4.1	% \$9,189	2.9	% \$12,357	2.6	%
Residential mortgage backed securities:									
Government sponsored agencies	51,464	2.8	% 84,590	2.9	% 9,149	2.3	% 2,747	3.0	%
Nongovernment sponsored entities	5,119	3.8	% 5,346	3.2	% 1,583	2.6	% 3	23.4	%
State and political subdivisions	501	4.6	% 4,614	3.8	% 8,361	4.0	% 77,218	4.5	%
Corporate debt securities	—	—	—	—	—	—	3,776	3.0	%

Other	—	—	—	—	—	—	7	—				
Total	\$57,159	2.9	%	\$95,082	2.9	%	\$28,282	3.0	%	\$96,108	3.8	%

Deposits

Total deposits at December 31, 2014 increased \$57.5 million or 5.7% compared to December 31, 2013. We have strengthened our focus on growing core transaction accounts, which is reflected by their 14.3% growth during 2014, and 42.1% growth over the past five years.

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Table VII - Deposits

Dollars in thousands	2014	2013	2012	2011	2010
Noninterest bearing demand	\$ 115,427	\$ 92,837	\$ 100,592	\$ 88,655	\$ 74,604
Interest bearing demand	204,030	186,578	175,706	158,483	150,291
Savings	253,578	193,446	193,039	208,809	177,053
Time deposits	488,279	530,951	557,788	560,553	634,991
Total deposits	\$ 1,061,314	\$ 1,003,812	\$ 1,027,125	\$ 1,016,500	\$ 1,036,939

See Table I for average deposit balance and rate information by deposit type for 2014, 2013, 2012, 2011 and 2010, and Note 10 of the accompanying consolidated financial statements for a maturity distribution of time deposits as of December 31, 2014.

### Borrowings

**Lines of Credit:** We have a remaining available line of credit from the Federal Home Loan Bank of Pittsburgh (“FHLB”) totaling \$376.7 million at December 31, 2014. 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 \$91.5 million available on a short term line of credit with the Federal Reserve Bank at December 31, 2014, which is primarily secured by consumer loans, construction loans, and commercial and industrial loans and a \$6 million available line of credit with a correspondent bank.

**Short-term Borrowings:** Total short-term borrowings consisting primarily of advances from the FHLB having original maturities of 30 days or less increased \$60.9 million from \$62.8 million at December 31, 2013 to \$123.6 million at December 31, 2014 due to maturing long term borrowings refinancing into short term. See Note 11 of the accompanying consolidated financial statements for additional disclosures regarding our short-term borrowings.

**Long-term Borrowings:** Long-term borrowings historically have been used to fund our loan growth, however since the recent economic downturn, long-term borrowings have been reduced significantly as we have replaced maturing long-term borrowings with short-term funding. Total long-term borrowings of \$77.5 million at December 31, 2014 and \$163.5 million at December 31, 2013 consisted primarily of funds borrowed on an available line of credit from the FHLB and structured reverse repurchase agreements with two unaffiliated institutions. Long-term borrowings from the FHLB totaled \$976,000 at December 31, 2014, compared to \$82.6 million outstanding at December 31, 2013. At December 31, 2014, we had a \$5.4 million term loan which is secured by the common stock of our subsidiary bank and bears a variable interest rate of prime minus 50 basis points with a final maturity of 2017. At December 31, 2013, we had an additional \$3.5 million term loan, which bears a fixed rate of 8% with a final maturity of 2023. During 2007, we entered into \$110 million of structured reverse repurchase agreements, with terms ranging from 5 to 10 years and call features ranging from 2 to 3.5 years in which they are callable by the purchaser. These structured reverse repurchase agreements totaled \$72.0 million at December 31, 2014. Refer to Note 11 of the accompanying consolidated financial statements for additional information regarding our long-term borrowings.

**Subordinated Debentures:** We have subordinated debt totaling \$16.8 million at December 31, 2014 and 2013. Subordinated debt qualifies as Tier 2 regulatory capital until the debt is within 5 years of maturity, at which time, the qualifying amount is decreased by 20 percent each year until maturity. During 2009, we issued \$6.8 million in subordinated debt, of which \$5.0 million was issued to an affiliate of a director of Summit. We also issued \$1.0 million and \$0.8 million to two unrelated parties. These three issuances bear an interest rate of 10 percent per annum, have a term of 10 years, and are not prepayable by us within the first five years. During 2008, \$10.0 million of subordinated debt was issued to an unrelated institution, which bears a variable interest rate of 1 month LIBOR plus 275 basis points, and has a term of 7.5 years.

During January 2015, we prepaid in full the \$6.8 million subordinated debentures issued in 2009 and prepaid \$2.5 million of the subordinated debentures issued in 2008.

#### ASSET QUALITY

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

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

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

Table VIII - Nonperforming Assets

Dollars in thousands	2014	2013	2012	2011	2010	
Accruing loans past due 90 days or more						
Commercial	\$—	\$—	\$—	\$—	\$—	
Residential construction & development	—	—	—	344	—	
Residential real estate	—	—	—	—	1,442	
Consumer	—	—	—	—	—	
Other	—	—	—	—	—	
Total accruing loans 90+ days past due	—	—	—	344	1,442	
Nonaccrual loans						
Commercial	392	1,224	5,002	3,260	1,318	
Commercial real estate	1,844	2,318	2,556	7,163	2,686	
Commercial construction & development	—	3,782	—	1,052	—	
Residential construction & development	4,619	9,048	13,641	22,289	10,049	
Residential real estate	5,556	2,446	16,522	18,187	6,075	
Consumer	83	128	55	145	141	
Total nonaccrual loans	12,494	18,946	37,776	52,096	20,269	
Foreclosed properties						
Commercial	110	—	—	—	597	
Commercial real estate	5,204	9,903	11,835	15,721	14,745	
Commercial construction & development	10,179	11,125	17,597	17,101	17,021	
Residential construction & development	19,267	20,485	23,074	27,877	34,377	
Residential real estate	2,769	11,879	3,666	3,239	3,495	
Total foreclosed properties	37,529	53,392	56,172	63,938	70,235	
Reposessed assets	221	8	6	263	289	
Total nonperforming assets	\$50,244	\$72,346	\$93,954	\$116,641	\$92,235	
Total nonperforming loans as a percentage of total loans	1.21	% 1.99	% 3.96	% 5.33	% 2.14	%
Total nonperforming assets as a percentage of total assets	3.48	% 5.22	% 6.77	% 8.04	% 6.24	%
Allowance for loan losses as a percentage of nonperforming loans	89.38	% 66.82	% 47.47	% 33.78	% 79.33	%
Allowance for loan losses as a percentage of period end loans	1.08	% 1.33	% 1.88	% 1.80	% 1.70	%

Refer to Note 5 Loans, for information regarding our past due loans, impaired loans, nonaccrual loans, and troubled debt restructurings.

We monitor our concentrations in higher-risk lending areas in accordance with the Interagency Guidance for Concentrations in Commercial Real Estate Lending issued in 2006. This guidance establishes concentration guidelines of 100% of Tier 1 Capital plus the allowance for loan and lease loss for lending in construction, land development,

and other land loans. It further establishes a guideline of 300% of Tier 1 Capital plus the allowance for loan and lease loss for lending in construction, land development and other land loans plus loans secured by non-owner occupied non-farm non-residential properties. As of December 31, 2014, Summit Community Bank was within the recommended limits of 100% and 300%, respectively.

We maintain the allowance for loan losses at a level considered adequate to provide for estimated probable credit losses inherent in the loan portfolio. The allowance is comprised of three distinct reserve components: (1) specific reserves related to loans individually evaluated, (2) quantitative reserves related to loans collectively evaluated, and (3) qualitative reserves related to loans collectively evaluated. A summary of the methodology we employ on a quarterly basis with respect to each of these components in order to evaluate the overall adequacy of our allowance for loan losses is as follows is provided in Note 6 of the accompanying financial statements.

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

In analyzing the relationship between the allowance for loan losses, net loan charge-offs and nonperforming loans, it is helpful to understand the process of how loans are treated as they deteriorate over time. Reserves for loans are established at origination through the quantitative and qualitative reserve process discussed above.

Charge-offs, if necessary, are typically recognized in a period after the reserves were established. If the previously established reserves exceed that needed to satisfactorily resolve the problem credit, a reduction in the overall level of the reserve could be recognized. In summary, if loan quality deteriorates, the typical credit sequence is periods of reserve building, followed by periods of higher net charge-offs.

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

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

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

At December 31, 2014 and 2013, our allowance for loan losses totaled \$11.2 million, or 1.08% of total loans and \$12.7 million, or 1.33% of total loans, respectively, and is considered adequate to cover our estimate of probable credit losses inherent in our loan portfolio. The 2014 decline is a result of lower average loan losses experienced over the past twelve quarters. Lower losses cause our historical charge-off factor of the quantitative reserve calculation to decline, thus requiring fewer quantitative reserves. Table IX presents an allocation of the allowance for loan losses by loan type at each respective year end date, as follows:

Table IX - Allocation of the Allowance for Loan Losses

Dollars in thousands	2014		2013		2012		2011		2010	
	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans
Commercial	\$1,204	8.6 %	\$1,323	9.3 %	\$782	9.0 %	\$770	10.1 %	\$323	9.6 %
Commercial real estate	2,244	46.0 %	1,610	45.3 %	4,656	45.1 %	4,618	43.6 %	4,049	41.7 %
Construction and development	3,844	9.4 %	5,724	9.1 %	5,358	8.7 %	7,381	9.8 %	8,182	11.1 %
Residential real estate	3,547	33.0 %	3,904	33.8 %	6,984	34.7 %	4,749	34.0 %	4,376	34.7 %

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Consumer	97	1.9	%	48	2.1	%	132	2.1	%	161	2.3	%	263	2.4	%
Other	231	1.1	%	50	0.4	%	21	0.4	%	33	0.2	%	31	0.5	%
Total	\$11,167	100.0	%	\$12,659	100.0	%	\$17,933	100.0	%	\$17,712	100.0	%	\$17,224	100.0	%

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

Table X - Allowance for Loan Losses

Dollars in thousands	2014	2013	2012	2011	2010
Balance, beginning of year	\$12,659	\$17,933	\$17,712	\$17,224	\$17,000
Losses					
Commercial	390	723	1,273	506	601
Commercial real estate	11	1,040	1,442	586	9,239
Construction and development	3,535	3,596	3,757	3,568	7,937
Residential real estate	514	5,359	2,114	5,035	3,836
Consumer	265	79	136	162	279
Other	118	162	95	86	233
Total	4,833	10,959	8,817	9,943	22,125
Recoveries					
Commercial	34	12	13	35	38
Commercial real estate	358	682	64	92	273
Construction and development	298	187	61	43	331
Residential real estate	254	138	228	98	164
Consumer	74	79	95	112	87
Other	73	87	77	51	106
Total	1,091	1,185	538	431	999
Net losses	3,742	9,774	8,279	9,512	21,126
Provision for loan losses	2,250	4,500	8,500	10,000	21,350
Balance, end of year	\$11,167	\$12,659	\$17,933	\$17,712	\$17,224

At December 31, 2014 and 2013, we had approximately \$37.5 million and \$53.4 million, respectively, in other real estate owned which was obtained as the result of foreclosure proceedings. Although foreclosed property is recorded at fair value less estimated costs to sell, the prices ultimately realized upon their sale may or may not result in us recognizing loss.

## 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 \$630.6 million or 43.68% of total consolidated assets at December 31, 2014.

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 \$498.7 million. At December 31, 2014, we had available borrowing capacity of \$376.7 million on our FHLB line. We also maintain a credit line with the Federal Reserve Bank of Richmond as a contingency liquidity vehicle. The amount available on this line at December 31, 2014 was approximately \$92 million, which is secured by a pledge of our consumer loans, construction loans, and commercial and industrial loan portfolios. We have a \$6 million unsecured line of credit with a correspondent bank. Also, we classify all of our securities as available for sale to enable us to liquidate them if the need arises. During 2014, our loans increased approximately \$81.3 million, while total deposits increased \$57.5 million. This additional liquidity need was met primarily by FHLB short-term advances.

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.

Refer to page 15 of Item 1A. Risk Factors for further discussion of our liquidity risk.

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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.

**Growth and Expansion:** During 2014, we spent approximately \$0.5 million on capital expenditures for premises and equipment. We expect our capital expenditures to approximate \$0.8 - \$1.2 million in 2015, primarily for equipment upgrades.

Management anticipates that the Company's assets will grow in 2015 at a pace comparable to the 4% growth it experienced in 2014.

**Capital Compliance:** Our capital position is strong. Stated as a percentage of total assets, our equity ratio was 9.1% at December 31, 2014 compared to 8.0% at December 31, 2013. Each of Summit's year end 2014 regulatory capital ratios were at their highest levels in 15 years. 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 \$87.0 million, \$56.1 million, and \$79.6 million, respectively. We intend to maintain both Summit's and its subsidiary bank's capital ratios at levels that would be considered to be "well capitalized" in accordance with regulatory capital guidelines. See Note 18 of the accompanying consolidated financial statements for further discussion of our regulatory capital.

In July 2013, our primary federal regulator, the Federal Reserve, published final rules (the "Basel III Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations. The rules are discussed under Capital Requirements in the Supervision and Regulation section of Part I.

Summit has outstanding \$3.7 million of 8% non-cumulative convertible preferred stock issued in 2009 and an additional \$5.8 million of 8% non-cumulative convertible preferred stock issued in 2011.

On August 25, 2014, we agreed to sell 1,057,137 shares of common stock (representing approximately 9.9% of our outstanding common stock) at the price of \$9.75 per share to Castle Creek Capital Partners V, LP ("Castle Creek") in a private placement. The private placement with Castle Creek consists of two (2) closings. The first closing for the purchase of 819,384 shares of common stock at an aggregate price of \$7,988,994 was consummated on November 25, 2014. The consummation of the second closing for the purchase of 237,753 shares of common stock at an aggregate price of \$2,318,092 is conditioned upon, among other things, the conversion into shares of common stock of all of the outstanding shares of our 8% Non-Cumulative Convertible Preferred Stock, Series 2009 and our 8% Non-Cumulative Convertible Preferred Stock, Series 2011 ("the Conversions"), in accordance with the terms of our Articles of Incorporation, as amended. Summit's Board of Directors approved the Conversions to take place on March 12, 2015. See our Form 8-K filed with the Securities and Exchange Commission on August 25, 2014 for specific details regarding this transaction.

We have also agreed under the terms of the SPA to commence, following the second closing of the sale of Common Stock to Castle Creek under the SPA, a rights offering (the "Rights Offering") to the holders of record of the Common Stock as of a date selected by Summit's Board of Directors. In the Rights Offering, all holders of Common Stock as of the record date, excluding Castle Creek, will be offered non-transferable rights ("Rights") to purchase shares of Common Stock at the same per share purchase price of \$9.75 used in the Private Placement to Castle Creek. The aggregate number of shares that will be offered for sale in connection with the Rights Offering is 256,410 and, if all shares offered are purchased, the Company expects to yield total gross proceeds of \$2.5 million, prior to any fees and expenses associated with the sale. The Rights will be distributed to all of the holders of the Common Stock, excluding Castle Creek, on a pro rata basis, based on the number of shares of Common Stock owned by each shareholder as of the record date used in connection with the Rights Offering. The Company expects the Rights Offering to occur during the second quarter of 2015.

Dividends: There were no cash dividends paid on common shares in 2014 or 2013. On February 26, 2015, Summit's Board of Directors declared a cash dividend of \$0.08 per common share, payable on March 31, 2015 to its common shareholders of record on March 16, 2015.

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 2015, the net retained profits available for distribution to Summit as dividends without regulatory approval are approximately \$15.5 million.

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Contractual Cash Obligations: During our normal course of business, we incur contractual cash obligations. The following table summarizes our contractual cash obligations at December 31, 2014.

Table XI - Contractual Cash Obligations

Dollars in thousands	Long Term Debt and Subordinated Debentures	Operating Leases
2015	\$11,909	\$128
2016	28,911	90
2017	918	45
2018	45,017	—
2019	6,818	—
Thereafter	20,306	—
Total	\$113,879	\$263

Off-Balance Sheet Arrangements: We are involved with some off-balance sheet arrangements that have or are reasonably likely to have an effect on our financial condition, liquidity, or capital. These arrangements at December 31, 2014 are presented in the following table. Refer to Note 15 of the accompanying consolidated financial statements for further discussion of our off-balance sheet arrangements.

Table XII - Off-Balance Sheet Arrangements

Dollars in thousands	
Commitments to extend credit	
Revolving home equity and credit card lines	\$52,843
Construction loans	26,595
Other loans	45,419
Standby letters of credit	2,670
Total	\$127,527

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## Item 7A. Quantitative and Qualitative Disclosures about Market Risk

## MARKET RISK MANAGEMENT

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

Some amount of interest rate risk is inherent and appropriate to the banking business. Our net income is affected by changes in the absolute level of interest rates. At December 31, 2014, our interest rate risk position was liability sensitive. That is, liabilities are likely to reprice faster than assets, resulting in a decrease in net interest income in a rising rate environment, while a falling interest rate environment would produce an increase in net interest income. Net interest income is also subject to changes in the shape of the yield curve. In general, a flat yield curve results in a decline in our earnings due to the compression of earning asset yields and funding rates, while a steepening would result in increased earnings as margins widen.

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

The following table presents the estimated sensitivity of our net interest income to changes in interest rates, as measured by our earnings simulation model as of December 31, 2014. The sensitivity is measured as a percentage change in net interest income given the stated changes in interest rates (gradual change over 12 months, stable thereafter for the down 100 and the up 200 scenarios, and gradual change over 24 months for the up 400 scenario) compared to net interest income with rates unchanged in the same period. The estimated changes set forth below are dependent on the assumptions discussed above and are well within our ALCO policy limits shown below relative to reductions in net interest income over the ensuing twelve month period.

Change in Interest Rates	Estimated % Change in Net Interest Income over:					
	0 - 12 Months			13 - 24 Months		
	Policy		Actual		Actual	
Down 100 basis points (1)	-7	%	-0.07	%	-2.02	%
Up 200 basis points (1)	-10	%	-4.43	%	-6.14	%
Up 400 basis points (2)	-15	%	-3.28	%	-8.52	%

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

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

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

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

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

The Audit Committee, consisting entirely of independent directors, meets regularly with management, internal auditors and the independent registered public accounting firm, and reviews audit plans and results, as well as management's actions taken in discharging responsibilities for accounting, financial reporting, and internal control. Arnett Carbis Toothman LLP, 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, 2014. 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 1992. Based on this assessment, management concludes that, as of December 31, 2014, its system of internal control over financial reporting is effective and meets the criteria of the Internal Control-Integrated Framework. Arnett Carbis Toothman LLP, independent registered public accounting firm, has issued an attestation report on management's assessment of the Corporation's internal control over financial reporting.

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

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

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

/s/ Julie R. Cook  
Vice President and Chief  
Accounting Officer

Moorefield, West Virginia  
March 2, 2015

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
ON EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We have audited Summit Financial Group, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992. Summit Financial Group, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included 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 conducted our audit in accordance with the standards established by the Public Company Accounting Oversight Board (United States). 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.

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 (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) 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 (c) 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.

In our opinion, Summit Financial Group, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based upon the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the financial statements of Summit Financial Group, Inc. and our report, dated March 2, 2015, expressed an unqualified opinion.

/s/ Arnett Carbis Toothman LLP

Charleston, West Virginia  
March 2, 2015

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Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Summit Financial Group, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Summit Financial Group, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Summit Financial Group, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 2, 2015, expressed an unqualified opinion on the effectiveness of Summit Financial Group Inc's internal control over financial reporting.

/s/ Arnett Carbis Toothman LLP

Charleston, West Virginia  
March 2, 2015

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## Consolidated Balance Sheets

Dollars in thousands	December 31,	
	2014	2013
<b>ASSETS</b>		
Cash and due from banks	\$3,728	\$3,442
Interest bearing deposits with other banks	8,782	8,340
Cash and cash equivalents	12,510	11,782
Securities available for sale	282,834	288,780
Other investments	6,183	7,815
Loan held for sale	527	321
Loans, net	1,019,842	937,070
Property held for sale	37,529	53,392
Premises and equipment, net	20,060	20,623
Accrued interest receivable	5,838	5,669
Intangible assets	7,698	7,949
Cash surrender value of life insurance policies	36,700	35,611
Other assets	13,847	17,215
<b>Total assets</b>	<b>\$1,443,568</b>	<b>\$1,386,227</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
<b>Deposits</b>		
Non-interest bearing	\$115,427	\$92,837
Interest bearing	945,887	910,975
<b>Total deposits</b>	<b>1,061,314</b>	<b>1,003,812</b>
Short-term borrowings	123,633	62,769
Long-term borrowings	77,490	163,516
Subordinated debentures	16,800	16,800
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589
Other liabilities	13,098	8,669
<b>Total liabilities</b>	<b>1,311,924</b>	<b>1,275,155</b>
<b>Commitments and Contingencies</b>		
<b>Shareholders' Equity</b>		
Preferred stock and related surplus, authorized 250,000 shares:		
Series 2009, 8% Non-cumulative convertible preferred stock, par value \$1.00; issued 2014 - 3,610 shares; 2013 - 3,710 shares	3,419	3,519
Series 2011, 8% Non-cumulative convertible preferred stock, par value \$1.00; issued 2014 - 11,914 shares; 2013 - 11,938 shares	5,764	5,776
Common stock and related surplus, \$2.50 par value; authorized 20,000,000 shares; issued 2014 - 8,301,746 shares; 2013 - 7,451,022 shares	32,670	24,664
Retained earnings	87,719	77,134
Accumulated other comprehensive income	2,072	(21 )
<b>Total shareholders' equity</b>	<b>131,644</b>	<b>111,072</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$1,443,568</b>	<b>\$1,386,227</b>

See Notes to Consolidated Financial Statements

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## Consolidated Statements of Income

	For the Year Ended December 31,		
Dollars in thousands (except per share amounts)	2014	2013	2012
Interest income			
Interest and fees on loans			
Taxable	\$50,078	\$50,485	\$55,248
Tax-exempt	352	256	319
Interest and dividends on securities			
Taxable	4,693	4,127	5,689
Tax-exempt	2,495	2,407	2,593
Interest on interest bearing deposits with other banks	8	5	35
Total interest income	57,626	57,280	63,884
Interest expense			
Interest on deposits	8,995	10,392	13,158
Interest on short-term borrowings	306	94	31
Interest on long-term borrowings and subordinated debentures	5,940	7,991	10,875
Total interest expense	15,241	18,477	24,064
Net interest income	42,385	38,803	39,820
Provision for loan losses	2,250	4,500	8,500
Net interest income after provision for loan losses	40,135	34,303	31,320
Noninterest income			
Insurance commissions	4,400	4,429	4,433
Service fees related to deposit accounts	4,405	4,326	4,255
Realized securities gains	213	240	2,348
Bank owned life insurance income	1,071	994	1,109
Other	1,135	1,338	1,185
Total other-than-temporary impairment loss on securities	(1	) (155	) (1,308
Portion of loss recognized in other comprehensive income	—	37	857
Net impairment loss recognized in earnings	(1	) (118	) (451
Total noninterest income	11,223	11,209	12,879
Noninterest expenses			
Salaries, commissions, and employee benefits	16,185	16,178	15,532
Net occupancy expense	2,023	1,853	1,939
Equipment expense	2,086	2,303	2,349
Professional fees	1,429	1,181	1,161
Amortization of intangibles	250	351	351
FDIC premiums	1,792	2,060	2,067
Foreclosed properties expense	1,020	1,045	1,221
Loss (gain) on sales of foreclosed properties	827	518	677
Write-downs of foreclosed properties	3,771	3,722	6,862
Other	5,941	5,545	5,108
Total noninterest expenses	35,324	34,756	37,267
Income before income tax expense	16,034	10,756	6,932
Income tax expense	4,678	2,688	1,219
Net income	11,356	8,068	5,713
Dividends on preferred shares	771	775	777
Net income applicable to common shares	\$10,585	\$7,293	\$4,936
Basic earnings per common share	\$1.40	\$0.98	\$0.66

Diluted earnings per common share	\$1.17	\$0.84	\$0.60
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See Notes to Consolidated Financial Statements

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## Consolidated Statements of Comprehensive Income

Dollars in thousands	For the Year Ended December 31,		
	2014	2013	2012
Net income	\$11,356	\$8,068	\$5,713
Other comprehensive income (loss):			
Net unrealized gain (loss) on cashflow hedge of:			
2014 - (\$3,714), net of deferred taxes of (\$1,374); 2013 - 803, net of deferred taxes of \$297	(2,340	) 506	—
Non-credit related other-than-temporary impairment on available for sale debt securities:			
2014 - \$0, net of deferred taxes of \$0; 2013 - \$37, net of deferred taxes of \$14; 2012 - \$857, net of deferred taxes of \$326	—	(23	) (531
Net unrealized gain (loss) on available for sale debt securities of:			
2014 - \$7,037, net of deferred taxes of \$2,604 and reclassification adjustment for net realized gains included in net income of \$213;			
2013 - (\$8,527), net of deferred taxes of (\$3,155) and reclassification adjustment for net realized gains included in net income of \$240;	4,433	(5,372	) 1,581
2012 - \$2,550, net of deferred taxes of \$969 and reclassification adjustment for net realized gains included in net income of \$2,348			
Total comprehensive income	\$13,449	\$3,179	\$6,763

See Notes to Consolidated Financial Statements

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## Consolidated Statements of Shareholders' Equity

For the Years Ended December 31, 2014, 2013 and 2012

Dollars in thousands (except per share amounts)	Series 2009 Preferred Stock and Related Surplus	Series 2011 Preferred Stock and Related Surplus	Common Stock and Related Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, December 31, 2011	\$3,519	\$5,807	\$24,518	\$64,904	\$3,818	\$102,566
Comprehensive income:						
Net income	—	—	—	5,713	—	5,713
Other comprehensive income					1,050	1,050
Total comprehensive income						6,763
Exercise of stock options	—	—	—	—	—	—
Stock compensation expense	—	—	2	—	—	2
Series 2009 Preferred Stock cash dividends declared (\$80.00 per share)	—	—	—	(296)	—	(296)
Series 2011 Preferred Stock cash dividends declared (\$40.00 per share)	—	—	—	(480)	—	(480)
Balance, December 31, 2012	3,519	5,807	24,520	69,841	4,868	108,555
Comprehensive income:						
Net income	—	—	—	8,068	—	8,068
Other comprehensive income					(4,889)	(4,889)
Total comprehensive income						3,179
Exercise of stock options	—	—	111	—	—	111
Stock compensation expense	—	—	2	—	—	2
Series 2009 Preferred Stock cash dividends declared (\$80.00 per share)	—	—	—	(297)	—	(297)
Series 2011 Preferred Stock cash dividends declared (\$40.00 per share)	—	—	—	(478)	—	(478)
Conversion of Series 2011 Preferred Stock to Common Stock	—	(31)	31	—	—	—
Balance, December 31, 2013	3,519	5,776	24,664	77,134	(21)	111,072
Comprehensive income:						
Net income	—	—	—	11,356	—	11,356
Other comprehensive income					2,093	2,093
Total comprehensive income						13,449
Exercise of stock options	—	—	71	—	—	71
Stock compensation expense	—	—	1	—	—	1
Series 2009 Preferred Stock cash dividends declared (\$80.00 per share)	—	—	—	(295)	—	(295)
Series 2011 Preferred Stock cash dividends declared (\$40.00 per share)	—	—	—	(476)	—	(476)
Conversion of Series 2009 Preferred Stock to Common Stock	(100)	—	100	—	—	—

Conversion of Series 2011 Preferred Stock to Common Stock	—	(12	) 12	—	—	—
Issuance of 819,384 shares of Common Stock	—	—	7,822	—	—	7,822
Balance, December 31, 2014	\$3,419	\$5,764	\$32,670	\$87,719	\$2,072	\$131,644

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## Consolidated Statements of Cash Flows

Dollars in thousands	For the Year Ended December 31,		
	2014	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$11,356	\$8,068	\$5,713
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	1,074	1,161	1,286
Provision for loan losses	2,250	4,500	8,500
Stock compensation expense	1	2	2
Deferred income tax expense (benefit)	1,004	1,786	(502)
Loans originated for sale	(2,663)	(8,754)	(8,258)
Proceeds from loans sold	2,457	8,660	8,032
Securities gains	(213)	(240)	(2,348)
Other-than-temporary impairment of securities	1	118	451
Loss on disposal of assets	815	501	677
Write-downs of foreclosed properties	3,771	3,722	6,862
Amortization of securities premiums (accretion of discounts), net	5,279	6,032	4,622
Amortization of goodwill and purchase accounting adjustments, net	262	363	363
Tax benefit of exercise of stock options	—	16	—
(Increase) decrease in accrued interest receivable	(169)	(48)	163
Increase in cash surrender value of bank owned life insurance	(1,088)	(1,058)	(269)
(Increase) decrease in other assets	(55)	2,478	(2,289)
Increase (decrease) in other liabilities	1,520	860	(1,259)
Net cash provided by operating activities	25,602	28,167	21,746
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from maturities and calls of securities available for sale	4,051	2,669	4,618
Proceeds from sales of securities available for sale	80,914	54,340	72,056
Principal payments received on securities available for sale	34,390	62,179	66,377
Purchases of securities available for sale	(111,438)	(137,755)	(141,297)
Purchases of other investments	(3,899)	(2,960)	—
Proceeds from sales & redemptions of other investments	5,532	6,531	4,763
Proceeds from maturities and calls of other investments	—	—	2,000
Net principal payments received from (loans made to) customers	(87,983)	(16,225)	11,906
Purchases of premises and equipment	(511)	(677)	(343)
Proceeds from disposal of premises and equipment	9	37	—
Proceeds from sale of repossessed assets & property held for sale	14,602	10,654	9,373
Purchases of life insurance contracts	—	(5,000)	—
Net cash provided by (used in) investing activities	(64,333)	(26,207)	29,453
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net increase in demand deposit, NOW and savings accounts	100,174	3,524	13,390
Net decrease in time deposits	(42,672)	(26,837)	(2,764)
Net increase (decrease) in short-term borrowings	60,865	58,810	(11,998)
Net proceeds from long-term borrowings	—	3,454	—
Repayment of long-term borrowings	(86,027)	(43,251)	(66,986)
Net proceeds from issuance of common stock	7,822	—	—
Exercise of stock options	71	96	—
Dividends paid on preferred stock	(774)	(776)	(731)
Net cash provided by (used) in financing activities	39,459	(4,980)	(69,089)
Increase (decrease) in cash and cash equivalents	728	(3,020)	(17,890)

Cash and cash equivalents:

Beginning	11,782	14,802	32,692
Ending	\$12,510	\$11,782	\$14,802

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## Consolidated Statements of Cash Flows - continued

Dollars in thousands	For the Year Ended December 31,		
	2014	2013	2012
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>			
Cash payments for:			
Interest	\$15,862	\$18,920	\$24,745
Income taxes	\$2,843	\$1,118	\$2,642
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>			
Other assets acquired in settlement of loans	\$2,961	\$11,823	\$8,363

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## NOTE 1. BASIS OF PRESENTATION

We are a financial holding company headquartered in Moorefield, West Virginia. Our primary business is community banking. Our community bank subsidiary, Summit Community Bank (“Summit Community”) provides commercial and retail banking services primarily in the Eastern Panhandle and South Central regions of West Virginia and the Northern region of Virginia. We also operate Summit Insurance Services, LLC in Moorefield, West Virginia and Leesburg, Virginia.

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

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

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

Variable interest entities: In accordance with ASC Topic 810, Consolidation, business enterprises that represent the primary beneficiary of another entity by retaining a controlling interest in that entity's assets, liabilities and results of operations must consolidate that entity in its financial statements. Prior to the issuance of ASC Topic 810, consolidation generally occurred when an enterprise controlled another entity through voting interests. If applicable, transition rules allow the restatement of financial statements or prospective application with a cumulative effect adjustment. We have determined that the provisions of ASC Topic 810 do not require consolidation of subsidiary trusts which issue guaranteed preferred beneficial interests in subordinated debentures (Trust Preferred Securities). The Trust Preferred Securities continue to qualify as Tier 1 capital for regulatory purposes. The banking regulatory agencies have not issued any guidance which would change the regulatory capital treatment for the Trust Preferred Securities based on the adoption of ASC Topic 810. The adoption of the provisions of ASC Topic 810 has had no material impact on our results of operations, financial condition, or liquidity. See Note 11 of our Notes to Consolidated Financial Statements for a discussion of our subordinated debentures owed to unconsolidated subsidiary trusts.

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

Presentation of cash flows: For purposes of reporting cash flows, 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 rather than the accrual basis does not have a material effect on net income.

Reclassifications: Certain accounts in the consolidated financial statements for 2013 and 2012, as previously presented, have been reclassified to conform to current year classifications.

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

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