

SUMMIT FINANCIAL GROUP INC
Form 10-Q
November 15, 2010

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, 2010.

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
(State or other jurisdiction of
incorporation or organization)

55-0672148
(IRS Employer
Identification No.)

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

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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically 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 (§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 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
7,425,472 shares outstanding as of November 15, 2010

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Summit Financial Group, Inc. and Subsidiaries
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	Exhibits	
	Exhibit 11	Statement re: Computation of Earnings per Share – Information contained in Note 4 to the Consolidated Financial Statements on page 15 of this Quarterly Report is incorporated herein by reference.
	Exhibit 31.1	Sarbanes-Oxley Act Section 302 Certification of Chief Executive Officer
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Summit Financial Group, Inc. and Subsidiaries
Consolidated Balance Sheets (unaudited)

	September 30, 2010 (unaudited)	December 31, 2009 (*)	September 30, 2009 (unaudited)
Dollars in thousands			
ASSETS			
Cash and due from banks	\$4,598	\$6,813	\$4,415
Interest bearing deposits with other banks	40,691	34,247	6,195
Securities available for sale	267,856	271,654	285,156
Other investments	23,988	24,008	24,002
Loans held for sale, net	1,298	1	251
Loans, net	1,018,169	1,137,336	1,156,432
Property held for sale	68,353	40,293	31,193
Premises and equipment, net	23,402	24,234	23,891
Accrued interest receivable	5,962	6,323	6,666
Intangible assets	9,090	9,353	9,441
Other assets	33,005	30,363	30,151
Total assets	\$1,496,412	\$1,584,625	\$1,577,793
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits			
Non interest bearing	\$76,362	\$74,119	\$68,929
Interest bearing	953,670	943,219	901,093
Total deposits	1,030,032	1,017,338	970,022
Short-term borrowings	1,610	49,739	73,733
Long-term borrowings	329,648	381,492	396,648
Subordinated debentures	16,800	16,800	16,800
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589	19,589
Other liabilities	8,499	9,007	9,064
Total liabilities	1,406,178	1,493,965	1,485,856
Commitments and Contingencies			
Shareholders' Equity			
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	3,558
Common stock and related surplus - authorized 20,000,000 shares;			
\$2.50 par value; issued and outstanding 7,425,472 shares	24,508	24,508	24,508
Retained earnings	60,365	63,474	63,982
Accumulated other comprehensive income (loss)	1,842	(841)	(111)
Total shareholders' equity	90,234	90,660	91,937
Total liabilities and shareholders' equity	\$1,496,412	\$1,584,625	\$1,577,793

(*) - December 31, 2009 financial information has been extracted from audited consolidated financial statements

See Notes to Consolidated Financial Statements

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Summit Financial Group, Inc. and Subsidiaries
Consolidated Statements of Income (unaudited)

Dollars in thousands, except per share amounts	Three Months Ended		Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Interest income				
Interest and fees on loans				
Taxable	\$16,161	\$17,950	\$49,651	\$54,033
Tax-exempt	78	111	242	331
Interest and dividends on securities				
Taxable	2,874	3,808	9,153	12,226
Tax-exempt	434	543	1,340	1,572
Interest on interest bearing deposits with other banks	7	5	21	6
Total interest income	19,554	22,417	60,407	68,168
Interest expense				
Interest on deposits	5,160	6,094	16,037	19,073
Interest on short-term borrowings	2	129	79	487
Interest on long-term borrowings and subordinated debentures	4,844	5,298	14,576	15,270
Total interest expense	10,006	11,521	30,692	34,830
Net interest income	9,548	10,896	29,715	33,338
Provision for loan losses	4,500	4,000	18,350	13,500
Net interest income after provision for loan losses	5,048	6,896	11,365	19,838
Other income				
Insurance commissions	1,227	1,254	3,659	3,881
Service fees	763	859	2,298	2,452
Realized securities gains (losses)	67	428	1,587	723
Gain (loss) on sale of assets	(84)	9	111	(115)
Writedown of OREO	-	-	(2,194)	-
Other	422	282	1,161	973
Total other-than-temporary impairment loss on securities	(184)	-	(638)	(5,434)
Portion of loss recognized in other comprehensive income	75	-	500	451
Net impairment loss recognized in earnings	(109)	-	(138)	(4,983)
Total other income	2,286	2,832	6,484	2,931
Other expense				
Salaries, commissions, and employee benefits	3,866	3,862	11,428	12,449
Net occupancy expense	498	484	1,529	1,548
Equipment expense	620	654	1,883	1,990
Supplies	117	114	360	315
Professional fees	223	330	759	1,067
Amortization of intangibles	88	88	263	263
FDIC premiums	715	660	2,165	2,288
OREO expense	671	139	1,147	295
Other	1,262	1,536	3,791	4,112
Total other expense	8,060	7,867	23,325	24,327
Income (loss) before income taxes	(726)	1,861	(5,476)	(1,558)

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Income tax expense (benefit)	(598)	458	(2,591)	(1,276)
Net Income (loss)	(128)	1,403	(2,885)	(282)
Dividends on preferred shares	74	-	223	-
Net Income (loss) applicable to common shares	\$(202)	\$1,403	\$(3,108)	\$(282)
Basic earnings per common share	\$(0.03)	\$0.19	\$(0.42)	\$(0.04)
Diluted earnings per common share	\$(0.03)	\$0.19	\$(0.42)	\$(0.04)

See Notes to Consolidated Financial Statements

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

Dollars in thousands, except per share amounts	Common Stock and Related Surplus	Preferred Stock and Related Surplus	Retained Earnings*	Accumulated Other Compre- hensive Income (Loss)	Total Share- holders' Equity*
Balance, December 31, 2009	\$24,508	\$3,519	\$63,474	\$ (841)	\$90,660
Nine Months Ended September 30, 2010					
Comprehensive income:					
Net income (loss)	-	-	(2,885)	-	(2,885)
Other comprehensive income:					
Non-credit related other-than-temporary impairment on available for sale debt securities of \$500, net of deferred taxes of \$190	-	-	-	(310)	(310)
Net unrealized gain on available for sale debt securities of \$4,827 net of deferred taxes of \$1,834 and reclassification adjustment for net realized gains included in net income of \$1,587	-	-	-	2,993	2,993
Total comprehensive income					(202)
Exercise of stock options	-	-	-	-	-
Stock compensation expense	-	-	-	-	-
Preferred stock cash dividends declared (\$40.00 per share)	-	-	(223)	-	(223)
Balance, September 30, 2010	\$24,508	\$3,519	\$60,365	\$ 1,842	\$90,234
* may not add due to rounding					
Balance, December 31, 2008	\$24,453	\$-	\$64,709	\$ (1,918)	\$87,244
Nine Months Ended September 30, 2009					
Comprehensive income:					
Net income (loss)	-	-	(282)	-	(282)
Other comprehensive income:					
Non-credit related other-than-temporary impairment on available for sale debt securities, net of deferred taxes of \$153	-	-	-	(250)	(250)
Net unrealized gain on available for sale debt securities of \$1,334 net of deferred taxes of \$1,258 and reclassification adjustment for net realized gains included in net income of \$723	-	-	-	2,057	2,057

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Total comprehensive income					1,525
Exercise of stock options	55	-	-	-	55
Stock compensation expense	-	-	-	-	-
Issuance of 3,710 shares preferred stock	-	3,558	-	-	3,558
Cash dividends declared of \$0.06 per common share	-	-	(445)	-	(445)
Balance, September 30, 2009	\$24,508	\$3,558	\$63,982	\$ (111)	\$91,937

See Notes to Consolidated Financial Statements

Summit Financial Group, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (unaudited)

	Nine Months Ended	
	September 30, 2010	September 30, 2009
Dollars in thousands		
Cash Flows from Operating Activities		
Net (loss)	\$(2,885)	\$(282)
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	1,194	1,190
Provision for loan losses	18,350	13,500
Deferred income tax (benefit)	(1,575)	(1,959)
Loans originated for sale	(7,453)	(14,990)
Proceeds from loans sold	6,156	15,742
(Gain) on sales of loans held for sale	-	(26)
Securities (gains)	(1,587)	(723)
Writedown of equity investment	-	215
Other-than-temporary impairment of debt securities	138	4,768
(Gain) loss on sale of assets	(121)	110
Writedown of OREO	2,194	
Accretion of securities premiums, net	(762)	(2,137)
Amortization of goodwill and purchase accounting adjustments, net	272	272
Decrease in accrued interest receivable	360	550
(Increase) in other assets	(4,306)	(4,906)
Increase (decrease) in other liabilities	(507)	479
Net cash provided by operating activities	9,468	11,803
Cash Flows from Investing Activities		
Net (increase) in interest bearing deposits with other banks	(6,444)	(6,087)
Proceeds from maturities and calls of securities available for sale	46,860	15,704
Proceeds from sales of securities available for sale	32,849	18,479
Principal payments received on securities available for sale	40,134	58,648
Purchases of securities available for sale	(109,508)	(49,592)
Purchases of other investments	(2,998)	(983)
Proceeds from maturities and calls of other investments	3,000	-
Redemption of Federal Home Loan Bank Stock	19	-
Net decrease in Federal funds sold	-	2
Net (loans made) principal payments received on loans	54,854	(2,601)
Purchases of premises and equipment	(364)	(2,648)
Proceeds from sales of other repossessed assets & property held for sale	17,417	1,697
Net cash provided by (used in) investing activities	75,819	32,619
Cash Flows from Financing Activities		
Net increase (decrease) in demand deposit, NOW and savings accounts	(86)	50,892
Net increase (decrease) in time deposits	12,780	(46,720)

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Net (decrease) in short-term borrowings	(48,129)	(79,367)
Proceeds from long-term borrowings	-	82,656
Repayment of long-term borrowings	(51,844)	(68,755)
Proceeds from issuance of subordinated debentures	-	6,763
Exercise of stock options	-	55
Dividends paid on common stock	-	(445)
Dividends paid on preferred stock	(223)	-
Proceeds from issuance of preferred stock	-	3,558
Net cash provided by (used in) financing activities	(87,502)	(51,363)
Increase (decrease) in cash and due from banks	(2,215)	(6,941)
Cash and due from banks:		
Beginning	6,813	11,356
Ending	\$4,598	\$4,415

(Continued)

See Notes to Consolidated Financial Statements

Summit Financial Group, Inc. and Subsidiaries
 Consolidated Statements of Cash Flows (unaudited)

Dollars in thousands	Nine Months Ended	
	September 30, 2010	September 30, 2009
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	\$31,274	\$35,173
Income taxes	\$-	\$1,395
Supplemental Schedule of Noncash Investing and Financing Activities		
Other assets acquired in settlement of loans	\$45,962	\$24,826

See Notes to Consolidated Financial Statements

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Summit Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)

NOTE 1. BASIS OF PRESENTATION

We, Summit Financial Group, Inc. and subsidiaries, prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America for interim financial information and with instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for annual year end financial statements. In our opinion, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature.

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these estimates. For the third quarter of 2010, we evaluated subsequent events through November 15, 2010, the filing date of this report.

The results of operations for the quarter and nine months ended September 30, 2010 are not necessarily indicative of the results to be expected for the full year. The consolidated financial statements and notes included herein should be read in conjunction with our 2009 audited financial statements and Annual Report on Form 10-K. Certain accounts in the consolidated financial statements for December 31, 2009 and September 30, 2009, as previously presented, have been reclassified to conform to current year classifications.

NOTE 2. SIGNIFICANT NEW AUTHORITATIVE ACCOUNTING GUIDANCE

ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures About Fair Value Measurements, requires expanded disclosures related to fair value measurements including (i) the amounts of significant transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy and the reasons for the transfers, (ii) the reasons for transfers of assets or liabilities in or out of Level 3 of the fair value hierarchy, with significant transfers disclosed separately, (iii) the policy for determining when transfers between levels of the fair value hierarchy are recognized and (iv) for recurring fair value measurements of assets and liabilities in Level 3 of the fair value hierarchy, a gross presentation of information about purchases, sales, issuances and settlements.

ASU 2010-06 further clarifies that (i) fair value measurement disclosures should be provided for each class of assets and liabilities (rather than major category), which would generally be a subset of assets or liabilities within a line item in the statement of financial position and (ii) company's should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for each class of assets and liabilities included in Levels 2 and 3 of the fair value hierarchy. The disclosures related to the gross presentation of purchases, sales, issuances and settlements of assets and liabilities included in Level 3 of the fair value hierarchy will be required for us beginning January 1, 2011. The remaining disclosure requirements and clarifications made by ASU 2010-06 became effective for us on January 1, 2010. See Note 3 – Fair Value Measurements.

ASU No. 2010-11, Derivatives and Hedging (Topic 815) - Scope Exception Related to Embedded Credit Derivatives clarifies that the only form of an embedded credit derivative that is exempt from embedded derivative bifurcation requirements are those that relate to the subordination of one financial instrument to another. As a result, entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may need to separately account for the embedded credit derivative feature. The provisions of ASU 2010-11 was effective for us on July 1, 2010 and did not have a significant impact on our financial statements.

ASU No. 2010-20, Receivables (Topic 310) - Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses requires entities to provide disclosures designed to facilitate financial statement users' evaluation of (i) the nature of credit risk inherent in the entity's portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable, which is generally a disaggregation of portfolio segment. The required disclosures include, among other things, a rollforward of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality indicators. ASU 2010-20 will be effective for our financial statements as of December 31, 2010, as it relates to disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period will be required for our financial statements that include periods beginning on or after January 1, 2011.

Summit Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)

NOTE 3. FAIR VALUE MEASUREMENTS

ASC Topic 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

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

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

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

Accordingly, securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record other assets at fair value on a nonrecurring basis, such as loans held for sale, and impaired loans held for investment. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Available-for-Sale Securities: Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities.

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

Loans: We do not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with ASC Topic 310, Accounting by Creditors for Impairment of a Loan. The fair value of impaired loans is estimated using one of several methods, including collateral value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At September 30, 2010, substantially all of the total impaired loans

were evaluated based on the fair value of the collateral. In accordance with ASC Topic 310, impaired loans where an allowance is established based on the fair value of collateral requires classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, we record the impaired loan as nonrecurring Level 2. When a current appraised value is not available and there is no observable market price, we record the impaired loan as nonrecurring Level 3.

Summit Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)

When a collateral-dependent loan is identified as impaired, management immediately begins the process of evaluating the estimated fair value of the underlying collateral to determine if a related specific allowance for loan losses or charge-off is necessary. Current appraisals are ordered once a loan is deemed impaired if the existing appraisal is more than twelve months old, or more frequently if there is known deterioration in value. For recently identified impaired loans, a current appraisal may not be available at the financial statement date. Until the current appraisal is obtained, the original appraised value is discounted, as appropriate, to compensate for the estimated depreciation in the value of the loan's underlying collateral since the date of the original appraisal. Such discounts are generally estimated based upon management's knowledge of sales of similar collateral within the applicable market area and its knowledge of other real estate market-related data as well as general economic trends. When a new appraisal is received (which generally are received within 3 months of a loan being identified as impaired), management then re-evaluates the fair value of the collateral and adjusts any specific allocated allowance for loan losses, as appropriate. In addition, management also assigns a discount of 7–10% for the estimated costs to sell the collateral. As of September 30, 2010, the total fair value of our collateral-dependent impaired loans which had a related specific allowance or prior charge-off was \$2,455,000 less than the related appraised values of the underlying collateral for such loans.

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

Derivative Assets and Liabilities: Substantially all derivative instruments held or issued by us for risk management or customer-initiated activities are traded in over-the-counter markets where quoted market prices are not readily available. For those derivatives, we measure fair value using models that use primarily market observable inputs, such as yield curves and option volatilities, and include the value associated with counterparty credit risk. We classify derivative instruments held or issued for risk management or customer-initiated activities as Level 2. Examples of Level 2 derivatives are interest rate swaps.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

In thousands	Balance at September 30, 2010	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Available for sale securities	\$ 46,937	\$ -	\$ 46,937	\$ -

U.S. Government sponsored agencies				
Mortgage backed securities:				
Government sponsored agencies	108,887	-	108,887	-
Nongovernment sponsored agencies	62,460	-	62,460	-
State and political subdivisions	8,628	-	8,628	-
Corporate debt securities	983	-	983	-
Other equity securities	77	-	77	-
Tax-exempt state and political subdivisions	39,884	-	39,884	-
Total available for sale securities	\$ 267,856	\$ -	\$ 267,856	\$ -

Summit Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)

In thousands	Balance at December 31, 2009	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Available for sale securities				
U.S. Government sponsored agencies	\$ 54,961	\$ -	\$ 54,961	\$ -
Mortgage backed securities:				
Government sponsored agencies	100,036	-	100,036	-
Nongovernment sponsored agencies				
State and political subdivisions	69,797	-	69,797	-
Corporate debt securities	3,792	-	3,792	-
Other equity securities	356	-	356	-
Tax-exempt state and political subdivisions	77	-	77	-
Total available for sale securities	\$ 271,654	\$ -	\$ 271,654	\$ -

There were no assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period ended September 30, 2010.

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

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

In thousands	Total at Sept. 30, 2010	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Residential mortgage loans held for sale	\$ 1,298	\$ -	\$ 1,298	\$ -
Impaired loans				
Commercial	\$ 943	\$ -	\$ 825	\$ 118
Commercial real estate	16,003	-	13,500	2,503
Construction and development	9,413	-	9,258	155
Residential real estate	20,977	-	14,973	6,004
Total impaired loans	\$ 47,336	\$ -	\$ 38,556	\$ 8,780
OREO	\$ 68,353	\$ -	\$ 64,663	\$ 3,690

Summit Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)

In thousands	Total at December 31, 2009	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Residential mortgage loans held for sale	\$ 1	\$ -	\$ 1	\$ -
Impaired loans				
Commercial	\$ 104	\$ -	\$ -	\$ 104
Commercial real estate	48,057	-	30,585	17,472
Construction and development	25,621	-	20,717	4,904
Residential real estate	702	-	702	-
Total impaired loans	\$ 74,484	\$ -	\$ 52,004	\$ 22,480
OREO	\$ 40,293	\$ -	\$ 38,788	\$ 1,505

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral-dependent loans, had a carrying amount at September 30, 2010 of \$55,554,000, with a valuation allowance of \$8,218,000, resulting in an additional provision for loan losses of \$5,736,000 for the nine months ended September 30, 2010.

ASC Topic 825, Financial Instruments, requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The following summarizes the methods and significant assumptions we used in estimating our fair value disclosures for financial instruments.

Cash and due from banks: The carrying values of cash and due from banks approximate their estimated fair value.

Interest bearing deposits with other banks: The fair values of interest bearing deposits with other banks are estimated by discounting scheduled future receipts of principal and interest at the current rates offered on similar instruments with similar remaining maturities.

Federal funds sold: The carrying values of Federal funds sold approximate their estimated fair values.

Securities: Estimated fair values of securities are based on quoted market prices, where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities.

Loans held for sale: The carrying values of loans held for sale approximate their estimated fair values.

Loans: The estimated fair values for loans are computed based on scheduled future cash flows of principal and interest, discounted at interest rates currently offered for loans with similar terms to borrowers of similar credit quality. No prepayments of principal are assumed.

Accrued interest receivable and payable: The carrying values of accrued interest receivable and payable approximate their estimated fair values.

Deposits: The estimated fair values of demand deposits (i.e. non-interest bearing checking, NOW, money market and savings accounts) and other variable rate deposits approximate their carrying values. Fair values of fixed maturity deposits are estimated using a discounted cash flow methodology at rates currently offered for deposits with similar remaining maturities. Any intangible value of long-term relationships with depositors is not considered in estimating the fair values disclosed.

Short-term borrowings: The carrying values of short-term borrowings approximate their estimated fair values.

Long-term borrowings: The fair values of long-term borrowings are estimated by discounting scheduled future payments of principal and interest at current rates available on borrowings with similar terms.

Summit Financial Group, Inc. and Subsidiaries
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Subordinated debentures: The carrying values of subordinated debentures approximate their estimated fair values.

Subordinated debentures owed to unconsolidated subsidiary trusts: The carrying values of subordinated debentures owed to unconsolidated subsidiary trusts approximate their estimated fair values.

Off-balance sheet instruments: The fair values of commitments to extend credit and standby letters of credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit standing of the counter parties. The amounts of fees currently charged on commitments and standby letters of credit are deemed insignificant, and therefore, the estimated fair values and carrying values are not shown below.

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

In thousands	September 30, 2010		December 31, 2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets				
Cash and due from banks	\$ 4,598	\$ 4,598	\$ 6,813	\$ 6,813
Interest bearing deposits with				
other banks	40,691	40,691	34,247	34,247
Securities available for sale	267,856	267,856	271,654	271,654
Other investments	23,988	23,988	24,008	24,008
Loans held for sale, net	1,298	1,298	1	1
Loans, net	1,018,169	1,021,583	1,137,336	1,152,837
Accrued interest receivable	5,962	5,962	6,323	6,323
	\$ 1,362,562	\$ 1,365,976	\$ 1,480,382	\$ 1,495,883
Financial liabilities				
Deposits	\$ 1,030,032	\$ 1,100,475	\$ 1,017,338	\$ 1,087,212
Short-term borrowings	1,610	1,610	49,739	49,739
Long-term borrowings	329,648	354,528	381,492	395,375
Subordinated debentures	16,800	16,800	16,800	16,800
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589	19,589	19,589
Accrued interest payable	3,564	3,564	4,146	4,146
	\$ 1,401,243	\$ 1,496,566	\$ 1,489,104	\$ 1,572,861

Summit Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)

NOTE 4. EARNINGS PER SHARE

The computations of basic and diluted earnings per share follow:

Dollars in thousands, except per share amounts	For the Three Months Ended September 30,						
	2010	Common			2009	Common	
	Income	Shares	Per	Income	Shares	Per	
	(Numerator)	(Denominator)	Share	(Numerator)	(Denominator)	Share	
Net income	\$ (128)			\$ 1,403			
Less preferred stock dividends	(74)			-			
Basic EPS	\$ (202)	7,425,472	\$ (0.03)	\$ 1,403	7,425,472	\$ 0.19	
Effect of dilutive securities:							
Stock options	-	2,483		-	7,072		
Convertible preferred stock	-	-		-	7,332		
Diluted EPS	\$ (202)	7,427,955	\$ (0.03)	\$ 1,403	7,439,876	\$ 0.19	

Dollars in thousands, except per share amounts	For the Nine Months Ended September 30,						
	2010	Common			2009	Common	
	Income	Shares	Per	Income	Shares	Per	
	(Numerator)	(Denominator)	Share	(Numerator)	(Denominator)	Share	
Net income	\$ (2,885)			\$ (282)			
Less preferred stock dividends	(223)			-			
Basic EPS	\$ (3,108)	7,425,472	\$ (0.42)	\$ (282)	7,420,271	\$ (0.04)	
Effect of dilutive securities:							

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Stock options	-	950	-	13,626		
Convertible preferred stock	-	-	-	2,471		
Diluted EPS	\$ (3,108)	7,426,422	\$ (0.42)	\$ (282)	7,436,368	\$ (0.04)

Stock option grants and the conversion of preferred stock are disregarded in this computation if they are determined to be anti-dilutive. Our anti-dilutive stock options at September 30, 2010 and 2009 totaled 312,180 shares and 265,980 shares, respectively. Our anti-dilutive convertible preferred shares totaled 674,545 shares at September 30, 2010 and 2009.

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NOTE 5. SECURITIES

The amortized cost, unrealized gains, unrealized losses and estimated fair values of securities at September 30, 2010, December 31, 2009, and September 30, 2009 are summarized as follows:

In thousands	Amortized	September 30, 2010		Estimated
Available for Sale	Cost	Unrealized	Losses	Fair Value
Taxable debt securities:				
U. S. Government agencies				
and corporations	\$ 46,008	\$ 944	\$ 15	\$ 46,937
Residential mortgage-backed securities:				
Government-sponsored agencies	104,419	4,553	85	108,887
Nongovernment-sponsored agencies	66,272	1,212	5,024	62,460
State and political subdivisions	8,561	72	5	8,628
Corporate debt securities	999	-	16	983
Total taxable debt securities	226,259	6,781	5,145	227,895
Tax-exempt debt securities:				
State and political subdivisions	38,547	1,423	86	39,884
Total tax-exempt debt securities	38,547	1,423	86	39,884
Equity securities	77	-	-	77
Total available for sale securities	\$ 264,883	\$ 8,204	\$ 5,231	\$ 267,856

In thousands	Amortized	December 31, 2009		Estimated
Available for Sale	Cost	Unrealized	Losses	Fair Value
Taxable debt securities:				
U. S. Government agencies				
and corporations	\$ 54,850	\$ 693	\$ 582	\$ 54,961
Residential mortgage-backed securities:				
Government-sponsored agencies	95,939	4,189	92	100,036
Nongovernment-sponsored agencies	75,546	662	6,411	69,797
State and political subdivisions	3,760	37	5	3,792
Corporate debt securities	350	6	-	356

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Total taxable debt securities	230,445	5,587	7,090	228,942
Tax-exempt debt securities:				
State and political subdivisions	42,486	570	421	42,635
Total tax-exempt debt securities	42,486	570	421	42,635
Equity securities	77	-	-	77
Total available for sale securities	\$ 273,008	\$ 6,157	\$ 7,511	\$ 271,654

Summit Financial Group, Inc. and Subsidiaries
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In thousands	Amortized Cost	September 30, 2009 Unrealized Gains Losses		Estimated Fair Value
Available for Sale				
Taxable debt securities				
U. S. Government agencies and corporations	\$ 34,694	\$ 961	\$ 4	\$ 35,651
Residential mortgage-backed securities:				
Government-sponsored agencies	116,237	5,196	13	121,420
Nongovernment-sponsored entities	83,050	148	7,939	75,259
State and political subdivisions	3,760	42	4	3,798
Corporate debt securities	350	9	-	359
Total taxable debt securities	238,091	6,356	7,960	236,487
Tax-exempt debt securities				
State and political subdivisions	47,063	1,277	180	48,160
Total tax-exempt debt securities	47,063	1,277	180	48,160
Equity securities	179	330	-	509
Total available for sale securities	\$ 285,333	\$ 7,963	\$ 8,140	\$ 285,156

The maturities, amortized cost and estimated fair values of securities at September 30, 2010, are summarized as follows:

In thousands	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 64,267	\$ 65,409
Due from one to five years	99,559	100,491
Due from five to ten years	39,127	38,637
Due after ten years	61,853	63,242
Equity securities	77	77
	\$ 264,883	\$ 267,856

The proceeds from sales, calls and maturities of available for sale securities, including principal payments received on mortgage-backed obligations, and the related gross gains and losses realized, for the nine months ended September 30, 2010 are as follows:

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In thousands	Sales	Proceeds from Calls and Maturities	Principal Payments	Gains	Gross realized Losses
Securities available for sale	\$ 32,849	\$ 46,860	\$ 40,134	\$ 1,594	\$ 7

Summit Financial Group, Inc. and Subsidiaries
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During the three months and nine months ended September 30, 2010 and 2009, we recorded other-than-temporary impairment losses on securities as follows:

In thousands	Three Months Ended			Nine Months Ended		
	Residential MBS Nongovernment Sponsored Entities	Equity Securities	Total	Residential MBS Nongovernment - Sponsored Entities	Equity Securities	Total
September 30, 2010						
Total other-than-temporary impairment losses	\$(184)	\$-	\$(184)	\$(638)	\$-	\$(638)
Portion of loss recognized in other comprehensive income	75	-	75	500	-	500
Net impairment losses recognized in earnings	\$(109)	\$-	\$(109)	\$(138)	\$-	\$(138)
September 30, 2009						
Total other-than-temporary impairment losses	\$-	\$-	\$-	\$(5,219)	\$(215)	\$(5,434)
Portion of loss recognized in other comprehensive income	-	-	-	451	-	451
Net impairment losses recognized in earnings	\$-	\$-	\$-	\$(4,768)	\$(215)	\$(4,983)

Activity related to the credit component recognized on debt securities available for sale for which a portion of other-than-temporary impairment was recognized in other comprehensive income for the three months and nine months ended September 30, 2010 is as follows:

In thousands	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Beginning Balance	\$ (2,951)	\$ (2,922)
Additions for the credit component on debt securities in which other-than-temporary impairment was not previously	(109)	(138)

recognized

Securities sold during the period	-	-
Ending Balance	\$ (3,060)	\$ (3,060)

At September 30, 2010, our debt securities with other-than-temporary impairment in which only the amount of loss related to credit was recognized in earnings consisted solely of residential mortgage-backed securities issued by nongovernment-sponsored entities. We utilize third party vendors to estimate the portion of loss attributable to credit using a discounted cash flow models. The vendors estimate cash flows of the underlying collateral of each mortgage-backed security using models that incorporate their best estimates of current key assumptions, such as default rates, loss severity and prepayment rates. Assumptions utilized vary widely from security to security, and are influenced by such factors as underlying loan interest rates, geographical location of underlying borrowers, collateral type and other borrower characteristics. Specific such assumptions utilized by our vendors in their valuation of our other-than-temporarily impaired residential mortgage-backed securities issued by nongovernment-sponsored entities were as follows at September 30, 2010:

	Weighted Average	Range Minimum Maximum	
Constant voluntary prepayment rates	9.7%	5.4%	14.4%
Constant default rates	11.4%	8.2%	13.2%
Loss severities	51.5%	51.0%	53.0%

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Our vendors performing these valuations also analyze the structure of each mortgage-backed instrument in order to determine how the estimated cash flows of the underlying collateral will be distributed to each security issued from the structure. Expected principal and interest cash flows on the impaired debt securities are discounted predominantly using unobservable discount rates which the vendors assume that market participants would utilize in pricing the specific security. Based on the discounted expected cash flows derived from our vendor's models, we expect to recover the remaining unrealized losses on residential mortgage-backed securities issued by nongovernment sponsored entities.

Provided below is a summary of securities available for sale which were in an unrealized loss position at September 30, 2010 and December 31, 2009, including debt securities for which a portion of other-than-temporary impairment has been recognized in other comprehensive income.

In thousands	Less than 12 months		September 30, 2010 12 months or more		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Temporarily impaired securities						
Taxable debt securities						
U. S. Government agencies						
and corporations	\$1,154	\$(14)	\$131	\$(1)	\$1,285	\$(15)
Residential mortgage-backed securities:						
Government-sponsored agencies	12,314	(85)	-	-	12,314	(85)
Nongovernment-sponsored entities	13,254	(944)	18,251	(4,005)	31,505	(4,949)
State and political subdivisions	1,021	(1)	386	(4)	1,407	(5)
Corporate debt securities	982	(16)	-	-	982	(16)
Tax-exempt debt securities						
State and political subdivisions	-	-	1,236	(86)	1,236	(86)
Total temporarily impaired securities	28,725	(1,060)	20,004	(4,096)	48,729	(5,156)
Other-than-temporarily impaired securities						
Taxable debt securities						
Residential mortgage-backed securities:						
Nongovernment-sponsored entities	436	(53)	956	(22)	1,392	(75)
Total other-than-temporarily impaired securities	436	(53)	956	(22)	1,392	(75)
Total	\$29,161	\$(1,113)	\$20,960	\$(4,118)	\$50,121	\$(5,231)

Summit Financial Group, Inc. and Subsidiaries
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In thousands	Less than 12 months		December 31, 2009 12 months or more		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Temporarily impaired securities						
Taxable debt securities						
U. S. Government agencies						
and corporations	\$26,607	\$(581)	\$138	\$(1)	\$26,745	\$(582)
Residential mortgage-backed securities:						
Government-sponsored agencies	9,612	(91)	68	(1)	9,680	(92)
Nongovernment-sponsored entities	24,500	(1,530)	21,485	(4,637)	45,985	(6,167)
Tax-exempt debt securities						
State and political subdivisions	12,100	(138)	3,748	(288)	15,848	(426)
Total temporarily impaired securities	72,819	(2,340)	25,439	(4,927)	98,258	(7,267)
Other-than-temporarily impaired securities						
Taxable debt securities						
Residential mortgage-backed securities:						
Nongovernment-sponsored entities	-	-	1,670	(244)	1,670	(244)
Total other-than-temporarily impaired securities	-	-	1,670	(244)	1,670	(244)
Total	\$72,819	\$(2,340)	\$27,109	\$(5,171)	\$99,928	\$(7,511)

We held 42 available for sale securities, including debt securities with other-than-temporary impairment in which a portion of the impairment remains in other comprehensive income, having an unrealized loss at September 30, 2010. We do not intend to sell these securities, and it is more likely than not that we will not be required to sell these securities before recovery of their amortized cost bases. We believe that this decline in value is primarily attributable to the lack of market liquidity and to changes in market interest rates and not due to credit quality. Accordingly, no additional other-than-temporary impairment charge to earnings is warranted at this time.

At September 30, 2010, we had \$5 million in total unrealized losses related to residential mortgage-backed securities issued by nongovernment sponsored entities. We monitor the performance of the mortgages underlying these bonds. Although there has been some deterioration in their collateral performance, we primarily hold the senior tranches of each issue which provides protection against defaults. We attribute the unrealized loss on these mortgage-backed securities held largely to the current absence of liquidity in the markets for such securities and not to deterioration in credit quality. The mortgages in these asset pools have been made to borrowers with strong credit history and significant equity invested in their homes. Nonetheless, further weakening of economic fundamentals

coupled with significant increases in unemployment and substantial deterioration in the value of high end residential properties could extend distress to this borrower population. This could increase default rates and put additional pressure on property values. Should these conditions occur, the value of these securities could decline further and result in the recognition of additional other-than-temporary impairment charges recognized in earnings.

NOTE 6. LOANS

Loans are generally stated at the amount of unpaid principal, reduced by unearned discount and allowance for loan losses. Interest on loans is accrued daily on the outstanding balances. Loan origination fees and certain direct loan origination costs are deferred and amortized as adjustments of the related loan yield over its contractual life.

Generally, loans are placed on nonaccrual status when principal or interest is greater than 90 days past due based upon the loan's contractual terms. Interest is accrued daily on impaired loans unless the loan is placed on nonaccrual status. Impaired loans are placed on nonaccrual status when the payments of principal and interest are in default for a period of 90 days, unless the loan is both well-secured and in the process of collection. Interest on nonaccrual loans is recognized primarily using the cost-recovery method. Loans may be returned to accrual status when repayment is reasonably assured and there has been demonstrated performance under the terms of the loan or, if applicable, the terms of the restructured loans.

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Commercial-related loans or portions thereof (which are risk-rated) are charged off to the allowance for loan losses when the loss has been confirmed. This determination is made on a case by case basis considering many factors, including the prioritization of our claim in bankruptcy, expectations of the workout/restructuring of the loan and valuation of the borrower's equity. We deem a loss confirmed when a loan or a portion of a loan is classified "loss" in accordance with bank regulatory classification guidelines, which state, "Assets classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted".

Consumer-related 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), which ever 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.

Loans are summarized as follows:

In thousands	September 30, 2010	December 31, 2009	September 30, 2009
Commercial	\$ 95,939	\$ 122,508	\$ 125,743
Commercial real estate	430,003	465,037	457,669
Construction and development	122,455	162,080	176,783
Residential real estate	360,142	372,867	376,439
Consumer	25,006	28,203	29,555
Other	5,227	5,652	6,087
Total loans	1,038,772	1,156,347	1,172,276
Less unearned income	1,734	2,011	1,996
Total loans net of unearned income	1,037,038	1,154,336	1,170,280
Less allowance for loan losses	18,869	17,000	13,848
Loans, net	\$ 1,018,169	\$ 1,137,336	\$ 1,156,432

The tables below set forth information about our impaired loans.

In thousands	September 30, 2010	September 30, 2009	December 31, 2009
Impaired loans with an allowance	\$ 21,507	\$ 17,612	\$ 39,210
Impaired loans without an allowance	34,047	46,708	46,123
Impaired loans without an allowance as a result of a direct charge off	-	-	-
Total impaired loans	\$ 55,554	\$ 64,320	\$ 85,333

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Allowance for loan losses attributed to impaired loans	\$ 8,218	\$ 4,735	\$ 10,211
	Nine Months Ended Sept. 30,		Year Ended December 31,
In thousands	2010	2009	2009
Average balance of impaired loans	\$ 66,834	\$ 52,209	\$ 75,698
Interest income recognized on impaired loans	\$ 2,011	\$ 44	\$ 298

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Method Used to Measure Impairment of
Impaired Loans
In thousands

Loan Category	9/30/2010	12/31/2009	Method used to measure impairment
Commerical	\$ 1,306	\$ 301	Fair value of collateral
Commerical real estate	16,154	43,639	Fair value of collateral
	-	7,658	Discounted cash flow
Construction and development	15,014	31,091	Fair value of collateral
Residential real estate	22,808	2,005	Fair value of collateral
	272	639	Discounted cash flow
Total	\$ 55,554	\$ 85,333	

Included in impaired loans are troubled debt restructurings of \$23,944,000, \$5,259,000 and \$8,297,000 at September 30, 2010, September 30, 2009, and December 31, 2009, respectively.

NOTE 7. ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses for the nine month periods ended September 30, 2010 and 2009, and for the year ended December 31, 2009 is as follows:

In thousands	Nine Months Ended		Year Ended
	September 30,		December
	2010	2009	31, 2009
Balance, beginning of period	\$ 17,000	\$ 16,933	\$ 16,933
Losses:			
Commercial	406	343	479
Commercial real estate	8,289	459	469
Construction and development	5,436	15,339	16,946
Residential real estate	2,490	1,907	3,921

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Consumer	246	167	214
Other	123	180	231
Total	16,990	18,395	22,260
Recoveries:			
Commercial	30	14	129
Commercial real estate	6	12	23
Construction and development	184	1,594	1,615
Residential real estate	125	22	29
Consumer	76	71	90
Other	88	97	116
Total	509	1,810	2,002
Net losses	16,481	16,585	20,258
Provision for loan losses	18,350	13,500	20,325
Balance, end of period	\$ 18,869	\$ 13,848	\$ 17,000

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NOTE 8. GOODWILL AND OTHER INTANGIBLE ASSETS

The following tables present our goodwill by reporting unit at September 30, 2010 and other intangible assets by reporting unit at September 30, 2010 and December 31, 2009.

In thousands	Goodwill Activity		
	Community Banking	Insurance Services	Total
Balance, January 1, 2010	\$ 1,488	\$ 4,710	\$ 6,198
Acquired goodwill, net	-	-	-
Balance, September 30, 2010	\$ 1,488	\$ 4,710	\$ 6,198

In thousands	September 30, 2010			December 31, 2009		
	Community Banking	Insurance Services	Total	Community Banking	Insurance Services	Total
Unidentifiable intangible assets						
Gross carrying amount	\$ 2,267	\$ -	\$ 2,267	\$ 2,267	\$ -	\$ 2,267
Less: accumulated amortization	1,725	-	1,725	1,612	-	1,612
Net carrying amount	\$ 542	\$ -	\$ 542	\$ 655	\$ -	\$ 655
Identifiable intangible assets						
Gross carrying amount	\$ -	\$ 3,000	\$ 3,000	\$ -	\$ 3,000	\$ 3,000
Less: accumulated amortization	-	650	650	-	500	500
Net carrying amount	\$ -	\$ 2,350	\$ 2,350	\$ -	\$ 2,500	\$ 2,500

We recorded amortization expense of approximately \$263,000 for the nine months ended September 30, 2010 relative to our other intangible assets. Annual amortization is expected to be approximately \$351,000 for each of the years ending 2010 through 2012.

NOTE 9. DEPOSITS

The following is a summary of interest bearing deposits by type as of September 30, 2010 and 2009 and December 31, 2009:

In thousands	September 30, 2010	December 31, 2009	September 30, 2009
Interest bearing demand deposits	\$ 152,393	\$ 148,587	\$ 154,683
Savings deposits	182,284	188,419	115,767
Retail time deposits	375,953	364,399	363,406
Brokered time deposits	243,040	241,814	267,237
Total	\$ 953,670	\$ 943,219	\$ 901,093

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Brokered deposits represent certificates of deposit acquired through a third party. The following is a summary of the maturity distribution of all certificates of deposit in denominations of \$100,000 or more as of September 30, 2010:

Dollars in thousands	Amount	Percent
Three months or less	\$ 63,253	14.9 %
Three through six months	37,416	8.8 %
Six through twelve months	63,020	14.9 %
Over twelve months	260,323	61.4 %
Total	\$ 424,012	100.0 %

A summary of the scheduled maturities for all time deposits as of September 30, 2010 is as follows:

In thousands	
Three month period ending December 31, 2010	\$ 97,683
Year ending December 31, 2011	232,040
Year ending December 31, 2012	89,801
Year ending December 31, 2013	82,511
Year ending December 31, 2014	45,787
Thereafter	71,171
	\$ 618,993

NOTE 10. BORROWED FUNDS

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

In thousands	Nine Months Ended September 30, 2010		
	Short-term FHLB Advances	Repurchase Agreements	Federal Funds Purchased and Lines of Credit
Balance at September 30	\$ -	\$ 657	\$ 953
	18,259	1,237	1,502

Average balance outstanding for
the period

Maximum balance outstanding at any month end during period	45,000	1,787	3,617
Weighted average interest rate for the period	0.42 %	0.36 %	1.63 %
Weighted average interest rate for balances outstanding at September 30	0.00 %	0.25 %	0.25 %

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 Notes to Consolidated Financial Statements (unaudited)

	Year Ended December 31, 2009		
	Short-term FHLB Advances	Repurchase Agreements	Federal Funds Purchased and Lines of Credit
Dollars in thousands			
Balance at December 31	\$ 45,000	\$ 1,123	\$ 3,616
Average balance outstanding for the period	92,326	1,079	6,092