U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10 - Q

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

For the quarterly period ended March 31, 2000.

or

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

For the transition period from ___________ to __________.

Commission File Number 0-16587

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

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

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

(304) 538-1000
(Registrant's telephone number, including area code)

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

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

Common Stock, $2.50 par value
881,275 shares outstanding as of May 9, 2000

Summit Financial Group, Inc. and Subsidiaries

Table of Contents

Summit Financial Group, Inc. and Subsidiaries

Consolidated Balance Sheets

	March 31, 2000 (unaudited)	December 31, 1999 (*)
ASSETS		
Cash and due from banks	$ 8,413,840	$ 7,010,196
Interest bearing deposits with other banks	918,967	5,800,987
Federal funds sold	2,525,257	2,845,216
Securities available for sale	140,944,577	111,972,963
Securities held to maturity	737,215	796,820
Loans, net	242,419,286	236,067,648
Premises and equipment, net	9,586,622	8,997,027
Accrued interest receivable	3,036,333	2,439,767
Intangible assets	3,870,919	3,954,039
Other assets	4,995,859	5,882,777
Total assets	$ 417,448,875	$ 385,767,440
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Non interest bearing	$ 27,608,156	$ 27,381,875
Interest bearing	282,831,087	269,756,745
Total deposits	310,439,243	297,138,620
Short-term borrowings	52,935,868	32,348,030
Long-term borrowings	14,855,332	17,942,540
Other liabilities	3,614,231	3,255,630
Total liabilities	381,844,674	350,684,820
Commitments and Contingencies		
Shareholders' Equity		
Common stock, $2.50 par value; authorized 2,000,000 shares; issued 2000 - 890,390 shares; 1999 - 890,517 shares	2,225,975	2,226,293
Capital surplus	10,529,108	10,533,674
Retained earnings	25,499,405	24,570,174
Less cost of 9,115 shares acquired for the treasury	(384,724)	(384,724)
Accumulated other comprehensive income	(2,265,563)	(1,862,797)
Total shareholders' equity	35,604,201	35,082,620
Total liabilities and shareholders' equity	$ 417,448,875	$ 385,767,440

(*) - December 31, 1999 financial information has been extracted from audited consolidated financial statements

See Notes to Consolidated Financial Statements

Summit Financial Group, Inc. and Subsidiaries

Consolidated Statements of Income (unaudited)

	Three Months Ended March 31, 2000	Three Months Ended March 31, 1999
Interest income		
Interest and fees on loans		
Taxable	$ 5,075,650	$ 4,206,081
Tax-exempt	36,462	29,801
Interest and dividends on securities		
Taxable	1,902,097	903,419
Tax-exempt	173,398	135,662
Interest on interest bearing deposits with other banks	48,951	46,189
Interest on Federal funds sold	54,427	33,508
Total interest income	7,290,985	5,354,660
Interest expense		
Interest on deposits	2,972,164	2,281,527
Interest on short-term borrowings	522,526	65,195
Interest on long-term borrowings	254,203	238,920
Total interest expense	3,748,893	2,585,642
Net interest income	3,542,092	2,769,018
Provision for loan losses	127,501	97,500
Net interest income after provision for loan losses	3,414,591	2,671,518
Other income		
Insurance commissions	21,195	14,743
Service fees	206,391	157,969
Securities gains (losses)	-	-
Other	32,190	38,454
Total other income	259,776	211,166
Other expense		
Salaries and employee benefits	1,212,410	948,874
Net occupancy expense	147,548	121,275
Equipment expense	196,421	149,599
Supplies	47,844	45,259
Amortization of intangibles	80,736	42,958
Other	622,122	456,234
Total other expense	2,307,081	1,764,199
Income before income taxes	1,367,286	1,118,485
Income tax expense	438,055	394,200
Net income	$ 929,231	$ 724,285
Basic earnings per common share	$ 1.05	$ 0.81
Diluted earnings per common share	$ 1.05	$ 0.81
Dividends per common share	$ -	$ -

See Notes to Consolidated Financial Statements

Summit Financial Group, Inc. and Subsidiaries

Consolidated Statements of Shareholders' Equity (unaudited)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Compre-hensive Income	Total Share-holders' Equity
Balance, December 31, 1999	$2,226,293	$10,533,674	$24,570,174	$(384,724)	$(1,862,797)	$35,082,620
Three Months Ended March 31, 2000						
Comprehensive income:						
Net income	-	-	929,231	-	-	929,231
Other comprehensive income, net of deferred taxes of $255,076: Net unrealized (loss) on securities of ($402,766), net of reclassification adjustment for gains(losses) included in net income of $ -	-	-	-	-	(402,766)	(402,766)
Total comprehensive income	-	-	-	-	-	526,465
Purchase of fractional shares	(318)	(4,566)	-	-	-	(4,884)
Balance, March 30, 2000	$2,225,975	$10,529,108	$25,499,405	$(384,724)	$(2,265,563)	$ 36,604,201
Balance, December 31, 1998	$2,267,541	$11,245,251	$22,358,772	$(384,724)	$ 471,223	$ 35,958,063
Three Months Ended March 31, 1999						
Comprehensive income:						
Net income	-	-	724,285	-	-	724,285
Other comprehensive income, net of deferred taxes of $171,048: Net unrealized (loss) on securities of ($285,080), net of reclassification adjustment for gains included in net income of $ -	-	-	-	-	(285,080)	(285,080)
Total comprehensive income	-	-	-	-	-	439,205
Balance, March 31, 1999	$2,267,541	$11,245,251	$23,083,057	$(384,724)	$ 186,143	$ 36,397,268

See Notes to Consolidated Financial Statements

Summit Financial Group, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (unaudited)

	Three Months Ended	
	March 31, 2000	March 31, 1999
Cash Flows from Operating Activities		
Net income	$ 929,231	$ 724,285
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	124,526	133,741
Provision for loan losses	127,501	97,500
Deferred income tax (benefit) expense	(52,145)	83,600
(Gain) loss on disposal of other assets	16,153	(7,444)
Amortization of securities premiums (accretion of discounts) net	(34,807)	51,028
Amortization of goodwill and purchase accounting adjustments, net	31,381	29,731
(Increase) decrease in accrued interest receivabl	(596,566)	(239,338)
(Increase) decrease in other assets	(157,021)	(294,681)
Increase (decrease) in other liabilities	358,603	221,758
Net cash provided by operating activities	746,856	800,180
Cash Flows from Investing Activities		
Net (increase) decrease in interest bearing deposits with other banks	4,882,019	(1,541,336)
Proceeds from maturities and calls of securities ava	1,262,125	2,250,000
Proceeds from sales of securities available for sale	9,355,259	-
Principal payments received on securities available for sale	899,717	1,109,116
Principal payments received on securities held to maturity	58,759	68,126
Purchases of securities available for sale	(39,772,597)	(14,413,671)
Net (increase) decrease in Federal funds sold	319,959	8,057,411
Net loans made to customers	(6,477,684)	(6,578,608)
Purchases of premises and equipment	(715,537)	(223,325)
Net cash provided by (used in) investing activities	(30,187,980)	(11,272,287)
Cash Flows from Financing Activities		
Net increase (decrease) in demand deposit, NOW and savings accounts	(3,728,186)	4,255,706
Net increase (decrease) in time deposits	17,077,208	(1,417,526)
Net increase (decrease) in short-term borrowings	20,587,838	6,725,332
Proceeds from long-term borrowings	-	1,500,000
Repayment of long-term borrowings	(3,087,208)	(82,228)
Purchase of fractional shares	(4,884)	-
Net cash provided by financing activities	30,844,768	10,981,284
Increase (decrease) in cash and due from banks	1,403,644	509,177
Cash and due from banks:		
Beginning	7,010,196	4,991,798
Ending	$ 8,413,840	$ 5,500,975

(Continued)

See Notes to Consolidated Financial Statements

Summit Financial Group, Inc. and Subsidiaries

Consolidated Statements of Cash Flows - continued (unaudited)

	Three Months Ended	
	March 31, 2000	March 31, 1999
Supplement Disclosures of Cash Flow Information		
Cash payments for:		
Interest	$ 3,720,711	$ 2,590,415
Income taxes	$ 19,302	$ 150,823

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements (unaudited)

Note 1. Basis of Presentation

These consolidated financial statements of Summit Financial Group, Inc. and Subsidiaries ("Summit" or "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for annual year end financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature.

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these estimates.

The results of operations for the three months ended March 31, 2000 are not necessarily indicative of the results to be expected for the full year. The consolidated financial statements and notes included herein should be read in conjunction with the Company's 1999 audited financial statements and Annual Report on Form 10-KSB.

Note 2. Earnings per Share

The computations of basic and diluted earnings per share follow:

	Three Months Ended	
	March 31, 2000	March 31, 1999
Numerator:		
Net Income	$ 929,231	$ 724,285
Denominator:		
Denominator for basic earnings per share - weighted average common shares outstanding	881,275	897,901
Effect of dilutive securities:		
Stock options	-	45
Denominator for diluted earnings per share - weighted average common shares outstanding and assumed conversions	881,275	897,946
Basic earnings per share	$ 1.05	$ 0.81
Diluted earnings per share	$ 1.05	$ 0.81

Note 3. Merger, Acquisition and New Subsidiary

On December 30, 1999, the Company merged with Potomac Valley Bank ("Potomac"), a $94 million asset bank in Petersburg, West Virginia, in a transaction accounted for as a pooling of interests. Summit issued 290,110 shares of common stock to the shareholders of Potomac based upon an exchange ratio of 3.4068 shares of Summit common stock for each outstanding share of Potomac common stock. Summit's prior year consolidated financial statements have been restated to include Potomac.

Net interest income, net income and basic and diluted earnings per share for Summit and Potomac as originally reported for the quarter ended March 31, 1999, prior to restatement are as follows (in thousands, except per share amounts):

	Three Months Ended March 31, 1999
Net interest income:	
Summit	$ 1,855
Potomac	914
Combined	2,769
Net income:	
Summit	$ 448
Potomac	276
Combined	724
Basic and diluted earnings per share:	
Summit	$ 0.76
Potomac	3.07
Combined	0.81

Effective April 22, 1999, Capital State Bank, Inc., a subsidiary of Summit, purchased three branch banking facilities ("Branches") located in Greenbrier County, West Virginia. The transaction included the Branches' facilities and associated loan and deposit accounts, and was accounted for using the purchase method of accounting. Total deposits assumed approximated $47.4 million and total loans acquired approximated $8.9 million. This transaction was accounted for using the purchase method of accounting, and accordingly, the assets and liabilities and results of operations of the Branches are reflected in the Company's consolidated financial statements beginning April 23, 1999. The excess purchase price over the fair value of the net assets acquired as of the consummation date approximated $2,267,000, which is included in intangible assets in the accompanying consolidated balance sheet, and is being amortized over a period of 15 years using the straight-line method.

On May 14, 1999, Shenandoah Valley National Bank, a subsidiary of Summit, was granted a national bank charter and was initially capitalized with $4,000,000, funded by a special dividend in the amount of $3,000,000 from the Company's subsidiary bank, South Branch Valley National Bank, and from a $1,000,000 term loan from the then unaffiliated institution, Potomac Valley Bank. Shenandoah Valley National Bank opened for business on May 17, 1999.

Note 4. Securities

The amortized cost, unrealized gains, unrealized losses and estimated fair values of securities at March 31, 2000 and December 31, 1999 are summarized as follows:

	March 31, 2000			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Available for Sale				
Taxable:				
U. S. Treasury securities	$ 1,495,888	$ 1,049	$ 4,279	$ 1,492,658
U. S. Government agencies and corporations	70,905,217	18,046	2,016,037	68,907,226
Mortgage-backed securities-U. S. Government agencies and corporations	45,307,487	6,517	1,336,047	43,977,957
State and political subdivisions	1,394,167	-	10,223	1,383,944
Corporate debt securities	8,865,473	-	172,098	8,693,375
Federal Reserve Bank stock	236,300	-	-	236,300
Federal Home Loan Bank stock	3,321,900	-	-	3,321,900
Other equity securities	306,625	-	84,000	222,625
Total taxable	131,833,057	25,612	3,622,684	128,235,985
Tax-exempt:				
State and political subdivisions	9,775,616	31,112	137,236	9,669,492
Federal Reserve Bank stock	4,100	-	-	4,100
Other equity securities	3,020,000	15,000	-	3,035,000
Total tax-exempt	12,799,716	46,112	137,236	12,708,592
Total	$144,632,773	$71,724	$3,759,920	$140,944,577

	March 31, 2000			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Held to Maturity				
Taxable:				
Mortgage-backed securities-U.S. Government agencies and corporations	$ 196,029	$ -	$ 173	$ 195,856
Tax-exempt:				
State and political subdivisions	541,186	2,686	83	543,789
Total	$ 737,215	$ 2,686	$ 256	$ 739,645

	December 31, 1999			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Available for Sale				
Taxable:				
U. S. Treasury securities	$ 1,495,012	$ 4,323	$ 2,303	$ 1,497,032
U. S. Government agencies and corporations	59,181,180	7,881	1,724,889	57,464,172
Mortgage-backed securities-U. S. Government agencies and corporations	32,690,109	8,336	1,037,123	31,661,322
State and political subdivisions	1,395,327	154	5,318	1,390,163
Corporate debt securities	4,057,202	-	72,545	3,984,657
Federal Reserve Bank stock	234,150	-	-	234,150
Federal Home Loan Bank stock	2,842,800	-	-	2,842,800
Other equity securities	306,625	-	66,375	240,250
Total taxable	102,202,405	20,694	2,908,553	99,314,546
Tax-exempt:				
State and political subsdivisions	9,774,662	42,679	147,174	9,670,167
Federal Reserve Bank stock	6,250	-	-	6,250
Other equity securities	3,020,000	-	38,000	2,982,000
Total tax-exempt	12,800,912	42,679	185,174	12,658,417
Total	$ 115,003,317	$ 63,373	$3,093,727	$111,972,963

	December 31, 1999			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Held to Maturity				
Taxable:				
Mortgage-backed securities-U. S. Government agencies and corporations	$ 255,310	$ 374	$ -	$ 255,684
Tax-exempt:				
State and political subdivisions	541,510	4,421	-	545,931
Total	$ 796,820	$ 4,795	$ -	$ 801,615

The maturites, amortized cost and estimated fair values of securities at March 31, 2000, are summarized as follows:

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 15,442,332	$ 15,146,995
Due from one to five years	71,747,566	70,211,242
Due from five to ten years	47,442,056	45,755,564
Due after ten years	4,621,894	4,528,351
Equity securities	5,378,925	5,302,425
	$ 144,632,773	$ 140,944,577

	Held to Maturity	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 336,037	$ 335,971
Due from one to five years	401,178	403,674
Due from five to ten years	-	-
Due after ten years	-	-
Equity securities	-	-
	$ 737,215	$ 739,645

Note 5. Deposits

The following is a summary of interest bearing deposits by type as of March 31, 2000 and December 31, 1999:

	March 31, 2000	December 31, 1999
Demand deposits, interest bearing	$ 59,322,368	$ 62,741,925
Savings deposits	41,564,413	42,099,321
Certificates of deposit	164,064,687	149,440,839
Individual retirement accounts	17,879,619	15,474,660
Total	$ 282,831,087	$ 269,756,745

The following is a summary of the maturity distribution of certificates of deposit and Individual Retirement Accounts in denominations of $100,000 or more as of March 31, 2000:

	Amount	Percent
Three months or less	$ 11,377,511	26.7%
Three through six months	8,015,984	18.8%
Six through twelve months	10,363,287	24.3%
Over twelve months	12,880,152	30.2%
Total	$ 42,636,934	100.0%

A summary of the scheduled maturities for all time deposits as of March 31, 2000 is as follows:

2000	$ 93,995,415
2001	70,987,115
2002	8,487,906
2003	4,009,430
2004	3,561,020
Thereafter	903,420
	$ 181,944,306

Note 6. Short-term Borrowings

A summary of short-term borrowings is presented below:

	For the Quarter Ended March 31, 2000		
	Federal Funds Purchased	Repurchase Agreements	Short-term FHLB Advances
Balance at March 31	$ -	$ 5,593,868	$ 47,342,000
Average balance outstanding for the quarter	231,681	5,847,089	32,929,572
Maximum balance outstanding at any month end during quarter	3,061,000	7,126,684	47,342,000
Weighted average interest rate for the quarter	4.58%	4.53%	5.69%
Weighted average interest rate for balances outstanding at March 31	- %	4.56%	6.36%

	For the Quarter Ended March 31, 2000		
	Federal Funds Purchased	Repurchase Agreements	Short-term FHLB Advances
Balance at December 31	$ -	$ 6,053,030	$ 26,295,000
Average balance outstanding for the year	231,681	4,136,697	9,509,159
Maximum balance outstanding at any month end	3,061,000	6,953,086	27,390,000
Weighted average interest rate for the year	4.58%	4.01%	5.21%
Weighted average interest rate for balances outstanding at December 31	- %	4.25%	4.05%

Note 7. Pending Branch Sale

On December 17, 1999, a subsidiary of Summit, South Branch Valley National Bank entered into an agreement to sell its branch banking facility ("Branch") located in Petersburg, West Virginia. The transaction is expected to be completed in May 2000, and will include the Branch's facility and selected loans and deposit accounts. Total deposits of the Branch approximated $10 million and total loans approximated $4.5 million as of March 31, 2000. The total consideration to be received will be determined at closing based upon the total deposits sold plus the net book value of the Branch office and equipment

Note 8. Restrictions on Capital

Summit and its 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, Summit and each of its subsidiaries must meet specific capital guidelines that involve quantitative measures of Summit's and its subsidiaries' assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Summit and each of its subsidiaries' capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require Summit and each of its 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). Management believes, as of March 31, 2000, that Summit and each of its subsidiaries met all capital adequacy requirements to which they were subject.

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

Summit's and its subsidiaries', South Branch Valley National Bank's ("South Branch"), Capital State Bank, Inc.'s ("Capital State"), Shenandoah Valley National Bank's ("Shenandoah") and Potomac Valley Bank's ("Potomac") actual capital amounts and ratios are also presented in the following table.

(Dollars in thousands)

	Actual		Minimum Required Regulatory Capital		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of March 31, 2000						
Total Capital (to risk						
Summit	$36,356	14.7%	$19,850	8.0%	$24,813	10.0%
South Branch	12,548	11.0%	9,130	8.0%	11,413	10.0%
Capital State	7,311	13.0%	4,512	8.0%	5,640	10.0%
Shenandoah	5,158	23.3%	1,770	8.0%	2,212	10.0%
Potomac	10,513	18.9%	4,462	8.0%	5,565	10.0%
Tier I Capital (to risk						
Summit	33,995	13.7%	9,925	4.0%	14,888	6.0%
South Branch	11,323	9.9%	4,565	4.0%	6,848	6.0%
Capital State	6,874	12.2%	2,256	4.0%	3,384	6.0%
Shenandoah	5,113	23.1%	885	4.0%	1,327	6.0%
Potomac	9,870	17.7%	2,226	4.0%	3,339	6.0%
Tier I Capital (to						
Summit	33,995	8.5%	12,048	3.0%	20,080	5.0%
South Branch	11,323	7.1%	4,772	3.0%	7,953	5.0%
Capital State	6,874	6.8%	3,013	3.0%	5,021	5.0%
Shenandoah	5,113	11.8%	1,304	3.0%	2,174	5.0%
Potomac	9,870	10.9%	2,724	3.0%	4,540	5.0%
As of December 31, 1999						
Total Capital (to risk						
Summit	$35,186	14.8%	$19,052	8.0%	$23,815	10.0%
South Branch	11,952	10.8%	8,886	8.0%	11,108	10.0%
Capital State	7,064	12.9%	4,372	8.0%	5,465	10.0%
Shenandoah	3,926	25.8%	1,219	8.0%	1,524	10.0%
Potomac	12,894	21.0%	4,904	8.0%	6,130	10.0%
Tier I Capital (to risk						
Summit	32,954	13.8%	9,526	4.0%	14,289	6.0%
South Branch	10,781	9.7%	4,443	4.0%	6,665	6.0%
Capital State	6,660	12.2%	2,186	4.0%	3,279	6.0%
Shenandoah	3,896	25.6%	609	4.0%	914	6.0%
Potomac	12,267	20.0%	2,452	4.0%	3,678	6.0%
Tier I Capital (to						
Summit	32,954	8.7%	11,413	3.0%	19,021	5.0%
South Branch	10,781	7.0%	4,653	3.0%	7,755	5.0%
Capital State	6,660	6.7%	2,965	3.0%	4,942	5.0%
Shenandoah	3,895	11.6%	1,005	3.0%	1,675	5.0%
Potomac	12,267	13.3%	2,773	3.0%	4,621	5.0%

Management's Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

The following discussion and analysis focuses on significant changes in the financial condition and results of operations of Summit Financial Group, Inc. ("Company" or "Summit") and its wholly owned subsidiaries, South Branch Valley National Bank ("South Branch"), Capital State Bank, Inc. ("Capital State"), Shenandoah Valley National Bank ("Shenandoah") and Potomac Valley Bank ("Potomac") for the periods indicated. This discussion and analysis should be read in conjunction with the Company's 1999 audited financial statements and Annual Report on Form 10-KSB.

The Private Securities Litigation Act of 1995 indicates that the disclosure of forward-looking information is desirable for investors and encourages such disclosure by providing a safe harbor for forward-looking statements by management. The following management's discussion and analysis of financial condition and results of operations contains certain forward-looking statements that involve risk and uncertainty. In order to comply with the terms of the safe harbor, the Company notes that a variety of factors could cause Summit's actual results and experience to differ materially from the anticipated results or other expectations expressed in those forward-looking statements.

MERGER, ACQUISITION AND NEW SUBSIDIARY

On December 30, 1999, the Company merged with Potomac in a transaction accounted for as a pooling of interests. Summit issued 290,110 shares of common stock to the shareholders of Potomac based upon an exchange ratio of 3.4068 shares of Summit common stock for each outstanding share of Potomac common stock. Summit's prior year consolidated financial statements have been restated to include Potomac. Refer to Note 3 of the accompanying consolidated financial statements for additional information regarding this merger.

Effective April 22, 1999, Capital State purchased three branch banking facilities located in Greenbrier County, West Virginia ("Greenbrier Branches"). The transaction included the Greenbrier Branches' facilities and associated loan and deposit accounts, and was accounted for using the purchase method of accounting. Total deposits assumed approximated $47.4 million and total loans acquired approximated $8.9 million. This transaction was accounted for using the purchase method of accounting, and accordingly, the assets and liabilities and results of operations of the Branches are reflected in the Company's consolidated financial statements beginning April 23, 1999. The excess purchase price over the fair value of the net assets acquired as of the consummation date approximated $2,267,000, which is included in intangible assets in the accompanying consolidated balance sheet, and is being amortized over a period of 15 years using the straight-line method.

On May 14, 1999, Shenandoah was granted a national bank charter and was initially capitalized with $4,000,000, funded by a special dividend in the amount of $3,000,000 from South Branch and from a $1,000,000 term loan from the then unaffiliated institution, Potomac. Shenandoah opened for business on May 17, 1999.

RESULTS OF OPERATIONS

Earnings Summary

Net income for the quarter ended March 31, 2000 grew 28.3% to $929,000, or $1.05 per diluted share as compared to $724,000, or $0.81 per diluted share for the quarter ended March 31, 1999. Returns on average equity and assets for first quarter 2000 were 10.3% and 0.93%, respectively, compared with 8.4% and 1.00% for the same period of 1999. Improved financial performance for the first quarter of 2000 resulted from growth in both net interest income and noninterest income, which more than offset increased noninterest expense.

Net Interest Income

The Company's net interest income on a fully tax-equivalent basis totaled $3,631,000 for the three month period ended March 31, 2000 compared to $2,839,000 for the same period of 1999, representing an increase of $792,000 or 27.9%. This increase resulted from growth in interest earning assets. Average interest earning assets grew 37.2% from $274,161,000 during the first quarter of 1999 to $376,081,000 for the first quarter of 2000, which resulted primarily from Capital State's acquisition of the Greenbrier Branches in April 1999 and the growth of Shenandoah following its opening in May 1999.

Summit's net yield on interest earning assets declined to 3.9% for the three month period ended March 31, 2000, compared to 4.1% for the same period in 1999. Consistent with industry trends, the Company's net interest margin has been narrowing as competition from nontraditional financial service providers and shifting customer preferences have made it difficult to attract core deposits, the most significant and lowest cost funding source of commercial banks.

Growth in Company net interest income is expected to continue due to anticipated continued growth in volumes of interest earning assets, principally loans, over the near term. Conversely, the Company's net interest margin is anticipated to continue to contract over the balance of 2000, due to continued competitive pressures discussed above, coupled with the recent and successive increases in short-term interest rates by the Federal Reserve which will negatively impact Summit due to its liability sensitive asset/liability position.

Further analysis of the Company's yields on interest earning assets and interest bearing liabilities are presented in Tables I and II below.

Table I - Average Balance Sheet and Net Interest Income Analysis
(Dollars in thousands)

	For the Quarter Ended					
	March 31, 2000			March 31, 1999		
	Average Balance	Earnings/ Expense	Yield/ Rate	Average Balance	Earnings/ Expense	Yield/ Rate
Interest earning assets						
Loans, net of unearned income	$ 240,966	$ 5,112	8.5%	$ 198,115	$ 4,236	8.6%
Securities						
Taxable	114,898	1,902	6.6%	59,101	903	6.1%
Tax-exempt (1)	13,253	263	7.9%	11,123	206	7.4%
Federal funds sold and interest bearing deposits with other banks	6,964	103	5.9%	5,822	80	5.5%
Total interest earning assets	376,081	7,380	7.8%	274,161	5,425	7.9%
Noninterest earning assets						
Cash & due from banks	6,775			5,619		
Premises and equipment	9,671			7,294		
Other assets	9,428			3,830		
Allowance for loan loss	(2,281)			(2,141)		
Total assets	$ 399,674			$ 288,763		
Interest bearing liabilities						
Interest bearing demand deposits	$60,357	$ 476	3.2%	$ 45,122	$ 322	2.9%
Savings deposits	41,137	274	2.7%	27,633	183	2.6%
Time deposits	173,989	2,223	5.1%	135,372	1,777	5.3%
Short-term borrowings	39,015	522	5.4%	6,275	65	4.1%
Long-term borrowings	17,511	254	5.8%	17,893	239	5.3%
Total interest bearing liabilities	332,009	3,749	4.5%	232,295	2,586	4.5%
Noninterest bearing liabilities and shareholders' equity						
Demand deposits	26,898			19,638		
Other liabilities	4,706			2,437		
Shareholders' equity	36,061			34,393		
Total liabilities and shareholders' equity	$ 399,674			$ 288,763		
Net interest earnings		$ 3,631			$ 2,839	
Net yield on interest earning assets			3.9%			4.1%

(1) - Interest income on tax-exempt securities has been adjusted assuming an effective tax rate of 34% for both periods presented. The tax equivalent adjustment resulted in an increase in interest income of $89,000 and $70,000 for the periods ended March 31, 2000 and 1999, respectively.

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

	For the Quarter Ended March 31, 2000 versus March 31, 1999 Increase (Decrease) Due to Change in:		
	Volume	Rate	Net
Interest earned on:			
Loans	$ 909	$ (33)	$ 876
Securities			
Taxable	918	81	999
Tax-exempt	41	16	57
Federal funds sold and interest bearing deposits with other banks	17	6	23
Total interest earned on interest earning assets	1,885	70	1,955
Interest paid on:			
Interest bearing demand deposits	118	36	154
Savings deposits	90	1	91
Time deposits	495	(49)	446
Short-term borrowings	433	24	457
Long-term borrowings	(5)	20	15
Total interest paid on interest bearing liabilities	1,131	32	1,163
Net interest income	$ 754	$ 38	$ 792

Credit Experience

The provision for loan losses represents charges to earnings necessary to maintain an adequate allowance for potential future loan losses. Management's determination of the appropriate level of the allowance is based on an ongoing analysis of credit quality and loss potential in the loan portfolio, change in the composition and risk characteristics of the loan portfolio, and the anticipated influence of national and local economic conditions. The adequacy of the allowance for loan losses is reviewed quarterly and adjustments are made as considered necessary.

The Company recorded a $128,000 provision for loan losses for the first three months of 2000, compared to $98,000 for the same period in 1999. This increase represents continued growth of the loan portfolio. Net loan charge offs for the first quarter of 2000 were $10,000, as compared to $68,000 over the same period of 1999. At March 31, 2000, the allowance for loan losses totaled $2,350,000 or 0.96% of loans, net of unearned income, compared to $2,232,000 or 0.94% of loans, net of unearned income at December 31, 1999.

Summit's asset quality remains very sound. As illustrated in Table III below, the Company's non-performing assets and loans past due 90 days or more and still accruing interest have declined during the past 12 months, despite continued growth in the Company's loan portfolio.

Table III - Summary of Past Due Loans and Non-Performing Assets
(Dollars in thousands)

	March 31, 2000	March 31, 1999	December 31, 1999
Accruing loans past due 90 days or more	$ 272	$ 60	$ 476
Nonperforming assets:			
Nonaccrual loans	103	736	522
Foreclosed properties	27	34	35
Repossessed assets	30	203	115
Total	$ 432	$ 1,033	$ 1,148
Percentage of total loans	0.2%	0.5%	0.5%

Noninterest Income and Expense

Total other income increased approximately $49,000 or 23.2% to $260,000 during the first quarter of 2000, as compared to the first three months of 1999. The most significant item contributing to this increase was service fee income, which increased $48,000 from approximately $158,000 to $206,000, or 30.4%. This resulted primarily from a change in Summit's deposit fee structure and from Capital State's acquisition of the Greenbrier County Branches which occurred in April 1999.

Total noninterest expense increased approximately $543,000, or 30.8% to $2,307,000 during the first quarter of 2000 as compared to the same period in 1999. Substantially all of this increase resulted due to the noninterest expenses of the Greenbrier Branches, and of Shenandoah which opened in May 1999.

FINANCIAL CONDITION

Total assets of the Company were $417,449,000 at March 31, 2000, compared to $385767,000 at December 31, 1999, representing a 8.2% increase. Table IV below serves to illustrate significant changes in the Company's financial position between December 31, 1999 and March 31, 2000.

Table IV - Summary of Significant Changes in Financial Position
(Dollars in thousands)

	Balance December 31, 1999	Increase (Decrease) Amount	Increase (Decrease) Percentage	Balance March 31, 2000
Assets				
Securities available for sale	$111,973	$ 28,972	25.9%	$ 140,945
Loans, net of unearned income	236,068	6,351	2.7%	242,419
Liabilities				
Interest bearing deposits	$269,757	$ 13,074	4.8%	$ 282,831
Short-term borrowings	32,348	20,588	63.6%	52,936
Long-term borrowings	17,943	(3,088)	-17.2%	14,855

The increase in securities available for sale resulted primarily from purchases of U.S. government agency securities and mortgage backed securities during the first quarter of 2000. Purchases of these securities were made as part of Summit's ongoing asset/liability management strategy, which strives to minimize interest rate risk while enhancing the financial position of the Company These securities purchases were funded by short-term borrowings under the Company's line of credit with the Federal Home Loan Bank ("FHLB") and by deposit growth Shenandoah realized during the first three months of 2000.

Loan growth during the first three months of 2000, occurring principally in the commercial and real estate portfolios, was funded by increased interest bearing deposits and long-term borrowings from the FHLB.

Substantially all the increase in interest bearing deposits is attributable to the continued growth of Shenandoah's deposit base during first quarter 2000.

Short-term borrowings from the FHLB, as previously mentioned, were used to fund certain securities purchases, and in addition, were used to repay maturing long-term borrowings.

Refer to Notes 4, 5 and 6 of the notes to the accompanying consolidated financial statements for additional information with regard to changes in the composition of the Summit's securities, deposits and short-term borrowing activity between March 31, 2000 and December 31, 1999.

LIQUIDITY

Liquidity reflects the Company's 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, Federal funds sold, securities and interest bearing deposits with other banks maturing within one year, and available lines of credit with the Federal Home Loan Bank, totaling approximately $73.7 million at March 31, 2000 versus $94.1 million at December 31, 1999. Further enhancing the Company's liquidity is the availability as of March 31, 2000 of additional securities with greater than one year maturities and having an estimated market value totaling approximately $121.2 million which could be used to collateralize additional borrowings in response to an unforeseen need for liquidity.

The Company's liquidity position is monitored continuously to ensure that day-to-day as well as anticipated funding needs are met. Management is not aware of any trends, commitments, events or uncertainties that have resulted in or are reasonably likely to result in a material change to the Summit's liquidity.

CAPITAL RESOURCES

Maintenance of a strong capital position is a continuing goal of Company management. Through management of its capital resources, the Company seeks to provide an attractive financial return to its shareholders while retaining sufficient capital to support future growth. Shareholders' equity at March 31, 2000 totaled $35,604,000 compared to $35,083,000 at December 31, 1999, representing an increase of 1.5% which resulted primarily from net retained earnings of the Company during the first quarter of 2000.

Refer to Note 8 of the notes to the accompanying consolidated financial statements for information regarding regulatory restrictions on the Company's and its subsidiaries' capital.

SIGNATURES

Pursuant to the requirements 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.
(registrant)

By: /s/ H. Charles Maddy, III

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

By: /s/ Robert S. Tissue

Robert S. Tissue,
Vice President and
Chief Financial Officer

Date: May 12, 2000

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