

FORM 10 - Q

For the quarterly period ended June 30, 2000.

or

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

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## Summit Financial Group, Inc. and Subsidiaries

## Consolidated Balance Sheets

	June 30, 2000 (unaudited)	December 31, 1999 (*)
<b>ASSETS</b>		
Cash and due from banks	\$ 7,550,027	\$ 7,010,196
Interest bearing deposits with other banks	209,939	5,800,987
Federal funds sold	60,000	2,845,216
Securities available for sale	154,339,004	111,972,963
Securities held to maturity	401,067	796,820
Loans, net	242,542,091	236,067,648
Premises and equipment, net	10,568,753	8,997,027
Accrued interest receivable	3,189,913	2,439,767
Intangible assets	3,775,569	3,954,039
Other assets	5,918,655	5,882,777
	-----	-----
Total assets	\$ 428,555,018	\$ 385,767,440
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Deposits		
Non interest bearing	\$ 26,359,207	\$ 27,381,875
Interest bearing	281,362,841	269,756,745
	-----	-----
Total deposits	307,722,048	297,138,620
	-----	-----
Short-term borrowings	69,590,623	32,348,030
Long-term borrowings	11,766,840	17,942,540
Other liabilities	3,286,539	3,255,630
	-----	-----
Total liabilities	392,366,050	350,684,820
	-----	-----
<b>Commitments and Contingencies</b>		
<b>Shareholders' Equity</b>		
Common stock, \$2.50 par value; authorized 5,000,000 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	25,992,431	24,570,174
Less cost of 9,115 shares acquired for the treasury	(384,724)	(384,724)
Accumulated other comprehensive income	(2,173,822)	(1,862,797)
	-----	-----
Total shareholders' equity	36,188,968	35,082,620
	-----	-----
Total liabilities and shareholders' equity	\$ 428,555,018	\$ 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		Six Months Ended	
	June 30, 2000	June 30, 1999	June 30, 2000	June 30, 1999
Interest income				
Interest and fees on loans				
Taxable	\$ 5,238,263	\$ 4,566,714	\$ 10,313,913	\$ 8,772,795
Tax-exempt	41,695	29,600	78,157	59,401
Interest and dividends on securities				
Taxable	2,323,266	1,166,851	4,225,363	2,070,270
Tax-exempt	168,690	132,137	342,088	267,799
Interest on interest bearing deposits with other banks	7,397	141,755	56,348	187,944
Interest on Federal funds sold	21,122	73,125	75,549	106,633
Total interest income	7,800,433	6,110,182	15,091,418	11,464,842
Interest expense				
Interest on deposits	3,200,227	2,590,484	6,172,391	4,872,011
Interest on short-term borrowings	963,895	106,657	1,486,421	171,852
Interest on long-term borrowings	165,071	276,228	419,274	515,148
Total interest expense	4,329,193	2,973,369	8,078,086	5,559,011
Net interest income	3,471,240	3,136,813	7,013,332	5,905,831
Provision for loan losses	127,500	62,500	255,001	160,000
Net interest income after provision for loan losses	3,343,740	3,074,313	6,758,331	5,745,831
Other income				
Insurance commissions	31,470	30,027	52,665	44,770
Service fees	226,139	187,999	432,530	345,968
Securities gains (losses)	-	-	-	-
Gain on branch bank divestiture	224,629	-	224,629	-
Other	16,837	56,122	49,027	94,576
Total other income	499,075	274,148	758,851	485,314
Other expense				
Salaries and employee benefits	1,235,760	1,082,486	2,448,170	2,031,360
Net occupancy expense	170,424	141,393	317,972	262,668
Equipment expense	242,477	193,490	438,898	343,089
Supplies	50,932	122,941	98,776	168,200
Amortization of intangibles	75,851	66,231	156,587	109,189
Other	749,044	655,234	1,371,165	1,111,468
Total other expense	2,524,488	2,261,775	4,831,568	4,025,974
Income before income taxes	1,318,327	1,086,686	2,685,614	2,205,171
Income tax expense	384,665	383,285	822,720	777,485
Net income	\$ 933,662	\$ 703,401	\$ 1,862,894	\$ 1,427,686
Basic earnings per common share	\$ 1.06	\$ 0.78	\$ 2.11	\$ 1.59
Diluted earnings per common share	\$ 1.06	\$ 0.78	\$ 2.11	\$ 1.59
Dividends per common share	\$ 0.50	\$ 0.47	\$ 0.50	\$ 0.47

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
Six Months Ended June 30, 2000						
Comprehensive income:						
Net income	-	-	1,862,894	-	-	1,862,894
Other comprehensive income, net of deferred taxes of \$194,707:						
Net unrealized (loss) on securities of (\$311,025), net of reclassification adjustment for gains(losses) included in net income of \$ -	-	-	-	-	(311,025)	(311,025)
Total comprehensive income	-	-	-	-	-	1,551,869
Cash dividends declared (\$.50 per share)	-	-	(440,637)	-	-	(440,637)
Purchase of fractional shares	(318)	(4,566)	-	-	-	(4,884)
Balance, June 30, 2000	\$2,225,975	\$10,529,108	\$25,992,431	\$(384,724)	\$(2,173,822)	\$ 36,188,968
Balance, December 31, 1998	\$2,267,541	\$11,245,251	\$22,358,772	\$(384,724)	\$ 471,223	\$ 35,958,063
Six Months Ended June 30, 1999						
Comprehensive income:						
Net income	-	-	1,427,686	-	-	1,427,686
Other comprehensive income, net of deferred taxes of \$879,580:						
Net unrealized (loss) on securities of (\$1,405,044), net of reclassification adjustment for gains included in net income of \$ -	-	-	-	-	(1,405,044)	(1,405,044)
Total comprehensive income	-	-	-	-	-	22,642
Cash dividends declared:						
Summit (\$.47 per share)	-	-	(277,907)	-	-	(277,907)
Potomac	-	-	(135,000)	-	-	(135,000)
Balance, June 30, 1999	\$2,267,541	\$11,245,251	\$23,373,551	\$(384,724)	\$ (933,821)	\$ 35,567,798

See Notes to Consolidated Financial Statements

## Summit Financial Group, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows (unaudited)

	Six Months Ended	
	June 30, 2000	June 30, 1999
Cash Flows from Operating Activities		
Net income	\$ 1,862,894	\$ 1,427,686
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	326,071	240,408
Provision for loan losses	255,001	160,000
Deferred income tax (benefit) expense	(47,310)	15,315
(Gain) loss on disposal of other asset	12,598	1,200
(Gain) on branch bank divestiture	(224,629)	-
Amortization of securities premiums (accretion of discounts), net	(27,370)	12,609
Amortization of goodwill and purchase accounting adjustments, net	82,379	59,079
(Increase) decrease in accrued interest receivable	(779,932)	(278,821)
(Increase) decrease in other assets	(126,053)	(303,216)
Increase (decrease) in other liabilities	64,846	227,250
Net cash provided by operating activities	1,398,495	1,561,510
Cash Flows from Investing Activities		
Net (increase) decrease in interest bearing deposits with other banks	5,591,048	(5,884,773)
Proceeds from maturities and calls of securities available	1,947,806	6,700,324
Proceeds from maturities and calls of securities held to maturity	140,000	100,000
Proceeds from sales of securities available for sale	9,355,259	-
Principal payments received on securities available for sale	1,880,413	2,500,784
Principal payments received on securities held to maturity	254,381	137,000
Purchases of securities available for sale	(54,685,904)	(44,660,577)
Net (increase) decrease in Federal funds sold	2,785,216	(164,198)
Net loans made to customers	(12,937,960)	(20,138,970)
Purchases of premises and equipment	(2,134,430)	(880,526)
Proceeds from disposal of premises, equipment and other assets	44,546	-
Purchase of life insurance contracts	(1,000,000)	(1,246,000)
Net cash and cash equivalents (paid) received in branch bank (divestiture) acquisitions	(820,879)	35,071,460
Net cash provided by (used in) investing activities	(49,580,504)	(28,465,476)
Cash Flows from Financing Activities		
Net increase (decrease) in demand deposit, NOW and savings accounts	(5,213,673)	12,004,198
Net increase (decrease) in time deposits	23,314,141	630,107
Net increase (decrease) in short-term borrowing	37,242,593	11,668,761
Proceeds from long-term borrowings	-	4,500,000
Repayment of long-term borrowings	(6,175,700)	(165,696)
Dividends paid	(440,637)	(412,907)
Purchase of fractional shares	(4,884)	-
Net cash provided by financing activities	48,721,840	28,224,463
Increase (decrease) in cash and due from banks	539,831	1,320,497
Cash and due from banks:		
Beginning	7,010,196	6,063,721
Ending	\$ 7,550,027	\$ 7,384,218

(Continued)

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Consolidated Statements of Cash Flows - continued (unaudited)

	Six Months Ended	
	June 30, 2000	June 30, 1999
	-----	-----
Supplement Disclosures of Cash Flow Information		
Cash payments for:		
Interest	\$ 8,057,647	\$ 5,558,562
	=====	=====
Income taxes	\$ 953,561	\$ 698,692
	=====	=====
Supplemental Schedule of Noncash Investing and Financing Activities		
Other assets acquired in settlement of loans	\$ 51,000	\$ 112,040
	=====	=====
Acquisition of Greenbrier County branches:		
Net cash and cash equivalents received		
in acquisition of Greenbrier County branches	\$ -	\$(35,071,460)
	=====	=====
Fair value of assets acquired		
(principally loans and Bank premises)	\$ -	\$ 12,382,196
Deposits and other liabilities assumed	-	(47,453,656)
	-----	-----
	\$ -	\$(35,071,460)
	=====	=====

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 and six months ended June 30, 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 June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Numerator:				
Net Income	\$ 933,633	\$ 703,041	\$ 1,862,894	\$ 1,427,686
Denominator:				
Denominator for basic earnings per share - weighted average common shares outstanding	881,275	897,901	881,275	897,901
Effect of dilutive securities:				
Stock options	-	124	-	85
Denominator for diluted earnings per share - weighted average common shares outstanding and assumed conversions	881,275	898,025	881,275	897,986
Basic earnings per share	\$ 1.06	\$ 0.78	\$ 2.11	\$ 1.59
Diluted earnings per share	\$ 1.06	\$ 0.78	\$ 2.11	\$ 1.59



### 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 three months and six months ended June 30, 1999, prior to restatement are as follows (in thousands, except per share amounts):

	Three Months Ended June 30, 1999	Six Months Ended June 30, 1999
	-----	-----
Net interest income:		
Summit	\$ 2,204	\$ 4,059
Potomac	929	1,848
Combined	3,133	5,907
Net income:		
Summit	\$ 414	\$ 862
Potomac	288	565
Combined	702	1,427
Basic and diluted earnings per share:		
Summit	\$ 0.70	\$ 1.46
Potomac	3.20	6.28
Combined	0.78	1.59

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 June 30, 2000 and December 31, 1999 are summarized as follows:

June 30, 2000				
		Unrealized		
	Amortized Cost	Gains	Losses	Estimated Fair Value
-----				
Available for Sale				
Taxable:				
U. S. Treasury securities	\$1,496,970	\$ 1,542	\$ 3,512	\$ 1,495,000
U. S. Government agencies and corporations	75,626,833	25,110	2,069,433	73,582,510
Mortgage-backed securities - U. S. Government agencies and corporations	48,589,819	126,780	1,094,832	47,621,767
State and political subdivisions	1,393,346	-	9,717	1,383,629
Corporate debt securities	13,616,423	27	172,738	13,443,712
Federal Reserve Bank stock	236,300	-	-	236,300
Federal Home Loan Bank stock	3,944,200	-	-	3,944,200
Other equity securities	306,626	-	-	306,626
	-----	-----	-----	-----
Total taxable	145,210,517	153,459	3,350,232	142,013,744
	-----	-----	-----	-----
Tax-exempt:				
State and political subdivisions	9,640,801	33,693	104,334	9,570,160
Federal Reserve Bank stock	4,100	-	-	4,100
Other equity securities	3,020,000	-	269,000	2,751,000
	-----	-----	-----	-----
Total tax-exempt	12,664,901	33,693	373,334	12,325,260
	-----	-----	-----	-----
Total	\$157,875,418	\$ 187,152	\$ 3,723,566	\$154,339,004
	=====	=====	=====	=====
June 30, 2000				
		Unrealized		
	Amortized Cost	Gains	Losses	Estimated Fair Value
-----				
Held to Maturity				
Tax-exempt:				
State and political subdivisions	\$ 401,067	\$ 1,758	\$ 23	\$ 402,802
	=====	=====	=====	=====

December 31, 1999				
	Amortized Cost	Unrealized		Estimated Fair Value
		Gains	Losses	
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 subdivisions	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		Estimated Fair Value
		Gains	Losses	
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 maturities, amortized cost and estimated fair values of securities at June 30, 2000, are summarized as follows:

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 16,313,201	\$ 16,063,795
Due from one to five years	79,762,408	78,402,692
Due from five to ten years	46,984,401	45,428,503
Due after ten years	8,814,182	8,619,288
Equity securities	6,001,226	5,824,726
	<u>\$ 157,875,418</u>	<u>\$ 154,339,004</u>

	Held to Maturity	
	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 250,170	\$ 250,991
Due from one to five years	150,897	151,811
Due from five to ten years	-	-
Due after ten years	-	-
Equity securities	-	-
	<u>\$ 401,067</u>	<u>\$ 402,802</u>

#### Notes 5. Loans

Loans are summarized as follows:

	June 30, 2000	December 31, 1999
Commerical, financial and agricultural	\$85,684,215	\$ 78,894,072
Real estate - construction	2,940,162	2,012,243
Real estate - mortgage	118,696,242	116,778,905
Installment	36,225,554	38,666,563
Other	2,111,210	2,522,980
Total loans	<u>245,657,383</u>	<u>238,874,763</u>
Less unearned income	668,679	575,560
Total loans net of unearned income	<u>244,988,704</u>	<u>238,299,203</u>
Less allowance for loan losses	2,446,613	2,231,555
Loans, net	<u>\$ 242,542,091</u>	<u>\$ 236,067,648</u>

#### Note 6. Premises and Equipment

The major categories of premises and equipment and accumulated depreciation at June 30, 2000 and December 31, 2000, are summarized as follows:

	June 30, 2000	December 31, 1999
Land	\$ 2,495,920	\$ 2,529,741
Buildings and improvements	8,024,184	6,737,044
Furniture and equipment	4,390,322	3,843,450
	14,910,426	13,110,235
Less accumulated depreciation	4,341,673	4,113,208
Premises and equipment, net	\$10,568,753	\$ 8,997,027
	=====	=====

#### Note 7. Deposits

The following is a summary of interest bearing deposits by type as of June 30, 2000 and December 31, 1999:

	June 30, 2000	December 31, 1999
Demand deposits, interest bearing	\$ 56,615,248	\$ 62,741,925
Savings deposits	41,369,334	42,099,321
Certificates of deposit	165,583,452	149,440,839
Individual retirement accounts	17,794,807	15,474,660
Total	\$ 281,362,841	\$ 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 June 30, 2000:

	Amount	Percent
Three months or less	\$ 8,314,136	19.5%
Three through six months	7,417,346	17.4%
Six through twelve months	13,353,538	31.3%
Over twelve months	13,626,278	31.9%
Total	\$ 42,711,298	100.0%
	=====	=====

A summary of the scheduled maturities for all time deposits as of June 30, 2000 is as follows:

2000	\$ 69,945,248
2001	89,663,921
2002	11,661,556
2003	7,339,074
2004	3,650,091
Thereafter	1,118,369
	-----
	\$ 183,378,259
	=====

#### Note 8. Short-term Borrowings

A summary of short-term borrowings is presented below:

	For the Quarter Ended June 30, 2000		
	Federal Funds Purchased	Repurchase Agreements	Short-term FHLB Advances
Balance at June 30	\$ 888,000	\$ 6,621,623	\$ 62,081,000
Average balance outstanding for the quarter	253,160	8,124,389	41,027,696
Maximum balance outstanding at any month end during quarter	88,800	16,066,925	62,081,000
Weighted average interest rate for the quarter	6.43%	5.22%	6.16%
Weighted average interest rate for balances outstanding at June 30	7.07%	4.80%	6.63%

	For the Year Ended December 31, 1999		
	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 9. Branch Divestiture

On December 17, 1999, a subsidiary of Summit, South Branch Valley National Bank entered into an agreement to sell its branch bank ("Branch") located in Petersburg, West Virginia. The transaction was completed on May 26, 2000, and included the Branch's facility and selected loans approximating \$6.2 million and deposit accounts approximating \$7.5 million. Summit recognized a gain of \$224,629 in the three months ended June 30, 2000 as a result of this transaction.

#### Note 10. 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 June 30, 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 June 30, 2000						
Total Capital (to risk						
Summit	\$36,919	14.6%	\$20,257	8.0%	\$25,321	10.0%
South Branch	12,308	11.2%	8,774	8.0%	10,968	10.0%
Capital State	7,380	12.2%	4,849	8.0%	6,061	10.0%
Shenandoah	5,216	19.5%	2,135	8.0%	2,668	10.0%
Potomac	10,868	18.9%	4,599	8.0%	5,749	10.0%
Tier I Capital (to risk						
Summit	34,473	13.6%	10,128	4.0%	15,193	6.0%
South Branch	11,058	10.1%	4,387	4.0%	6,581	6.0%
Capital State	6,910	11.4%	2,425	4.0%	3,637	6.0%
Shenandoah	5,156	19.3%	1,067	4.0%	1,601	6.0%
Potomac	10,201	17.7%	2,300	4.0%	3,449	6.0%
Tier I Capital (to						
Summit	34,473	8.3%	12,535	3.0%	20,891	5.0%
South Branch	11,058	7.0%	4,757	3.0%	7,928	5.0%
Capital State	6,910	6.6%	3,122	3.0%	5,203	5.0%
Shenandoah	5,156	9.3%	1,669	3.0%	2,781	5.0%
Potomac	10,201	10.4%	2,941	3.0%	4,901	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%



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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

Summit reported net income of \$934,000, or \$1.06 per diluted share for the second quarter of 2000, as compared to \$703,000, or \$0.78 per diluted share for the second quarter of 1999. Net income for the six months ended June 30, 2000 grew 30.5% to \$1,863,000, or \$2.11 per diluted share as compared to \$1,428,000, or \$1.59 per diluted share for the six months ended June 30, 1999. Returns on average equity and assets for first six months of 2000 were 10.4% and 0.91%, respectively, compared with 8.1% and 0.91% for the same period of 1999. Improved financial performance for the first six months of 2000 resulted from growth in both net interest income and non-interest income, which more than offset increased non-interest expense.

### Net Interest Income

The Company's net interest income on a fully tax-equivalent basis totaled \$7,228,000 for the six month period ended June 30, 2000 compared to \$6,075,000 for the same period of 1999, representing an increase of \$1,153,000 or 19.0%. This increase resulted from growth in interest earning assets. Average interest earning assets grew 29.8% from \$296,632,000 during the first six months of 1999 to \$385,124,000 for the first six months 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 3.8% for the six month period ended June 30, 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 Six Months Ended						
June 30, 2000			June 30, 1999			
Average Balance	Earnings/Expense	Yield/Rate	Average Balance	Earnings/Expense	Yield/Rate	
Interest earning assets						
Loans, net of unearned income						
Taxable	\$ 241,196	\$ 10,314	8.6%	\$ 204,537	\$ 8,773	8.6%
Tax-exempt (1)	1,993	118	11.8%	1,553	90	11.6%
Securities						
Taxable	124,662	4,225	6.8%	67,359	2,070	6.1%
Tax-exempt (1)	13,246	518	7.8%	11,059	406	7.3%
Interest bearing deposits other banks	1,584	56	7.1%	7,623	189	5.0%
Federal funds sold	2,443	75	6.1%	4,501	106	4.7%
Total interest earning assets	385,124	15,306	7.9%	296,632	11,634	7.8%
Noninterest earning assets						
Cash & due from banks	7,629			6,105		
Premises and equipment	10,134			7,968		
Other assets	9,493			5,155		
Allowance for loan losses	(2,340)			(2,159)		
Total assets	\$ 410,040			\$ 313,701		
Interest bearing liabilities						
Interest bearing demand deposits	\$ 59,446	\$ 956	3.2	\$ 48,675	\$ 703	2.9%
Savings deposits	40,837	549	2.7	34,138	452	2.6%
Time deposits	178,572	4,668	5.2%	143,438	3,717	5.2%
Short-term borrowings	49,376	1,486	6.0%	8,954	172	3.8%
Long-term borrowings	15,292	419	5.5%	18,314	515	5.6%
Total interest bearing liabilities	343,523	8,078	4.7%	253,519	5,559	4.4%
Noninterest bearing liabilities and shareholders' equity						
Demand deposits	27,205			22,558		
Other liabilities	3,540			2,140		
Shareholders' equity	35,772			35,484		
Total liabilities and shareholders' equity	\$ 410,040			\$ 313,701		
Net interest earnings	\$ 7,228			\$ 6,075		
Net yield on interest earning assets		3.8%			4.1%	

(1) - Interest income on tax-exempt loans and 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 \$215,000 and \$169,000 for the six months ended June 30, 2000 and 1999, respectively.

For the Six Months  
June 30, 2000 versus June 30, 1999

	Increase (Decrease) Due to Change in:		
	Volume	Rate	Net
Interest earned on:			
Loans			
Taxable	\$1,567	\$ (26)	\$1,541
Tax-exempt	26	2	28
Securities			
Taxable	1,923	232	2,155
Tax-exempt	84	28	112
Interest bearing deposits			
other banks	(191)	58	(133)
Federal funds sold	(57)	26	(31)
Total interest earned on interest earning assets	3,352	320	3,672
Interest paid on:			
Interest bearing demand deposits	168	85	253
Savings deposits	90	7	97
Time deposits	918	33	951
Short-term borrowings	1,167	147	1,314
Long-term borrowings	(83)	(13)	(96)
Total interest paid on interest bearing liabilities	2,260	259	2,519
Net interest income	\$ 1,092	\$ 61	\$ 1,153
	=====	=====	=====

#### 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 \$255,000 provision for loan losses for the first six months of 2000, compared to \$160,000 for the same period in 1999. This increase represents continued growth of the loan portfolio. Net loan charge offs for the first six months of 2000 were \$40,000, as compared to \$75,000 over the same period of 1999. At June 30, 2000, the allowance for loan losses totaled \$2,447,000 or 1.00% 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)

	June 30,		December 31,
	2000	1999	1999
Accruing loans past due 90 days or more	\$ 83	\$ 701	\$ 476
Nonperforming assets:			
Nonaccrual loans	75	836	522
Foreclosed properties	27	208	35
Reposessed assets	1	50	115
Total	\$ 186	\$ 1,795	\$ 1,148
Percentage of total loans	0.1%	0.8%	0.5%

#### Non-interest Income and Expense

Total other income increased approximately \$274,000 or 56.5% to \$759,000 during the first six months of 2000, as compared to the first six months of 1999. The most significant item contributing to this increase was South Branch Valley National Bank's gain on the sale of their Petersburg WV branch office in May 2000. The gain of \$225,000 represented 29.6% of total other income for the six months ended June 30, 2000.

Total non-interest expense increased approximately \$806,000, or 20.0% to \$4,832,000 during the first six months of 2000 as compared to the same period in 1999. Substantially all of this increase resulted due to the non-interest expenses of the Greenbrier Branches, and of Shenandoah which opened in May 1999.

#### FINANCIAL CONDITION

Total assets of the Company were \$428,555,000 at June 30, 2000, compared to \$385,767,000 at December 31, 1999, representing an 11.1% increase. Table IV below serves to illustrate significant changes in the Company's financial position between December 31, 1999 and June 30, 2000.

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

	Balance December 31, 1999	Increase (Decrease) ----- Amount    Percentage		Balance June 30, 2000
	-----			-----
Assets				
Securities available for sale	\$111,973	\$ 42,366	37.8%	\$ 154,339
Loans, net of unearned income	236,068	6,474	2.7%	242,542
Liabilities				
Interest bearing deposits	\$269,757	\$ 11,606	4.3%	\$ 281,363
Short-term borrowings	32,348	37,243	115.1%	69,591
Long-term borrowings	17,943	(6,176)	-34.4%	11,767

The increase in securities available for sale resulted primarily from purchases of U.S. government agency securities and mortgage backed securities during the first six months 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 six months of 2000.

Loan growth during the first six 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 the first six months of 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 Summit's securities, deposits and short-term borrowing activity between June 30, 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 \$139.1 million at June 30, 2000 versus \$94.1 million at December 31, 1999. Further enhancing the Company's liquidity is the availability as of June 30, 2000 of additional securities with greater than one year maturities and having an estimated market value totaling approximately \$138.3 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 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 June 30, 2000 totaled \$36,189,000 compared to \$35,083,000 at December 31, 1999, representing an increase of 3.2% which resulted primarily from net retained earnings of the Company during the first six months 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.

Part II. Other Information

Item 4. Submission of Matters to a Vote of Security Holders

On May 2, 2000, at the annual meeting of the shareholders of Summit Financial Group, Inc., the matters set forth below were voted upon. The number of votes cast for or against, as well as the number of abstentions and withheld votes concerning each matter are indicated in the following tabulations.

1. Election of the following listed individuals to the Company's Board of Directors for three year terms.

	For	Withheld
James M. Cookman	532,238	18,128
Thomas J. Hawse	549,846	520
Gary L. Hinkle	549,551	815
Gerald W. Huffman	550,366	-
H. Charles Maddy, III	546,850	3,516
Harold K. Michael	544,539	5,827

The following directors' terms of office continued after the 2000 annual shareholders' meeting: Frank A. Baer, III, Patrick N. Frye, Duke A. McDaniel, Ronald F. Miller, George, R. Ours, Harry C. Welton, Oscar M. Bean, Dewey F. Bensenhaver, John W. Crites, James Paul Geary, Phoebe F. Heishman, and Charles S. Piccirillo.

2. Approve an amendment to the Articles of Incorporation increasing the Company's authorized shares of common stock from 2,000,000 shares to 5,000,000 shares.

For	Against	Abstentions
496,457	38,375	12,392

3. Ratify Arnett & Foster, CPA's to serve as the Company's independent auditors for 2000.

For	Against	Abstentions
498,126	17,120	31,978



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: August 14, 2000

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. The amount of the total authorized capital stock of said corporation shall be Twelve Million Five Hundred Thousand Dollars (\$12,500,000) which shall be divided into Five Million (5,000,000) shares of common stock having a par value of Two and 50/100 Dollars (\$2.50) per share.

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 Moorefield, WV 26836	34
Donald W. Biller	Rt. 1, Box 30 Lost River, WV 26811	35
Thomas J. Hawse	216 Washington Street Moorefield, WV 26836	35
Phoebe F. Heishman	136 S. Main Street Moorefield, WV 26836	35
Ed A. Leatherman, Jr.	Rt. 1, Box 175 Purgitsville, WV 26852	35
J. Aleck Welton	Box 366 Moorefield, WV 26836	35
Renick C. Williams	Box 664 Moorefield, WV 26836	35
Michael T. Wilson	Rt. 4 Sunset View Moorefield, WV 26836	35
Harry C. Welton	Rt. 4, Box 27 Moorefield, WV 26836	35
A. Clyde Ours, Jr.	Box 541 Moorefield, WV 26836	35
E. E. Hott	Box 1 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 Moorefield, WV 26836
Donald W. Biller	Rt. 1, Box 30 Lost River, WV 26811
Thomas J. Hawse	216 Washington Street Moorefield, WV 26836
Phoebe F. Heishman	136 S. Main Street Moorefield, WV 26836
Ed A. Leatherman, Jr.	Rt. 1, Box 175 Purgitsville, WV 26852
J. Aleck Welton	Box 366 Moorefield, WV 26836
Renick C. Williams	Box 664 Moorefield, WV 26836
Michael T. Wilson	Rt. 4, Sunset View Moorefield, WV 26836
Harry C. Welton	Rt. 4, Box 27 Moorefield, WV 26836
A. Clyde Ours, Jr.	Box 541 Moorefield, WV 26836
E.E. Hott	Box 1 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. Business Combination. 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 Summit Financial Group, 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. Capacity to Make Certain Determinations. 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. Voting Requirements for Merger, Consolidation or Sale of Assets. 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 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.

I. 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

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Oscar M. Bean

/s/ Donald W. Biller

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Donald W. Biller

/s/ Thomas J. Hawse

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Thomas J. Hawse

/s/ Phoebe F. Heishman

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Phoebe F. Heishman



EXHIBIT 3(ii)

BY-LAWS  
OF  
SUMMIT FINANCIAL GROUP, INC.

Article I. Offices.

The principal office of the corporation shall be located at 310 N. Main Street, the City of Moorefield, County of Hardy, and the State of West Virginia 26836. The corporation may have such other offices, either within or without the State of West Virginia, as the board of directors may designate or as the business of the corporation may require from time to time.

Article II. Shareholders.

Section 1. Annual Meeting. The annual meeting of the shareholders shall be held on the third Tuesday in the month of April in each year, beginning with the year 1988, at the hour of 12:00 o'clock noon, or such other date and/or time as may be determined by the board of directors, for the purpose of electing directors and for the transaction of such other business as may come before the meeting.

Section 2. Special Meetings. Special meetings of the shareholders, for any purpose or purposes, unless otherwise prescribed by statute, may be called by the president or by the board of directors, and shall be called by the president at the request of the holders of not less than 10% of all the outstanding shares of the corporation entitled to vote at the meeting.

Section 3. Place of Meeting. The board of directors may designate any place, either within or without the State of West Virginia, as the place of meeting for any annual meeting or for any special meeting called by the board of directors. A waiver of notice signed by all shareholders entitled to vote at a meeting may designate any place, either within or without the State of West Virginia, as the place for the holding of such meeting. If no designation is made, or if a special meeting be otherwise called, the place of meeting shall be the principal office of the corporation in the State of West Virginia.

Section 4. Notice of Meeting. Written or printed notice stating the place, day, and hour of the meeting and, in case of a special meeting, the purpose of purposes for which the meeting is called, shall be delivered not less than ten nor more than fifty days before the date of the meeting, either personally or by mail, by or at the direction of the president, or the secretary, or the officer or persons calling the meeting, to each shareholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the shareholder at his address as it appears on the stock transfer books of the corporation, with postage thereon prepaid.

Section 5. Closing of Transfer Books or Fixing of Record Date. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or shareholders entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the board of directors of the corporation may provide that the stock transfer books shall be closed for a stated period but not to exceed, in any case, fifty days. If the stock transfer books shall be closed for the purpose of determining shareholders entitled to notice of or to vote at a meeting of shareholders, such books shall be closed for at least ten days immediately preceding such meeting. In lieu of closing the stock transfer books, the board of directors may fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not more than fifty days and, in case of a meeting of shareholders, not less than ten days prior to the date on which the particular action, requiring such determination of shareholders, is to be taken. If the stock transfer books are not closed and no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive payment of a dividend, the date on which notice of the meeting is mailed or the date on which the resolution of the board of directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of shareholders. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, such determination shall apply to any adjournment thereof.

Section 6. Voting Record. The officer or agent having charge of the stock transfer books for shares of the corporation shall make a complete record of the shareholders entitled to vote at such meeting, or any adjournment thereof, arranged in alphabetical order, with the address of and the number of shares held by each, which list shall be kept on file at the office of the corporation and shall be subject to inspection by any shareholder at any time during usual business hours. Such list shall also be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting. The original stock transfer book shall be prima facie evidence as to who are the shareholders entitled to examine such list or transfer books or to vote at any meeting of shareholders.

Section 7. Quorum. A majority of the outstanding shares of the corporation entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of shareholders. If less than a majority of the outstanding shares are represented at a meeting, a majority of the shares so represented may adjourn the meeting from time to time without further notice. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified. The shareholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough

shareholders to leave less than a quorum.

Section 8. Proxies. At all meetings of shareholders, a shareholder may vote by proxy executed in writing by the shareholder or by his duly authorized attorney in fact. Such proxy shall be filed with the secretary of the corporation before or at the time of the meeting. No proxy shall be valid after eleven months from the date of its execution, unless otherwise provided in the proxy.

Section 9. Voting of Shares. Subject to the provisions of Section 11 of this Article II, each outstanding share entitled to vote shall be entitled to one vote upon each matter submitted to a vote at a meeting of shareholders.

Section 10. Voting of Shares by Certain Holders. Unless otherwise provided by law or governing instrument of the corporation, shares of the corporation shall be voted as follows. Shares standing in the name of another corporation, domestic or foreign, may be voted by such officer, agent or proxy as the bylaws of such other corporation may prescribe or, in the absence of such provisions, as the board of directors of such other corporation may determine.

Shares held by an administrator, executor, guardian, committee, curator, or conservator may be voted by him, either in person or by proxy, without a transfer of such shares into his name. Shares standing in the name of a trustee may be voted by him, either in person or by proxy, but no trustee shall be entitled to vote shares held by him without a transfer of such shares into his name.

Shares standing in the name of a receiver may be voted by such receiver, and shares held by or under the control of a receiver may be voted by such receiver without the transfer thereof into his name if authority so to do be contained in an appropriate order of the court by which such receiver was appointed.

A shareholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, and thereafter the pledgee shall be entitled to vote the shares so transferred.

On and after the date on which written notice of redemption of redeemable shares has been mailed to the holders thereof and a sum sufficient to redeem such shares has been deposited with a bank or trust company with irrevocable instruction and authority to pay the redemption price to the holders thereof upon surrender of certificates therefor, such shares shall not be entitled to vote on any matter and shall not be deemed to be outstanding shares.

Section 11. Cumulative Voting. At each election for directors every shareholder entitled to vote at such election shall have the right to vote, in person or by proxy, the number of shares owned by him for as many persons as there are directors to be elected and for whose election he has a right to vote, or to cumulate his votes by giving one candidate as many votes as the number of such directors multiplied by the number of his shares shall equal, or by distributing such votes on the same principle among any number of candidates.

Section 12. Informal Action by Shareholders. Any action required to be taken at a meeting of the shareholders, or any other action which may be taken at a meeting of the shareholders, may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the shareholders entitled to vote with respect to the subject matter thereof.

### Article III. Board of Directors.

Section 1. General Powers. The business and affairs of the corporation shall be managed by its board of directors.

Section 2. Number, Tenure and Qualifications. The number of directors of the corporation shall be not less than nine (9) nor more than twenty-one (21). Each and every outside director must own in his or her name a minimum of 1,000 shares of the Company's common stock. Ownership is defined as owning the shares in the individual's own name, jointly with spouse, or owned by a company where the director owns controlling interest. Full-time employee directors are exempt from this requirement. A director need not be a resident of the State of West Virginia.

Section 3. Regular Meetings. A regular meeting of the board of directors shall be held without other notice than this bylaw immediately after, and at the same place as, the annual meeting of shareholders. The board of directors may provide, by resolution, the time and place, either within or without the State of West Virginia for the holding of additional regular meetings without other notice than such resolution.

Section 4. Special Meetings. Special meetings of the board of directors may be held at any time by the call of the president, the chairman of the board or any four directors. The person or persons authorized to call special meetings of the board of directors may fix any place, either within or without the State of West Virginia, as the place for holding any special meeting of the board of directors called by them.

Section 5. Notice. Notice of any special meeting shall be given at least two days previously thereto by written notice delivered personally or mailed to each director at his business address, or by telegram. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail so addressed, with postage thereon prepaid. If notice be given by telegram, such notice shall be deemed to be delivered when the telegram is delivered to the telegraph company. The presence of any director at a meeting shall constitute a waiver of notice of such meeting as to that director, except when a director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the board of directors need be specified in the notice or waiver of notice of such meeting except that such notice must set forth the nature of the business

intended to be transacted if such business is (a) amending the bylaws or (b) authorizing the sale of all or substantially all of the assets of the corporation.

Section 6. Quorum. A majority of the number of directors fixed by Section 2 of this Article III shall constitute a quorum of the transaction of business at any meeting of the board of directors, but if less than such majority is present at a meeting, a majority of the directors present may adjourn the meeting from time to time without further notice.

Section 7. Manner of Acting. The act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the board of directors. Notwithstanding the foregoing, the following actions shall require the act of at least three-fourths of the directors: (a) mergers and closures of banks and branches; (b) any amendment to the Articles of Incorporation or Bylaws of the corporation; (c) the adoption of any agreement or plan to merge, consolidate, liquidate, dissolve or sell shares of stock or the sale, lease or exchange of all or substantially all the assets of the corporation; and (d) any change to Potomac Valley Bank's name. In the event any matter should come before the board of directors as to which one of the directors has or may have a conflict of interest, said director shall abstain from voting thereon, and the remaining director or directors, as the case may be, shall have full and complete authority to consider and vote upon such matter, and such vote shall be binding upon the corporation.

Section 8. Vacancies. Any vacancy occurring in the board of directors may be filled by the affirmative vote of a majority of the remaining directors though less than a quorum of the board of directors. A director elected to fill a vacancy shall be elected for the unexpired term of his predecessor in office. Any directorship to be filled by the board of directors at their regular meeting or at a special meeting called for that purpose.

Section 9. Compensation. By resolution of the board of directors, the directors may be paid their expenses, if any, of attendance at each meeting of the board of directors, and may be paid a fixed sum for attendance at each meeting of the board of directors or a stated salary as director. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

Section 10. Presumption of Assent. A director of the corporation who is present at a meeting of the board of directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the secretary of the corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

Section 11. Informal Action by Directors. Any action required to be taken at a meeting of the directors or of a committee, or any other action which may be taken at a meeting of the directors, or of a committee, may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the directors or all of the members of the committee entitled to vote with respect to the subject matter thereof.

#### Article IV. Officers.

Section 1. Number. The officers of the corporation shall be a President, Treasurer, Secretary, Assistant Secretary and Chairman of the Board, each of whom shall be elected by the board of directors. Such other officers and assistant officers as may be deemed necessary may be elected or appointed by the board of directors. Any two or more officers may be held by the same person, except the offices of president and secretary.

Section 2. Election and Term of Office. The officers of the corporation to be elected by the board of directors shall be elected annually by the board of directors at the first meeting of the board of directors held after each annual meeting of the shareholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as conveniently may be. Each officer shall hold office until his successor shall have been duly elected and shall have qualified or until his death or until he shall resign or shall have been removed or in the manner hereinafter provided.

Section 3. Removal. Any officer or agent elected or appointed by the board of directors may be removed by the board of directors whenever in its judgment the best interests of the corporation would be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights.

Section 4. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or otherwise, may be filled by the board of directors for the unexpired portion of the term.

Section 5. President. The president shall be the principal executive officer of the corporation and, subject to the control of the board of directors, shall in general supervise and control all of the business and affairs of the corporation. He shall, when present, and in the absence of the chairman of the board, preside at all meetings of the shareholders and of the board of directors. He may sign, individually, or with the secretary or any proper officer of the corporation thereunto authorized by the board of directors, certificates for shares of the corporation, any deeds, mortgages, bonds, contracts, or other instruments for the corporation, except in cases where the signing and execution thereof shall be expressly delegated by the board of directors or by these by-laws to some other officer or agent of the

corporation, or shall be required by law to be otherwise signed or executed; and in general shall perform all duties as may be prescribed by the board of directors from time to time.

Section 6. The Secretary. The secretary shall: (a) keep the minutes of the shareholders' and of the board of directors' meetings in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these by-laws or as required by law; (c) be custodian of the corporate records and of the seal of the corporation and see that the seal of the corporation is affixed to all documents, the execution of which on behalf of the corporation under its seal, is duly authorized; (d) keep a register of the post office address of each shareholder which shall be furnished to the secretary by such shareholder; (e) sign with the president, or a vice president, certificates for shares of the corporation, the issuance of which shall have been authorized by resolution of the board of directors; (f) have general charge of the stock transfer books of the corporation; and (g) in general perform all duties incident to the office of secretary and such other duties as from time to time may be assigned to him by the president or by the board of directors.

Section 7. The Assistant Secretary. The assistant secretary shall assist the secretary in performing the duties of secretary of the corporation and in the secretary's absence, or at his or her request, and with the approval of the board of directors, shall perform the duties to be performed by the secretary. The assistant secretary shall otherwise perform all duties incident to the office of secretary and such other duties as from time to time may be assigned to him or her by the president or by the board of directors.

Section 8. The Treasurer. The treasurer shall also (a) have charge and custody of and be responsible for all funds and securities of the corporation; (b) receive and give receipts and monies due and payable to the corporation from any source whatsoever, and deposit all such monies in the name of the corporation in such banks, trust companies or other depositories as shall be selected in accordance with the provisions of Article V of these by-laws; and (c) in general perform all of the duties incident to the office of treasurer and such other duties as from time to time may be assigned to him by the president or by the board of directors.

Section 9. Chairman of the Board. The Chairman of the Board shall preside at all meetings of the directors and shareholders. He shall have the authority to constitute, create and disband such committees as he shall deem necessary or helpful to the conduct of the affairs of the corporation. Committees shall have such power to act on behalf of the board of directors as the board shall determine from time to time.

Section 10. Salaries. The salaries of the officers shall be fixed from time to time by the board of directors and no officer shall be prevented from receiving such salary by reason of the fact that he is also a director of the corporation.

#### Article IV. Contracts, Loans, Checks and Deposits.

Section 1. Contracts. The board of directors may authorize any officer or officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the corporation, and such authority may be general or confined to specific instances; provided, however, that no construction contract shall be binding upon the corporation unless and until acceptance thereof has been made by the unanimous action of the directors.

Section 2. Loans. Loans shall be contracted on behalf of the corporation and evidences of indebtedness shall be issued in its name in such manner as shall from time to time be determined by resolution of the board of directors. Such authority may be general or confined to specific instances.

Section 3. Checks, Drafts, etc.. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the corporation, shall be signed by such officer or officers, agent or agents of the corporation and in such manner as shall from time to time be determined by resolution of the board of directors.

Section 4. Deposits. All funds of the corporation not otherwise employed shall be deposited from time to time to the credit of the corporation in such banks, trust companies or other depositories as the board of directors may select.

#### Article VI. Certificates for Shares and their Transfer.

Section 1. Certificates for Shares. Certificates representing shares of the corporation shall be in such form as shall be determined by the board of directors. Such certificates shall be signed by the president or a vice president and by the secretary. All certificates for shares shall be consecutively numbered or otherwise identified. The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the corporation. All certificates surrendered to the corporation for transfer shall be canceled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and canceled, except that in case of a lost, destroyed or mutilated certificate, a new one may be issued therefor upon such terms and indemnity to the corporation as the board of directors may prescribe.

Section 2. Transfer of Shares. Transfer of shares of the corporation shall be made only on the stock transfer books of the corporation by the holder of record thereof or by his legal representative, who shall furnish proper evidence of authority to transfer, or by his attorney thereunto authorized by power of attorney duly executed and filed with the secretary of the corporation, and on

surrender for cancellation of the certificate for such shares. The person in whose name shares stand on the books of the corporation shall be deemed by the corporation to be the owner thereof for all purposes.

Article VII. Dividends.

The Board of directors may from time to time declare, and the corporation may pay, dividends on its outstanding shares in the manner and upon the terms and conditions provided by law and its articles of incorporation.

Article VIII. Seal.

The board of directors shall provide a corporate seal which shall be circular in form and shall have inscribed thereon the name of the corporation, the state and year of incorporation, and the words "Corporate Seal", but the board may adopt a different seal from time to time.

Article IX. Waiver of Notice.

Whenever any notice is required to be given to any shareholder or director of the corporation under the provisions of these bylaws or under the provisions of the articles of incorporation or under the provisions of law, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

Article X. Amendments.

These Bylaws may be altered, amended or repealed and new Bylaws may be adopted by the board of directors at any regular or special meeting of the board of directors by a vote of three fourths of the board of directors or by a majority of the stockholders.

/s/ Oscar M. Bean  
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Oscar M. Bean  
Secretary

0000811808  
Summit Financial Group, Inc.

6-MOS	6-MOS
DEC-31-2000	DEC-31-1999
JAN-01-2000	JAN-01-1999
JUN-30-2000	JUN-30-1999
	7,550,027
209,939	6,654,191
60,000	10,906,943
0	0
154,339,004	95,504,493
401,067	1,297,311
0	0
244,988,704	223,049,907
(2,446,613)	(2,207,368)
428,555,018	361,583,747
307,722,048	288,291,564
69,590,623	16,312,904
3,286,539	1,608,302
11,766,840	19,803,179
0	0
0	0
2,225,975	2,401,018
33,962,993	33,166,780
428,555,018	361,583,747
10,392,070	8,832,196
5,838,634	2,338,069
131,897	294,577
15,091,418	11,464,842
6,172,391	4,872,011
8,078,086	5,559,011
7,013,332	10,350,501
255,001	160,000
0	0
4,831,568	4,025,974
2,685,614	2,205,171
2,685,614	2,205,171
0	0
0	0
1,862,894	1,427,686
2.11	1.59
2.11	1.59
3.8	4.1
75,000	836,000
83,000	701,000
0	0
0	0
2,231,555	2,113,201
81,000	107,370
40,000	32,537
2,446,613	2,207,368
2,446,613	2,207,368
0	0
90,000	120,000