

SUMMIT FINANCIAL GROUP INC  
Form 10-Q  
November 12, 2013

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

FORM 10 – Q

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

For the quarterly period ended September 30, 2013.

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 0-16587

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

West Virginia 55-0672148  
(State or (IRS  
other Employer  
jurisdiction of  
incorporation Identification  
or No.)  
organization)

300 North Main Street  
Moorefield, West Virginia 26836  
(Address of principal executive (Zip Code)  
offices)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

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(§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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

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

Yes  No

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

Common Stock, \$2.50 par value  
7,451,022 shares outstanding as of November 5, 2013

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Summit Financial Group, Inc. and Subsidiaries  
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Summit Financial Group, Inc. and Subsidiaries  
Consolidated Balance Sheets (unaudited)

Dollars in thousands	September 30, 2013 (unaudited)	December 31, 2012 (* (*)	September 30, 2012 (unaudited)
<b>ASSETS</b>			
Cash and due from banks	\$ 4,571	\$ 3,833	\$ 3,752
Interest bearing deposits with other banks	11,532	10,969	13,441
Cash and cash equivalents	16,103	14,802	17,193
Securities available for sale	291,258	281,539	291,992
Other investments	8,004	14,658	16,100
Loans held for sale	602	226	213
Loans, net	939,169	937,168	940,933
Property held for sale	45,303	56,172	56,033
Premises and equipment, net	20,780	21,129	21,264
Accrued interest receivable	5,364	5,621	5,352
Intangible assets	8,036	8,300	8,387
Cash surrender value of life insurance policies	35,257	29,553	30,065
Other assets	17,911	17,936	16,554
<b>Total assets</b>	<b>\$ 1,387,787</b>	<b>\$ 1,387,104</b>	<b>\$ 1,404,086</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Deposits			
Non interest bearing	\$ 99,109	\$ 100,592	\$ 96,764
Interest bearing	917,626	926,533	930,543
<b>Total deposits</b>	<b>1,016,735</b>	<b>1,027,125</b>	<b>1,027,307</b>
Short-term borrowings	54,163	3,958	20,957
Long-term borrowings	163,540	203,268	203,744
Subordinated debentures	16,800	16,800	16,800
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589	19,589
Other liabilities	8,155	7,809	8,361
<b>Total liabilities</b>	<b>1,278,982</b>	<b>1,278,549</b>	<b>1,296,758</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 3,710 shares	3,519	3,519	3,519
Series 2011, 8% Non-cumulative convertible preferred stock,			
par value \$1.00;			
issued 2013 - 11,938, 2012 - 12,000 shares	5,776	5,807	5,807
Common stock and related surplus - authorized 20,000,000 shares;			
\$2.50 par value;			
issued and outstanding 2013 - 7,448,422 and 2012 - 7,425,472 shares	24,632	24,520	24,520
Retained earnings	74,541	69,841	67,929
Accumulated other comprehensive income	337	4,868	5,553
Total shareholders' equity	108,805	108,555	107,328
Total liabilities and shareholders' equity			
	\$ 1,387,787	\$ 1,387,104	\$ 1,404,086

(\*) - December 31, 2012 financial information has been extracted from audited consolidated financial statements

See Notes to Consolidated Financial Statements

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	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Dollars in thousands, except per share amounts				
Interest income				
Interest and fees on loans				
Taxable	\$ 12,469	\$ 13,572	\$ 38,037	\$ 41,812
Tax-exempt	63	76	197	243
Interest and dividends on securities				
Taxable	896	1,340	2,852	4,593
Tax-exempt	616	594	1,832	1,986
Interest on interest bearing deposits with other banks				
	1	7	4	30
Total interest income	14,045	15,589	42,922	48,664
Interest expense				
Interest on deposits	2,487	3,067	8,074	10,140
Interest on short-term borrowings				
	24	8	50	25
Interest on long-term borrowings and subordinated debentures				
	1,996	2,579	5,997	8,575
Total interest expense	4,507	5,654	14,121	18,740
Net interest income	9,538	9,935	28,801	29,924
Provision for loan losses	1,000	2,000	3,500	6,002
Net interest income after provision for loan losses	8,538	7,935	25,301	23,922
Other income				
Insurance commissions	1,057	1,052	3,373	3,352
Service fees related to deposit accounts				
	1,106	1,074	3,202	3,163
Realized securities gains	132	760	116	2,245
Other	606	514	1,741	1,649
Total other-than-temporary impairment loss on securities				
	(38 )	(233 )	(155 )	(1,115)
Portion of loss recognized in other comprehensive income				
	-	194	37	740
Net impairment loss recognized in earnings				
	(38 )	(39 )	(118 )	(375)
Total other income	2,863	3,361	8,314	10,034
Other expense				
Salaries, commissions, and employee benefits	4,050	3,940	12,155	11,733



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Net occupancy expense	454	476	1,387	1,445
Equipment expense	578	573	1,724	1,777
Professional fees	263	292	885	872
Amortization of intangibles	88	88	263	263
FDIC premiums	503	510	1,558	1,532
Foreclosed properties expense	262	356	836	935
(Gain) loss on sale of foreclosed properties	(17 )	(16 )	546	583
Write-down of foreclosed properties	654	2,571	3,078	6,114
Other	1,396	1,237	3,900	3,749
Total other expense	8,231	10,027	26,332	29,003
Income before income taxes	3,170	1,269	7,283	4,953
Income tax expense	898	272	2,001	1,345
Net Income	2,272	997	5,282	3,608
Dividends on preferred shares	194	194	582	583
Net Income applicable to common shares	\$ 2,078	\$ 803	\$ 4,700	\$ 3,025
Basic earnings per common share	\$ 0.28	\$ 0.11	\$ 0.63	\$ 0.41
Diluted earnings per common share	\$ 0.24	\$ 0.10	\$ 0.55	\$ 0.38

See Notes to Consolidated Financial Statements

	For the Three Months Ended September 30,	
Dollars in thousands	2013	2012
Net income	\$ 2,272	\$ 997
Other comprehensive income (loss):		
Net unrealized (loss) on cashflow hedge of (\$117), net of deferred taxes of \$43	(74 )	-
Non-credit related other-than-temporary impairment on available for sale debt securities - 2013 - \$0, net of deferred taxes of \$0; 2012 - \$194, net of deferred taxes of \$74	-	(120)
Net unrealized gain (loss) on available for sale debt securities of:		
2013 - (\$681) net of deferred taxes of \$252 and reclassification adjustment for net realized gains included in net income of \$132; 2012 - \$1,513, net of deferred taxes of \$575 and reclassification adjustment for net realized gains included in net income of \$760	(429 )	938
Total comprehensive income	\$ 1,769	\$ 1,815

For the Nine Months  
Ended  
September 30,

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Dollars in thousands	2013	2012
Net income	\$ 5,282	\$ 3,608
Other comprehensive income (loss):		
Net unrealized (loss) on cashflow hedge of (\$117), net of deferred taxes of \$43	(74 )	-
Non-credit related other-than-temporary impairment on available for sale debt securities - 2013 - \$37, net of deferred taxes of \$14; 2012 - \$740, net of deferred taxes of \$281	(23 )	(459)
Net unrealized gain (loss) on available for sale debt securities of: 2013 - (\$7,038) net of deferred taxes of \$2,604 and reclassification adjustment for net realized gains included in net income of \$116; 2012 - \$3,539, net of deferred taxes of \$1,345 and reclassification adjustment for net realized gains included in net income of \$2,245	(4,434)	2,194
Total comprehensive income	\$ 751	\$ 5,343

See Notes to Consolidated Financial Statements

Summit Financial Group, Inc. and Subsidiaries  
Consolidated Statements of Shareholders' Equity (unaudited)

	Series 2009 Preferred Stock and Related Surplus	Series 2011 Preferred Stock and Related Surplus	Common Stock and Related Surplus	Retained Earnings	Accumulated Other Compre- hensive Income	Total Share- holders' Equity
Dollars in thousands, except per share amounts						
Balance, December 31, 2012	\$ 3,519	\$ 5,807	\$ 24,520	\$ 69,841	\$ 4,868	\$ 108,555
Nine Months Ended September 30, 2013						
Comprehensive income:						
Net income	-	-	-	5,282	-	5,282
Other comprehensive income (loss)					(4,531 )	(4,531)
Total comprehensive income (loss)						751
Exercise of stock options	-	-	80	-	-	80
Stock compensation expense	-	-	1	-	-	1
Series 2009 Preferred Stock cash dividends declared (\$60.00 per share)	-	-	-	(223 )	-	(223)
Series 2011 Preferred Stock cash dividends declared (\$30.00 per share)	-	-	-	(359 )	-	(359)
Conversion of Series 2011 Preferred Stock to Common Stock	-	(31 )	31	-		
Balance, September 30, 2013	\$ 3,519	\$ 5,776	\$ 24,632	\$ 74,541	\$ 337	\$ 108,805
Balance, December 31, 2011	\$ 3,519	\$ 5,807	\$ 24,518	\$ 64,904	\$ 3,818	\$ 102,566
Nine Months Ended September 30, 2012						
Comprehensive income:						
Net income	-	-	-	3,608	-	3,608

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Other comprehensive income					1,735	1,735
Total comprehensive income						5,343
Stock compensation expense	-	-	2	-	-	2
Series 2009 Preferred Stock cash dividends declared (\$60.00 per share)	-	-	-	(223 )	-	(223)
Series 2011 Preferred Stock cash dividends declared (\$30.00 per share)	-	-				