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

# FORM 10-K

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

For the fiscal year ended December 31, 2002

Commission File Number 0-16587

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

| | |
|---|---|
| West Virginia | 55-0672148 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

| | |
|---|---|
| 223 N. Main Street<br>Moorefield, West Virginia | 26836 |
| (Address of principal executive offices) | (Zip Code) |

(304) 538-7233
(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(g) of the Act: Common
(Title of Class)

Indicate by check mark whether the registrant: (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No |_|

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). |_|

The aggregate market value of the voting stock held by non-affiliates of the Registrant at June 28, 2002, was approximately $48,064,000. The number of shares of the Registrant's Common Stock outstanding on March 17, 2003, was 3,504,320. (Registrant has assumed that all of its executive officers and directors are affiliates. Such assumption shall not be deemed to be conclusive for any other purpose.)

Documents Incorporated by Reference

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

| Document | Part of Form 10-K into which document is incorporated |
|---|---|
| Portions of the Registrant's 2002 Annual Report to Shareholders | Part II - Items 5, 6, 7, 7A, and 8 |
| Portions of the Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held May 15, 2003 | Part III - Items 10, 11, 12 and 13 |

SUMMIT FINANCIAL GROUP, INC

Form 10-K Index

FORWARD-LOOKING INFORMATION

This filing contains certain forward-looking statements (as defined in the Private Securities Litigation Act of 1995), which reflect our beliefs and expectations based on information currently available. These forward-looking statements are inherently subject to significant risks and uncertainties, including changes in general economic and financial market conditions, our ability to effectively carry out our business plans and changes in regulatory or legislative requirements. Other factors that could cause or contribute to such differences are changes in competitive conditions and continuing consolidation in the financial services industry. Although we believe the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially.

PART I.

Item 1. Business

General

Summit Financial Group, Inc. ("Company" or "Summit") is a $672 million financial holding company headquartered in Moorefield, West Virginia. We provide commercial and retail banking services primarily in the Eastern Panhandle and South Central regions of West Virginia and the Northwestern region of Virginia. We provide these services through our three community bank subsidiaries: Summit Community Bank ("Summit Community"), Capital State Bank, Inc. ("Capital State"), and Shenandoah Valley National Bank ("Shenandoah") (collectively, the "Bank Subsidiaries"). We changed our name from South Branch Valley Bancorp, Inc. effective December 30, 1999.

The Company was incorporated under the laws of the State of West Virginia in 1987, and became the parent bank holding company of South Branch Valley National Bank ("South Branch"), a nationally chartered banking association headquartered in Moorefield, West Virginia on December 31,1987. In early 1997, the Company purchased approximately 40% of the outstanding common shares of Capital State, a West Virginia chartered bank headquartered in Charleston, West Virginia, for $5.2 million. On March 31, 1998, Summit acquired the remaining 60% of its outstanding common shares in an exchange of Summit common stock valued at $7.9 million. Effective April 22, 1999, Capital State purchased three branch banking facilities located in Greenbrier County, West Virginia. The transaction included the Branches' facilities and associated loan and deposit accounts. Total deposits assumed approximated $47.4 million and total loans acquired approximated $8.9 million. On May 17, 1999, Shenandoah, a newly organized, nationally chartered bank subsidiary of Summit, opened for business in Winchester, Virginia. Shenandoah was initially capitalized with $4 million. On December 30, 1999, Summit merged with Potomac Valley Bank, a $94 million West Virginia chartered bank headquartered in Petersburg, West Virginia, through an exchange of common stock. On January 18, 2002, South Branch and Potomac merged to form Summit Community, a West Virginia banking association.

Commercial and Retail Banking

We provide a wide range of commercial and retail banking services, including demand, savings and time deposits; commercial, real estate and consumer loans; merchant credit card services; letters of credit; and cash management services. The deposits of the Bank Subsidiaries are insured by the Federal Deposit Insurance Corporation ("FDIC").

In order to compete with other financial service providers, we principally rely upon personal relationships established by our officers, directors and employees with our customers, and specialized services tailored to meet our customers' needs. We and our Bank Subsidiaries have maintained a strong community orientation by, among other things, supporting the active participation of staff members in local charitable, civic, school, religious and community development activities. We also have a marketing program that primarily utilizes local radio and newspapers to advertise.

Our primary lending focus is providing commercial loans to local businesses with annual sales ranging from $300,000 to $30 million and providing owner-occupied real estate loans to individuals. Typically, our customers have financing requirements between $50,000 and $1,000,000. We generally do not seek loans of more than $5 million, but will consider larger lending relationships which involve exceptional levels of credit quality. Under our commercial banking strategy, we focus on offering a broad line of financial products and services to small and medium-sized businesses through full service banking offices. Each Bank Subsidiary has senior management with extensive lending experience. These managers exercise substantial authority over credit and pricing decisions, subject to loan committee approval for larger credits. This decentralized management approach, coupled with continuity of service by the same staff members, enables the Bank Subsidiaries to develop long-term customer relationships, maintain high quality service and respond quickly to customer needs. We believe that our emphasis on local relationship banking, together with a conservative approach to lending, are important factors in our success and growth. We centralize operational and support functions that are transparent to customers in order to achieve consistency and cost efficiencies in the delivery of products and services by each banking office. The central office provides services such as data processing, bookkeeping, accounting, treasury management, loan administration, loan review, compliance, risk management and internal auditing to enhance our delivery of quality service. We also provide overall direction in the areas of credit policy and administration, strategic planning, marketing, investment portfolio management and other financial and administrative services. The banking offices work closely with us to develop new products and services needed by their customers and to introduce enhancements to existing products and services.

## Supervision and Regulation

### General

We, as a financial holding company, are subject to the restrictions of the Bank Holding Company Act of 1956, as amended ("BHCA"), and are registered pursuant to its provisions. As a registered financial holding company, we are subject to the reporting requirements of the Federal Reserve Board of Governors ("FRB"), and are subject to examination by the FRB.

As a financial holding company doing business in West Virginia, we are also subject to regulation by the West Virginia Board of Banking and Financial Institutions and must submit annual reports to the West Virginia Division of Banking.

The BHCA prohibits the acquisition by a financial holding company of direct or indirect ownership of more than five percent of the voting shares of any bank within the United States without prior approval of the FRB. With certain exceptions, a financial holding company is prohibited from acquiring direct or indirect ownership or control or more than five percent of the voting shares of any company which is not a bank, and from engaging directly or indirectly in business unrelated to the business of banking or managing or controlling banks.

The FRB, in its Regulation Y, permits financial holding companies to engage in non-banking activities closely related to banking or managing or controlling banks. Approval of the FRB is necessary to engage in these activities or to make acquisitions of corporations engaging in these activities as the FRB determines whether these acquisitions or activities are in the public interest. In addition, by order, and on a case by case basis, the FRB may approve other non-banking activities.

The BHCA permits us to purchase or redeem our own securities. However, Regulation Y provides that prior notice must be given to the FRB if the total consideration for such purchase or consideration, when aggregated with the net consideration paid by us for all such purchases or redemptions during the preceding 12 months is equal to 10 percent or more of the company's consolidated net worth. Prior notice is not required if (i) both before and immediately after the redemption, the financial holding company is well-capitalized; (ii) the financial holding company is well-managed and (iii) the financial holding company is not the subject of any unresolved supervisory issues.

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

The operations of Shenandoah, as a national banking association, are subject to federal statutes and regulations which apply to national banks, and are primarily regulated by the Comptroller of Currency ("OCC"). Capital State and Summit Community are subject to similar West Virginia statutes and regulations, and are primarily regulated by the West Virginia Division of Banking. The Bank Subsidiaries are also subject to regulations promulgated by the FRB and the FDIC. As members of the FDIC, the deposits of the Bank Subsidiaries are insured as required by federal law. Bank regulatory authorities regularly examine revenues, loans, investments, management practices, and other aspects of the Bank Subsidiaries. These examinations are conducted primarily to protect depositors and not shareholders. In addition to these regular examinations, the Bank Subsidiaries must furnish to regulatory authorities quarterly reports containing full and accurate statements of their affairs.

## Permitted Non-banking Activities

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

## Credit and Monetary Policies and Related Matters

The Bank Subsidiaries are affected by the fiscal and monetary policies of the federal government and its agencies, including the FRB. An important function of these policies is to curb inflation and control recessions through control of the supply of money and credit. The operations of the Bank Subsidiaries are affected by the policies of government regulatory authorities, including the FRB which regulates money and credit conditions through open market operations in United States Government and Federal agency securities, adjustments in the discount rate on member bank borrowings, and requirements against deposits and regulation of interest rates payable by member banks on time and savings deposits. These policies have a significant influence on the growth and distribution of loans, investments and deposits, and interest rates charged on loans, or paid for time and savings deposits, as well as yields on investments. The FRB has had a significant effect on the operating results of commercial banks in the past and is expected to continue to do so in the future. Future policies of the FRB and other authorities and their effect on future earnings cannot be predicted.

The FRB has a policy that a financial holding company is expected to act as a source of financial and managerial strength to each of its subsidiary banks and to commit resources to support each such subsidiary bank. Under the source of strength doctrine, the FRB may require a financial holding company to contribute capital to a troubled subsidiary bank, and may charge the financial holding company with engaging in unsafe and unsound practices for failure to commit resources to such a subsidiary bank. This capital injection may be required at times when Summit may not have the resources to provide it. Any capital loans by a holding company to any subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In addition, the Crime Control Act of 1990 provides that in the event of a financial holding company's bankruptcy, any commitment by such holding company to a Federal bank or thrift regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

In 1989, the United States Congress enacted the Financial Institutions Reform, Recovery and Enforcement Act ("FIRREA"). Under FIRREA depository institutions insured by the FDIC may now be liable for any losses incurred by, or reasonably expected to be incurred by, the FDIC after August 9, 1989, in connection with (i) the default of a commonly controlled FDIC-insured depository institution, or (ii) any assistance provided by the FDIC to commonly controlled FDIC-insured depository institution in danger of default. "Default" is defined generally as the appointment of a conservator or receiver and "in danger of default" is defined generally as the existence of certain conditions indicating that a "default" is likely to occur in the absence of regulatory assistance. Accordingly, in the event that any insured bank or subsidiary of Summit causes a loss to the FDIC, other bank subsidiaries of Summit could be liable to the FDIC for the amount of such loss.

Under federal law, the OCC may order the pro rata assessment of shareholders of a national bank whose capital stock has become impaired, by losses or otherwise, to relieve a deficiency in such national bank's capital stock. This statute also provides for the enforcement of any such pro rata assessment of shareholders of such national bank to cover such impairment of capital stock by sale, to the extent necessary, of the capital stock of any assessed shareholder failing to pay the assessment. Similarly, the laws of certain states provide for such assessment and sale with respect to the subsidiary banks chartered by such states. Summit, as the sole stockholder of Bank Subsidiaries, is subject to such provisions.

Capital Requirements

As a financial holding company, we are subject to FRB risk-based capital guidelines. The guidelines establish a systematic analytical framework that makes regulatory capital requirements more sensitive to differences in risk profiles among banking organizations, takes off-balance sheet exposures into explicit account in assessing capital adequacy, and minimizes disincentives to holding liquid, low-risk assets. Under the guidelines and related policies, financial holding companies must maintain capital sufficient to meet both a risk-based asset ratio test and leverage ratio test on a consolidated basis. The risk-based ratio is determined by allocating assets and specified off-balance sheet commitments into four weighted categories, with higher levels of capital being required for categories perceived as representing greater risk. The Bank Subsidiaries are subject to substantially similar capital requirements adopted by its applicable regulatory agencies.

Generally, under the applicable guidelines, a financial institution's capital is divided into two tiers. "Tier 1", or core capital, includes common equity, noncumulative perpetual preferred stock (excluding auction rate issues) and minority interests in equity accounts of consolidated subsidiaries, less goodwill and other intangibles. "Tier 2", or supplementary capital, includes, among other things, cumulative and limited-life preferred stock, hybrid capital instruments, mandatory convertible securities, qualifying subordinated debt, and the allowance for loan losses, subject to certain limitations, less required deductions. "Total capital" is the sum of Tier 1 and Tier 2 capital. Financial holding companies are subject to substantially identical requirements, except that cumulative perpetual preferred stock can constitute up to 25% of a financial holding company's Tier 1 capital.

Financial holding companies are required to maintain a risk-based capital ratio of 8%, of which at least 4% must be Tier 1 capital. The appropriate regulatory authority may set higher capital requirements when an institution's particular circumstances warrant. For purposes of the leverage ratio, the numerator is defined as Tier 1 capital and the denominator is defined as adjusted total assets (as specified in the guidelines). The guidelines provide for a minimum leverage ratio of 3% for financial holding companies that meet certain specified criteria, including excellent asset quality, high liquidity, low interest rate exposure and the highest regulatory rating. Financial holding companies not meeting these criteria are required to maintain a leverage ratio which exceeds 3% by a cushion of at least 1 to 2 percent.

The guidelines also provide that financial holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets. Furthermore, the FRB's guidelines indicate that the FRB will continue to consider a "tangible Tier 1 leverage ratio" in evaluating proposals for expansion or new activities. The tangible Tier 1 leverage ratio is the ratio of an institution's Tier 1 capital, less all intangibles, to total assets, less all intangibles.

On August 2, 1995, the FRB and other banking agencies issued their final rule to implement the portion of Section 305 of FDICIA that requires the banking agencies to revise their risk-based capital standards to ensure that those standards take adequate account of interest rate risk. This final rule amends the capital standards to specify that the banking agencies will include, in their evaluations of a bank's capital adequacy, an assessment of the exposure to declines in the economic value of the bank's capital due to changes in interest rates.

Failure to meet applicable capital guidelines could subject the financial holding company to a variety of enforcement remedies available to the federal regulatory authorities, including limitations on the ability to pay dividends, the issuance by the regulatory authority of a capital directive to increase capital and termination of deposit insurance by the FDIC, as well as to the measures described under the "Federal Deposit Insurance Corporation Improvement Act of 1991" as applicable to undercapitalized institutions.

Our regulatory capital ratios and each of the Bank Subsidiaries capital ratios as of year end 2002 are set forth in the table in Note 16 of the notes of the accompanying consolidated financial statements.

Federal Deposit Insurance Corporation Improvement Act of 1991

In December, 1991, Congress enacted the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), which substantially revised the bank regulatory and funding provisions of the Federal Deposit Insurance Corporation Act and made revisions to several other banking statues.

FDICIA establishes a new regulatory scheme, which ties the level of supervisory intervention by bank regulatory authorities primarily to a depository institution's capital category. Among other things, FDICIA authorizes regulatory authorities to take "prompt corrective action" with respect to depository institutions that do not meet minimum capital requirements. FDICIA establishes five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

By regulation, an institution is "well-capitalized" if it has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater and a Tier 1 leverage ratio of 5% or greater and is not subject to a regulatory order, agreement or directive to meet and maintain a specific capital level for any capital measure. Each of the Bank Subsidiaries were "well capitalized" institutions as of December 31, 2002. As well-capitalized institutions, they are permitted to engage in a wider range of banking activities, including among other things, the accepting of "brokered deposits," and the offering of interest rates on deposits higher than the prevailing rate in their respective markets.

Another requirement of FDICIA is that Federal banking agencies must prescribe regulations relating to various operational areas of banks and financial holding companies. These include standards for internal audit systems, loan documentation, information systems, internal controls, credit underwriting, interest rate exposure, asset growth, compensation, a maximum ratio of classified assets to capital, minimum earnings sufficient to absorb losses, a minimum ratio of market value to book value for publicly traded shares and such other standards as the agencies deem appropriate.

Reigle-Neal Interstate Banking Bill

In 1994, Congress passed the Reigle-Neal Interstate Banking Bill (the "Interstate Bill"). The Interstate Bill permits certain interstate banking activities through a holding company structure, effective September 30, 1995. It permits interstate branching by merger effective June 1, 1997 unless states "opt-in" sooner, or "opt-out" before that date. States may elect to permit de novo branching by specific legislative election. In March, 1996, West Virginia adopted changes to its banking laws so as to permit interstate banking and branching to the fullest extent permitted by the Interstate Bill. The Interstate Bill permits consolidation of banking institutions across state lines and, under certain conditions, de novo entry.

Community Reinvestment Act

Financial holding companies and their subsidiary banks are also subject to the provisions of the Community Reinvestment Act of 1977 ("CRA"). Under the CRA, the Federal Reserve Board (or other appropriate bank regulatory agency) is required, in connection with its examination of a bank, to assess such bank's record in meeting the credit needs of the communities served by that bank, including low and moderate income neighborhoods. Further such assessment is also required of any financial holding company which has applied to (i) charter a national bank, (ii) obtain deposit insurance coverage for a newly chartered institution, (iii) establish a new branch office that will accept deposits, (iv) relocate an office, or (v) merge or consolidate with, or acquire the assets or assume the liabilities of a federally-regulated financial institution. In the case of a financial holding company applying for approval to acquire a bank or other financial holding company, the FRB will assess the record of each subsidiary of the applicant financial holding company, and such records may be the basis for denying the application or imposing conditions in connection with approval of the application. On December 8, 1993, the Federal regulators jointly announced proposed regulations to simplify enforcement of the CRA by substituting the present twelve categories with three assessment categories for use in calculating CRA ratings (the "December 1993 Proposal"). In response to comments received by the regulators regarding the December 1993 Proposal, the federal bank regulators issued revised CRA proposed regulations on September 26, 1994 (the "Revised CRA Proposal"). The Revised CRA Proposal, compared to the December 1993 Proposal, essentially broadens the scope of CRA performance examinations and more explicitly considers community development activities. Moreover, in 1994, the Department of Justice, became more actively involved in enforcing fair lending laws.

In the most recent CRA examinations by the applicable bank regulatory authorities, each of the Bank Subsidiaries was given "satisfactory" or better CRA ratings.

## Graham-Leach-Bliley Act of 1999

The enactment of the Graham-Leach-Bliley Act of 1999 (the "GLB Act") represents a pivotal point in the history of the financial services industry. The GLB Act sweeps away large parts of a regulatory framework that had its origins in the Depression Era of the 1930s. Effective March 11, 2000, new opportunities were available for banks, other depository institutions, insurance companies and securities firms to enter into combinations that permit a single financial services organization to offer customers a more complete array of financial products and services. The GLB Act provides a new regulatory framework through the financial holding company, which have as its "umbrella regulator" the FRB. Functional regulation of the financial holding company's separately regulated subsidiaries are conducted by their primary functional regulators. The GLB Act makes a CRA rating of satisfactory or above necessary for insured depository institutions and their financial holding companies to engage in new financial activities. The GLB Act also provides a Federal right to privacy of non-public personal information of individual customers.

## Deposit Acquisition Limitation

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

## Consumer Laws and Regulations

In addition to the banking laws and regulations discussed above, the Bank Subsidiaries are also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. Among the more prominent of such laws and regulations are the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, and the Fair Housing Act. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans to such customers. The Bank Subsidiaries must comply with the applicable provisions of these consumer protection laws and regulations as part of their ongoing customer relations.

## Sarbanes-Oxley Act of 2002

On July 30, 2002, the Sarbanes-Oxley Act of 2002 ("SOA") was enacted, which addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. Effective August 29, 2002, as directed by Section 302(a) of SOA, our Chief Executive Officer and Chief Financial Officer are each required to certify that Summit's Quarterly and Annual Reports do not contain any untrue statement of a material fact. The rules have several requirements, including requiring these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal controls; they have made certain disclosures to our auditors and the audit committee of the Board of Directors about our internal controls; and they have included information in Summit's Quarterly and Annual Reports about their evaluation and whether there have been significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the evaluation.

## Competition

We engage in highly competitive activities. Each activity and market served involves competition with other banks and savings institutions, as well as with non-banking and non-financial enterprises that offer financial products and services that compete directly with our products and services. We actively compete with other banks, mortgage companies and other financial service companies in our efforts to obtain deposits and make loans, in the scope and types of services offered, in interest rates paid on time deposits and charged on loans, and in other aspects of banking.

In addition to competing with other banks and mortgage companies, we compete with other financial institutions engaged in the business of making loans or accepting deposits, such as savings and loan associations, credit unions, industrial loan associations, insurance companies, small loan companies, finance companies, real estate investment trusts, certain governmental agencies, credit card organizations and other enterprises. In recent years, competition for money market accounts from securities brokers has also intensified. Additional competition for deposits comes from government and private issues of debt obligations and other investment alternatives for depositors such as money market funds. We take an aggressive competitive posture, and intend to continue vigorously competing for market share within our service areas by offering competitive rates and terms on both loans and deposits.

Employees

At March 15, 2003, we employed 162 full-time equivalent employees.

## Item 2. Properties

Our principal executive office is located at 223 North Main Street, Moorefield, West Virginia in a building that we own. Additionally, the Bank Subsidiaries' headquarters and branch locations occupy offices which are either owned or operated under long-term lease arrangements. At December 31, 2002, our Bank Subsidiaries operated 13 banking offices as follows:

| | Number of Offices | | |
|---|---|---|---|
| Subsidiary / Office Location | Owned | Leased | Total |
| Summit Community Bank | | | |
| Moorefield, West Virginia | 1 | - | 1 |
| Mathias, West Virginia | 1 | - | 1 |
| Franklin, West Virginia | 1 | - | 1 |
| Petersburg, West Virginia | 2 | - | 2 |
| Capital State Bank, Inc. | | | |
| Charleston, West Virginia | 2 | - | 2 |
| Rainelle, West Virginia | 1 | - | 1 |
| Rupert, West Virginia | 1 | - | 1 |
| Shenandoah Valley National Bank | | | |
| Winchester, Virginia | 1 | 1 | 2 |
| Leesburg, Virginia | - | 1 | 1 |
| Harrisonburg, Virginia | - | 1 | 1 |

We believe that the premises occupied by us and the Bank Subsidiaries generally are well-located and suitably equipped to serve as financial services facilities. We have signed a contract for the sale of our primary branch facility in Petersburg, West Virginia, and expect the sale to occur by the end of 2003. Our intent is to build a new facility in Petersburg during 2003 which will be more conveniently located than our present facility in this market. We intend to sell our corporate headquarters located in Moorefield, West Virginia in early 2003 and to construct a new corporate headquarters also in Moorefield. Planning for these replacement facilities is ongoing, and the approximate cost for the Petersburg banking facility will be $1.5 million and $3.5 million for the new corporate headquarters. See Notes 7 and 8 of the accompanying consolidated financial statements for additional disclosures related to our properties and other fixed assets.

## Item 3. Legal Proceedings

We are involved in various pending legal proceedings, all of which are regarded by us as normal litigation incident to the business of banking and are not expected to have a materially adverse effect on our business or financial condition.

## Item 4. Submission of Matters to a Vote of Shareholders

On October 15, 2002, at a special meeting of our shareholders, the matters set forth below were voted upon. The number of votes cast for or against, as well as the number of abstentions concerning each matter are indicated in the following tabulations.

1. Approval of an Amendment to the Articles of Incorporation authorizing a class of preferred shares.

| For | Against | Abstentions |
|---|---|---|
| 962,040 | 136,374 | 15,028 |

2. To vest in our Board of Directors the right to issue preferred shares in one or more series, and to fix and determine the relative rights and preferences as between any series of such preferred shares.

| For | Against | Abstentions |
|---|---|---|
| 959,778 | 137,098 | 16,566 |

PART II.

Item 5. Market for Registrant's Common Equity and Related Shareholder Matters

Information required by this item is set forth under the captions "COMMON STOCK LISTING" and "COMMON STOCK DIVIDEND AND MARKET PRICE INFORMATION" on inside back cover of our 2002 Annual Report, and is incorporated herein by reference.

Item 6. Selected Financial Data

Information required by this item is set forth under the heading "SELECTED FINANCIAL DATA" on page 2 of Financial Information 2002 included as a supplement to our 2002 Annual Report, and is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Related Statistical Disclosures

Information required by this item is set forth under the heading "MANAGEMENT'S DISCUSSION AND ANALYSIS" on pages 3 through 13 of Financial Information 2002 included as a supplement to our 2002 Annual Report, and is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Information required by this item is set forth under the caption "MARKET RISK MANAGEMENT" on page 12 of Financial Information 2002 included as a supplement to our 2002 Annual Report, and is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

Information required by this item is set forth under the heading "QUARTERLY FINANCIAL INFORMATION" on page 14, under the heading "REPORT OF INDEPENDENT AUDITORS" on page 15, and under the headings "CONSOLIDATED FINANCIAL STATEMENTS" and "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS" on pages 16 through 38 of Financial Information 2002 included as a supplement to our 2002 Annual Report, and is incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There has been no Form 8-K filed within 24 months prior to the date of the most recent financial statements reporting a change of accountants and/or reporting disagreements on any matter of accounting principle or financial statement disclosure.

PART III.

## Item 10. Directors and Executive Officers

Information required by this item is set forth under the captions "Section 16(a) Beneficial Ownership Reporting Compliance" on page 3, under the headings "NOMINEES FOR DIRECTOR WHOSE TERMS EXPIRE IN 2006", "DIRECTORS WHOSE TERMS EXPIRE IN 2005", and "DIRECTORS WHOSE TERMS EXPIRE IN 2004" on pages 7 through 9, and under the heading "EXECUTIVE OFFICERS" on page 13 of our 2003 Proxy Statement, and is incorporated herein by reference.

## Item 11. Executive Compensation

Information required by this item is set forth under the headings "EXECUTIVE COMPENSATION", "EXECUTIVE COMPENSATION COMMITTEE REPORT", "Employment Agreements and Change of Control Agreement", "Summit Financial Group, Inc. Plans", "STOCK OPTION GRANTS IN 2002", "STOCK OPTION EXERCISES AND YEAR END VALUE TABLE" and "SHAREHOLDER RETURN PERFORMANCE GRAPH" on pages 14 through 23, and under the caption "Fees and Benefit Plans for Directors" on page 5 of our 2003 Proxy Statement, and is incorporated herein by reference.

## Item 12. Security Ownership of Certain Beneficial Owners and Management

Information required by this item is set forth under the caption "Security Ownership of Directors and Officers" on page 6, under the headings "NOMINEES FOR DIRECTOR WHOSE TERMS EXPIRE IN 2006", "DIRECTORS WHOSE TERMS EXPIRE IN 2005" and "DIRECTORS WHOSE TERMS EXPIRE IN 2004" on pages 7 through 9, under the heading "PRINCIPAL SHAREHOLDER" on page 10 and under the heading "EXECUTIVE OFFICERS" on page 13 of our 2003 Proxy Statement, and is incorporated herein by reference.

## Item 13. Certain Relationships and Related Transactions

Information required by this item is set forth under the caption "Related Transactions" on page 5 of our 2003 Proxy Statement, and is incorporated herein by reference.

## Item 14. Controls and Procedures

Summit management, including the Chief Executive Officer and Chief Financial Officer, have conducted within 90 days of the filing of this Form 10-K an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures (i) enable Summit to record, process, summarize and report in a timely manner the information that we are required to disclose in our Exchange Act reports, and (ii) are designed with the objective of ensuring that such information is accumulated and communicated to the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure. There have been no significant changes in internal controls, or in factors that could significantly affect internal controls, subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation.

PART IV.

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

All financial statements and financial statement schedules required to be filed by this Form or by Regulation S-X, which are applicable to the Registrant, have been presented in the financial statements and notes thereto in Item 8 in Management's Discussion and Analysis of Financial Condition and Results of Operation in Item 7 or elsewhere in this filing where appropriate. The listing of exhibits follows:

A. Exhibits

INDEX TO EXHIBITS

| Exhibit Number | Description | Page(s) in Form 10-K or Prior Filing Reference |
|---|---|---|
| (3) | Articles of Incorporation and By-laws: (i) Articles of Incorporation of Summit Financial Group, Inc. as last amended on October 15, 2002 | |
| | (ii) By-laws of Summit Financial Group, Inc. as last amended, effective December 31, 1999 | (a) |
| (10) | Material Contracts | |
| | (i) Agreement with H. Charles Maddy, III | (b) |
| | (ii) Agreement with Ronald F. Miller | (c) |
| | (iii) Agreement with C. David Robertson | (d) |
| | (iv) Agreement with Patrick N. Frye | (e) |
| | (v) 1998 Officers Stock Option Plan | (f) |
| (11) | Statement Re: Computation of Earnings per Share | |
| (13) | Portions of 2002 Annual Report to Shareholders incorporated by reference into this Form 10-K | |
| (21) | Subsidiaries of Registrant | |
| (23) | Consent of Arnett & Foster, P.L.L.C. | |
| (99.1) | Chief Executive Officer's Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | |
| (99.2) | Chief Financial Officer's Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | |

(a) Incorporated by reference to Exhibit 3(b) of Summit Financial Group, Inc.'s filing on Form 10-Q dated June 30, 2000.
(b) Incorporated by reference to Exhibit 10 to South Branch Valley Bancorp, Inc.'s filing on Form 10-KSB dated December 31, 1995.
(c) Incorporated by reference to Exhibit 10(ii) to South Branch Valley Bancorp, Inc.'s filing on Form 10-KSB dated December 31, 1998.
(d) Incorporated by reference to Exhibit 10 to South Branch Valley Bancorp, Inc.'s filing on Form 10-QSB dated June 30, 1999.
(e) Incorporated by reference to Exhibit 10(b) of South Branch Valley Bancorp, Inc.'s filing on S-4 dated October 13, 1999.
(f) Incorporated by reference to Exhibit 10 to South Branch Valley Bancorp, Inc.'s filing on Form 10-QSB dated June 30, 1998.

B. Reports on Form 8-K

We filed no reports on Form 8-K during the fourth quarter of the year ended December 31, 2002.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SUMMIT FINANCIAL GROUP, INC.
a West Virginia Corporation
(registrant)

| | |
|---|---|
| By: /s/ H. Charles Maddy, III 3/19/2003 | By: /s/ Julie R. Cook 3/20/2003 |
| H. Charles Maddy, III — Date<br>President & Chief Executive Officer | Julie R. Cook — Date<br>Director of Accounting |

By: /s/ Robert S. Tissue 3/20/2003

Robert S. Tissue — Date
Senior Vice President &
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| | Title | Date |
|---|---|---|
| Oscar M. Bean | Director | ________ |
| Frank A. Baer, III | Director | ________ |
| /s/ Dewey F. Bensenhaver, M. D.<br>Dewey F. Bensenhaver, M.D. | Director | 3/20/2003 |
| /s/ James M. Cookman<br>James M. Cookman | Director | 3/19/2003 |
| /s/ John W. Crites<br>John W. Crites | Director | 3/18/2003 |
| /s/ Patrick N. Frye<br>Patrick N. Frye | Director | 3/18/2003 |
| /s/ James Paul Geary<br>James Paul Geary | Director | 3/19/2003 |
| /s/ Thomas J. Hawse, III<br>Thomas J. Hawse, III | Director | 3/18/2003 |

SIGNATURES - continued

| | Title | Date |
|---|---|---|
| ______________________________________<br>Phoebe Fisher Heishman | Director | ________ |
| ______________________________________<br>Gary L. Hinkle | Director | ________ |
| /s/ Gerald W. Huffman<br>Gerald W. Huffman | Director | 3/18/2003 |
| /s/ H. Charles Maddy, III<br>H. Charles Maddy, III | Director | 3/19/2003 |
| /s/ Duke A. McDaniel<br>Duke A. McDaniel | Director | 3/20/2003 |
| ______________________________________<br>Harold K. Michael | Director | ________ |
| ______________________________________<br>Ronald F. Miller | Director | ________ |
| /s/ George R. Ours, Jr.<br>George R. Ours, Jr. | Director | 3/18/2003 |
| ______________________________________<br>Charles S. Piccirillo | Director | ________ |

CERTIFICATIONS PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

I, H. Charles Maddy, III, certify that:

1. I have reviewed this annual report on Form 10-K of Summit Financial Group, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
b) any fraud, whether or not material, that involves management or other employees who have a significant role in registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 25, 2003

/s/ H. Charles Maddy, III

H. Charles Maddy, III
President and Chief Executive Officer

CERTIFICATION

I, Robert S. Tissue, certify that:

1. I have reviewed this annual report on Form 10-K of Summit Financial Group, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
b) any fraud, whether or not material, that involves management or other employees who have a significant role in registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 25, 2003

/s/ Robert S. Tissue

Robert S. Tissue
Sr. Vice President
and Chief Financial Officer

Exhibit 3(i)

# ARTICLES OF INCORPORATION
# OF
# SUMMIT FINANCIAL GROUP, INC.

The undersigned, acting as incorporator of a corporation under Section 27, Article 1, Chapter 31 of the Code of West Virginia, adopts the following Articles of Incorporation for such corporation, FILED IN DUPLICATE:

I. The undersigned agrees to become a corporation by the name of SUMMIT FINANCIAL GROUP, INC.

II. The address of the principal office of said corporation will be 310 North Main Street, City of Moorefield, County of Hardy, State of West Virginia.

III. The purpose or purposes for which this corporation is organized are as follows.

To acquire and own stock and securities, of whatever kind, nature and description, in a bank or banks, and to take such actions as are necessary or incidental to the acquisition of a bank or banks;

To engage, either directly itself, indirectly by the formation of subsidiary corporations or otherwise, in any activity permitted to be undertaken by a bank holding company under existing or future laws, rules and regulations relating thereto;

Subject to the foregoing and unless otherwise limited herein to own, buy, acquire, sell, exchange, assign, lease and deal in and with real property and any interest or right therein; to own, buy, acquire, sell, exchange, assign, lease and deal in and with personal property and any interest or right therein; to own, buy, acquire, sell, exchange, assign, pledge and deal with voting stock, non-voting stock, notes, bonds, evidence of indebtedness and rights and

options in and to other corporate and non-corporate entities, and to pay therefor in whole or in part in cash or by exchanging therefor stocks, bonds, or other evidences of indebtedness or securities of this or any other corporation, and while the owner or holder of any such stocks, bonds, debentures, notes, evidences or indebtedness or the securities, contracts, or obligations, to receive, collect, and dispose of the interest, dividends and income arising from such property, and to possess and exercise in respect thereof, all the rights, powers and privileges of ownership, including all voting powers on any stocks so owned; and to borrow money without limit as to amount; and

Otherwise, subject to the foregoing and unless otherwise limited herein, to engage in any lawful act or activity for which corporations may be organized under the laws of the State of West Virginia.

IV. A. The amount of total authorized capital stock of the Corporation shall be Twelve Million Seven Hundred Fifty Thousand Dollars ($12,750,000), which shall be divided into Five Million (5,000,000) shares of common stock with the par value of $2.50 each and Two Hundred Fifty Thousand (250,000) shares of preferred stock with the par value of $1.00 each.

B. The Corporation may issue shares of preferred or special classes: (i) subject to the right of the Corporation to redeem any of such shares at the price fixed by the Articles of Incorporation for the redemption thereof; (ii) entitling the holders thereof to cumulative, non-cumulative or partially cumulative dividends; (iii) having preference over any other class or classes of shares as to the payment of dividends; (iv) having preference in the assets of the Corporation over any other class or classes of shares upon the voluntary or involuntary liquidation of the

Corporation; and (v) convertible into shares of any other class or into shares of any series of the same or any other class, except a class having prior or superior rights and preferences as to dividends or distribution of assets upon liquidation, but shares without par value, if any, shall not be converted into shares with par value unless that part of the stated capital of the Corporation represented by such shares without the par value is, at the time of conversion, at least equal to the aggregate par value of the shares into which the shares without par value are to be converted or the amount of any such deficiency is transferred from surplus to stated capital.

C. Preferred stock may be divided into and issued by the Board of Directors from time to time in one or more series. All shares of preferred stock shall be of equal rank and shall be identical, except as to the following relative rights and preferences which may be fixed and determined by the Board of Directors, as to which there may be variations between different series:

(1) the rate of dividends;

(2) whether shares may be redeemed and, if so, the redemption price and the terms and conditions of redemption;

(3) the amount payable upon shares in event of voluntary and involuntary liquidation;

(4) sinking fund provisions, if any, for the redemption or purchase of shares;

(5) the terms and conditions, if any, on which shares may be converted; and

(6) voting rights, if any.

D. The Board of Directors of the Corporation shall have all of the power and authority with respect to the shares of preferred stock that may be delegated to the Board of Directors pursuant to the terms and provisions of Chapter 31, Article 1, Sections 78 and 79 of the Code of West Virginia, as amended, or such corresponding section of the Code of West Virginia as may be adopted from time to time, and shall exercise such power and authority by the adoption of a resolution or resolutions as prescribed by law.

V. The name and address of the incorporators and the number of shares subscribed by each of them is as follows:

| NAME | ADDRESS | NUMBER OF SHARES |
|---|---|---|
| Oscar M. Bean | Rt. 2, Box 116<br>Moorefield, WV 26836 | 34 |
| Donald W. Biller | Rt. 1, Box 30<br>Lost River, WV 26811 | 35 |
| Thomas J. Hawse | 216 Washington Street<br>Moorefield, WV 26836 | 35 |
| Phoebe F. Heishman | 136 S. Main Street<br>Moorefield, WV 26836 | 35 |
| Ed A. Leatherman, Jr. | Rt. 1, Box 175<br>Purgitsville, WV 26852 | 35 |
| J. Aleck Welton | Box 366<br>Moorefield, WV 26836 | 35 |
| Renick C. Williams | Box 664<br>Moorefield, WV 26836 | 35 |

| | | |
|---|---|---|
| Michael T. Wilson | Rt. 4 Sunset View<br>Moorefield, WV 26836 | 35 |
| Harry C. Welton | Rt. 4, Box 27<br>Moorefield, WV 26836 | 35 |
| A. Clyde Ours, Jr. | Box 541<br>Moorefield, WV 26836 | 35 |
| E. E. Hott | Box 1<br>Franklin, WV 26807 | 35 |

VI. The existence of this corporation is to be perpetual.

VII. The name and address of the person to whom shall be sent notice or process served upon, or service of which is accepted by The Secretary of State is:

Renick C. Williams
Box 664
Moorefield, WV 26836

VIII. The number of directors constituting the initial board of directors of the corporation is eleven (11). The names and addresses of the persons who are to serve as directors until their term expires and their successors are elected and shall qualify are:

| NAME | ADDRESS |
|---|---|
| Oscar M. Bean | Rt. 2, Box 116<br>Moorefield, WV 26836 |
| Donald W. Biller | Rt. 1, Box 30<br>Lost River, WV 26811 |
| Thomas J. Hawse | 216 Washington Street<br>Moorefield, WV 26836 |
| Phoebe F. Heishman | 136 S. Main Street<br>Moorefield, WV 26836 |
| Ed A. Leatherman, Jr. | Rt. 1, Box 175<br>Purgitsville, WV 26852 |

| | |
|---|---|
| J. Aleck Welton | Box 366<br>Moorefield, WV 26836 |
| Renick C. Williams | Box 664<br>Moorefield, WV 26836 |
| Michael T. Wilson | Rt. 4, Sunset View<br>Moorefield, WV 26836 |
| Harry C. Welton | Rt. 4, Box 27<br>Moorefield, WV 26836 |
| A. Clyde Ours, Jr. | Box 541<br>Moorefield, WV 26836 |
| E.E. Hott | Box 1<br>Franklin, WV 26807 |

IX. Provisions limiting preemptive rights are: The shareholders of the corporation shall not have any preemptive rights to acquire any shares of stock of the corporation.

X. Provisions for the regulations of the internal affairs of the corporation shall be as follows:

A. Definitions. For purposes hereof, the following terms are defined as follows:

1. Affiliate. An "affiliate" of, or a person "affiliated" with, a specific person, means a person (other than this Corporation or a majority-owned or wholly owned subsidiary of this Corporation) that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified.

2. Associate. The term "associate" when used to indicate a relationship with any person, means (i) any corporation, partnership, limited partnership, association, joint venture, group or other organization (other than this Corporation or a majority- owned or wholly owned subsidiary of this Corporation) of which such person is an officer or partner or is, directly or indirectly, the Beneficial Owner of ten percent (10%) or more of any class of equity securities or other medium of ownership rights, (ii) any trust or other estate in which such person has a substantial beneficial interest or as to which such person serves as trustee or in

a similar fiduciary capacity, (iii) any relative or spouse of such person, or any relative of such spouse provided the relative has the same home as such person, or (iv) any investment company registered under the Investment Company Act of 1940 for which such person or any affiliate of such person serves as investment adviser.

3. Beneficial Owner. A person shall be considered the "Beneficial Owner" of any shares of stock whether or not owned of record by such Person:

(a) With respect to any shares as to which such Person or any Affiliate or Associate of such Person directly or indirectly has or shares (i) voting power, including the power to vote or to direct the voting of such shares of stock and/or (ii) investment power, including the power to dispose of or to direct the disposition of such shares of stock;

(b) With respect to any shares as to which such Person or any Affiliate or Associate of such Person has (i) the right to acquire such shares (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, and/or (ii) the right to vote pursuant to any agreement, arrangement or understanding (whether such right is exercisable immediately or only after the passage of time); or

(c) With respect to any shares which are Beneficially Owned within the meaning of (a) or (b) of this Paragraph (3) above by any other Person with which such first-mentioned Person or any of its Affiliates or Associates has any agreement, arrangement or understanding, written or oral, with respect to acquiring, holding, voting or disposing of any shares of stock of the Corporation or any Subsidiary of the Corporation or acquiring, holding or disposing of all or substantially all, or any substantial part, of the assets or businesses of the Corporation or a Subsidiary of the Corporation.

For the purpose only of determining whether a Person is the Beneficial Owner of a percentage of outstanding shares, such shares shall be deemed to include any shares which may be issuable pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants, options or otherwise and which are deemed to be beneficially owned by such Person pursuant to the foregoing provisions of this Paragraph (3) above.

4. <u>Business Combination</u>. A "Business Combination" means:

(a) The sale, exchange, lease, transfer or other disposition to or with a Related Person or any Affiliate or Associate of such Related Person by the Corporation or any of its Subsidiaries (in a single transaction or a series of related transactions) of all or substantially all, or any substantial part, or its or their assets or businesses including, without limitation, any securities issued by a Subsidiary;

(b) The purchase, exchange, lease or other acquisition by the Corporation or any of its Subsidiaries (in a single transaction or a series of related transactions) of all or substantially all, or any Substantial Part, of the assets or business of a Related Person or any Affiliate or Associate of such Related Person:

(c) Any merger or consolidation of the Corporation or any Subsidiary thereof into or with a Related Person or any Affiliate or Associate of such Related Person or into or with another person which, after such merger or consolidation, would be an Affiliate or an Associate of a Related Person, in each case irrespective of which Person is the surviving entity in such merger or consolidation;

(d) Any reclassification of securities, recapitalization or other transaction (other than a redemption in accordance with the terms of the security redeemed) which has the effect, directly or indirectly, of increasing the proportionate amount of shares of the Corporation or any Subsidiary thereof which are Beneficially Owned by a Related Person, or any partial or complete liquidation, spinoff, splitoff or splitup of the Corporation or Subsidiary thereof which has the effect, directly or indirectly, of increasing the proportionate amount of shares of the Corporation or any subsidiary thereof which are Beneficially Owned by a Related Person; or

(e) The acquisition upon the issuance thereof of Beneficial Ownership by a Related Person of voting shares or securities convertible into voting shares or any voting securities or securities convertible into voting securities of any Subsidiary of the Corporation, or the acquisition upon the issuance thereof of Beneficial Ownership by a Related Person of any rights, warrants or options to acquire any of the foregoing or any combination of the foregoing voting shares or voting securities of a Subsidiary.

As used herein a `series of related transactions' shall be deemed to include not only a series of transactions with the same Related Person but also a series of separate transactions with a Related Person or any Affiliate or Associate of such Related Person.

(f) Notwithstanding the foregoing, the term "Business Combination" shall not mean the formation of the Corporation or the acquisition by it of South Branch Valley National Bank, a national banking association, with its principal banking offices located in Moorefield, West Virginia.

5. Corporation. "Corporation" shall mean South Branch Valley Bancorp, Inc., a West Virginia business corporation.

6. Date of Determination. The term `Date of Determination' means (a) the date on which a binding agreement (except for the fulfillment of conditions precedent, including, without limitation, votes of shareholders to approve such transaction) is entered into by this Corporation, as authorized by its board of directors, and another corporation, person or other entity providing for any merger or consolidation of this Corporation or any sale, lease, exchange or disposition of all or substantially all of the assets of this Corporation; or, (b) if

such an agreement as referred to in item (a) is amended so as to make it less favorable to this Corporation and its shareholders, the date on which such amendment is approved by the board of directors of this Corporation, or, (c) in cases where neither items (a) nor item (b) shall be applicable, the record date for the determination of shareholders of this Corporation entitled to notice of and to vote upon the transaction in question. The board of directors of this Corporation shall have the power and duty to determine for the purposes hereof the Date of Determination as to any transaction. Any such determination by the board of directors made in good faith shall be conclusive and binding for any and all purposes.

7. Person. The term "Person" shall mean any person, partnership, corporation, group or other entity (other than the Corporation, any Subsidiary of the Corporation, or a trustee holding stock for the benefit of the employees of the Corporation or its Subsidiaries, or any one of them, pursuant to one or more employee benefit plans or arrangements). When two or more Persons act as a partnership, limited partnership, syndicate, association or other group for the purpose of acquiring, holding or disposing of shares of stock, such partnerships, syndicate, association or group shall be deemed a "Person".

8. Related Person. "Related Person" means any Person which is the Beneficial Owner as of the Date of Determination or immediately prior to the consummation of a Business Combination, or both, of twenty-five (25) percent or more of the voting shares of the Corporation or any Person who at any time within two (2) years preceding the Date of Determination was the Beneficial Owner of twenty-five (25) percent or more of the then outstanding voting shares of the Corporation.

9. Subsidiary. "Subsidiary" shall mean South Branch Valley National Bank, a national banking association as of the effective date of the acquisition of said bank by this corporation and any other corporation, bank, banking association or other entity at least a majority of which is owned by South Branch Valley Bancorp, Inc.

10. <u>Capacity to Make Certain Determinations</u>. A majority of the directors of the Corporation shall have the power to determine for the purposes hereof on the basis of information known to them: (i) the number of voting shares of the Corporation of which any Person is the Beneficial Owner, (ii) whether a Person is an Affiliate of Associate of another, (iii) whether a Person has an agreement, arrangement or understanding with another as to the matters referred to in the definition of `Beneficial Owner' as hereinabove defined, (iv) whether the assets subject to any Business Combination constitute a substantial part of total assets, (v) whether two or more transactions constitute a `series of related transactions' as hereinabove defined, and (vi) such other matters with respect to which a determination is required hereunder.

A Related Person shall be deemed to have acquired a share of the Corporation at the time when such Related Person became the Beneficial Owner thereof. With respect to shares owned by Affiliates, Associates or other Persons whose ownership is attributed to a Related Person under the foregoing definition of Beneficial Owner, if the price paid by such Related Person for such shares is not determinable, the price so paid shall be deemed to be the higher of (i) the price paid upon acquisition thereof by the Affiliate, Associate or other Person or (ii) the market price of the shares in question (as determined by a majority of the board of directors of the Corporation) at the time when the Related Person became the Beneficial Owner thereof.

B. <u>Voting Requirements for Merger, Consolidation or Sale of Assets</u>. Subject to any other requirements provided for by law and in this charter or any amendment thereto, in order for any merger or consolidation of this Corporation with another corporation or any sale, lease or exchange by liquidation or otherwise of all or substantially all of the assets of this Corporation to be approved by the shareholders of this Corporation, not less than sixty-six and two-thirds percent (66 2/3%) of the authorized, issued and outstanding voting shares of the Corporation must vote in favor of such action unless the Business Combination has been previously approved by at least sixty-six and two-thirds percent (66 2/3%) of the board of directors of the Corporation in which case only a simple majority vote of the shareholders shall be required.

C. Fair Price Requirement. Neither the Corporation or any of its Subsidiaries shall become party to any Business Combination unless all of the following conditions are satisfied:

(1) The ratio of (i) the aggregate amount of the cash and the fair market value of other consideration to be received per share of common stock of the Corporation in such Business Combination by holders of common stock other than the Related Person involved in such Business Combination, to (ii) the market price per share of the common stock immediately prior to the announcement of the proposed Business Combination, is at least as great as the ratio of (x) the highest per share price (including brokerage commissions, transfer taxes and soliciting dealers' fees) which such Related Person has theretofore paid in acquiring any common stock of the Corporation prior to such Business Combination, to (y) the market price per share of common stock of the Corporation immediately prior to the initial acquisition by such Related Person of any shares of common stock of the Corporation; and

(2) The aggregate amount of the cash and the fair market value of other consideration to be received per share of common stock of the Corporation in such Business Combination by holders of common stock of the Corporation, other than the Related Person involved in such Business Combination, (i) is not less than the highest per share price (including brokerage commissions, transfer taxes and soliciting dealers' fees) paid by such Related Person in acquiring any of its holdings of common stock of the Corporation, and (ii) is not less than the earnings per share of common stock of the Corporation for the four full consecutive fiscal quarters of the Corporation immediately preceding the Date of

Determination of such Business Combination multiplied by the then price/earnings multiple (if any) of such Related Person as customarily computed and reported in the financial community; provided, that for the purposes of this clause (ii), if more than one Person constitutes the Related Person involved in the Business Combination, the price/earnings multiple (if any) of the Person having the highest price/earnings multiple shall be used for the computation in this clause, (ii); and

(3) The consideration (if any) to be received in such Business Combination by holders of common stock of the Corporation other than the Related Person involved shall, except to the extent that a stockholder agrees otherwise as to all or part of the shares which he or she owns, be in the same form and of the same kind as the consideration paid by the Related Person in acquiring common stock of the Corporation already owned by it.

D. Evaluation of Acquisition of this Corporation by Another Corporation. In connection with the exercise of its judgment in determining what is in the best interest of the Corporation and its stockholders when evaluating an acquisition of this Corporation by another corporation or a tender or exchange offer for control of this Corporation, the board of directors of the Corporation shall, in addition to considering the adequacy of the amount to be paid in connection with any such transaction, consider all of the following factors and any other factors which it deems relevant: (i) the social and economic effects of the transaction on the Corporation and its Subsidiaries, employees, depositors, loan and other customers, creditors and other elements of the communities in which the Corporation and its Subsidiaries operate or are located; (ii) the business and financial conditions and earnings prospects of the acquiring entity or entities, including, but not limited to, debt service and other existing or likely financial obligations of the acquiring Person or Persons, and the possible effect of such conditions upon the Corporation and its Subsidiaries operate or are located; and (iii) the competence, experience, and integrity of the acquiring entity or entities and its or their management.

E. Classified Board of Directors. At the first annual meeting of the shareholders, after the effective date of the acquisition of South Branch Valley National Bank as a bank subsidiary, the board of directors shall be divided into three classes, designated Class I, Class II and Class III, consisting of an equal number of directors per class. The term of office of directors of one class shall expire at each annual meeting of stockholders, and as to each director until his or her successor shall be elected and shall qualify, or until his or her earlier resignation, removal from office, death or incapacity. Additional directorships resulting from an increase in number of directors shall be apportioned among the classes as equally as possible. A decrease in the number of directors by death, resignation or removal may but shall not be required to be filled by the remaining board members. The initial term of office of directors of Class I shall expire at the first annual meeting of stockholders, that of Class II shall expire at the second annual meeting, and that of Class III shall expire at the third annual meeting, and in all cases as to each director until his or her successor shall be elected and shall qualify, or until his or her earlier resignation, removal from office, death or incapacity. At each annual meeting of stockholders the number of directors equal to the number of directors of the class whose term expires at the time of such meeting (or, if less, the number of directors properly nominated and qualified for election) shall be elected to hold office until the third succeeding annual meeting of the stockholders after their election.

The directors remaining in office acting by a majority vote, or a sole remaining director, although less than a quorum, are hereby expressly delegated the power to fill any vacancies in the board of directors, however occurring, whether by an increase in the number of directors, death, resignation, retirement, disqualification, removal from office, or otherwise, and any director so chosen shall hold office until the next election of the class for which such director shall have been chosen and until his or her successor shall have been elected and qualified, or until his or her earlier resignation, removal from office, death or incapacity.

The total number of directors of this Corporation shall be not less than nine nor more than twenty-one as from time to time fixed by the board of directors.

F. Nomination of Directors. Nominations for election to the board of directors may be made by the board of directors or by any shareholder entitled to vote for the election of directors. Nominations, other than those made by or on behalf of the existing management of the Corporation, must be made in writing and delivered or mailed to the President of the Corporation not less than thirty (30) days prior to any meeting of shareholders called for the election of directors; provided, however, that if less than thirty (30) days notice of the meeting is given to shareholders, such nomination shall be mailed or delivered to the President of the Corporation not later than the fifth (5th) day following the day on which the notice of meeting was mailed. Such notification shall contain the following information to the extent known by the shareholder: (i) the name and address of each nominee, (ii) the principal occupation of each nominee, (iii) the name and address of the notifying shareholder, and (iv) the number of shares of the Corporation's stock owned by the notifying shareholder. Nominations not made in accordance herewith, may, in the discretion of the chairman of the meeting, be disregarded, and upon his instruction, the votes cast for each such nominee shall be disregarded.

G. Removal of a Director for Cause Only. The removal from office of any director must be for cause as set forth herein. Except as may otherwise be provided by law, cause for removal shall be construed to exist only if:

(1) the director whose removal is proposed has been convicted, or where a director was granted immunity to testify where another has been convicted, of a felony by a court of competent jurisdiction and such conviction is no longer subject to direct appeal; (2) such

director has been adjudicated by a court of competent jurisdiction to be liable for negligence, or misconduct, in the performance of his duty to the Corporation and such adjudication is no longer subject to direct appeal; (3) such director has become mentally incompetent, whether or not so adjudicated, which mental incompetency directly affects his or her ability as a director of the Corporation; (4) such director ceases to fulfill the qualification requirements for a director of a West Virginia bank holding company; or (5) such director's actions or failure to act have been determined by a majority of the board of directors to be in derogation of the director's duties.

Removal for cause, as cause is defined in (1) and (2) above, must be brought within one year of such conviction or adjudication. For purposes of (5) above, the total number of directors as to which a majority is required will not include the director who is the subject of the removal determination, nor will such director be entitled to vote thereon except in his or her shareholder capacity.

H. Anti-Greenmail Provision. The Corporation shall not engage, directly or indirectly, in any Stock Repurchase (as hereinafter defined) from an Interested Stockholder (as hereinafter defined) or an Affiliate (as previously defined) or Associate (as previously defined) of an Interested Stockholder (as hereinafter defined) who has beneficially acquired any shares of voting stock of the Corporation within a period of less than two (2) years immediately prior to the date of such proposed Stock Repurchase (or the date of an agreement in respect thereof) without the affirmative vote of not less than a majority of the votes entitled to be cast by the holders of all then outstanding shares of voting stock of the Corporation which are Beneficially Owned (as previously defined) by persons other than such Interested Stockholder, voting together as a single class. Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that a lesser percentage or separate class vote may be specified, by law or otherwise.

The provisions of this Article shall not be applicable to any particular Stock Repurchase from an Interested Stockholder, and such Stock Repurchase shall require only such affirmative vote, if any, as is required by law if the conditions specified in either of the following Paragraphs 1 or 2 are met:

1. The Stock Repurchase is made pursuant to a tender offer or exchange offer for a class of common stock made available on the same basis to all holders of such class of common stock.

2. The Stock Repurchase is made pursuant to an open market purchase program approved by a majority of the directors of the Corporation provided that such repurchase is effected on the open market and is not the result of a privately negotiated transaction.

For purposes hereof:

1. The term "Stock Repurchase" shall mean any repurchase (or any agreement to repurchase), directly or indirectly, by the Corporation or any Subsidiary of any shares of common stock at a price greater than the Fair Market Value of such shares.

2. The term "Interested Stockholder" shall mean any person (other than this Corporation or any Subsidiary and other than any profit-sharing, employee stock ownership or other employee benefit plan of this Corporation or any Subsidiary or any trustee of or fiduciary with respect to any such plan when acting in such capacity) who (1) is the Beneficial Owner of voting stock of the Corporation representing ten percent (10%) or more of the votes entitled to be cast by the holders of all then outstanding shares of voting stock of the Corporation; and (b) acquired at least one-half of such shares at any time within the two year period immediately prior to the date in question.

3. The term `Fair Market Value' means (a) in the case of a cash purchase, the amount of such cash, (b) in the case of a stock exchange, the fair market value on the date in

questions of a share of such offered stock as determined in good faith by a majority of the directors; and (c) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined in good faith by a majority of the directors.

The board of directors shall have the power and duty to determine for the purposes hereof, on the basis of information known to then after reasonable inquiry, (a) whether a person is an Interested Stockholder, (b) the number of shares of common stock or other securities beneficially owned by any person, (c) whether a person is an Affiliate or Associate of another and (d) whether the consideration to be paid in any Stock Repurchase has an aggregate Fair Market Value in excess of the then Fair Market Value of the shares of common stock being repurchased. Any such determination made in good faith shall be binding and conclusive on all parties.

Nothing contained herein shall be construed to relieve any Interested Stockholder from any fiduciary obligation imposed by law.

1. Director and Officer Indemnification. Unless otherwise prohibited by law, each director and officer of the corporation now or hereafter serving as such, and each director and officer of any majority or wholly owned subsidiary of the corporation that has been designated as entitled to indemnification by resolution of the board of directors of the corporation as may be from time to time determined by said board, shall be indemnified by the corporation against any and all claims and liabilities (other than an action by or in the right of the corporation or any majority or wholly owned subsidiary of the corporation) including expenses of defending such claim of liability to which he or she has or shall become subject by reason of any action alleged to have been taken, omitted, or neglected by him or her as such director or officer provided the director or officer acted in good faith and in a manner which the director or officer reasonably believed to be in or not opposed to the

best interests of the corporation. With respect to any criminal proceeding, a director or officer shall be entitled to indemnification if such person had no reasonable cause to believe his or her conduct was unlawful. The corporation shall reimburse each such person as provided above in connection with any claim or liability brought or arising by or in the right of the corporation or any majority or wholly owned subsidiary of the corporation provided, however, that such person shall be not indemnified in connection with, any claim or liability brought by or in the right of the corporation or any majority or wholly owned subsidiary of the corporation as to which the director or officer shall have been adjudged to be liable for negligence or misconduct in the performance of his or her duty to the corporation or any majority or wholly owned subsidiary of the corporation unless and only to the extent that the court in which such action or proceeding was brought shall determine upon application that, despite the adjudication of liability but in view of all circumstances of the case, such person is fairly and reasonably entitled to indemnify for such expenses which such court shall deem proper.

The determination of eligibility for indemnification shall be made by those board members not party to the action or proceeding or in the absence of such board members by a panel of independent shareholders appointed for such purpose by a majority of the shareholders of the corporation or in any other manner provided by law.

The right of indemnification hereinabove provided for shall not be exclusive or any rights to which any director or officer of the corporation may otherwise be entitled by law.

The board of directors may be by resolution, by law or other lawful manner from time to time as it shall determine extend the indemnification provided herein to agents and employees of the corporation, to directors, officers, agents or employees of other corporations or entities owned in whole or in part by the corporation. The corporation may purchase and maintain insurance for the purposes hereof.

J. Voting Requirements for Charter Amendments. Any amendment, change or repeal of this Article X or any other amendment of these Articles of Incorporation, which would have the effect of modifying or permitting circumvention of any provision of these Articles of Incorporation, shall require the affirmative vote, at a meeting of stockholders of the Corporation, of holders of at least sixty-six and two-thirds percent (66 2/3%) of the then outstanding voting shares of the Corporation; provided, however, that this provision shall not apply to, and such vote shall not be required for, any such amendment, change or repeal recommended to stockholders by the favorable vote of not less than sixty-six and two-thirds percent (66 2/3%) of the directors of the Corporation and any such amendment, change or repeal so recommended shall require only a simple majority vote of the shareholders to be approved.

WE, THE UNDERSIGNED, for the purpose of forming a corporation under the laws of the State of West Virginia, do make and file in duplicate these ARTICLES OF INCORPORATION, and we have accordingly hereunto set our hands this 3rd day of March, 1987.

/s/ Oscar M. Bean
Oscar M. Bean

/s/ Donald W. Biller
Donald W. Biller

/s/ Thomas J. Hawse
Thomas J. Hawse

/s/ Phoebe F. Heishman
Phoebe F. Heishman

/s/ Ed A. Leatherman, Jr.
Ed A. Leatherman, Jr.

/s/ Aleck Welton
J. Aleck Welton

/s/ Renick C. Williams
Renick C. Williams

/s/ Michael T. Wilson
Michael T. Wilson

/s/ Harry C. Welton
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Harry C. Welton

/s/ A. Clyde Ours, Jr.
----------------------
A. Clyde Ours, Jr.

/s/ E.E. Hott
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E.E. Hott

Exhibit 11

STATEMENT RE: COMPUTATION OF EARNINGS PER SHARE

| | Years Ended December 31, 2002 | 2001 | 2000 |
|---|---|---|---|
| Numerator: | | | |
| Net Income | $7,238,298 | $5,266,462 | $3,249,919 |
| Denominator: | | | |
| Denominator for basic earnings per share -- weighted average common shares outstanding | 1,753,982 | 1,754,449 | 1,760,845 |
| Effect of dilutive securities: | | | |
| Officer stock option plan | 9,058 | 693 | - |
| Denominator for diluted earnings per share -- weighted average common shares outstanding and assumed conversions | 1,763,040 | 1,755,142 | 1,760,845 |
| Basic earnings per share | $ 4.13 | $ 3.00 | $ 1.85 |
| Diluted earnings per share | $ 4.11 | $ 3.00 | $ 1.85 |

FINANCIAL INFORMATION 2002

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SELECTED FINANCIAL DATA

| (Dollars in thousands, except per share amounts) | For the Year Ended (unless otherwise noted) 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|
| **Summary of Operations** | | | | | |
| Interest income | $ 40,689 | $ 37,919 | $ 32,264 | $ 25,114 | $ 20,638 |
| Interest expense | 18,842 | 20,438 | 18,276 | 12,234 | 10,288 |
| Net interest income | 21,847 | 17,481 | 13,988 | 12,880 | 10,350 |
| Provision for loan losses | 1,215 | 830 | 558 | 370 | 615 |
| Net interest income after provision for loan losses | 20,632 | 16,651 | 13,430 | 12,510 | 9,735 |
| Noninterest income | 1,945 | 1,810 | 1,228 | 821 | 753 |
| Noninterest expense | 12,607 | 10,737 | 9,865 | 8,718 | 6,638 |
| Income before income taxes | 9,970 | 7,724 | 4,793 | 4,613 | 3,850 |
| Income taxes | 2,732 | 2,458 | 1,543 | 1,570 | 1,248 |
| Net income | $ 7,238 | $ 5,266 | $ 3,250 | $ 3,043 | $ 2,602 |
| **Balance Sheet Data (at year end)** | | | | | |
| Assets | $ 671,784 | $ 591,757 | $ 481,239 | $ 385,767 | $ 287,296 |
| Securities | 212,598 | 207,117 | 176,741 | 112,770 | 64,978 |
| Loans | 419,205 | 347,526 | 274,153 | 238,299 | 195,277 |
| Deposits | 458,648 | 396,205 | 345,962 | 297,139 | 228,341 |
| Short-term borrowings | 20,191 | 24,033 | 9,391 | 32,348 | 4,644 |
| Long-term borrowings | 133,787 | 123,445 | 81,086 | 17,943 | 16,469 |
| Shareholders' equity | 52,080 | 44,287 | 39,773 | 35,083 | 35,957 |
| **Per Share Data** | | | | | |
| Basic earnings | $ 4.13 | $ 3.00 | $ 1.85 | $ 1.69 | $ 1.53 |
| Diluted earnings | 4.11 | 3.00 | 1.85 | 1.69 | 1.53 |
| Shareholders' equity (at year end) | 29.73 | 25.24 | 22.66 | 19.90 | 20.02 |
| Cash dividends | 0.75 | 0.70 | 0.60 | 0.48 | 0.45 |
| **Performance Ratios** | | | | | |
| Return on average equity | 15.15% | 12.38% | 8.93% | 8.52% | 7.44% |
| Return on average assets | 1.15% | 1.00% | 0.75% | 0.88% | 0.95% |
| Dividend payout | 18.2% | 23.3% | 32.5% | 27.3% | 30.7% |
| Equity to assets | 7.8% | 7.5% | 8.3% | 9.1% | 12.5% |

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### INTRODUCTION AND SUMMARY

The following is a discussion and analysis of our financial condition and financial results of operations for Summit Financial Group, Inc. ("Company" or "Summit") and our wholly owned subsidiaries, Summit Community Bank, Capital State Bank, Inc. ("Capital State"), Shenandoah Valley National Bank ("Shenandoah"), and SFG Capital Trust I as of December 31, 2002. This discussion may contain forward looking statements based on our expectations and actual results may differ materially. Since our primary business activities are conducted through our wholly owned bank subsidiaries, the following discussion focuses primarily on the financial condition and operations of those entities. All amounts and percentages have been rounded for this discussion. This discussion and analysis should be read in conjunction with our accompanying Consolidated Financial Statements and Notes thereto as of December 31, 2002 and for each of the three years then ended.

This annual report contains certain forward-looking statements (as defined in the Private Securities Litigation Act of 1995), which reflect our beliefs and expectations based on information currently available. These forward-looking statements are inherently subject to significant risks and uncertainties, including changes in general economic and financial market conditions, our ability to effectively carry out our business plans and changes in regulatory or legislative requirements. Other factors that could cause or contribute to such differences are changes in competitive conditions and continuing consolidation in the financial services industry. Although we believe the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially.

### CRITICAL ACCOUNTING POLICIES

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

Our most significant accounting policies are presented in Note 1 to the consolidated financial statements. These policies, along with the disclosures presented in the other financial statement notes and in this financial review, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined.

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

The allowance for loan losses represents our estimate of probable credit losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset type on our consolidated balance sheet. To the extent actual outcomes differ from our estimates, additional provisions for loan losses may be required that would negatively impact earnings in future periods. Note 1 to the consolidated financial statements describes the methodology used to determine the allowance for loan losses and a discussion of the factors driving changes in the amount of the allowance for loan losses is included in the Asset Quality section of this financial review.

With the adoption of SFAS No. 142 on January 1, 2002, we discontinued the amortization of goodwill resulting from acquisitions. Goodwill is now subject to impairment testing at least annually to determine whether write-downs of the recorded balances are necessary. A fair value is determined based on at least one of three various market valuation methodologies. If the fair value equals or exceeds the book value, no write-down of recorded goodwill is necessary. If the fair value is less than the book value, an expense may be required on our books to write down the goodwill to the proper carrying value. During the second quarter of 2002, we completed the required transitional impairment test and determined that no impairment write-offs were necessary. We can not assure you that future goodwill impairment tests will not result in a charge to earnings. See Notes 1 and 9 of the accompanying consolidated financial statements for further discussion of our intangible assets, which include goodwill.

## RESULTS OF OPERATIONS

### Earnings Summary

Net income for the three years ended December 31, 2002, 2001 and 2000, was $7,238,000, $5,266,000, and $3,250,000 respectively. On a per share basis, diluted net income was $4.11 in 2002 compared to $3.00 in 2001, and $1.85 in 2000. Return on average equity was 15.15% in 2002 compared to 12.38% in 2001, and 8.93% in 2000. Return on average assets for the year ended December 31, 2002 was 1.15% compared to 1.00% in 2001 and 0.75% in 2000. A summary of the significant factors influencing our results of operations and related ratios is included in the following discussion.

### Net Interest Income

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

Net interest income on a fully tax equivalent basis, average balance sheet amounts, and corresponding average yields on interest earning assets and costs of interest bearing liabilities for the years 2002, 2001 and 2000 are presented in Table I. Table II presents, for the periods indicated, the changes in interest income and expense attributable to (a) changes in volume (changes in volume multiplied by prior period rate) and (b) changes in rate (change in rate multiplied by prior period volume). Changes in interest income and expense attributable to both rate and volume have been allocated between the factors in proportion to the relationship of the absolute dollar amounts of the change in each.

Net interest income, adjusted to a fully tax equivalent basis, totaled $22,873,000, $18,013,000 and $14,431,000 for the years ended December 31, 2002, 2001 and 2000, respectively. Our net interest margin was 3.9% for 2002 compared to 3.6% and 3.5% for 2001 and 2000, respectively. The net interest margin recognizes earning asset growth by expressing net interest income as a percentage of total average earning assets. Our net interest margin increased 30 basis points in 2002 primarily due to growth in our volumes of interest earning assets, and the continued downturn of the economy, which has pushed rates down, thus lowering our cost of funds. We began to see the effects of the lower costs of funds during 2001, when our net interest margin increased 10 basis points. That increase in our net interest margin was also due to growth in the volumes of interest earning assets.

As identified in Table II, tax equivalent net interest income grew $4,860,000 and $3,582,000 during 2002 and 2001, respectively, due primarily to the substantial growth in the volumes of the interest earning assets in both years.

If market interest rates were to rise significantly in 2003, the spread between interest earning assets and interest bearing liabilities could begin to narrow again, thus negatively impacting our net interest income. We continue to monitor the net interest margin through net interest income simulation to minimize the potential for any significant negative impact. See the Market Risk Management section for further discussion of the impact changes in market interest rates could have on us.

Table I - Average Distribution of Assets, Liabilities and Shareholders' Equity, Interest Earnings & Expenses, and Average Rates
Dollars in thousands

| | 2002 | | | 2001 | | | 2000 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Average Balances | Earnings/ Expense | Yield Rate | Average Balances | Earnings/ Expense | Yield Rate | Average Balances | Earnings/ Expense | Yield Rate |
| ASSETS | | | | | | | | | |
| Interest earning assets | | | | | | | | | |
| Loans, net of unearned interest (1) | | | | | | | | | |
| Taxable | $ 376,745 | $ 28,626 | 7.6% | $ 301,030 | $ 25,592 | 8.5% | $ 248,404 | $ 21,630 | 8.7% |
| Tax-exempt (2) | 6,268 | 529 | 8.4% | 3,201 | 320 | 10.0% | 2,211 | 261 | 11.8% |
| Securities | | | | | | | | | |
| Taxable | 169,728 | 9,840 | 5.8% | 164,303 | 10,897 | 6.6% | 139,476 | 9,484 | 6.8% |
| Tax-exempt (2) | 34,968 | 2,572 | 7.4% | 18,526 | 1,385 | 7.5% | 13,202 | 1,046 | 7.9% |
| Federal funds sold and interest bearing deposits with other banks | 5,458 | 148 | 2.7% | 7,002 | 257 | 3.7% | 4,305 | 286 | 6.6% |
| | 593,167 | 41,715 | 7.0% | 494,062 | 38,451 | 7.8% | 407,598 | 32,707 | 8.0% |
| Noninterest earning assets | | | | | | | | | |
| Cash and due from banks | 8,981 | | | 8,872 | | | 8,166 | | |
| Bank premises and equipment | 13,079 | | | 12,533 | | | 10,666 | | |
| Other assets | 16,966 | | | 11,552 | | | 8,877 | | |
| Allowance for loan losses | (3,649) | | | (2,777) | | | (2,414) | | |
| Total assets | $ 628,544 | | | $ 524,242 | | | $ 432,893 | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | | | | |
| Liabilities | | | | | | | | | |
| Interest bearing liabilities | | | | | | | | | |
| Interest bearing demand deposits | $ 93,001 | $ 1,302 | 1.4% | $ 74,430 | $ 1,889 | 2.5% | $ 60,351 | $ 2,027 | 3.4% |
| Savings deposits | 45,766 | 550 | 1.2% | 40,052 | 893 | 2.2% | 39,738 | 1,094 | 2.8% |
| Time deposits | 247,587 | 9,712 | 3.9% | 224,068 | 11,984 | 5.3% | 187,665 | 10,476 | 5.6% |
| Short-term borrowings | 15,973 | 326 | 2.0% | 11,879 | 452 | 3.8% | 48,867 | 3,087 | 6.3% |
| Long-term borrowings and capital trust securities | 134,384 | 6,952 | 5.2% | 93,231 | 5,220 | 5.6% | 28,033 | 1,592 | 5.7% |
| | 536,711 | 18,842 | 3.5% | 443,660 | 20,438 | 4.6% | 364,654 | 18,276 | 5.0% |
| Noninterest bearing liabilities | | | | | | | | | |
| Demand deposits | 39,364 | | | 33,679 | | | 28,017 | | |
| Other liabilities | 4,687 | | | 4,383 | | | 3,845 | | |
| Total liabilities | 580,762 | | | 481,722 | | | 396,516 | | |
| Shareholders' equity | 47,782 | | | 42,520 | | | 36,377 | | |
| Total liabilities and shareholders' equity | $ 628,544 | | | $ 524,242 | | | $ 432,893 | | |
| NET INTEREST EARNINGS | | $ 22,873 | | | $ 18,013 | | | $ 14,431 | |
| NET INTEREST YIELD ON EARNING ASSETS | | | 3.9% | | | 3.6% | | | 3.5% |

(1) - For purposes of this table, non-accrual loans are included in average loan balances. Included in interest and fees on loans are loan fees of $288,000, $227,000 and $343,000 for the years ended December 31, 2002, 2001 and 2000 respectively.

(2) - For purposes of this table, interest income on tax-exempt securities and loans has been adjusted assuming an effective combined Federal and state tax rate of 34% for all years presented. The tax equivalent adjustment results in an increase in interest income of $1,026,000, $533,000 and $443,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

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

| | 2002 Versus 2001 | | | 2001 Versus 2000 | | |
|---|---|---|---|---|---|---|
| | Increase (Decrease) Due to Change in: | | | Increase (Decrease) Due to Change in: | | |
| | Volume | Rate | Net | Volume | Rate | Net |
| Interest earned on: | | | | | | |
| Loans | | | | | | |
| Taxable | $ 5,956 | $(2,922) | $ 3,034 | $ 4,484 | $ (522) | $ 3,962 |
| Tax-exempt | 266 | (57) | 209 | 104 | (45) | 59 |
| Securities | | | | | | |
| Taxable | 351 | (1,408) | (1,057) | 1,651 | (238) | 1,413 |
| Tax-exempt | 1,210 | (23) | 1,187 | 401 | (62) | 339 |
| Federal funds sold and interest bearing deposits with other banks | (50) | (59) | (109) | 132 | (161) | (29) |
| Total interest earned on interest earning assets | 7,733 | (4,469) | 3,264 | 6,772 | (1,028) | 5,744 |
| Interest paid on: | | | | | | |
| Interest bearing demand deposits | 395 | (982) | (587) | 417 | (555) | (138) |
| Savings deposits | 113 | (456) | (343) | 9 | (210) | (201) |
| Time deposits | 1,163 | (3,435) | (2,272) | 1,962 | (454) | 1,508 |
| Short-term borrowings | 125 | (251) | (126) | (1,728) | (907) | (2,635) |
| Long-term borrowings and capital trust securities | 2,155 | (423) | 1,732 | 3,651 | (23) | 3,628 |
| Total interest paid on interest bearing liabilities | 3,951 | (5,547) | (1,596) | 4,311 | (2,149) | 2,162 |
| Net interest income | $ 3,782 | $ 1,078 | $ 4,860 | $ 2,461 | $ 1,121 | $ 3,582 |

Provision for Loan Losses

The provision for loan losses represents our determination of the amount necessary to be charged against the current period's earnings in order to maintain the allowance for loan losses at a level which is considered adequate in relation to the estimated risk inherent in the loan portfolio. The provision for loan losses for each of the years ended December 31, 2002, 2001 and 2000 totaled $1,215,000, $830,000 and $558,000, respectively. As further discussed in the Loan Portfolio and Risk Elements sections of this analysis, we increased the provision for loan losses $385,000 in 2002 and $272,000 in 2001 in order to keep up with the continued growth of our loan portfolio. An analysis of the components comprising the allowance for loan losses for each of the past five years, including charge offs and recoveries within each significant loan classification, is presented in Table VIII.

Noninterest Income

Noninterest income totaled $1,945,000, $1,810,000 and $1,228,000, or 0.31%, 0.34% and 0.28% of average assets, in 2002, 2001, and 2000, respectively. Included in noninterest income for 2002 is losses on securities of $140,000 and also $357,000 in mortgage origination revenue. Included in noninterest income for 2001 is $379,000 securities gain. Further detail regarding noninterest income follows in Table III.

Noninterest Expense

Noninterest expense totaled $12,606,000, $10,737,000 and $9,865,000 or 2.01%, 2.04% and 2.28% of average assets for each of the years ended December 31, 2002, 2001 and 2000, respectively. Total noninterest expense increased $1,869,000 in 2002 compared to 2001 and $872,000 in 2001 compared to 2000. The primary factor contributing to growth in noninterest expense in both 2002 and 2001 was an increase in salaries and employee benefits expense as a result of general merit raises, and the addition of new staff positions required as a result of our growth. Further detail regarding noninterest expense follows in Table III.

Table III - Noninterest Income and Expense
Dollars in thousands

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Noninterest income | | | |
| Insurance commissions | $ 187 | $ 105 | $ 110 |
| Service fees | 1,341 | 1,055 | 876 |
| Mortgage origination revenue | 357 | 73 | - |
| Securities gains (losses) | (140) | 379 | 2 |
| Gain on sale of branch bank | - | - | 225 |
| Other | 200 | 198 | 15 |
| Total | $ 1,945 | $ 1,810 | $ 1,228 |
| Noninterest expense | | | |
| Salaries and employee benefits | $ 6,864 | $ 5,670 | $ 4,863 |
| Net occupancy expense | 784 | 706 | 628 |
| Equipment expense | 1,248 | 1,171 | 974 |
| Supplies | 475 | 330 | 303 |
| Advertising expenses | 369 | 278 | 229 |
| Professional fees | 434 | 454 | 447 |
| Amortization of intangibles | 151 | 282 | 298 |
| Other | 2,282 | 1,846 | 2,123 |
| Total | $ 12,607 | $ 10,737 | $ 9,865 |

Income Tax Expense

Income tax expense for the three years ended December 31, 2002, 2001 and 2000 totaled $2,732,000, $2,457,000 and $1,543,000, respectively. Refer to Note 12 of the accompanying consolidated financial statements for further information and additional discussion of the significant components influencing our effective income tax rates.

CHANGES IN FINANCIAL POSITION

Total average assets in 2002 were $628,544,000, an increase of 19.9% over 2001's average of $524,242,000. Similarly, average assets grew 21.1% in 2001, from $432,893,000 in 2000. The primary growth in 2002 was in loans throughout our company during the year. Significant changes in the components of our balance sheet in 2002 and 2001 are discussed below.

Securities

Securities comprised approximately 31.6% of total assets at December 31, 2002 compared to 35.0% at December 31, 2001. Average securities approximated $204,696,000 for 2002 or 12.0% more than 2001's average of $182,829,000. The growth in our securities portfolio in 2002 reflects increased investments primarily in tax-exempt municipals and corporate debt securities, which were funded principally by increased deposits, primarily at Shenandoah. Refer to Note 4 of the accompanying consolidated financial statements for details of amortized cost, the estimated fair values, unrealized gains and losses as well as the security classifications by type.

All of our securities are classified as available for sale to provide us with flexibility to better manage our balance sheet structure and react to asset/liability management issues as they arise. Pursuant to SFAS No. 115, anytime that we carry a bond with an unrealized loss that has been determined to be "other than temporary", we must recognize that loss in income. Due to a decrease in the credit rating of one of our corporate bonds during 2002, we recognized a $213,000 write down on that security, as we felt that the loss was other than temporary. At December 31, 2002, we did not own securities of any one issuer that were not issued by the U.S. Treasury or a U.S. Government agency that exceeded ten percent of shareholders' equity. The maturity distribution of the securities portfolio at December 31, 2002, together with the weighted average yields for each range of maturity, are summarized in Table IV. The stated average yields are actual yields and are not stated on a tax equivalent basis.

Table IV - Securities Maturity Analysis
(At amortized cost, dollars in thousands)

| | Within one year | | After one but within five years | | After five but within ten years | | After ten years | |
|---|---|---|---|---|---|---|---|---|
| | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield |
| U. S. Government agencies and corporations | $ 3,655 | 5.3% | $ 20,748 | 5.6% | $ 8,296 | 6.6% | $ - | 0.0% |
| Mortgage backed securities | 57,355 | 4.9% | 30,586 | 5.3% | 2,336 | 6.4% | 3,745 | 7.1% |
| State and political subdivisions | 1,638 | 5.6% | 6,947 | 5.0% | 5,765 | 5.2% | 25,104 | 5.1% |
| Corporate debt securities | 6,024 | 7.1% | 21,347 | 5.7% | 347 | 4.5% | 245 | 9.9% |
| Other | - | - | - | - | - | - | 13,297 | 3.6% |
| Total | $ 68,672 | 5.1% | $ 79,628 | 5.4% | $ 16,744 | 6.3% | $ 42,391 | 4.8% |

Loan Portfolio

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

Table V - Loans by Type
Dollars in thousands

| | 2002 | | 2001 | | 2000 | | 1999 | | 1998 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Amount | Percent of Total | Amount | Percent of Total | Amount | Percent of Total | Amount | Percent of Total | Amount | Percent of Total |
| Commercial, financial, and agricultural | $206,567 | 49.4% | $148,041 | 42.8% | $108,114 | 39.4% | $ 78,894 | 33.1% | $ 54,359 | 27.8% |
| Real estate - construction | 4,494 | 1.1% | 2,394 | 0.7% | 2,729 | 1.0% | 2,012 | 0.8% | 1,801 | 0.9% |
| Real estate - mortgage | 161,006 | 38.5% | 149,050 | 43.1% | 124,326 | 45.3% | 116,779 | 49.0% | 101,014 | 51.7% |
| Consumer | 39,841 | 9.5% | 40,777 | 11.8% | 36,983 | 13.5% | 38,091 | 16.0% | 36,197 | 18.5% |
| Other | 6,390 | 1.5% | 5,750 | 1.6% | 2,001 | 0.8% | 2,524 | 1.1% | 1,906 | 1.1% |
| Total loans | $418,298 | 100.0% | $346,012 | 100.0% | $274,153 | 100.0% | $238,300 | 100.0% | $195,277 | 100.0% |

Total net loans averaged $383,013,000 in 2002 and comprised 60.9% of total average assets compared to $304,231,000 or 58.0% of total average assets during 2001. The increase in the dollar volume of loans is primarily attributable to continuation of our strategy, which began in 1996, to aggressively seek quality commercial and real estate loans.

Refer to Note 5 of the accompanying consolidated financial statements for our loan maturities and a discussion of our adjustable rate loans as of December 31, 2002.

In the normal course of business, we make various commitments and incur certain contingent liabilities, which are disclosed in Note 14 of the accompanying consolidated financial statements but not reflected in the accompanying consolidated financial statements. There have been no significant changes in these types of commitments and contingent liabilities and we do not anticipate any material losses as a result of these commitments.

Property Held for Sale

At December 31, 2002, we had $1,859,650 classified as property held for sale. This primarily consists of the land and building associated with two of our facilities that we plan to sell during 2003. See Note 7 of the accompanying consolidated financial statements for more details. SFAS No. 144 requires that we record this property at the lower of carrying value or estimated fair value. Our anticipated sale prices of these properties is slightly greater than our carrying value, thus no impairment charges have been recorded.

Deposits

Total deposits at December 31, 2002 increased $62,443,000 or 15.8% compared to December 31, 2001. Average deposits increased $47,804,000, or 14.1% during 2002. This increase resulted primarily from the growth of Shenandoah's deposits.

See Table I for average deposit balance and rate information by deposit type for 2002, 2001 and 2000 and Note 10 of the accompanying consolidated financial statements for a maturity distribution of time deposits as of December 31, 2002.

Borrowings

Lines of Credit: We have available lines of credit from various correspondent banks totaling $15,100,000 at December 31, 2002. These lines are utilized when temporary day to day funding needs arise. They are reflected on the consolidated balance sheet as short-term borrowings. We also have remaining available lines of credit from the Federal Home Loan Bank totaling $67,225,000 at December 31, 2002. We use these lines primarily to fund loans to customers. Funds acquired through this program are reflected on the consolidated balance sheet in short-term borrowings or long-term borrowings, depending on the repayment terms of the debt agreement.

Short-term Borrowings: Total short-term borrowings decreased $3,842,000 from $24,033,000 at December 31, 2001 to $20,191,000 at December 31, 2002. See Note 11 of the accompanying consolidated financial statements for additional disclosures regarding our short-term borrowings.

Long-term Borrowings: Total long-term borrowings of $133,787,000 at December 31, 2002, consisting primarily of funds borrowed on available lines of credit from the Federal Home Loan Bank, increased $10,342,000 compared to the $123,445,000 outstanding at December 31, 2001. These borrowings were made principally to fund our loan growth. Refer to Note 11 of the accompanying consolidated financial statements for additional information regarding our long-term borrowings.

Capital Trust Securities

In October 2002, we issued $3,500,000 in capital trust securities (see Note 15 of the accompanying consolidated financial statements for further information regarding the structure and terms of these securities), which under regulatory capital requirements qualify, within certain limitations, as Tier I capital. Accordingly, these securities were issued to boost our capital to support our growth in 2002, principally at Shenandoah.

ASSET QUALITY

Table VI presents a summary of non-performing assets at December 31, as follows:

Table VI - Nonperforming Assets
Dollars in thousands

| | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|
| Nonaccrual loans | $ 917 | $ 788 | $ 568 | $ 522 | $ 783 |
| Accruing loans past due 90 days or more | 574 | 328 | 267 | 476 | 431 |
| Restructured loans | - | - | - | - | - |
| Total nonperforming loans | $ 1,491 | $ 1,116 | $ 835 | $ 998 | $ 1,214 |
| Foreclosed properties | 81 | 81 | - | - | - |
| Nonaccrual securities | 421 | - | - | - | - |
| Total nonperforming assets | $ 1,993 | $ 1,197 | $ 835 | $ 998 | $ 1,214 |
| Total nonperforming loans as a percentage of total loans | 0.4% | 0.3% | 0.3% | 0.4% | 0.6% |
| Total nonperforming assets as a percentage of total assets | 0.3% | 0.2% | 0.2% | 0.3% | 0.4% |

As illustrated in Table VI, the quality of our loan portfolio remains sound. Despite an increase in total nonaccrual loans and accruing loans past due 90 days or more from $1,116,000 at December 31, 2001 to $1,491,000 at December 31, 2002, nonperforming loans remain at historically moderate levels in relation to the loan portfolio's size and substantially below recent industry averages. Refer to Note 6 of the accompanying consolidated financial statements for a discussion of impaired loans which are included in the above balances.

Included in the net balance of loans are non-accrual loans amounting to $917,000 and $788,000 at December 31, 2002 and 2001, respectively. If these loans had been on accrual status throughout 2002, the amount of interest income that we would have recognized would have been $77,000. The actual amount of interest income recognized in 2002 on these loans was $20,000.

We maintain an allowance for loan losses at a level considered adequate to provide for losses that can be reasonably anticipated. We conduct quarterly evaluations of our loan portfolio to determine its adequacy. The evaluation is based on assessments of specifically identified loans, loss experience factors, current and anticipated economic conditions and other factors to identify and estimate inherent losses from homogeneous pools of loans. In addition, we conduct comprehensive, ongoing reviews of our loan portfolio, which encompasses the identification of all potential problem credits to be included on an internally generated watch list.

The identification of loans for inclusion on the watch list is facilitated through the use of various sources, including past due loan reports, previous internal and external loan evaluations, classified loans identified as part of regulatory agency loan reviews and reviews of new loans representative of current lending practices. Once this list is reviewed to ensure it is complete, we review the specific loans for collectibility, performance and collateral protection. In addition, a grade is assigned to the individual loans utilizing internal grading criteria, which is somewhat similar to the criteria utilized by each subsidiary bank's primary regulatory agency. Based on the results of these reviews, specific reserves for potential losses are identified and the allowance for loan losses is adjusted appropriately through a provision for loan losses.

While there may be some loans or portions of loans identified as potential problem credits which are not specifically identified as either nonaccrual or accruing loans past due 90 or more days, we consider them to be insignificant to the overall disclosure and are, therefore, not specifically quantified within this discussion. In addition, we feel these additional loans do not represent or result from trends or uncertainties which we reasonably expect will materially impact future operating results, liquidity or capital resources. Also, these loans do not represent material credits about which we are aware of any information which would cause the borrowers to not comply with the loan repayment terms.

We allocate specific reserves to non-performing loans based on the quarterly evaluation of expected loan loss reserve requirements. In addition, a portion of the reserve is determined through the use of loan loss experience factors which do not provide for identification of specific potential problem loans. As noted above, some of the loans, which are not deemed significant, are included in the watch list of potential problem loans and have specific reserves allocated to them.

The allocated portion of the subsidiary banks' allowance for loan losses is established on a loan-by-loan and pool-by-pool basis. The unallocated portion is for inherent losses that probably exist as of the evaluation date, but which have not been specifically identified by the processes used to establish the allocated portion due to inherent imprecision in the objective processes we utilize to identify probable and estimable losses. This unallocated portion is subjective and requires judgment based on various qualitative factors in the loan portfolio and the market in which we operate. At December 31, 2002 and 2001, respectively, the unallocated portion of the allowance approximated $62,000 and $152,000, or 1.5% and 4.9% of the total allowance. This unallocated portion of the allowance is considered necessary based on consideration of the known risk elements in certain pools of loans in the loan portfolio and our assessment of the economic environment in which we operate. More specifically, while loan quality remains good, the subsidiary banks have typically experienced greater losses within certain homogeneous loan pools when our market area has experienced economic downturns or other significant negative factors or trends, such as increases in bankruptcies, unemployment rates or past due loans.

At December 31, 2002 and 2001, our allowance for loan losses totaled $4,053,000, or 0.97% of total loans and $3,110,000 or 0.89% of total loans, respectively, and is considered adequate to cover inherent losses in our loan portfolio. Table VII presents an allocation of the allowance for loan losses by loan type at each respective year end date, as follows:

Table VII - Allocation of the Allowance for Loan Losses
Dollars in thousands

| | 2002 | | 2001 | | 2000 | | 1999 | | 1998 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Amount | % of loans in each category to total loans | Amount | % of loans in each category to total loans | Amount | % of loans in each category to total loans | Amount | % of loans in each category to total loans | Amount | % of loans in each category to total loans |
| Commercial | $ 2,054 | 49.4% | $ 1,036 | 42.8% | $ 1,037 | 39.4% | $ 951 | 33.1% | $ 861 | 27.8% |
| Real estate | 939 | 39.6% | 985 | 43.8% | 127 | 46.3% | 383 | 49.8% | 366 | 52.6% |
| Installment | 998 | 9.5% | 937 | 11.8% | 1,313 | 13.5% | 806 | 16.0% | 800 | 18.5% |
| Other | - | 1.5% | - | 1.6% | - | 0.8% | - | 1.1% | - | 1.1% |
| Unallocated | 62 | - | 152 | - | 94 | - | 92 | - | 86 | - |
| | $ 4,053 | 100.0% | $ 3,110 | 100.0% | $ 2,571 | 100.0% | $ 2,232 | 100.0% | $ 2,113 | 100.0% |

At December 31, 2002, we had approximately $81,000 in other real estate owned which was obtained as the result of foreclosure proceedings. Foreclosures have been insignificant throughout 2002 and we do not anticipate any material losses on the property currently held in other real estate owned.

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

Table VIII - Allowance for Loan Losses
Dollars in thousands

| | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|
| Balance, beginning of year | $ 3,110 | $ 2,571 | $ 2,232 | $ 2,113 | $ 1,489 |
| Losses: | | | | | |
| Commercial financial & agriculture | 138 | 108 | - | 165 | 183 |
| Real estate - mortgage | 30 | 47 | 63 | 32 | 1 |
| Consumer | 173 | 191 | 175 | 144 | 204 |
| Other | 75 | 76 | 49 | 37 | 25 |
| Total | 416 | 422 | 287 | 378 | 413 |
| Recoveries: | | | | | |
| Commercial financial & agriculture | 39 | 10 | 2 | 40 | 3 |
| Real estate - mortgage | 17 | 1 | 2 | 10 | 22 |
| Consumer | 71 | 99 | 53 | 71 | 118 |
| Other | 17 | 21 | 11 | 6 | 7 |
| Total | 144 | 131 | 68 | 127 | 150 |
| Net losses | 272 | 291 | 219 | 251 | 263 |
| Allowance of purchased subsidiary | - | - | - | - | 272 |
| Provision for loan losses | 1,215 | 830 | 558 | 370 | 615 |
| Balance, end of year | $ 4,053 | $ 3,110 | $ 2,571 | $ 2,232 | $ 2,113 |

LIQUIDITY

Liquidity reflects our ability to ensure the availability of adequate funds to meet loan commitments and deposit withdrawals, as well as provide for other transactional requirements. Liquidity is provided primarily by funds invested in cash and due from banks (net of float and reserves), Federal funds sold, non-pledged securities, and available lines of credit with the Federal Home Loan Bank, which totaled approximately $116 million or 17% of total consolidated assets at December 31, 2002.

We continuously monitor our liquidity position to ensure that day-to-day as well as anticipated funding needs are met. We are not aware of any trends, commitments, events or uncertainties that have resulted in or are reasonably likely to result in a material change to our liquidity.

MARKET RISK MANAGEMENT

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

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

Several techniques are available to monitor and control the level of interest rate risk. We primarily use earnings simulations modeling to monitor interest rate risk. The earnings simulation model forecasts the effects on net interest income under a variety of interest rate scenarios that incorporate changes in the absolute level of interest rates and changes in the shape of the yield curve. Assumptions used to project yields and rates for new loans and deposits are derived from historical analysis. Securities portfolio maturities and prepayments are reinvested in like instruments. Mortgage loan prepayment assumptions are developed from industry estimates of prepayment speeds. Noncontractual deposit repricings are modeled on historical patterns.

As of December 31, 2002, our earnings simulation model projects net interest income would decrease by approximately 1.3% if rates rise evenly by 200 basis points over the next year, as compared to projected stable rate net interest income. Also, the model projects that if rates fall evenly by 200 basis points over the next year, our net interest income would decrease by approximately 0.4%, as compared to projected stable rate net interest income. These projected changes are well within our ALCO policy limit of +/- 10%.

CONTRACTUAL CASH OBLIGATIONS

During our normal course of business, we incur contractual cash obligations. The following table summarizes our contractual cash obligations at December 31, 2002.

| | Long Term Debt | Capital Trust Securities |
|---|---|---|
| 2003 | $ 4,935,414 | $ - |
| 2004 | 18,901,198 | - |
| 2005 | 8,000,038 | - |
| 2006 | 7,807,554 | - |
| 2007 | 3,860,365 | - |
| Thereafter | 90,282,451 | 3,500,000 |
| Total | $ 133,787,020 | $ 3,500,000 |

OFF-BALANCE SHEET ARRANGEMENTS

We are involved with some off-balance sheet arrangements that have or are reasonably likely to have an effect on our financial condition, liquidity, or capital. These arrangements at December 31, 2002 are presented in the following table.

| | December 31, 2002 |
|---|---|
| Commitments to extend credit: | |
| Revolving home equity and credit card lines | $ 15,025,781 |
| Construction loans | 24,144,256 |
| Other loans | 17,499,115 |
| Standby letters of credit | 2,475,000 |

| | |
|---|---|
| Total | $ 59,144,152 |

## CAPITAL RESOURCES

Our capital position remains strong, despite our continued growth. Stated as a percentage of total assets, our equity ratio was 7.8% and 7.5% at December 31, 2002 and 2001, respectively. Our risk weighted tier I capital, total capital and leverage capital ratios approximated 10.8%, 11.7% and 7.4%, respectively, at December 31, 2002, all of which are in excess of the minimum guidelines to be "well capitalized" under the regulatory prompt corrective action provisions. Our subsidiary banks are also subject to minimum capital ratios as further discussed in Note 16 of the accompanying consolidated financial statements.

Cash dividends per share rose 7.14% to $0.75 in 2002 compared to $0.70 in 2001, representing dividend payout ratios of 18.2% and 23.3% for 2002 and 2001, respectively. It is our intention to continue to pay dividends on a similar schedule during 2003. Future cash dividends will depend on the earnings and financial condition of our subsidiary banks as well as general economic conditions.

The primary source of funds for the dividends paid to our shareholders is dividends received from our subsidiary banks. Dividends paid by our subsidiary banks are subject to restrictions by banking regulations. The most restrictive provision requires approval by the respective bank's regulatory agency if dividends declared in any year exceed the bank's current year's net income, as defined, plus its retained net profits of the two preceding years. During 2003, the net retained profits available for distribution to Summit as dividends without regulatory approval are approximately $8,802,000, plus net income for the interim periods through the date of declaration.

On February 21, 2003, our Board of Directors authorized a 2-for-1 split of our common stock to be effected in the form of a 100% stock dividend which was distributed on March 14, 2003 to shareholders of record as of March 3, 2003.

QUARTERLY FINANCIAL INFORMATION

| (Dollars in thousands, except per share amounts) | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Full Year |
|---|---|---|---|---|---|
| 2002 | | | | | |
| Interest income | $ 9,835 | $ 10,043 | $ 10,345 | $ 10,466 | $ 40,689 |
| Interest expense | 4,655 | 4,690 | 4,803 | 4,694 | 18,842 |
| Net interest income | 5,180 | 5,353 | 5,542 | 5,772 | 21,847 |
| Provision for loan losses | 293 | 307 | 307 | 308 | 1,215 |
| Securities gains (losses) | 53 | 12 | 9 | (214) | (140) |
| Other noninterest income | 309 | 563 | 592 | 621 | 2,085 |
| Noninterest expense | 2,977 | 3,288 | 3,115 | 3,227 | 12,607 |
| Income before income taxes | 2,272 | 2,333 | 2,721 | 2,644 | 9,970 |
| Income taxes | 641 | 693 | 798 | 600 | 2,732 |
| Net income | 1,631 | 1,640 | 1,923 | 2,044 | 7,238 |
| Basic earnings per share | 0.93 | 0.93 | 1.10 | 1.17 | 4.13 |
| Diluted earnings per share | 0.92 | 0.93 | 1.09 | 1.16 | 4.11 |
| Dividends paid per share | - | 0.37 | - | 0.38 | 0.75 |
| 2001 | | | | | |
| Interest income | $ 9,126 | $ 9,380 | $ 9,636 | $ 9,777 | $ 37,919 |
| Interest expense | 5,304 | 5,200 | 5,115 | 4,819 | 20,438 |
| Net interest income | 3,822 | 4,180 | 4,521 | 4,958 | 17,481 |
| Provision for loan losses | 145 | 180 | 228 | 277 | 830 |
| Securities gains (losses) | 84 | 93 | 204 | (2) | 379 |
| Other noninterest income | 281 | 305 | 356 | 489 | 1,431 |
| Noninterest expense | 2,521 | 2,764 | 2,742 | 2,710 | 10,737 |
| Income before income taxes | 1,521 | 1,634 | 2,111 | 2,458 | 7,724 |
| Income taxes | 512 | 435 | 673 | 1,112 | 2,732 |
| Net income | 1,009 | 1,199 | 1,438 | 1,620 | 5,266 |
| Basic earnings per share | 0.57 | 0.68 | 0.82 | 0.92 | 3.00 |
| Diluted earnings per share | 0.57 | 0.68 | 0.82 | 0.92 | 3.00 |
| Dividends paid per share | - | 0.35 | - | 0.35 | 0.70 |

# REPORT OF INDEPENDENT AUDITORS

[ARNETT & FOSTER, P.L.L.C. LETTERHEAD]

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

We have audited the accompanying consolidated balance sheets of Summit Financial Group, Inc. and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Summit Financial Group, Inc. and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

/s/ Arnett & Foster, P.L.L.C.

Charleston, West Virginia
January 29, 2003

Consolidated Balance Sheets

| | December 31, 2002 | 2001 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | $ 11,470,311 | $ 11,776,231 |
| Interest bearing deposits with other banks | 2,185,369 | 2,261,826 |
| Federal funds sold | 3,390,135 | 1,848,129 |
| Securities available for sale | 212,597,975 | 206,967,097 |
| Securities held to maturity | - | 150,280 |
| Loans held for sale | 906,900 | 1,513,400 |
| Loans, net | 414,245,082 | 342,902,029 |
| Property held for sale, net | 1,859,650 | 81,000 |
| Premises and equipment, net | 11,199,037 | 12,911,507 |
| Accrued interest receivable | 4,025,167 | 3,874,002 |
| Intangible assets | 3,201,128 | 3,352,281 |
| Other assets | 6,703,636 | 4,118,975 |
| Total assets | $ 671,784,390 | $ 591,756,757 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Liabilities | | |
| Deposits | | |
| Non interest bearing | $ 46,312,596 | $ 38,685,688 |
| Interest bearing | 412,334,977 | 357,519,290 |
| Total deposits | 458,647,573 | 396,204,978 |
| Short-term borrowings | 20,191,103 | 24,032,790 |
| Long-term borrowings | 133,787,020 | 123,444,531 |
| Company-obligated mandatorily redeemable capital securities of subsidiary trust holding solely subordinated debentures of the Company | 3,500,000 | - |
| Other liabilities | 3,578,898 | 3,787,111 |
| Total liabilities | 619,704,594 | 547,469,410 |
| Commitments and Contingencies | | |
| Shareholders' Equity | | |
| Preferred stock, $1.00 par value; authorized 250,000 shares; no shares issued | - | - |
| Common stock, $2.50 par value; authorized 5,000,000; issued 2002 - 1,780,830 shares; 2001 - 1,780,780 shares | 4,452,075 | 4,451,950 |
| Capital surplus | 8,257,966 | 8,256,901 |
| Retained earnings | 36,726,583 | 30,803,543 |
| Less cost of shares acquired for the treasury 2002 - 28,970 shares; 2001 - 26,470 shares | (619,711) | (532,479) |
| Accumulated other comprehensive income | 3,262,883 | 1,307,432 |
| Total shareholders' equity | 52,079,796 | 44,287,347 |
| Total liabilities and shareholders' equity | $ 671,784,390 | $ 591,756,757 |

See notes to consolidated financial statements

Consolidated Statements of Income

| | For the Year Ended December 31, 2002 | 2001 | 2000 |
|---|---|---|---|
| Interest income | | | |
| Interest and fees on loans | | | |
| Taxable | $ 28,626,505 | $ 25,592,985 | $ 21,630,083 |
| Tax-exempt | 348,840 | 210,744 | 172,714 |
| Interest and dividends on securities | | | |
| Taxable | 9,840,024 | 10,896,837 | 9,484,352 |
| Tax-exempt | 1,724,616 | 961,270 | 690,674 |
| Interest on interest bearing deposits with other banks | 92,417 | 22,983 | 68,748 |
| Interest on Federal Funds sold | 56,495 | 234,342 | 216,944 |
| Total interest income | 40,688,897 | 37,919,161 | 32,263,515 |
| Interest expense | | | |
| Interest on deposits | 11,563,915 | 14,765,031 | 13,596,688 |
| Interest on short-term borrowings | 326,650 | 452,340 | 3,087,018 |
| Interest on long-term borrowings and capital trust securities | 6,951,485 | 5,220,402 | 1,592,352 |
| Total interest expense | 18,842,050 | 20,437,773 | 18,276,058 |
| Net interest income | 21,846,847 | 17,481,388 | 13,987,457 |
| Provision for loan losses | 1,215,000 | 830,000 | 557,500 |
| Net interest income after provision for loan losses | 20,631,847 | 16,651,388 | 13,429,957 |
| Noninterest income | | | |
| Insurance commissions | 186,888 | 105,179 | 109,802 |
| Service fees | 1,340,542 | 1,054,799 | 875,964 |
| Mortgage origination revenue | 357,486 | 72,783 | - |
| Securities gains (losses) | (140,308) | 379,048 | 2,364 |
| Gain on sale of branch bank | - | - | 224,629 |
| Other | 200,410 | 197,741 | 15,568 |
| Total noninterest income | 1,945,018 | 1,809,550 | 1,228,327 |
| Noninterest expenses | | | |
| Salaries and employee benefits | 6,863,690 | 5,670,072 | 4,863,257 |
| Net occupancy expense | 783,705 | 706,346 | 627,834 |
| Equipment expense | 1,247,593 | 1,170,491 | 974,474 |
| Supplies | 474,666 | 329,813 | 302,652 |
| Professional fees | 434,074 | 454,393 | 447,389 |
| Amortization of intangibles | 151,152 | 282,192 | 297,683 |
| Other | 2,651,557 | 2,124,034 | 2,351,693 |
| Total noninterest expenses | 12,606,437 | 10,737,341 | 9,864,982 |
| Income before income tax expense | 9,970,428 | 7,723,597 | 4,793,302 |
| Income tax expense | 2,732,130 | 2,457,135 | 1,543,383 |
| Net income | $ 7,238,298 | $ 5,266,462 | $ 3,249,919 |
| Basic earnings per common share | $ 4.13 | $ 3.00 | $ 1.85 |
| Diluted earnings per common share | $ 4.11 | $ 3.00 | $ 1.85 |
| Average common shares outstanding | | | |
| Basic | 1,753,982 | 1,754,449 | 1,760,845 |
| Diluted | 1,763,040 | 1,755,142 | 1,760,845 |

See notes to consolidated financial statements

Consolidated Statements of Shareholders' Equity
For the Years Ended December 31, 2002, 2001 and 2000

| | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balance, December 31, 1999 | $ 4,452,265 | $ 8,307,702 | $ 24,570,174 | $ (384,724) | $ (1,862,797) | $ 35,082,620 |
| Comprehensive income: | | | | | | |
| Net income | - | - | 3,249,919 | - | - | 3,249,919 |
| Other comprehensive income, net of deferred taxes of $1,667,374: Net unrealized gain on securities of $2,681,241, net of reclassification adjustment for gains included in net income of $1,466 | - | - | - | - | 2,679,775 | 2,679,775 |
| Total comprehensive income | - | - | - | - | | 5,929,694 |
| Cost of 7,440 shares acquired for the treasury | - | - | - | (133,001) | - | (133,001) |
| Purchase of fractional shares | (315) | (4,531) | - | - | - | (4,846) |
| Dissenting shares | - | (46,270) | - | - | - | (46,270) |
| Cash dividends declared ($0.60 per share) | - | - | (1,054,996) | - | - | (1,054,996) |
| Balance, December 31, 2000 | 4,451,950 | 8,256,901 | 26,765,097 | (517,725) | 816,978 | 39,773,201 |
| Comprehensive income: | | | | | | |
| Net income | - | - | 5,266,462 | - | - | 5,266,462 |
| Other comprehensive income, net of deferred taxes of $300,601: Net unrealized gain on securities of $725,464, net of reclassification adjustment for gains included in net income of $235,010 | - | - | - | - | 490,454 | 490,454 |
| Total comprehensive income | - | - | - | - | | 5,756,916 |
| Cost of 800 shares acquired for the treasury | - | - | - | (14,754) | - | (14,754) |
| Cash dividends declared ($0.70 per share) | - | - | (1,228,016) | - | - | (1,228,016) |
| Balance, December 31, 2001 | 4,451,950 | 8,256,901 | 30,803,543 | (532,479) | 1,307,432 | 44,287,347 |
| Comprehensive income: | | | | | | |
| Net income | - | - | 7,238,298 | - | - | 7,238,298 |
| Other comprehensive income, net of deferred taxes of $1,198,502: Net unrealized gain on securities of $1,868,460, net of reclassification adjustment for (losses) included in net income of ($86,991) | - | - | - | - | 1,955,451 | 1,955,451 |
| Total comprehensive income | - | - | - | - | - | 9,193,749 |
| Exercise of stock options | 125 | 1,065 | - | - | - | 1,190 |
| Cost of 2,500 shares acquired for the treasury | - | - | - | (87,232) | - | (87,232) |
| Cash dividends declared ($0.75 per share) | - | - | (1,315,258) | - | - | (1,315,258) |
| Balance, December 31, 2002 | $ 4,452,075 | $ 8,257,966 | $ 36,726,583 | $ (619,711) | $ 3,262,883 | $ 52,079,796 |

See notes to consolidated financial statements

Consolidated Statements of Cash Flows

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income | $ 7,238,298 | $ 5,266,462 | $ 3,249,919 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Depreciation | 1,026,485 | 899,554 | 731,073 |
| Provision for loan losses | 1,215,000 | 830,000 | 557,500 |
| Deferred income tax expense (benefit) | (779,570) | (277,540) | (107,377) |
| Loans originated for sale | (19,446,545) | - | - |
| Proceeds from loans sold | 20,053,045 | - | - |
| Security (gains) losses | 140,308 | (379,048) | (2,364) |
| (Gain) loss on disposal of premises, equipment and other assets | 8,770 | 91,695 | 18,212 |
| (Gain) loss on sale of branch | - | - | (224,629) |
| Amortization of securities premiums (accretion of discounts), net | 389,007 | (291,338) | (97,821) |
| Amortization of goodwill and purchase accounting adjustments, net | 174,330 | 284,901 | 215,982 |
| (Increase) decrease in accrued interest receivable | (151,165) | (113,301) | (1,350,002) |
| (Increase) decrease in other assets | (267,021) | (38,028) | 42,409 |
| Increase (decrease) in other liabilities | (455,917) | 786,508 | 530,716 |
| Net cash provided by operating activities | 9,145,025 | 7,059,865 | 3,563,618 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from maturities and calls of securities held to maturity | 150,000 | 250,000 | 140,000 |
| Principal payments received on securities held to maturity | - | - | 254,281 |
| Proceeds from maturities and calls of securities available for sale | 14,386,000 | 56,133,634 | 2,930,109 |
| Proceeds from sales of securities available for sale | 26,934,632 | 40,206,987 | 11,506,633 |
| Principal payments received on securities available for sale | 50,602,473 | 26,554,708 | 4,670,845 |
| Purchases of securities available for sale | (94,970,210) | (154,138,998) | (75,662,408) |
| Net (increase) decrease in federal funds sold | (1,542,006) | (37,129) | 1,034,216 |
| Net loans made to customers | (72,627,710) | (73,781,647) | (42,357,660) |
| Purchases of premises and equipment | (1,124,723) | (1,705,880) | (4,204,622) |
| Proceeds from sales of premises, equipment and other assets | 60,700 | 134,239 | 206,804 |
| (Purchases of) proceeds from interest bearing deposits with other banks | 76,457 | (1,788,826) | 5,327,987 |
| Purchases of life insurance contracts | (2,250,000) | (74,200) | (1,000,000) |
| Net cash acquired/paid in acquisitions (divestitures) | - | - | (820,679) |
| Net cash (used in) investing activities | (80,304,387) | (108,247,112) | (97,974,494) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Net increase in demand deposit, NOW and savings accounts | 28,835,408 | 27,161,535 | 7,242,600 |
| Net increase in time deposits | 33,753,264 | 22,952,264 | 49,055,716 |
| Net increase (decrease) in short-term borrowings | (3,841,687) | 14,641,976 | (22,957,216) |
| Proceeds from long-term borrowings | 26,590,000 | 42,738,000 | 70,000,000 |
| Repayments of long-term borrowings | (16,461,443) | (379,398) | (6,856,611) |
| Net proceeds from issuance of trust preferred securities | 3,379,200 | - | - |
| Purchases of treasury stock | (87,232) | (14,754) | (133,001) |
| Exercise of stock options | 1,190 | - | - |
| Dividends paid | (1,315,258) | (1,228,016) | (1,054,996) |
| Purchase of fractional shares | - | - | (4,846) |
| Payment to dissenting shareholders | - | - | (799,095) |
| Net cash provided by financing activities | 70,853,442 | 105,871,607 | 94,492,551 |
| Increase (decrease) in cash and due from banks | (305,920) | 4,684,360 | 81,675 |
| Cash and due from banks: | | | |
| Beginning | 11,776,231 | 7,091,871 | 7,010,196 |
| Ending | $ 11,470,311 | $ 11,776,231 | $ 7,091,871 |

See notes to consolidated financial statements

Consolidated Statements of Cash Flows-continued

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | | |
| Cash payments for: | | | |
| Interest | $ 18,863,103 | $ 20,699,231 | $ 17,465,019 |
| Income taxes | $ 3,245,289 | $ 2,442,000 | $ 1,671,210 |
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES | | | |
| Other assets acquired in settlement of loans | $ 63,675 | $ 127,870 | $ 111,350 |
| Sales (purchases) of securities pending settlement, net | $ - | $ - | $ (2,026,074) |
| Sale of Petersburg Branch: | | | |
| Net cash and cash equilvalents paid to buyer | $ - | $ - | $ 820,679 |
| Fair value of assets sold: | | | |
| Loans | - | - | 6,173,806 |
| Property & equipment | - | - | 223,755 |
| Other | - | - | 28,645 |
| | - | - | 6,426,206 |
| Deposits and other liabilities sold | - | - | 7,246,885 |
| | $ - | $ - | $ - |

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Nature of business: Summit Financial Group, Inc. ("We", "Summit" or "Company") is a bank holding company with operations in Hardy, Grant, Pendleton, Kanawha and Greenbrier Counties of West Virginia and in Frederick, Loudoun and Rockingham Counties of Virginia. Through our three wholly owned bank subsidiaries, we provide loan and deposit services primarily to individuals and small businesses.

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

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

Principles of consolidation: The accompanying consolidated financial statements include the accounts of Summit and its subsidiaries, Summit Community Bank, Capital State Bank, Inc., Shenandoah Valley National Bank and SFG Capital Trust I. All significant accounts and transactions among these entities have been eliminated.

Presentation of cash flows: For purposes of reporting cash flows, cash and due from banks includes cash on hand and amounts due from banks (including cash items in process of clearing). Cash flows from federal funds sold, demand deposits, NOW accounts, savings accounts and short-term borrowings are reported on a net basis, since their original maturities are less than three months. Cash flows from loans and certificates of deposit and other time deposits are reported net.

Securities: We classify debt and equity securities as "held to maturity", "available for sale" or "trading" according to management's intent. The appropriate classification is determined at the time of purchase of each security and re-evaluated at each reporting date.

Securities held to maturity - Certain debt securities for which we have the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts.

Securities available for sale - Securities not classified as "held to maturity" or as "trading" are classified as "available for sale." Securities classified as "available for sale" are those securities that we intend to hold for an indefinite period of time, but not necessarily to maturity. "Available for sale" securities are reported at estimated fair value net of unrealized gains or losses, which are adjusted for applicable income taxes, and reported as a separate component of shareholders' equity.

Trading securities - There are no securities classified as "trading" in the accompanying consolidated financial statements.

Realized gains and losses on sales of securities are recognized on the specific identification method. Amortization of premiums and accretion of discounts are computed using the interest method.

Loans and allowance for loan losses: Loans are generally stated at the amount of unpaid principal, reduced by unearned discount and allowance for loan losses. Loans held for sale are valued at the lower of aggregate carrying cost or fair value.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. The allowance is increased by provisions charged to operating expense and reduced by net charge-offs. Our subsidiary banks make continuous credit reviews of the loan portfolio and consider current economic conditions, historical loan loss experience, review of specific problem loans and other factors in determining the adequacy of the allowance for loan losses. Loans are charged against the allowance for loan losses when we believe that collectibility is unlikely. While we use the best information available to make our evaluation, future adjustments may be necessary if there are significant changes in conditions.

A loan is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due in accordance with the contractual terms of the specific loan agreement. Impaired loans, other than certain large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, are required to be reported at the present value of expected future cash flows discounted using the loan's original effective interest rate or, alternatively, at the loan's observable market price, or at the fair value of the loan's collateral if the loan is collateral dependent. The method selected to measure impairment is made on a loan-by-loan basis, unless foreclosure is deemed to be probable, in which case the fair value of the collateral method is used.

Generally, after our evaluation, loans are placed on non-accrual 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 non-accrual status. Impaired loans are placed on non-accrual 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 non-accrual loans is recognized primarily using the cost-recovery method.

Unearned interest on discounted loans is amortized to income over the life of the loans, using methods which approximate the interest method. For all other loans, interest 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.

Property held for sale: Property held for sale consists of premises qualifying as held for sale under Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-lived Assets, and of real estate acquired through foreclosure on loans secured by such real estate. Qualifying premises are transferred to property held for sale at the lower of carrying value or estimated fair value less anticipated selling costs. Foreclosed property is recorded at the estimated fair value less anticipated selling costs based upon the property's appraised value at the date of foreclosure, with any difference between the fair value of foreclosed property and the carrying value of the related loan charged to the allowance for loan losses. We perform periodic valuations of property held for sale subsequent to transfer. Gains or losses not previously recognized resulting from the sale of property held for sale is recognized on the date of sale. Changes in value subsequent to transfer are recorded in noninterest income. Depreciation is not recorded on property held for sale. Expenses incurred in connection with operating foreclosed properties are charged to noninterest expense.

Premises and equipment: Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily by the straight-line method for premises and equipment over the estimated useful lives of the assets. The estimated useful lives employed are on average 30 years for premises and 3 to 10 years for furniture and equipment. Repairs and maintenance expenditures are charged to operating expenses as incurred. Major improvements and additions to premises and equipment, including construction period interest costs, are capitalized. Total interest capitalized during 2000 was approximately $38,000. No interest was capitalized during 2001 or 2002.

Intangible assets: In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ("SFAS 142"), which addresses the accounting and reporting for acquired goodwill and other intangible assets. Under the provisions of SFAS 142, goodwill and certain other intangible assets with indefinite useful lives are no longer amortized into net income over an estimated life, but rather are tested at least annually for impairment based on specific guidance provided in the new standard. However, SFAS 142 did not supersede Statement of Financial Accounting Standards No. 72, Accounting for Certain Acquisitions of Banking or Thrift Institutions ("SFAS 72"), and therefore, any goodwill accounted for in accordance with SFAS 72 will continue to be amortized. SFAS 142 also requires that intangible assets determined to have definite useful lives be amortized over their estimated useful lives and also be subject to impairment testing.

In October 2002, the FASB issued Statement of Financial Accounting Standards No. 147, Acquisitions of Certain Financial Institutions ("SFAS 147"). SFAS 147 removes acquisitions of financial institutions from the scope of SFAS 72 and requires that these transactions be accounted for in accordance with FASB Statement No. 141, Business Combinations, and SFAS 142. In addition, SFAS 147 clarifies that the acquisition of a less-than-whole financial institution (e.g. a branch acquisition) that meets the definition of a business should be accounted for as a business combination, otherwise the transaction should be accounted for as an acquisition of net assets that does not result in the recognition of goodwill. SFAS 147 also amends FASB Statement No. 144, Accounting for Impairment or Disposal of Long-Lived Assets, to include in its scope long-term customer-relationship intangible assets of financial institutions such as depositor- and borrower- relationship intangible assets. SFAS 147 was effective on October 1, 2002 and has not materially impacted our financial position or our results of operations.

Securities sold under agreements to repurchase: We generally account for securities sold under agreements to repurchase as collateralized financing transactions and record them at the amounts at which the securities were sold, plus accrued interest. Securities, generally U.S. government and Federal agency securities, pledged as collateral under these financing arrangements cannot be sold or repledged by the secured party. The fair value of collateral provided is continually monitored and additional collateral is provided as needed.

Advertising: We expense advertising costs as they are incurred.

Income taxes: The consolidated provision for income taxes includes Federal and state income taxes and is based on pretax net income reported in the consolidated financial statements, adjusted for transactions that may never enter into the computation of income taxes payable. Deferred tax assets and liabilities are determined based on the differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Valuation allowances are established when deemed necessary to reduce deferred tax assets to the amount expected to be realized.

Stock-based compensation: In accordance with Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, we have elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for our employee stock options.

Basic and diluted earnings per share: Basic earnings per share is computed by dividing net income by the weighted-average number of shares of common stock outstanding. Diluted earnings per share is computed by dividing net income by the weighted-average number of shares outstanding increased by the number of shares of common stock which would be issued assuming the exercise of employee stock options.

Trust services: Assets held in an agency or fiduciary capacity are not our assets and are not included in the accompanying consolidated balance sheets. Trust services income is recognized on the cash basis in accordance with customary banking practice. Reporting such income on a cash basis rather than the accrual basis does not have a material effect on net income.

Derivative instruments and hedging activities: We adopted Statement of Financial Accounting Standards No. 133, Accounting for Derivative Financial Instruments and Hedging Activities, as amended by SFAS 138 (collectively SFAS 133) during the year ended December 31, 1999.

SFAS 133 requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, depending on the type of hedge transaction.

Fair-value hedges - For transactions in which we are hedging changes in fair value of an asset, liability, or a firm commitment, changes in the fair value of the derivative instrument are generally offset in the income statement by changes in the hedged item's fair value.

Cash-flow hedges - For transactions in which we are hedging the variability of cash flows related to a variable-rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative instrument are reported in other comprehensive income. The gains and losses on the derivative instrument, which are reported in comprehensive income, are reclassified to earnings in the periods in which earnings are impacted by the variability of cash flows of the hedged item.

The ineffective portion of all hedges is recognized in current period earnings.

Other derivative instruments used for risk management purposes do not meet the hedge accounting criteria and, therefore, do not qualify for hedge accounting. These derivative instruments are accounted for at fair value with changes in fair value recorded in the income statement.

During 2002, 2001, and 2000 we were party to instruments that qualified for fair-value hedge accounting and other instruments that were held for risk management purposes that did not qualify for hedge accounting.

Reclassifications: Certain accounts in the consolidated financial statements for 2001 and 2000, as previously presented, have been reclassified to conform to current year classifications.

## NOTE 2. SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS

Guarantees: In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. This interpretation expands the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees and requires the guarantor to recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 clarifies the requirements of SFAS 5, Accounting for Contingencies, relating to guarantees. In general, FIN 45 applies to contracts or indemnification agreements that contingently require the guarantor to make payments to the guaranteed party based on changes in an underlying that is related to an asset, liability, or equity security of the guaranteed party. Certain guarantee contracts are excluded from both the disclosure and recognition requirements of this interpretation, including, among others, guarantees relating to employee compensation, residual value guarantees under capital lease arrangements, commercial letters of credit, loan commitments, subordinated interests in an SPE, and guarantees of a company's own future performance. Other guarantees are subject to the disclosure requirements of FIN 45 but not to the recognition provisions and include, among others, a guarantee accounted for as a derivative instrument under SFAS 133, a parent's guarantee of debt owed to a third party by its subsidiary or vice versa, and a guarantee which is based on performance, not price.

The disclosure requirements of FIN 45 are effective for us as of December 31, 2002, and require disclosure of the nature of the guarantee, the maximum potential amount of future payments that the guarantor could be required to make under the guarantee, and the current amount of the liability, if any, for the guarantor's obligations under the guarantee. The recognition requirements of FIN 45 are to be applied prospectively to guarantees issued or modified after December 31, 2002. Significant guarantees that have been entered into by us are disclosed in Note 14. We do not expect the requirements of FIN 45 to have a material impact on results of operations, financial position, or liquidity.

Acquisitions of certain financial institutions: In October 2002, the FASB issued SFAS 147, Acquisitions of Certain Financial Institutions, which provides guidance on the accounting for the acquisition of a financial institution and supersedes the specialized accounting guidance provided in SFAS 72, Accounting for Certain Acquisitions of Banking or Thrift Institutions. SFAS 147 became effective upon issuance and requires companies to cease amortization of unidentified intangible assets associated with certain branch acquisitions and reclassify these assets to goodwill. SFAS 147 also modifies SFAS 144 to include in its scope long-term customer-relationship intangible assets and thus subject those intangible assets to the same undiscounted cash flow recoverability test and impairment loss recognition and measurement provisions required for other long-lived assets.

Accounting for long-lived assets: SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, was issued in October 2001. It addresses how and when to measure impairment on long-lived assets and how to account for long-lived assets that an entity plans to dispose of either through sale, abandonment, exchange, or distribution to owners. The statement's provisions supersede SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of, which addressed asset impairment, and certain provisions of APB Opinion 30 related to reporting the effects of the disposal of a business segment and requires expected future operating losses from discontinued operations to be recorded in the period in which the losses are incurred rather than the measurement date. Under SFAS 144, more dispositions may qualify for discontinued operations treatment in the income statements. The provisions of SFAS 144 became effective for us on January 1, 2002, and did not have a material impact on results of operations, financial position, or liquidity.

Asset retirement obligations: In August 2001, the FASB issued SFAS 143, Accounting for Asset Retirement Obligations. SFAS 143 requires an entity to record a liability for an obligation associated with the retirement of an asset at the time the liability is incurred by capitalizing the cost as part of the carrying value of the related asset and depreciating it over the remaining useful life of that asset. The standard is effective for us beginning January 1, 2003, and its adoption is not expected to have a material impact on results of operations, financial position, or liquidity.

Goodwill and other intangible assets: On January 1, 2002, we adopted SFAS 142, Goodwill and Other Intangible Assets, which addresses the accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion 17, Intangible Assets. Notes 1 and 9 provide further detail on the accounting for goodwill and intangible assets under the standard and the impact of the adoption on the financial statements. The standard's adoption had no impact on liquidity.

Note 3. CASH CONCENTRATION

At December 31, 2002 and 2001, we had concentrations totaling $10,490,628 and $8,349,385, respectively, with unaffiliated financial institutions. These concentrations consisted of due from bank account balances and Federal funds sold. Deposits with correspondent banks are generally unsecured and have limited insurance under current banking insurance regulations.

note 4. SECURITIES

The amortized cost, unrealized gains and losses, and estimated fair values of securities at December 31, 2002 and 2001, are summarized as follows:

| | 2002 | | | |
|---|---|---|---|---|
| | Amortized | Unrealized | | Estimated |
| | Cost | Gains | Losses | Fair Value |
| Available for sale | | | | |
| Taxable: | | | | |
| U. S. Government agencies | | | | |
| and corporations | $ 32,699,059 | $ 1,121,860 | $ - | $ 33,820,919 |
| Mortgage-backed securities | 94,022,894 | 1,925,599 | 168,040 | 95,780,453 |
| State and political subdivisions | 5,450,901 | 94,315 | - | 5,545,216 |
| Corporate debt securities | 27,961,831 | 1,163,744 | 7,352 | 29,118,223 |
| Federal Reserve Bank stock | 397,000 | - | - | 397,000 |
| Federal Home Loan Bank stock | 7,738,200 | - | - | 7,738,200 |
| Other equity securities | 88,348 | - | - | 88,348 |
| Total taxable | 168,358,233 | 4,305,518 | 175,392 | 172,488,359 |
| Tax-exempt: | | | | |
| State and political subdivisions | 34,003,131 | 1,166,600 | 101,629 | 35,068,102 |
| Federal Reserve Bank stock | 8,400 | - | - | 8,400 |
| Other equity securities | 5,065,152 | 106,169 | 138,207 | 5,033,114 |
| Total tax-exempt | 39,076,683 | 1,272,769 | 239,836 | 40,109,616 |
| Total | $ 207,434,916 | $ 5,578,287 | $ 415,228 | $ 212,597,975 |

| | 2001 | | | |
|---|---|---|---|---|
| | Amortized | Unrealized | | Estimated |
| | Cost | Gains | Losses | Fair Value |
| Available for sale | | | | |
| Taxable: | | | | |
| U. S. Government agencies | | | | |
| and corporations | $ 36,987,640 | $ 1,133,062 | $ 37,477 | $ 38,083,225 |
| Mortgage-backed securities | 103,002,225 | 999,540 | 801,923 | 103,199,842 |
| State and political subdivisions | 4,957,792 | 15,511 | 20,549 | 4,952,754 |
| Corporate debt securities | 21,690,167 | 1,028,726 | 31,948 | 22,686,945 |
| Federal Reserve Bank stock | 341,300 | - | - | 341,300 |
| Federal Home Loan Bank stock | 6,946,800 | - | - | 6,946,800 |
| Other equity securities | 306,625 | - | 53,280 | 253,345 |
| Total taxable | 174,232,549 | 3,176,839 | 945,177 | 176,464,211 |
| Tax-exempt: | | | | |
| State and political subdivisions | 25,857,242 | 279,303 | 445,895 | 25,690,650 |
| Federal Reserve Bank stock | 4,100 | - | - | 4,100 |
| Other equity securties | 4,823,109 | - | 14,973 | 4,808,136 |
| Total tax-exempt | 30,684,451 | 279,303 | 460,868 | 30,502,886 |
| Total available for sale | $ 204,917,000 | $ 3,456,142 | $1,406,045 | $206,967,097 |
| Held to maturity | | | | |
| Tax exempt: | | | | |
| State and political subdivisions | $ 150,280 | $ 1,410 | $ 157 | $ 151,533 |

Federal Reserve Bank stock and Federal Home Loan Bank stock are equity securities, which are included in securities available for sale in the accompanying consolidated financial statements. Such securities are carried at cost, since they may only be sold back to the respective Federal Reserve Bank or Federal Home Loan Bank at par value.

Mortgage-backed obligations having contractual maturities ranging from 1 to 30 years, are reflected in the following maturity distribution schedules based on their anticipated average life to maturity, which ranges from 1 to 18 years. Accordingly, discounts are accreted and premiums are amortized over the anticipated average life to maturity of the specific obligation.

The maturities, amortized cost and estimated fair values of securities at December 31, 2002, are summarized as follows:

| | Amortized Cost | Estimated Fair Value |
|---|---|---|
| Due in one year or less | $ 68,671,644 | $ 69,333,452 |
| Due from one to five years | 79,628,129 | 82,762,131 |
| Due from five to ten years | 16,743,720 | 17,476,576 |
| Due after ten years | 29,094,323 | 29,760,754 |
| Equity securities | 13,297,100 | 13,265,062 |
| Total | $ 207,434,916 | $ 212,597,975 |

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

| | Proceeds from | | | Gross Realized | |
|---|---|---|---|---|---|
| Years Ended December 31, | Sales | Calls and Maturities | Principal Payments | Gains | Losses |
| 2002 | | | | | |
| Securities available for sale | $ 26,934,632 | $ 14,386,000 | $ 50,602,473 | $ 319,235 | $ 246,543 |
| Securities held to maturity | - | 150,000 | - | - | - |
| | $ 26,934,632 | $ 14,536,000 | $ 50,602,473 | $ 319,235 | $ 246,543 |
| 2001 | | | | | |
| Securities available for sale | $ 40,206,987 | $ 56,133,634 | $ 26,554,708 | $ 459,653 | 80,605 |
| Securities held to maturity | - | 250,000 | - | - | - |
| | $ 40,206,987 | $ 56,383,634 | $ 26,554,708 | $ 459,653 | $ 80,605 |
| 2000 | | | | | |
| Securities available for sale | $ 11,506,633 | $ 2,930,109 | $ 4,670,845 | $ 2,364 | $ - |
| Securities held to maturity | - | 140,000 | - | - | - |
| | $ 11,506,633 | $ 3,070,109 | $ 4,670,845 | $ 2,364 | $ - |

At December 31, 2002 and 2001, securities with estimated fair values of $50,738,382 and $52,179,931, respectively, were pledged to secure public deposits, and for other purposes required or permitted by law.

During 2002, due to a decrease in the credit rating of one of our mortgage-backed securities, we realized a $213,000 write down of that security, as this decline is deemed to be other than temporary.

## NOTE 5. LOANS

Loans are summarized as follows:

| | 2002 | 2001 |
|---|---|---|
| Commercial | $ 34,745,430 | $ 26,464,421 |
| Commercial real estate | 171,822,280 | 121,576,437 |
| Residential - construction | 4,493,569 | 2,393,754 |
| Residential - mortgage | 161,005,744 | 149,050,426 |
| Consumer | 40,655,422 | 41,508,960 |
| Other | 6,389,812 | 5,750,048 |
| Total loans | 419,112,257 | 346,744,046 |
| Less unearned income | 814,044 | 731,769 |
| Total loans net of unearned income | 418,298,213 | 346,012,277 |
| Less allowance for loan losses | 4,053,131 | 3,110,248 |
| Loans, net | $414,245,082 | $ 342,902,029 |

The following presents loan maturities at December 31, 2002.

| | Within 1Year | After 1 but within 5 Years | After 5 Years |
|---|---|---|---|
| Commercial | $ 14,046,246 | $ 14,131,868 | $ 6,567,316 |
| Commercial real estate | 22,666,145 | 20,095,307 | 129,060,828 |
| Residential-construction | 1,208,108 | 2,020,016 | 1,265,445 |
| Residential-mortgage | 7,504,130 | 7,562,629 | 145,938,985 |
| Consumer | 3,970,864 | 30,265,641 | 6,418,917 |
| Other | 425,482 | 2,603,021 | 3,361,309 |
| | $ 49,820,975 | $ 76,678,482 | $ 292,612,800 |

| | |
|---|---|
| Loans due after one year with: | |
| Variable rates | $ 98,040,519 |
| Fixed rates | 271,250,763 |
| | $ 369,291,282 |

Concentrations of credit risk: We grant commercial, residential and consumer loans to customers primarily located in the Eastern Panhandle and South Central counties of West Virginia, and the Northern counties of Virginia. Although we strive to maintain a diverse loan portfolio, exposure to credit losses can be adversely impacted by downturns in local economic and employment conditions. Major employment within our market area is diverse, but primarily includes government, health care, education, poultry and various professional, financial and related service industries.

We evaluate the credit worthiness of each of our customers on a case-by-case basis and the amount of collateral we obtain is based upon this credit evaluation.

Loans to related parties: We have had, and may be expected to have in the future, banking transactions in the ordinary course of business with our directors, principal officers, their immediate families and affiliated companies in which they are principal stockholders (commonly referred to as related parties). These transactions have been, in our opinion, on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others.

The following presents the activity with respect to related party loans aggregating $60,000 or more to any one related party (other changes represent additions to and changes in director and executive officer status):

| | 2002 | 2001 |
|---|---|---|
| Balance, beginning | $ 4,789,067 | $ 3,200,585 |
| Additions | 3,273,101 | 2,644,408 |
| Amounts collected | (2,317,872) | (1,055,926) |
| Other changes, net | (23,178) | - |
| Balance, ending | $ 5,721,118 | $ 4,789,067 |

## NOTE 6. ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses for the years ended December 31, 2002, 2001 and 2000 is as follows:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Balance, beginning of year | $ 3,110,248 | $ 2,570,776 | $ 2,231,555 |
| Losses: | | | |
| Commercial | 105,650 | 38,624 | - |
| Commercial real estate | 31,500 | 69,233 | - |
| Residential - mortgage | 30,400 | 46,977 | 62,839 |
| Consumer | 173,430 | 190,804 | 174,719 |
| Other | 74,899 | 75,643 | 48,521 |
| Total | 415,879 | 421,281 | 286,079 |
| Recoveries: | | | |
| Commercial | 39,251 | 2,672 | 1,136 |
| Commercial real estate | - | 7,500 | 895 |
| Residential - mortgage | 16,489 | 728 | 1,603 |
| Consumer | 70,568 | 98,940 | 53,165 |
| Other | 17,454 | 20,913 | 11,001 |
| Total | 143,762 | 130,753 | 67,800 |
| Net losses | 272,117 | 290,528 | 218,279 |
| Provision for loan losses | 1,215,000 | 830,000 | 557,500 |
| Balance, end of year | $ 4,053,131 | $ 3,110,248 | $ 2,570,776 |

Our total recorded investment in impaired loans at December 31, 2002 and 2001 approximated $904,215 and $568,001, respectively. All impaired loans had a related allowance for loan losses determined in accordance with accounting principles generally accepted in the United States of America. That allowance approximated $160,000 at December 31, 2002 and $50,000 at December 31, 2001. Our average investment in such loans approximated $714,664, $579,884, and $1,010,355 for the years ended December 31, 2002, 2001, and 2000 respectively. Impaired loans at December 31, 2002 and 2001 included loans that were collateral dependent, for which the fair values of the loans' collateral were used to measure impairment.

For purposes of evaluating impairment, we consider groups of smaller-balance, homogeneous loans to include: mortgage loans secured by residential property, other than those which significantly exceed our typical residential mortgage loan amount (currently those in excess of $100,000); small balance commercial loans (currently those less than $50,000); and consumer loans, exclusive of those loans in excess of $50,000.

For the years ended December 31, 2002, 2001, and 2000, we recognized no interest income on impaired loans after the date that the loans were deemed to be impaired. Using a cash-basis method of accounting, we would have recognized approximately the same amount of interest income on such loans.

NOTE 7. PROPERTY HELD FOR SALE

Property held for sale at December 31, 2002 and 2001 is as follows:

| | 2002 | 2001 |
|---|---|---|
| Land | $ 673,227 | $ - |
| Buildings and improvements | 1,818,455 | - |
| Foreclosed property | 81,000 | 81,000 |
| | 2,572,682 | 81,000 |
| Less accumulated depreciation | 713,032 | - |
| Total property held for sale | $ 1,859,650 | $ 81,000 |

We have signed a contract for the future sale of our primary branch facility in Petersburg, West Virginia. We expect the sale to occur by the end of 2003. Our intent is to build a new facility in Petersburg during 2003. We also intend to sell our corporate headquarters located in Moorefield, West Virginia in early 2003. We also plan to construct new corporate headquarters in Moorefield in 2003. Planning for the replacement facilities is ongoing, and the exact cost has not yet been determined.

NOTE 8. PREMISES AND EQUIPMENT

The major categories of premises and equipment and accumulated depreciation at December 31, 2002 and 2001, are summarized as follows:

| | 2002 | 2001 |
|---|---|---|
| Land | $ 2,060,736 | $ 2,733,963 |
| Buildings and improvements | 7,930,317 | 9,321,401 |
| Furniture and equipment | 6,992,299 | 6,428,818 |
| | 16,983,352 | 18,484,182 |
| Less accumulated depreciation | 5,784,315 | 5,572,675 |
| Total premises and equipment | $11,199,037 | $ 12,911,507 |

Depreciation expense for the years ended December 31, 2002, 2001 and 2000 totaled $1,026,485, $899,554 and $731,073, respectively.

NOTE 9. INTANGIBLE ASSETS

We adopted the provisions of SFAS 142 as required effective January 1, 2002. During the second quarter of 2002, we performed the required transitional impairment test of goodwill as of January 1, 2002, and did not record an impairment loss as a result of this test. Due to no longer having to amortize goodwill against earnings, our net income increased by approximately $131,000, or $0.07 per diluted share in 2002.

The following presents our consolidated results of operations adjusted as though the adoption of SFAS 142 occurred as of January 1, 2000.

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| Reported net income | $ 7,238,298 | $ 5,266,462 | $ 3,249,919 |
| Add back goodwill amortization net of applicable tax effect | - | 131,040 | 131,040 |
| Adjusted net income | $ 7,238,298 | $ 5,397,502 | $ 3,380,959 |
| Basic earnings per share | | | |
| Reported net income | $ 4.13 | $ 3.00 | $ 1.85 |
| Add back goodwill amortization net of applicable tax effect | - | 0.07 | 0.07 |
| Adjusted net income | $ 4.13 | $ 3.07 | $ 1.92 |
| Diluted earnings per share | | | |
| Reported net income | $ 4.11 | $ 3.00 | $ 1.85 |
| Add back goodwill amortization net of applicable tax effect | - | 0.07 | 0.07 |
| Adjusted net income | $ 4.11 | $ 3.07 | $ 1.92 |

In addition, at December 31, 2002 and December 31, 2001, we had $1,713,098 and $1,864,251, respectively, in unamortized acquired intangible assets consisting entirely of unidentifiable intangible assets recorded in accordance with SFAS 72.

| | 2002 | 2001 |
|---|---|---|
| Unidentifiable intangible assets | | |
| Gross carrying amount | $ 2,267,323 | $ 2,267,323 |
| Less: accumulated amortization | 554,225 | 403,072 |
| Net carrying amount | $ 1,713,098 | $ 1,864,251 |
| Goodwill | 1,488,030 | 1,488,030 |
| Total intangible assets | $ 3,201,128 | $ 3,352,281 |

We recorded amortization expense of $151,152 for the year ended December 31, 2002 relative to our unidentifiable intangible assets. Annual amortization is expected to be approximately $151,000 for each of the years ending 2003 through 2007.

NOTE 10. DEPOSITS

The following is a summary of interest bearing deposits by type as of December 31, 2002 and 2001:

| | 2002 | 2001 |
|---|---|---|
| Demand deposits, interest bearing | $ 99,752,155 | $ 81,509,961 |
| Savings deposits | 46,732,252 | 43,765,947 |
| Certificates of deposit | 241,439,194 | 211,116,608 |
| Individual Retirement Accounts | 24,411,376 | 21,126,774 |
| Total | $ 412,334,977 | $ 357,519,290 |

Time certificates of deposit and Individual Retirement Account's (IRA's) in denominations of $100,000 or more totaled $70,304,610 and $56,924,692 at December 31, 2002 and 2001, respectively. Interest paid on time certificates of deposit and IRA's in denominations of $100,000 or more were $2,428,040, $3,057,697 and $2,623,640 for the years ended December 31, 2002, 2001 and 2000, respectively.

The following is a summary of the maturity distribution of certificates of deposit and IRA's in denominations of $100,000 or more as of December 31, 2002:

| | Amount | Percent |
|---|---|---|
| Three months or less | $ 11,726,315 | 16.7% |
| Three through six months | 9,805,631 | 13.9% |
| Six through twelve months | 20,458,422 | 29.1% |
| Over twelve months | 28,314,242 | 40.3% |
| Total | $ 70,304,610 | 100.0% |

A summary of the scheduled maturities for all time deposits as of December 31, 2002, follows:

| | |
|---|---|
| 2003 | $ 146,655,968 |
| 2004 | 77,935,085 |
| 2005 | 20,800,038 |
| 2006 | 4,944,468 |
| 2007 | 14,697,355 |
| Thereafter | 817,656 |
| Total | $ 265,850,570 |

At December 31, 2002, our deposits of related parties including directors, executive officers, and their related interests approximated $14,090,867.

NOTE 11. BORROWED FUNDS

Federal Home Loan Bank borrowings: Our subsidiary banks are members of the Federal Home Loan Bank ("FHLB"). Membership in the FHLB makes available short-term and long-term advances under collateralized borrowing arrangements with each subsidiary bank. All FHLB advances are collateralized primarily by similar amounts of residential mortgage loans, certain commercial loans, mortgage backed securities and securities of U. S. Government agencies and corporations.

At December 31, 2002, our subsidiary banks had combined additional borrowings availability of $67,225,000 from the FHLB. Short-term FHLB advances are granted for terms of 1 to 365 days and bear interest at a fixed or variable rate set at the time of the funding request.

Short-term borrowings: At December 31,2002, we had $15,100,000 borrowing availability through credit lines and Federal funds purchased agreements. A summary of short-term borrowings is presented below:

| | 2002 | | |
|---|---|---|---|
| | Short-term FHLB Advances | Repurchase Agreements | Federal Funds Purchased and Lines of Credit |
| Balance at December 31 | $ 11,595,000 | $ 8,596,103 | $ - |
| Average balance outstanding for the year | 6,057,233 | 8,960,391 | 934,768 |
| Maximum balance outstanding at any month end | 11,595,000 | 10,778,052 | 2,370,000 |
| Weighted average interest | | | |

| | | | |
|---|---|---|---|
| rate for the year | 2.21% | 1.71% | 4.19% |
| Weighted average interest rate for balances outstanding at December 31 | 1.48% | 1.57% | - |

| | 2001 | | |
|---|---|---|---|
| | Short-term FHLB Advances | Repurchase Agreements | Federal Funds Purchased and Lines of Credit |
| Balance at December 31 | $ 14,778,200 | $ 8,213,590 | $ 1,041,000 |
| Average balance outstanding for the year | 3,069,203 | 7,351,836 | 1,458,355 |
| Maximum balance outstanding at any month end | 14,778,200 | 9,080,068 | 4,298,000 |
| Weighted average interest rate for the year | 4.42% | 3.30% | 5.10% |
| Weighted average interest rate for balances outstanding at December 31 | 1.99% | 1.83% | 4.14% |

Federal funds purchased and repurchase agreements mature the next business day. The securities underlying the repurchase agreements are under our control and secure the total outstanding daily balances.

Long-term borrowings: Our long-term borrowings of $133,787,020 and $123,444,531 as of December 31, 2002 and 2001, respectively, consisted primarily of advances from the FHLB. These borrowings bear both fixed and variable interest rates and mature in varying amounts through the year 2016. The average interest rate paid on long-term borrowings during 2002 and 2001 approximated 5.17% and 5.60%, respectively.

A summary of the maturities of all long-term borrowings for the next five years and thereafter is as follows:

| Year Ending December 31, | Amount |
|---|---|
| 2003 | $ 4,935,414 |
| 2004 | 18,901,198 |
| 2005 | 8,000,038 |
| 2006 | 7,807,554 |
| 2007 | 3,860,365 |
| Thereafter | 90,282,451 |
| Total | $ 133,787,020 |

NOTE 12. INCOME TAXES

The components of applicable income tax expense (benefit) for the years ended December 31, 2002, 2001 and 2000, are as follows:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Current | | | |
| Federal | $3,130,200 | $ 2,458,645 | $ 1,446,490 |
| State | 381,500 | 276,030 | 204,270 |
| | 3,511,700 | 2,734,675 | 1,650,760 |
| Deferred | | | |
| Federal | (507,220) | (261,060) | (107,568) |
| State | (272,350) | (16,480) | 191 |
| | (779,570) | (277,540) | (107,377) |
| Total | $2,732,130 | $ 2,457,135 | $ 1,543,383 |

Reconciliation between the amount of reported income tax expense and the amount computed by multiplying the statutory income tax rates by book pretax income for the years ended December 31, 2002, 2001 and 2000 is as follows:

| | 2002 | | 2001 | | 2000 | |
|---|---|---|---|---|---|---|
| | Amount | Percent | Amount | Percent | Amount | Percent |
| Computed tax at applicable statutory rate | $ 3,389,946 | 34 | $ 2,626,023 | 34 | $ 1,629,723 | 34 |
| Increase (decrease) in taxes resulting from: | | | | | | |
| Tax-exempt interest and dividends, net | (614,955) | (6) | (280,989) | (4) | (216,212) | (5) |
| State income taxes, net of Federal income tax benefit | 251,790 | 3 | 182,180 | 2 | 134,818 | 3 |
| Purchased state income tax credit | (240,000) | (2) | - | - | - | - |
| Nondeductible amortization of goodwill | 1,561 | - | 41,155 | 1 | 26,568 | 1 |
| Other, net | (56,212) | (1) | (111,234) | (1) | (31,514) | (1) |
| Applicable income taxes | $ 2,732,130 | 27 | $ 2,457,135 | 32 | $ 1,543,383 | 32 |

Deferred income taxes reflect the impact of "temporary differences" between amounts of assets and liabilities for financial reporting purposes and such amounts as measured for tax purposes. Deferred tax assets and liabilities represent the future tax return consequences of temporary differences, which will either be taxable or deductible when the related assets and liabilities are recovered or settled. Valuation allowances are established when deemed necessary to reduce deferred tax assets to the amount expected to be realized.

On December 31, 2002, we purchased $700,000 of West Virginia income tax credits for $460,000, which is reflected as a reduction in our 2002 state income tax expense and a deferred tax benefit.

The tax effects of temporary differences, which give rise to our deferred tax assets and liabilities as of December 31, 2002 and 2001, are as follows:

| | 2002 | 2001 |
|---|---|---|
| Deferred tax assets | | |
| Allowance for loan losses | $ 1,317,350 | $ 922,437 |
| Deferred compensation | 259,439 | 178,529 |
| Purchased state tax credits | 240,000 | - |
| Other deferred costs and accrued expenses | 246,786 | 210,287 |
| | 2,063,575 | 1,311,253 |
| Deferred tax liabilities | | |
| Depreciation | 169,709 | 119,922 |
| Accretion on tax-exempt securities | 21,585 | 13,680 |
| Purchase accounting adjustments | 143,952 | 147,952 |
| Net unrealized gain on securities and other financial instruments | 1,819,488 | 743,071 |
| | 2,154,734 | 1,024,625 |
| Net deferred tax assets (liabilities) | $ (91,159) | $ 286,628 |

## NOTE 13. EMPLOYEE BENEFITS

Retirement Plans: We have defined contribution profit-sharing plans with 401(k) provisions covering substantially all employees. Contributions to the plans are at the discretion of the Board of Directors. Contributions made to the plans and charged to expense were $190,124, $185,694 and $150,777 for the years ended December 31, 2002, 2001 and 2000, respectively.

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

The expense recognized by us is based on cash contributed or committed to be contributed by us to the ESOP during the year. Contributions to the ESOP for the years ended December 31, 2002, 2001 and 2000 were $199,593, $151,897 and $137,588, respectively. Dividends paid by us to the ESOP are reported as a reduction to retained earnings. The ESOP owned 43,350 shares of our common stock at December 31, 2002, all of which were purchased at the prevailing market price and are considered outstanding for earnings per share computations.

The trustees of the Retirement Plans and ESOP are also members of our Board of Directors.

Directors Deferred Compensation Plan: We, as well as each of our subsidiary banks, have established non-qualified deferred compensation plans for directors who voluntarily elect to defer payment of retainer, meeting and committee fees earned. The liability for deferred directors' compensation at December 31, 2002 and 2001, approximated $407,863 and $332,811, respectively, which is included in other liabilities in the accompanying consolidated balance sheets. In addition, we have purchased certain life insurance contracts to fund the liabilities arising under these plans. At December 31, 2002 and 2001, the cash surrender value of these insurance contracts was $315,442 and $280,075, respectively, and is included in other assets in the accompanying consolidated balance sheets.

Supplemental Executive Retirement Plan: In May 1999, Summit Community Bank entered into a non-qualified Supplemental Executive Retirement Plan ("SERP") with certain senior officers, which provides participating officers with an income benefit payable at retirement age or death. During 2000 Capital State Bank and Shenandoah Valley National Bank adopted similar plans and during 2002, Summit Financial Group, Inc. adopted a similar plan. The liabilities accrued for the SERP's at December 31, 2002 and 2001 were $282,275 and $144,818 respectively, which are included in other liabilities. In addition, the subsidiary banks have purchased certain life insurance contracts to fund the liabilities arising under these plans. At December 31, 2002 and 2001, the cash surrender value of these insurance contracts was $4,867,085 and $2,497,306, respectively, and is included in other assets in the accompanying consolidated balance sheets.

Stock Option Plan: The Officer Stock Option Plan, which provides for the granting of stock options for up to 240,000 shares of common stock to our key officers, was adopted in 1998 and expires in 2008. Each option granted under the plan vests according to a schedule designated at the grant date and shall have a term of no more than 10 years following the vesting date. Also, the option price per share shall not be less than the fair market value of our common stock on the date of grant. Accordingly, no compensation expense is recognized for options granted under the Plan.

The following pro forma disclosures present for 2002, 2001 and 2000, our reported net income and basic and diluted earnings per share had we recognized compensation expense for our Officer Stock Option Plan based on the grant date fair values of the options (the fair value method described in Statement of Financial Accounting Standards No. 123).

| (in thousands, except per share data) | Years Ended December 31, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| Net income: | | | |
| As reported | $ 7,238 | $ 5,266 | $ 3,250 |
| Deduct total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (21) | (25) | (28) |
| Pro forma | $ 7,217 | $ 5,241 | $ 3,222 |
| Basic earnings per share: | | | |
| As reported | $ 4.13 | $ 3.00 | $ 1.85 |
| Pro forma | $ 4.12 | $ 2.99 | $ 1.83 |
| Diluted earnings per share: | | | |
| As reported | $ 4.11 | $ 3.00 | $ 1.85 |
| Pro forma | $ 4.10 | $ 2.99 | $ 1.83 |

For purposes of computing the above pro forma amounts, we estimated the fair value of the options at the date of grant using a Black-Scholes option pricing model using the following weighted-average assumptions for grants in each respective year: risk free interest rates of 3.80% for 2002, 4.50% for 2001 and 6.50% for 2000; dividend yields of 2.00% for 2002, 2.50% for 2001 and 3.25% for 2000; volatility factors of the expected market price of our common stock of 23 for 2002 and 20 for 2001 and 2000; and an expected option life of 8 years for 2002 and 2001, and 10 years for 2000. The weighted-average grant date fair value of options granted during 2002, 2001 and 2000 was $10.04, $5.61 and $5.04, respectively. For purposes of the pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

A summary of activity in our Officer Stock Option Plan during 2000, 2001 and 2002 is as follows:

| | Options | Weighted-Average Exercise Price |
|---|---|---|
| Outstanding, January 1, 2000 | 15,000 | $ 20.83 |
| Granted | 9,000 | 18.50 |
| Exercised | - | - |
| Forfeited | - | - |
| Outstanding, December 31, 2000 | 24,000 | $ 19.96 |
| Granted | 8,500 | 23.80 |
| Exercised | - | - |
| Forfeited | - | - |
| Outstanding, December 31, 2001 | 32,500 | $ 20.96 |
| Granted | 9,000 | 37.95 |
| Exercised | (50) | 23.80 |
| Forfeited | - | - |
| Outstanding, December 31, 2002 | 41,450 | $ 24.65 |
| Exercisable Options: | | |
| December 31, 2002 | 19,050 | $ 20.43 |
| December 31, 2001 | 12,600 | $ 20.16 |
| December 31, 2000 | 7,800 | $ 20.29 |

## NOTE 14. COMMITMENTS AND CONTINGENCIES

Financial instruments with off-balance sheet risk: We are a party to certain financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of our customers. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statement of financial position. The contract amounts of these instruments reflect the extent of involvement that we have in this class of financial instruments. A summary of the contractual amount of significant commitments follows:

| | December 31, | |
|---|---|---|
| | 2002 | 2001 |
| Commitments to extend credit: | | |
| Revolving home equity and | | |

| | | |
|---|---|---|
| credit card lines | $ 15,025,781 | $ 11,191,694 |
| Construction loans | 24,144,256 | 19,233,515 |
| Other loans | 17,499,115 | 16,638,888 |
| Standby letters of credit | 2,475,000 | 1,302,483 |
| Total | $ 59,144,152 | $ 48,366,580 |

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. We evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if we deem necessary upon extension of credit, is based on our credit evaluation. Collateral held varies but may include accounts receivable, inventory, equipment or real estate.

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party.

Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance sheet instruments.

Litigation: We are involved in various legal actions arising in the ordinary course of business. In the opinion of counsel, the outcome of these matters will not have a significant adverse effect on the consolidated financial statements.

Employment Agreements: We have various employment agreements with our chief executive officer and certain other executive officers. These agreements contain change in control provisions that would entitle the officers to receive compensation in the event there is a change in control in the Company (as defined) and a termination of their employment without cause (as defined).

## Note 15. COMPANY-OBLIGATED MANDATORILY REDEEMABLE CAPITAL SECURITIES OF SUBSIDIARY TRUST HOLDING SOLELY DEBENTURES OF THE COMPANY

In October 2002, $3,500,000 of Company-obligated mandatorily redeemable capital securities (the "Capital Securities") of subsidiary trusts holding solely junior subordinated debt securities of the Company (the debentures) were issued by our statutory business trust - SFG Capital Trust I, of which 100% of the common equity is owned by us. The trust was formed for the purpose of issuing the capital securities and investing the proceeds from the sale of such capital securities in the debentures. The debentures held by the trust are the sole asset of the trust. Distributions on the capital securities issued by the trust are payable semi-annually at a variable interest rate equal to 3 month LIBOR plus 345 basis points, which is equal to the interest rate being earned by the trust on the debentures held by the trust and are recorded as interest expense by us. The capital securities are subject to mandatory redemption in whole or in part, upon repayment of the debentures. We have entered into agreements which, taken collectively, fully and unconditionally guarantee the capital securities subject to the terms of the guarantee.

The debentures held by SFG Capital Trust I qualify as Tier 1 capital under Federal Reserve Board guidelines and are first redeemable, whole, or in part, by us on November 7, 2007.

## Note 16. REGULATORY MATTERS

The primary source of funds for our dividends paid to our shareholders is dividends received from our subsidiary banks. Dividends paid by the subsidiary banks are subject to restrictions by banking regulations. The most restrictive provision requires approval by their regulatory agencies if dividends declared in any year exceed the year's net income, as defined, plus the net retained profits of the two preceding years. During 2003, our subsidiaries have $8,802,000 plus net income for the interim periods through the date of declaration, available for dividends for distribution to us.

We and our subsidiaries are subject to various regulatory capital requirements administered by the banking regulatory agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we and each of our subsidiaries must meet specific capital guidelines that involve quantitative measures of our and our subsidiaries' assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Our and each of our subsidiaries' capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Failure to meet these minimum capital requirements can result in certain mandatory and possible additional discretionary actions by regulators that could have a material impact on our financial position and results of operations.

Quantitative measures established by regulation to ensure capital adequacy require us and each of our subsidiaries to maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). We believe, as of December 31, 2002, that we and each of our subsidiaries met all capital adequacy requirements to which we were subject.

The most recent notifications from the banking regulatory agencies categorized us and each of our subsidiary banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, we and each of our subsidiaries must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table below.

Our subsidiary banks are required to maintain noninterest bearing reserve balances with the Federal Reserve Bank. The required reserve balance was $2,943,000 at December 31, 2002.

Summit's and its subsidiary banks', Summit Community Bank ("SCB"), Capital State Bank, Inc.'s ("CSB") and Shenandoah Valley National Bank's ("SVNB") actual capital amounts and ratios are also presented in the following table (dollar amounts in thousands).

| | Actual | | Minimum Required Regulatory Capital | | To be Well Capitalized under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| As of December 31, 2002 | | | | | | |
| Total Capital (to risk weighted assets) | | | | | | |
| Summit | $ 53,114 | 11.7% | $ 36,310 | 8.0% | $ 45,388 | 10.0% |
| SCB* | 25,916 | 11.1% | 18,661 | 8.0% | 23,327 | 10.0% |
| CSB | 11,041 | 10.7% | 8,247 | 8.0% | 10,309 | 10.0% |
| SVNB | 12,816 | 11.0% | 9,304 | 8.0% | 11,630 | 10.0% |
| Tier I Capital (to risk weighted assets) | | | | | | |
| Summit | 49,043 | 10.8% | 18,155 | 4.0% | 27,233 | 6.0% |
| SCB* | 23,708 | 10.2% | 9,334 | 4.0% | 14,001 | 6.0% |
| CSB | 10,146 | 9.8% | 4,124 | 4.0% | 6,187 | 6.0% |
| SVNB | 11,848 | 10.2% | 4,651 | 4.0% | 6,976 | 6.0% |
| Tier I Capital (to average assets) | | | | | | |
| Summit | 49,043 | 7.4% | 20,012 | 3.0% | 33,353 | 5.0% |
| SCB* | 23,708 | 7.0% | 10,161 | 3.0% | 16,934 | 5.0% |
| CSB | 10,146 | 6.8% | 4,457 | 3.0% | 7,428 | 5.0% |
| SVNB | 11,848 | 6.7% | 5,289 | 3.0% | 8,815 | 5.0% |
| As of December 31, 2001 | | | | | | |
| Total Capital (to risk weighted assets) | | | | | | |
| Summit | $ 42,695 | 11.3% | $ 30,173 | 8.0% | $ 37,716 | 10.0% |
| SBVNB* | 14,014 | 10.4% | 10,811 | 8.0% | 13,514 | 10.0% |
| CSB | 9,407 | 10.4% | 7,208 | 8.0% | 9,011 | 10.0% |
| SVNB | 10,386 | 13.7% | 6,065 | 8.0% | 7,581 | 10.0% |
| PVB* | 9,273 | 12.1% | 6,121 | 8.0% | 7,651 | 10.0% |
| Tier I Capital (to risk weighted assets) | | | | | | |
| Summit | 39,585 | 10.5% | 15,080 | 4.0% | 22,620 | 6.0% |
| SBVNB* | 12,564 | 9.3% | 5,404 | 4.0% | 8,106 | 6.0% |
| CSB | 8,754 | 9.7% | 3,602 | 4.0% | 5,404 | 6.0% |
| SVNB | 9,978 | 13.2% | 3,033 | 4.0% | 4,549 | 6.0% |
| PVB* | 8,674 | 11.3% | 3,062 | 4.0% | 4,593 | 6.0% |
| Tier I Capital (to average assets) | | | | | | |
| Summit | 39,585 | 7.1% | 16,797 | 3.0% | 27,995 | 5.0% |
| SBVNB* | 12,564 | 7.0% | 5,369 | 3.0% | 8,949 | 5.0% |
| CSB | 8,754 | 6.7% | 3,902 | 3.0% | 6,504 | 5.0% |
| SVNB | 9,978 | 8.1% | 3,709 | 3.0% | 6,182 | 5.0% |
| PVB* | 8,674 | 7.0% | 3,739 | 3.0% | 6,231 | 5.0% |

*SBVNB and PVB merged to form SCB effective January 18, 2002.

NOTE 17. EARNINGS PER SHARE

The computations of basic and diluted earnings per share follow:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| Numerator: | | | |
| Net Income | $ 7,238,298 | $ 5,266,462 | $ 3,249,919 |
| Denominator | | | |
| Denominator for basic earnings per share-weighted average common shares outstanding | 1,753,982 | 1,754,449 | 1,760,845 |
| Effect of dilutive securities: | | | |
| Stock options | 9,058 | 693 | - |
| Denominator for diluted earnings per share-weighted average common shares outstanding and assumed conversions | 1,763,040 | 1,755,142 | 1,760,845 |
| Basic earnings per share | $ 4.13 | $ 3.00 | $ 1.85 |
| Diluted earnings per share | $ 4.11 | $ 3.00 | $ 1.85 |

NOTE 18. DERIVATIVE FINANCIAL INSTRUMENTS

During 2000 we purchased interest rate caps (caps) with a notional amount of $50 million. These caps are used to offset our overall interest rate risk relative to rising interest rates. These interest rate caps do not meet the criteria for hedge accounting and are marked to market at the end of each period with changes in market value being charged to earnings. The total amount paid for these caps was $158,500 and the cumulative market adjustments, and the amount charged to earnings in 2001 was $34,054. These interest rate caps expired during the fourth quarter of 2002 with no impact on earnings throughout the year.

During 2000 we entered into an interest rate swap whereby we will pay a variable rate of LIBOR and receive a fixed rate of 7.18% with a notional amount of $2,000,000 and a term of three years, expiring June 4, 2003. This instrument was used to hedge the fair value of certain certificates of deposit issued by the subsidiary banks. The swap agreement and the related hedged certificates of deposit are marked to market at the end of each reporting period and the net impact of the adjustments, the ineffective portion of the hedge, is reflected in other income in the accompanying consolidated financial statements. The net of the amounts earned on the fixed rate leg of the swap and amounts due on the variable rate leg of the swap are reflected as an adjustment in our cost of funds. During 2002 and 2001, there was no ineffectiveness of the hedge transaction reflected in earnings.

During 2002, we entered into an interest rate swap whereby we will pay a variable rate of LIBOR and receive a fixed rate of 4.73% on a notional amount of $6,000,000 and 5.03% on a notional amount of $4,000,000. The $6,000,000 notional contract has a term of 3 1/2 years, expiring November 28, 2005, and the $4,000,000 notional contract has a term of 4 1/2 years, expiring November 27, 2006. These two instruments were used to hedge our exposure to rising interest rates on our long-term borrowings with Federal Home Loan Bank. These agreements and the related hedged borrowings are marked to market at the end of each reporting period. The net of the amounts earned on the fixed rate leg of the swaps and amounts due on the variable rate leg of the swaps are reflected as an adjustment in our cost of funds.

NOTE 19. FAIR VALUE OF FINANCIAL INSTRUMENTS

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.

Company-obligated mandatorily redeemable capital securities of subsidiary trust holding solely subordinated debentures of the Company: The carrying values of company-obligated mandatorily redeemable capital securities of subsidiary trust holding solely subordinated debentures of the Company approximate their estimated fair values.

Derivative financial instruments: The fair values of the interest rate caps and swaps are based on quoted market prices of like products.

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:

| | 2002 | | 2001 | |
|---|---|---|---|---|
| | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| Financial assets: | | | | |
| Cash and due from banks | $ 11,470,311 | $ 11,470,311 | $ 11,776,231 | $ 11,776,231 |
| Interest bearing deposits, other banks | 2,185,369 | 2,185,369 | 2,261,826 | 2,261,826 |
| Federal funds sold | 3,390,135 | 3,390,135 | 1,848,129 | 1,848,129 |
| Securities available for sale | 212,597,975 | 212,597,975 | 206,967,097 | 206,967,097 |
| Securities held to maturity | - | - | 150,280 | 151,533 |
| Loans held for sale | 906,900 | 906,900 | 1,513,400 | 1,513,400 |
| Loans | 414,245,082 | 421,530,990 | 342,902,029 | 348,254,152 |
| Accrued interest receivable | 4,025,167 | 4,025,167 | 3,874,002 | 3,874,002 |
| Derivative financial assets | 279,729 | 279,729 | 202,989 | 202,989 |
| | $ 649,100,668 | $ 656,386,576 | $ 571,495,983 | $ 576,849,359 |
| Financial liabilities: | | | | |
| Deposits | $ 458,647,573 | $ 463,620,899 | $ 396,204,978 | $ 398,497,103 |
| Short-term borrowings | 20,191,103 | 20,191,103 | 24,032,790 | 24,032,790 |
| Long-term borrowings | 133,787,020 | 148,947,561 | 123,444,531 | 128,123,663 |
| Company-obligated mandatorily redeemable capital securities of subsidiary trust holding solely subordinated debentures of the Company | 3,500,000 | 3,500,000 | - | - |
| Accrued interest payable | 1,827,932 | 1,827,932 | 1,848,985 | 1,848,985 |
| Derivative financial liabilities | 392,046 | 392,046 | 164,779 | 164,779 |
| | $ 618,345,674 | $ 638,479,541 | $ 545,696,063 | $ 552,667,320 |

NOTE 20. CONDENSED FINANCIAL STATMENTS OF PARENT COMPANY

Our investment in our wholly-owned subsidiaries is presented on the equity method of accounting. Information relative to our balance sheets at December 31, 2002 and 2001, and the related statements of income and cash flows for the years ended December 31, 2002, 2001 and 2000, are presented as follows:

| Balance Sheets | December 31, 2002 | December 31, 2001 |
|---|---|---|
| Assets | | |
| Cash and due from banks | $ 149,979 | $ 181,931 |
| Investment in subsidiaries, eliminated in consolidation | 52,347,781 | 44,675,976 |
| Securities available for sale | 88,348 | 253,345 |
| Premises and equipment | 2,199,115 | 2,401,815 |
| Accrued interest receivable | 1,021 | - |
| Other assets | 1,030,224 | 77,014 |
| Total assets | $ 55,816,468 | $ 47,590,081 |
| Liabilities and Shareholders' Equity | | |
| Short-term borrowings | $ - | $ 1,000,000 |
| Long-term borrowings | - | 1,900,000 |
| Subordinated debentures held by subsidiary trust | 3,609,000 | - |
| Other liabilities | 127,672 | 402,734 |
| Total liabilities | 3,736,672 | 3,302,734 |
| Common stock, $2.50 par value, authorized 5,000,000 shares; issued 1,780,830 shares | 4,452,075 | 4,451,950 |
| Capital surplus | 8,257,966 | 8,256,901 |
| Retained earnings | 36,726,583 | 30,803,543 |
| Less cost of shares acquired for the treasury 2001 - 28,970 shares; 2000 - 26,470 shares | (619,711) | (532,479) |
| Accumulated other comprehensive income | 3,262,883 | 1,307,432 |
| Total shareholders' equity | 52,079,796 | 44,287,347 |
| Total liabilities and shareholders' equity | $ 55,816,468 | $ 47,590,081 |

| Statements of Income | For the Year Ended December 31, 2002 | 2001 | 2000 |
|---|---|---|---|
| Income | | | |
| Dividends from bank subsidiaries | $ 2,400,000 | $ 2,300,000 | $ 7,220,000 |
| Other dividends and interest income | 37,486 | 14,327 | 27,671 |
| Management and service fees from bank subsidiaries | 2,775,120 | 2,268,600 | 1,387,150 |
| Total income | 5,212,606 | 4,582,927 | 8,634,821 |
| Expense | | | |
| Interest expense | 173,131 | 79,064 | 2,736 |
| Operating expenses | 3,207,443 | 2,646,600 | 1,850,362 |
| Total expenses | 3,380,574 | 2,725,664 | 1,853,098 |
| Income before income taxes and equity in undistributed income of bank subsidiaries | 1,832,032 | 1,857,263 | 6,781,723 |
| Income tax (benefit) | (467,300) | (175,900) | (167,845) |
| Income before equity in undistributed income of bank subsidiaries | 2,299,332 | 2,033,163 | 6,949,568 |
| Equity in (distributed) undistributed income of bank subsidiaries | 4,938,966 | 3,233,299 | (3,699,649) |
| Net income | $ 7,238,298 | $ 5,266,462 | $ 3,249,919 |

Statements of Cash Flows

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income | $ 7,238,298 | $ 5,266,462 | $ 3,249,919 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Equity in (undistributed) distributed net income of bank subsidiaries | (4,938,966) | (3,233,299) | 3,699,649 |
| Deferred tax expense (benefit) | (215,300) | 34,600 | 19,055 |
| Depreciation | 327,303 | 269,083 | 121,693 |
| (Increase) decrease in other assets | (393,750) | 169,034 | 59,231 |
| Increase (decrease) in other liabilities | (43,903) | 122,035 | 248,919 |
| Net cash provided by operating activities | 1,973,682 | 2,627,915 | 7,398,466 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Investment in bank subsidiaries | (700,000) | (3,600,000) | (2,500,000) |
| Proceeds sales of available for sale securities | 300,000 | - | - |
| Purchase of available for sale securities | (81,723) | - | - |
| Proceeds from sales of premises and equipment | - | 14,807 | - |
| Purchases of furniture and equipment | (126,811) | (891,098) | (1,704,282) |
| Purchase of life insurance contracts | (475,000) | (23,000) | - |
| Net cash (used in) investing activities | (1,083,534) | (4,499,291) | (4,204,282) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Dividends paid to shareholders | (1,315,258) | (1,228,016) | (1,054,996) |
| Purchases of fractional shares | - | - | (4,846) |
| Payments to dissenting shareholders | - | - | (799,095) |
| Exercise of stock options | 1,190 | - | - |
| Purchase of treasury stock | (87,232) | (14,754) | (133,001) |
| Net increase (decrease) in short-term borrowings | (1,000,000) | 1,000,000 | - |
| Net proceeds from long-term borrowings | 4,379,200 | 1,900,000 | - |
| Repayment of long-term borrowings | (2,900,000) | - | (1,000,000) |
| Net cash provided by (used in) financing activities | (922,100) | 1,657,230 | (2,991,938) |
| Increase (decrease) in cash | (31,952) | (214,146) | 202,246 |
| Cash: | | | |
| Beginning | 181,931 | 396,077 | 193,831 |
| Ending | $ 149,979 | $ 181,931 | $ 396,077 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | | |
| Cash payments for: | | | |
| Interest | $ 143,345 | $ 75,038 | $ 2,736 |

Exhibit 21

# SUBSIDIARIES OF REGISTRANT

The following lists the subsidiaries of Summit Financial Group, Inc., a West Virginia Corporation.

Summit Community Bank, a state banking association organized under the laws of the State of West Virginia

Capital State Bank, Inc., a state banking association organized under the laws of the State of West Virginia

Shenandoah Valley National Bank, a national banking association organized under the laws of the United States of America

SFG Capital Trust I, a statutory business trust organized under the laws of the State of Delaware

Exhibit 23

# CONSENT OF INDEPENDENT AUDITORS

Securities and Exchange Commission
Washington, D.C.

We hereby consent to the incorporation by reference in this Annual Report on Form 10-K of our report dated January 29, 2003, on our audits of the consolidated financial statements of Summit Financial Group, Inc. as of December 31, 2002 and 2001 and for each of the three years in the period ended December 31, 2002, included in Summit's 2002 Annual Report.

ARNETT & FOSTER, P.L.L.C.

/s/ Arnett & Foster, P.L.L.C.

Charleston, West Virginia
March 25, 2003

Exhibit 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Summit Financial Group, Inc. ("Summit ") on Form 10-K for the year ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, H. Charles Maddy, III, President and Chief Executive Officer of Summit, certify pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of Summit.

/s/ H. Charles Maddy, III

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

Date: March 25, 2003

The foregoing certification is being furnished solely pursuant to 18 U.S.C. ss. 1350 and is not being filed as part of the Report or as a separate disclosure document.

Exhibit 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Summit Financial Group, Inc. ("Summit ") on Form 10-K for the year ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert S. Tissue, Senior Vice President and Chief Financial Officer of Summit, certify pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Summit.

/s/ Robert S. Tissue
--------------------------------------------
Robert S. Tissue,
Sr. Vice President and Chief Financial Officer

Date: March 25, 2003

The foregoing certification is being furnished solely pursuant to 18 U.S.C. ss. 1350 and is not being filed as part of the Report or as a separate disclosure document.