

**SUMMIT FINANCIAL GROUP, INC.**

**COMPENSATION AND NOMINATING COMMITTEE CHARTER**

**1. PURPOSE AND CONTENTS**

General

The Board of Directors of Summit Financial Group, Inc. ("Summit" or "Company") hereby establishes the Compensation and Nominating Committee Charter with the authority, responsibility and specific duties as described below.

Topics covered in this policy are:

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**2. MEMBERSHIP REQUIREMENTS**

The Compensation and Nominating Committee of the Board of Directors of Summit Financial Group, Inc. (the "Company") shall consist of a minimum of four directors. These should include the chair of the Audit and Executive Committees. Members of the committee shall be appointed and may be removed by the Board of Directors. All members of the committee shall be independent directors as determined by the Company's Board of Directors in accordance with the applicable rules of The NASDAQ Stock Market, Inc. ("NASDAQ") and the Securities and Exchange Commission ("SEC"). If the committee is comprised of at least three (3) members, one director who is not independent and who is not a current officer or employee or a Family Member (as such term is defined by NASDAQ in its Marketplace Rules), may be a member of the committee if the Company's Board of Directors determines that such individual's membership on the committee is required by the best interests of the Company and its shareholders and the Board of Directors discloses, in the proxy statement for the next annual meeting subsequent to such determination, the nature and relationship and the reasons for the determination. A member appointed under this exception may not serve longer than two (2) years.

**3. PURPOSE AND DUTIES AND RESPONSIBILITIES RELATING TO NOMINATION OF DIRECTORS AND CORPORATE GOVERNANCE**

One purpose of the committee shall be to assist the Board in identifying qualified individuals to become Board members, in determining the composition of the Board of Directors and its committees, in monitoring a process to assess Board effectiveness and in developing and implementing the Company's corporate governance guidelines.

In furtherance of this purpose, the committee shall have the following duties and responsibilities:

1. To lead the search for individuals qualified to become members of the Board of Directors and to select director nominees to be presented for share owner approval at the annual meeting. The committee shall select individuals as director nominees who shall have the highest personal and professional integrity, who shall have demonstrated exceptional ability and judgment and who shall be most effective, in conjunction with the other nominees to the board, in collectively serving the long-term interests of the share owners. In identifying first-time nominees for director, or evaluating individuals recommended by stockholders, the Compensation and Nominating Committee shall determine in its sole discretion whether an individual meets the minimum qualifications approved by the Board and may consider the current composition of the Board in light of the diverse communities served by the Company and the interplay of the candidate's experience with the experience of other Board members. In performing its responsibilities for identifying, recruiting and recommending nominees for director, the Compensation and Nominating Committee is committed to considering all aspects of each candidate's qualifications and skills in the context of the needs of the Company at that time with a view to creating a Board with a diversity of experience and perspectives, including diversity with respect to

race, gender, ethnicity, nationality, sexual orientation, disabilities, cultural background, geography and areas of expertise.

2. To review the Board of Directors' committee structure and to recommend to the Board for its approval directors to serve as members of each committee. The committee shall review and recommend committee slates annually and shall recommend additional committee members to fill vacancies as needed.

3. To collect and report to the Board for disclosure in the Company's proxy statement, the material terms of all agreements and arrangements between any director or nominee for director on the Company's Board of Directors and any person or entity other than the Company relating to compensation or other payment in connection with that person's candidacy or service as a director.

4. The committee shall annually review and assess the corporate governance practices, procedures and guidelines of the Company and recommend any proposed changes to the Board for approval.

#### **4. PURPOSE AND DUTIES AND RESPONSIBILITIES RELATING TO COMPENSATION**

Another purpose of the committee is to review, approve and report to the Board of Directors the compensation of all executive officers of the Company who are subject to the reporting requirements of Section 16 of the Securities Exchange Act of 1934 (the "Executive Officers"), including salaries and bonuses, and to approve and report to the Board of Directors all grants of equity awards.

In furtherance of this purpose, the committee shall have the following duties and responsibilities:

1. Annually review and approve corporate goals and objectives relevant to CEO compensation established by the Board of Directors, evaluate the CEO's performance in light of these goals and objectives, and review, approve and report to the Board of Directors all compensation arrangements, and agreements, including base salary, incentive compensation and long-term compensation for the CEO. In determining base salary and annual incentive compensation for the CEO, the committee will consider base salary information at comparable companies, cash equivalent compensation data at comparable companies, the perquisites provided to the CEO, the complexity of job duties of the CEO as compared to the perceived complexity of the duties of similar executives at other comparable companies, the Company's financial performance and the CEO's individual job performance. In determining long-term incentive compensation of the CEO, the committee will consider the Company's executive compensation philosophy with respect to "pay for performance", relative stockholder return, the option adjusted total compensation awarded to CEO's at comparable companies and the awards given to the CEO in the past years. The CEO may not be present during deliberations or voting concerning the CEO's compensation.

2. Annually review, approve, and report to the Board of Directors all compensation arrangements, including base salary, incentive compensation, awards under a Management Incentive Plan, and long-term compensation, for all Executive Officers in light of the Company's strategic goals and objectives, and competitive practices.

3. Review, approve and report to the Board of Directors compensation packages for new Executive Officers and termination packages for Executive Officers.

4. Review and approve and report to the Board of Directors decisions relating to long-term incentive compensation plans, including the use of equity-based plans. Except as otherwise delegated by the Board of Directors, the committee will act on behalf of the Board of Directors as the "committee" established to administer equity-based and employee benefit plans, and as such, will discharge any responsibilities imposed on the committee under those plans, including making and authorizing grants in accordance with the terms of those plans. All such grants must be ratified by the Board of Directors.

5. Make recommendations to the Board of Directors with respect to matters relating to incentive compensation and equity-based plans which are appropriate for action by the Board of Directors under applicable NASDAQ and SEC rules.

6. Review and discuss with management the Company's Compensation Discussion and Analysis ("CD&A") and the related executive compensation information, recommend that the CD&A and related executive compensation information be included in the Company's annual report on Form 10-K and proxy statement and produce an annual report of the committee on executive compensation for the Company's annual proxy statement in compliance with applicable NASDAQ and SEC rules.

7. The committee shall have the authority, in its sole discretion, to retain and terminate (or obtain the advice of) any compensation consultant, legal counsel or other adviser to assist it in the performance of its duties, but only after taking into consideration factors relevant to the adviser's independence from management specified in NASDAQ Listing Rule 5605(d)(3). The committee shall be directly responsible for the appointment, compensation and oversight of the work of any adviser retained by the committee and shall have sole authority to approve the adviser's fees and the other terms and conditions of the adviser's retention. The Company must provide for appropriate funding, as determined by the committee, for payment of reasonable compensation to any adviser retained by the committee.

8. The committee shall oversee the Company's compliance with SEC rules and regulations regarding shareholder approval of certain executive compensation matters, including advisory votes on executive compensation and the frequency of such votes and the requirement under the NASDAQ rules that, with limited exceptions, shareholders approve equity compensation plans.

9. Annually review the Board Attendance and Compensation Policy, including all director compensation and benefits for service on the Board and Board committees, share ownership requirements, meeting attendance requirements, mandatory retirement age, and recommend any changes to the Board as necessary.

10. Annually review compensation policies and practices of the Company to determine whether any such policies or practices encourage excessive risk taking, or are reasonably likely to have a material adverse effect on the Company.

11. Support the Audit and Compliance Committee in its duties of appointment or removal and compensation of the Director of Audit.

## **5. AUTHORITY**

The committee shall have the authority to delegate any of its responsibilities to subcommittees as the committee may deem appropriate in its sole discretion.

The committee shall have the authority to retain any search firm engaged to assist in identifying director candidates, and to retain outside counsel and any other advisors as the committee may deem appropriate in its sole discretion. The committee shall have sole authority to approve related fees and retention terms.

The committee shall report its actions and recommendations to the Board after each committee meeting. The committee shall review at least annually the adequacy of this charter and recommend any proposed changes to the Board for approval.

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