SUMMIT FINANCIAL GROUP INC
Form 10-Q
November 02, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10 – Q

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

For the quarterly period ended September 30, 2018
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 other jurisdiction of incorporation or organization)	(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 þ No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer”, “accelerated filer”, “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer o Accelerated filer þ Non-accelerated filer o
Smaller reporting company o Emerging growth company o
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ

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
12,474,062 shares outstanding as of October 31, 2018

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Item 1. Financial Statements

Consolidated Balance Sheets (unaudited)

Dollars in thousands, except per share amounts	September 30, 2018 (unaudited)	December 31, 2017 (*)
ASSETS		
Cash and due from banks	$ 9,382	$ 9,641
Interest bearing deposits with other banks	44,452	42,990
Cash and cash equivalents	53,834	52,631
Securities available for sale	288,040	328,723
Other investments	14,232	14,934
Loans held for sale	348	—
Loans, net	1,632,747	1,593,744
Property held for sale	22,017	21,470
Premises and equipment, net	36,888	34,209
Accrued interest receivable	8,630	8,329
Goodwill and other intangible assets	26,252	27,513
Cash surrender value of life insurance policies	42,208	41,358
Other assets	13,531	11,329
Total assets	$ 2,138,727	$ 2,134,240
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Non interest bearing	$ 232,697	$ 217,493
Interest bearing	1,418,367	1,383,108
Total deposits	1,651,064	1,600,601
Short-term borrowings	238,403	250,499
Long-term borrowings	739	45,751
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589
Other liabilities	15,376	16,295
Total liabilities	1,925,171	1,932,735
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, $1.00 par value, authorized 250,000 shares	—	—
Common stock and related surplus, $2.50 par value; authorized 20,000,000 shares; issued: 2018 - 12,474,062 shares and 2017 - 12,465,296 shares; outstanding: 2018 - 12,382,450 shares and 2017 - 12,358,562	81,822	81,098
Unallocated common stock held by Employee Stock Ownership Plan - 2018 - 91,612 shares and 2017 - 106,734 shares	(989)	(1,152)
Retained earnings	135,628	119,827
Accumulated other comprehensive (loss) income	(2,905)	1,732
Total shareholders' equity	213,556	201,505

Total liabilities and shareholders' equity	$ 2,138,727	$ 2,134,240

(*) - Derived from audited consolidated financial statements

See Notes to Consolidated Financial Statements

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Consolidated Statements of Income (unaudited)

Dollars in thousands, (except per share amounts)	For the Three Months Ended September 30, 2018	2017	For the Nine Months Ended September 30, 2018	2017
Interest income				
Interest and fees on loans				
Taxable	$21,154	$19,387	$62,196	$54,487
Tax-exempt	141	103	428	391
Interest and dividends on securities				
Taxable	1,227	1,283	3,838	3,742
Tax-exempt	1,140	1,114	3,222	2,855
Interest on interest bearing deposits with other banks	138	149	412	466
Total interest income	23,800	22,036	70,096	61,941
Interest expense				
Interest on deposits	4,714	2,963	12,572	7,987
Interest on short-term borrowings	1,437	1,160	4,084	3,233
Interest on long-term borrowings and subordinated debentures	436	681	1,695	2,012
Total interest expense	6,587	4,804	18,351	13,232
Net interest income	17,213	17,232	51,745	48,709
Provision for loan losses	500	375	1,750	875
Net interest income after provision for loan losses	16,713	16,857	49,995	47,834
Noninterest income				
Insurance commissions	1,062	1,043	3,188	3,000
Trust and wealth management fees	687	589	2,026	1,284
Service charges on deposit accounts	1,215	1,162	3,421	2,910
Bank card revenue	793	738	2,343	1,955
Realized securities gains, net	8	26	828	58
Bank owned life insurance income	250	255	773	758
Other	196	187	656	531
Total noninterest income	4,211	4,000	13,235	10,496
Noninterest expenses				
Salaries, commissions and employee benefits	6,806	6,610	20,550	18,555
Net occupancy expense	856	847	2,528	2,239
Equipment expense	1,118	1,093	3,271	2,859
Professional fees	503	373	1,222	1,012
Advertising and public relations	170	137	461	393
Amortization of intangibles	413	448	1,261	974
FDIC premiums	210	310	690	815
Bank card expense	384	395	1,080	1,113
Foreclosed properties expense, net of losses	169	233	843	824
Litigation settlement	—	—	—	9,900
Merger-related expenses	86	11	86	1,575
Other	1,643	1,990	5,415	5,140
Total noninterest expenses	12,358	12,447	37,407	45,399
Income before income tax expense	8,566	8,410	25,823	12,931
Income tax expense	1,667	2,480	5,201	3,339
Net income	$6,899	$5,930	$20,622	$9,592

Basic earnings per common share	$0.56	$0.48	$1.67	$0.81
Diluted earnings per common share	$0.55	$0.48	$1.66	$0.81

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Consolidated Statements of Comprehensive Income (unaudited)

Dollars in thousands	For the Three Months Ended September 30, 2018	2017
Net income	$6,899	$5,930
Other comprehensive (loss) income:		
Net unrealized gain on cashflow hedge of: 2018 - $336, net of deferred taxes of $81; 2017 - $497, net of deferred taxes of $184	255	313
Net unrealized (loss) gain on securities available for sale of: 2018 - ($2,861), net of deferred taxes of ($687) and reclassification adjustment for net realized gains included in net income of $8, net of tax of $2; 2017 - $608, net of deferred taxes of $225 and reclassification adjustment for net realized gains included in net income of $26, net of tax of $10	(2,174)	383
Total other comprehensive (loss) income	(1,919)	696
Total comprehensive income	$4,980	$6,626

Dollars in thousands	For the Nine Months Ended September 30, 2018	2017
Net income	$20,622	$9,592
Other comprehensive (loss) income:		
Net unrealized gain on cashflow hedge of: 2018 - $1,772, net of deferred taxes of $425; 2017 - $1,556, net of deferred taxes of $576	1,347	980
Net unrealized (loss) gain on securities available for sale of: 2018 - ($7,873), net of deferred taxes of ($1,889) and reclassification adjustment for net realized gains included in net income of $828, net of tax of $199; 2017 - $3,892, net of deferred taxes of $1,440 and reclassification adjustment for net realized gains included in net income of $58, net of tax of $21	(5,984)	2,452
Net unrealized gain on other post-retirement benefits of: 2017 - $348, net of deferred taxes of $129	—	219
Total other comprehensive (loss) income	(4,637)	3,651
Total comprehensive income	$15,985	$13,243

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Consolidated Statements of Shareholders’ Equity (unaudited)

Dollars in thousands (except per share amounts)	Common Stock and Related Surplus	Unallocated Common Stock Held by ESOP	Retained Earnings	Accumulated Other Compre-hensive (Loss) Income	Total Share-holders' Equity
Balance, December 31, 2017	$81,098	$(1,152)	$119,827	$1,732	$201,505
Nine Months Ended September 30, 2018					
Net income	—	—	20,622	—	20,622
Other comprehensive loss	—	—	—	(4,637)	(4,637)
Exercise of stock options - 1,600 shares	29	—	—	—	29
Share-based compensation expense	292	—	—	—	292
Unallocated ESOP shares committed to be released - 15,122 shares	224	163	—	—	387
Common stock issuances from reinvested dividends - 7,166 shares	179	—	—	—	179
Common stock cash dividends declared ($0.39 per share)	—	—	(4,821)	—	(4,821)
Balance, September 30, 2018	$81,822	$(989)	$135,628	$(2,905)	$213,556
Balance, December 31, 2016	$46,757	$(1,583)	$113,448	$(3,262)	$155,360
Nine Months Ended September 30, 2017					
Net income	—	—	9,592	—	9,592
Other comprehensive income	—	—	—	3,651	3,651
Exercise of stock options - 2,000 shares	12	—	—	—	12
Share-based compensation expense	285	—	—	—	285
Unallocated ESOP shares committed to be released - 29,920 shares	358	323	—	—	681
Acquisition of First Century Bankshares, Inc. - 1,537,912 shares, net of issuance costs	32,968	—	—	—	32,968
Common stock issuances from reinvested dividends - 4,921 shares	116	—	—	—	116
Common stock cash dividends declared ($0.33 per share)	—	—	(3,883)	—	(3,883)
Balance, September 30, 2017	$80,496	$(1,260)	$119,157	$389	$198,782

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Consolidated Statements of Cash Flows (unaudited)

Dollars in thousands	Nine Months Ended September 30, 2018	September 30, 2017
Cash Flows from Operating Activities		
Net income	$20,622	$ 9,592
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,609	1,364
Provision for loan losses	1,750	875
Share-based compensation expense	292	285
Deferred income tax benefit	(164)	(364)
Loans originated for sale	(11,197)	(11,305)
Proceeds from sale of loans	11,057	11,492
Gains on loans held for sale	(208)	(231)
Realized securities gains, net	(828)	(58)
Loss (gain) on disposal of assets	2	(93)
Write-downs of foreclosed properties	458	538
Amortization of securities premiums, net	2,698	3,125
Accretion related to acquisitions, net	(393)	(870)
Amortization of intangibles	1,261	974
Earnings on bank owned life insurance	(850)	(425)
Increase in accrued interest receivable	(301)	(752)
Decrease in other assets	115	1,808
Increase (decrease) in other liabilities	2,172	(221)
Net cash provided by operating activities	28,095	15,734
Cash Flows from Investing Activities		
Proceeds from maturities and calls of securities available for sale	1,050	2,610
Proceeds from sales of securities available for sale	92,048	131,345
Principal payments received on securities available for sale	19,770	24,349
Purchases of securities available for sale	(81,929)	(118,346)
Purchases of other investments	(9,922)	(13,116)
Proceeds from redemptions of other investments	9,665	13,274
Net loan originations	(42,807)	(26,099)
Purchases of premises and equipment	(4,288)	(5,672)
Proceeds from disposal of premises and equipment	12	—
Improvements to property held for sale	(1,118)	(269)
Proceeds from sales of repossessed assets & property held for sale	1,723	4,463
Cash and cash equivalents acquired in acquisition, net of $14,989 cash consideration paid	—	39,053
Net cash (used in) provided by investing activities	(15,796)	51,592
Cash Flows from Financing Activities		
Net increase (decrease) in demand deposit, NOW and savings accounts	53,110	(9,812)
Net decrease in time deposits	(2,485)	(19,305)
Net decrease in short-term borrowings	(12,096)	(28,782)
Repayment of long-term borrowings	(45,012)	(915)
Net proceeds from issuance of common stock	179	(43)
Exercise of stock options	29	12
Dividends paid on common stock	(4,821)	(3,883)
Net cash used in financing activities	(11,096)	(62,728)

Increase in cash and cash equivalents	1,203	4,598
Cash and cash equivalents:		
Beginning	52,631	46,616
Ending	$53,834	$ 51,214

(Continued)

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Consolidated Statements of Cash Flows (unaudited) - continued

Dollars in thousands	Nine Months Ended September 30, 2018	September 30, 2017
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	$18,199	$ 13,055
Income taxes	$5,674	$ 3,557
Supplemental Disclosures of Noncash Investing and Financing Activities		
Real property and other assets acquired in settlement of loans	$1,542	$ 289

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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.

The results of operations for the three and nine months ended September 30, 2018 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 2017 audited financial statements and Annual Report on Form 10-K.

NOTE 2. SIGNIFICANT NEW AUTHORITATIVE ACCOUNTING GUIDANCE

Recently Adopted

We adopted ASU 2014-09, Revenue from Contracts with Customers: Topic 606, and its related amendments on its required effective date of January 1, 2018 utilizing the modified retrospective approach. Since there was no net income impact upon adoption of the new guidance, a cumulative effect adjustment to opening retained earnings was not deemed necessary. We concluded that ASU 2014-09 did not materially change the method in which we currently recognize revenue for these revenue streams. We also completed our evaluation of certain costs related to these revenue streams to determine whether such costs should be presented as expenses or contra-revenue (i.e., gross vs. net). Based on our evaluation, we determined that any classification changes were immaterial to both revenue and expense.

ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (viii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. ASU 2016-01 was effective for us on January 1, 2018 and did not have a significant impact on our financial statements. In accordance with (iv) above, we measure the fair value of our loan portfolio using exit price notion (see Note 3. Fair Value Measurements).

Pending Adoption

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach.

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The FASB made subsequent amendments to Topic 842 in July 2018 through ASU 2018-10 Codification Improvements to Topic 842, Leases. and ASU 2018-11 Leases (Topic 842): Targeted Improvements. Among these amendments is the provision in ASU 2018-11 that provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity’s reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with current GAAP (Topic 840, Leases). While we are currently assessing the impact of the adoption of this pronouncement, we expect the primary impact to our consolidated financial position upon adoption will be the recognition, on a discounted basis, of our minimum commitments under non-cancellable operating leases on our consolidated balance sheets resulting in the recording of right of use assets and lease obligations. Our current minimum commitments under long-term operating leases are disclosed in Note 12, Commitments and Contingencies.

During June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments. The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this ASU are effective for SEC filers for fiscal years and interim periods within those fiscal years, beginning after December 15, 2019. We will adopt the guidance by the first quarter of 2020 with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. In this regard, we have a cross-functional implementation team comprised of personnel from risk management, operations and information technology, loan administration and finance and engaged a third-party to assist us. The team has developed a project plan, identified key decision points and prepared a readiness assessment and gap analysis relative to required data which serves to direct our areas of focus. In addition, we have collected applicable historical data and made preliminary decisions regarding methodology and loan pool structures. We will continue to evaluate the impact the new standard will have on our consolidated financial statements as the final impact will be dependent, among other items, upon the loan portfolio composition and credit quality at the adoption date, as well as economic conditions, financial models used and forecasts at that time.

In March of 2017, the FASB issued ASU No. 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. This guidance shortens the amortization period for premiums on certain callable debt securities to the earliest call date (with an explicit, noncontingent call feature that is callable at a fixed price and on a preset date), rather than contractual maturity date as currently required under GAAP. The ASU does not impact instruments without preset call dates such as mortgage-backed securities. For instruments with contingent call features, once the contingency is resolved and the security is callable at a fixed price and preset date, the security is within the scope of the ASU. ASU 2017-08 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, and early adoption is permitted. The adoption of the new pronouncement will not have a significant impact on our consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, Targeted Improvements to Accounting for Hedging Activities which will make more financial and nonfinancial hedging strategies eligible for hedge accounting. It also amends the presentation and disclosure requirements and changes how companies assess effectiveness. It is intended to more closely align hedge accounting with companies’ risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. We do not expect it to have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement. The amendments modify the disclosure requirements in Topic 820 to add disclosures regarding changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty. Certain disclosure requirements in Topic 820 are also removed or modified. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Certain of the amendments are to be applied prospectively while others are to be applied retrospectively. Early adoption is permitted. We do not expect the adoption of ASU 2018-13 to have a material impact on our consolidated financial statements.

NOTE 3. FAIR VALUE MEASUREMENTS

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

	Balance at	Fair Value Measurements Using:		
Dollars in thousands	September 30, 2018	Level 1	Level 2	Level 3
Securities available for sale				
U.S. Government sponsored agencies	$ 27,279	$ —	$ 27,279	$ —
Mortgage backed securities:				
Government sponsored agencies	72,942	—	72,942	—
Nongovernment sponsored entities	685	—	685	—
State and political subdivisions	18,774	—	18,774	—
Corporate debt securities	11,687	—	11,687	—
Asset-backed securities	21,792	—	21,792	—
Other equity securities	137	—	137	—
Tax-exempt state and political subdivisions	134,744	—	134,744	—
Total securities available for sale	$ 288,040	$ —	$ 288,040	$ —
Derivative financial assets				
Interest rate swaps	$ 1,063	$ —	$ 1,063	$ —
Derivative financial liabilities				
Interest rate swaps	$ 284	$ —	$ 284	$ —

	Balance at	Fair Value Measurements Using:		
Dollars in thousands	December 31, 2017	Level 1	Level 2	Level 3
Securities available for sale				
U.S. Government sponsored agencies	$ 31,613	$ —	$ 31,613	$ —
Mortgage backed securities:				
Government sponsored agencies	121,321	—	121,321	—
Nongovernment sponsored entities	2,077	—	2,077	—
State and political subdivisions	17,677	—	17,677	—
Corporate debt securities	16,245	—	16,245	—
Other equity securities	137	—	137	—
Tax-exempt state and political subdivisions	139,653	—	139,653	—
Total securities available for sale	$ 328,723	$ —	$ 328,723	$ —
Derivative financial assets				
Interest rate swaps	$ 312	$ —	$ 312	$ —
Derivative financial liabilities				
Interest rate swaps	$ 2,057	$ —	$ 2,057	$ —

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.

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Dollars in thousands	Balance at September 30, 2018	Fair Value Measurements Using: Level 1	Level 2	Level 3
Residential mortgage loans held for sale	$ 348	$ —	$ 348	$ —
Collateral-dependent impaired loans				
Commercial	$ 57	$ —	$ 8	$ 49
Commercial real estate	437	$ —	437	—
Construction and development	297	$ —	297	—
Residential real estate	721	—	721	—
Total collateral-dependent impaired loans	$ 1,512	$ —	$ 1,463	$ 49
Property held for sale				
Commercial real estate	$ 1,677	$ —	$ 1,677	$ —
Construction and development	16,526	—	16,526	—
Residential real estate	403	—	403	—
Total property held for sale	$ 18,606	$ —	$ 18,606	$ —

Dollars in thousands	Balance at December 31, 2017	Fair Value Measurements Using: Level 1	Level 2	Level 3
Residential mortgage loans held for sale	$ —	$ —	$ —	$ —
Collateral-dependent impaired loans				
Commercial real estate	$ 518	$ —	$ 518	$ —
Construction and development	940	—	940	—
Residential real estate	203	—	203	—
Total collateral-dependent impaired loans	$ 1,661	$ —	$ 1,661	$ —
Property held for sale				
Commercial real estate	$ 1,493	$ —	$ 1,493	$ —
Construction and development	16,177	—	16,177	—
Residential real estate	322	—	322	—
Total property held for sale	$ 17,992	$ —	$ 17,992	$ —

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

	September 30, 2018		Fair Value Measurements Using:		
Dollars in thousands	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$53,834	$53,834	$—	$53,834	$—
Securities available for sale	288,040	288,040	—	288,040	—
Other investments	14,232	14,232	—	14,232	—
Loans held for sale, net	348	348	—	348	—
Loans, net	1,632,747	1,610,856	—	1,463	1,609,393
Accrued interest receivable	8,630	8,630	—	8,630	—
Derivative financial assets	1,063	1,063	—	1,063	—
	$1,998,894	$1,977,003	$—	$367,610	$1,609,393
Financial liabilities					
Deposits	$1,651,064	$1,648,845	$—	$1,648,845	$—
Short-term borrowings	238,403	238,403	—	238,403	—
Long-term borrowings	739	834	—	834	—
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589	—	19,589	—
Accrued interest payable	1,068	1,068	—	1,068	—
Derivative financial liabilities	284	284	—	284	—
	$1,911,147	$1,909,023	$—	$1,909,023	$—

	December 31, 2017		Fair Value Measurements Using:		
Dollars in thousands	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$52,631	$52,631	$—	$52,631	$—
Securities available for sale	328,723	328,723	—	328,723	—
Other investments	14,934	14,934	—	14,934	—
Loans held for sale, net	—	—	—	—	—
Loans, net	1,593,744	1,592,821	—	1,661	1,591,160
Accrued interest receivable	8,329	8,329	—	8,329	—
Derivative financial assets	312	312	—	312	—
	$1,998,673	$1,997,750	$—	$406,590	$1,591,160
Financial liabilities					
Deposits	$1,600,601	$1,620,033	$—	$1,620,033	$—
Short-term borrowings	250,499	250,499	—	250,499	—
Long-term borrowings	45,751	46,530	—	46,530	—
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589	—	19,589	—
Accrued interest payable	987	987	—	987	—
Derivative financial liabilities	2,057	2,057	—	2,057	—
	$1,919,484	$1,939,695	$—	$1,939,695	$—

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NOTE 4. EARNINGS PER SHARE

The computations of basic and diluted earnings per share follow:

	For the Three Months Ended September 30,					
	2018			2017		
Dollars in thousands, except per share amounts	Income (Numerator)	Common Shares (Denominator)	Per Share	Income (Numerator)	Common Shares (Denominator)	Per Share
Net income	$6,899			$5,930		
Basic earnings per share	$6,899	12,374,350	$0.56	$5,930	12,299,987	$0.48
Effect of dilutive securities:						
Stock options		7,349			10,911	
Stock appreciation rights (SARs)		57,352			8,061	
Diluted earnings per share	$6,899	12,439,051	$0.55	$5,930	12,318,959	$0.48

	For the Nine Months Ended September 30,					
	2018			2017		
Dollars in thousands, except per share amounts	Income (Numerator)	Common Shares (Denominator)	Per Share	Income (Numerator)	Common Shares (Denominator)	Per Share
Net income	$20,622			$9,592		
Basic earnings per share	$20,622	12,366,612	$1.67	$9,592	11,781,342	$0.81
Effect of dilutive securities:						
Stock options		7,561			11,336	
Stock appreciation rights (SARs)		56,054			14,324	
Diluted earnings per share	$20,622	12,430,227	$1.66	$9,592	11,807,002	$0.81

Stock option and stock appreciation right (SAR) grants are disregarded in this computation if they are determined to be anti-dilutive. Our anti-dilutive stock options for the three and nine months ended September 30, 2018 were 15,600 shares and for the three and nine months ended September 30, 2017 were 23,400 shares. Our anti-dilutive SARs for the three and nine months ended September 30, 2018 and September 30, 2017 were 87,615.

NOTE 5. SECURITIES

The amortized cost, unrealized gains, unrealized losses and estimated fair values of securities at September 30, 2018 and December 31, 2017 are summarized as follows:

	September 30, 2018		
	Amortized	Unrealized	Estimated
Dollars in thousands	Cost		