

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

FORM 10 – Q/A
(Amendment No. 1)

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

For the quarterly period ended **March 31, 2007**.

☐ or
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934 For the transition period from _____ to _____.

Commission File Number **0-16587**

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

West Virginia
(State or other jurisdiction of
incorporation or organization)

55-0672148
(IRS Employer
Identification No.)

300 North Main Street
Moorefield, West Virginia
(Address of principal executive offices)

26836
(Zip Code)

(304) 530-1000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

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

Common Stock, \$2.50 par value
7,084,980 shares outstanding as of May 4, 2007

EXPLANATORY NOTE

Summit Financial Group, Inc. (“Company” or “Summit”) is filing this amendment to its Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 to amend and restate financial statements and other financial information filed with the Securities and Exchange Commission (“SEC”). This amendment is being filed to correct errors in the originally filed Quarterly Report on Form 10-Q related to the Company’s derivative accounting under Statement of Financial Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (“SFAS No. 133”).

In 2003, we entered into four interest rate swap agreements on certain convertible rate advances from the Federal Home Loan Bank (“FHLB”) that were designated as fair value hedges. The terms of the FHLB convertible rate advances include an option of the FHLB to convert the debt’s fixed interest rate to a variable rate on a quarterly basis. We evaluated these hedging relationships and concluded that the short-cut method of hedge accounting could be applied and the assumption of no ineffectiveness was valid based upon: (a) the criteria in paragraph 68 of SFAS 133 were met, and (b) the conversion options in the FHLB advances were mirrored in the interest rate swaps.

Based on comments received from the Securities and Exchange Commission, we learned that the above interpretation of paragraph 68 is incorrect. The conversion is not specifically listed in paragraph 68, and the presence of that term prohibits the application of the short-cut method of hedge accounting, even if the terms are mirrored between the interest rate swap and the hedged item. Eliminating the application of fair value hedge accounting reverses the fair value adjustments that have been made to the advances and results in all fair value changes for the interest rate swaps being recognized in noninterest income. Additionally, the net cash settlement payments received/paid during each period for these interest rate swaps were reclassified from interest expense on long-term borrowings to noninterest income.

See Note 1, Restatement, in the Notes to Consolidated Financial Statements for a summary of the effects of this restatement.

We have also updated information relative to material subsequent events and legal matters in Note 15 of the Notes to Consolidated Financial Statements and Part II Other Information Item 1. Legal Proceedings to reflect the current status of such items through the filing date of this Form 10-Q/A.

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Summit Financial Group, Inc. and Subsidiaries
Consolidated Balance Sheets (unaudited)

	March 31, 2007 (unaudited) (Restated)	December 31, 2006 (*) (Restated)	March 31, 2006 (unaudited) (Restated)
ASSETS			
Cash and due from banks	\$ 12,232,258	\$ 12,030,969	\$ 14,780,214
Interest bearing deposits with other banks	105,752	270,589	1,658,080
Federal funds sold	1,412,000	517,000	607,000
Securities available for sale	258,172,895	247,874,120	233,804,893
Loans, net	930,768,989	916,045,185	824,359,382
Property held for sale	42,000	41,000	268,287
Premises and equipment, net	22,178,553	22,445,635	22,782,107
Accrued interest receivable	6,656,344	6,351,575	4,845,037
Intangible assets	3,158,732	3,196,520	3,309,885
Other assets	17,631,089	17,031,762	17,560,138
Assets related to discontinued operations	2,169,610	9,714,749	14,577,381
Total assets	\$ 1,254,528,222	\$ 1,235,519,104	\$ 1,138,552,404
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits			
Non interest bearing	\$ 60,644,647	\$ 62,591,493	\$ 62,860,714
Interest bearing	816,580,699	826,096,142	667,876,124
Total deposits	877,225,346	888,687,635	730,736,838
Short-term borrowings	79,886,486	60,427,675	136,482,684
Long-term borrowings	183,819,248	176,109,484	165,812,828
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589,000	19,589,000	19,589,000
Other liabilities	10,953,808	9,843,823	10,763,518
Liabilities related to discontinued operations	1,104,319	2,109,320	755,962
Total liabilities	1,172,578,207	1,156,766,937	1,064,140,830
Commitments and Contingencies			
Shareholders' Equity			
Common stock and related surplus, \$2.50 par value; authorized 20,000,000 shares, issued and outstanding			
2007 - 7,084,980 shares; issued December 2006 - 7,084,980 shares; issued March 2006 - 7,134,920 shares	18,028,656	18,020,591	18,905,744
Retained earnings	63,822,588	61,083,257	57,781,820
Accumulated other comprehensive income	98,771	(351,681)	(2,275,990)
Total shareholders' equity	81,950,015	78,752,167	74,411,574
Total liabilities and shareholders' equity	\$ 1,254,528,222	\$ 1,235,519,104	\$ 1,138,552,404

(*) - December 31, 2006 financial information has been extracted from audited consolidated financial statements

See Notes to Consolidated Financial Statement

Summit Financial Group, Inc. and Subsidiaries
Consolidated Statements of Income (unaudited)

	Three Months Ended	
	March 31, 2007 (Restated)	March 31, 2006 (Restated)
Interest income		
Interest and fees on loans		
Taxable	\$ 18,597,172	\$ 15,140,378
Tax-exempt	115,189	99,745
Interest and dividends on securities		
Taxable	2,579,027	2,134,877
Tax-exempt	544,882	511,765
Interest on interest bearing deposits with other banks	2,692	16,457
Interest on Federal funds sold	3,185	7,768
Total interest income	21,842,147	17,910,990
Interest expense		
Interest on deposits	9,028,100	5,153,192
Interest on short-term borrowings	958,063	1,963,989
Interest on long-term borrowings and subordinated debentures	2,652,653	2,335,186
Total interest expense	12,638,816	9,452,367
Net interest income	9,203,331	8,458,623
Provision for loan losses	390,000	325,000
Net interest income after provision for loan losses	8,813,331	8,133,623
Other income		
Insurance commissions	206,083	230,066
Service fees	616,914	630,890
Gain (loss) on sale of assets	1,828	(3,875)
Net cash settlement on derivative instruments	(184,346)	(71,760)
Change in fair value of derivative instruments	226,673	(473,060)
Other	189,351	140,897
Total other income	1,056,503	453,158
Other expense		
Salaries and employee benefits	3,225,616	3,055,157
Net occupancy expense	418,298	401,119
Equipment expense	446,111	449,568
Supplies	172,118	165,879
Professional fees	174,334	207,534
Postage	67,224	55,700
Advertising	24,551	48,886
Amortization of intangibles	37,788	37,788
Other	1,083,306	939,498
Total other expense	5,649,346	5,361,129
Income before income taxes	4,220,488	3,225,652
Income tax expense	1,285,932	928,901
Income from continuing operations	\$ 2,934,556	\$ 2,296,751
Discontinued Operations		
Reversal of severance in exit costs	80,011	-
Operating income(loss)	(371,736)	608,878
Income from discontinued operations before income tax expense(benefit)	(291,725)	608,878
Income tax expense(benefit)	(96,500)	226,000
Income from discontinued operations	(195,225)	382,878
Net Income	\$ 2,739,331	\$ 2,679,629
Basic earnings from continuing operations per common share		
Basic earnings per common share	\$ 0.41	\$ 0.32
Diluted earnings from continuing operations per common share		
Diluted earnings per common share	\$ 0.38	\$ 0.37

See Notes to Consolidated Financial Statements

Consolidated Statements of Shareholders' Equity (unaudited)

	Common Stock and Related Surplus	Retained Earnings (Restated)	Accumulated Other Compre- hensive Income	Total Share- holders' Equity (Restated)
Balance, December 31, 2006	\$ 18,020,591	\$ 61,083,257	\$ (351,681)	\$ 78,752,167
Three Months Ended March 31, 2007				
Comprehensive income:				
Net income	-	2,739,331	-	2,739,331
Other comprehensive income, net of deferred tax expense of \$276,083:				
Net unrealized gain on securities of \$450,452, net of reclassification adjustment for gains included in net income of \$0	-	-	450,452	450,452
Total comprehensive income				3,189,783
Exercise of stock options	8,065	-	-	8,065
Balance, March 31, 2007	<u>\$ 18,028,656</u>	<u>\$ 63,822,588</u>	<u>\$ 98,771</u>	<u>\$ 81,950,015</u>
Balance, December 31, 2005	\$ 18,856,774	\$ 55,102,191	\$ (1,268,356)	\$ 72,690,609
Three Months Ended March 31, 2006				
Comprehensive income:				
Net income	-	2,679,629	-	2,679,629
Other comprehensive income, net of deferred tax benefit of (\$617,582):				
Net unrealized (loss) on securities of (\$1,007,634)	-	-	(1,007,634)	(1,007,634)
Total comprehensive income				1,671,995
Exercise of stock options	48,970	-	-	48,970
Balance, March 31, 2006	<u>\$ 18,905,744</u>	<u>\$ 57,781,820</u>	<u>\$ (2,275,990)</u>	<u>\$ 74,411,574</u>

See Notes to Consolidated Financial Statements

Summit Financial Group, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (unaudited)

	Three Months Ended	
	March 31, 2007 (Restated)	March 31, 2006 (Restated)
Cash Flows from Operating Activities		
Net income	\$ 2,739,331	\$ 2,679,629
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	385,779	411,139
Provision for loan losses	640,000	395,000
Stock compensation expense	8,065	6,617
Deferred income tax (benefit)	113,082	(306,399)
Loans originated for sale	(8,149,409)	(73,051,790)
Proceeds from loans sold	15,674,280	80,031,236
(Gain) on sales of loans held for sale	(286,302)	(2,737,342)
Securities (gains)	-	-
Change in fair value of derivative instruments	(226,673)	473,060
Reversal of exit costs accrual of discontinued operations	(80,192)	
Loss on disposal of other assets	(1,828)	3,875
Amortization of securities premiums, net	(14,781)	66,874
Amortization of goodwill and purchase accounting adjustments, net	40,671	40,670
(Decrease) in accrued interest receivable	(304,957)	(21,454)
(Increase) in other assets	(818,316)	(281,102)
Increase in other liabilities	530,171	1,693,057
Net cash provided by (used in) operating activities	10,248,921	9,403,070
Cash Flows from Investing Activities		
Net (increase) decrease in interest bearing deposits with other banks	164,837	(121,574)
Proceeds from maturities and calls of securities available for sale	4,484,392	955,937
Proceeds from sales of securities available for sale	1,623,800	2,905,400
Principal payments received on securities available for sale	6,817,338	5,585,097
Purchases of securities available for sale	(22,498,098)	(21,145,507)
Net (increase) decrease in Federal funds sold	(895,000)	3,043,000
Net loans made to customers	(15,361,000)	(31,652,753)
Purchases of premises and equipment	(122,839)	(798,637)
Proceeds from sales of other assets	85,675	16,695
Purchase of life insurance contracts	-	(440,000)
Net cash provided by (used in) investing activities	(25,700,895)	(41,652,342)
Cash Flows from Financing Activities		
Net increase in demand deposit, NOW and savings accounts	5,238,895	8,955,789
Net increase(decrease) in time deposits	(16,754,207)	47,937,426
Net increase(decrease) in short-term borrowings	19,458,811	(45,545,429)
Proceeds from long-term borrowings	10,000,000	15,000,000
Repayment of long-term borrowings	(2,290,236)	(1,896,415)
Exercise of stock options	-	42,354
Net cash provided by financing activities	15,653,263	24,493,725
Increase (decrease) in cash and due from banks	201,289	(7,755,547)
Cash and due from banks:		
Beginning	12,030,969	22,535,761
Ending	<u>\$ 12,232,258</u>	<u>\$ 14,780,214</u>

(Continued)

See Notes to Consolidated Financial Statements

Three Months Ended	
March 31, 2006 (Restated)	March 31, 2005 (Restated)

Supplemental Disclosures of Cash Flow Information

Cash payments for:		
Interest	\$ 12,231,731	\$ 8,976,219
Income taxes	\$ -	\$ -

Supplemental Schedule of Noncash Investing and Financing Activities

Other assets acquired in settlement of loans	\$ 43,000	\$ 3,000
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See Notes to Consolidated Financial Statements

Note 1. Restatement

Summit Financial Group, Inc. (“We”, “Company”, or “Summit”) is restating its consolidated financial statements and other financial information to correct errors related to our derivative accounting under Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (“SFAS. No. 133”).

In 2003, we entered into four interest rate swap agreements on certain convertible rate advances from the Federal Home Loan Bank (“FHLB”) that were designated as fair value hedges. The terms of the FHLB convertible rate advances include an option of the FHLB to convert the debt’s fixed interest rate to a variable rate on a quarterly basis. We evaluated these hedging relationships and concluded that the short-cut method of hedge accounting could be applied and the assumption of no ineffectiveness was valid based upon: (a) the criteria in paragraph 68 of SFAS 133 were met, and (b) the conversion options in the FHLB advances were mirrored in the interest rate swaps.

Recently, we learned that the above interpretation of paragraph 68 is incorrect. The conversion is not specifically listed in paragraph 68, and the presence of that term prohibits the application of the short-cut method of hedge accounting, even if the terms are mirrored between the interest rate swap and the hedged item. Eliminating the application of fair value hedge accounting reverses the fair value adjustments that have been made to the advances and results in all fair value changes for the interest rate swaps being recognized in noninterest income. Additionally, the net cash settlement payments received/paid during each period for these interest rate swaps were reclassified from interest expense on long-term borrowings to noninterest income.

The following tables reflect a summary of both the originally reported and restated amounts:

Consolidated Balance Sheets

	March 31, 2007		December 31, 2006		March 31, 2006	
	As Previously Reported	As Restated	As Previously Reported	As Restated	As Previously Reported	As Restated
Other assets	\$ 17,027,641	\$ 17,631,089	\$ 16,343,431	\$ 17,031,762	\$ 16,699,264	\$ 17,560,138
Total assets	1,253,924,774	1,254,528,222	1,234,830,773	1,235,519,104	1,137,691,530	1,138,552,404
Long-term borrowings	182,225,213	183,819,248	174,292,074	176,109,484	163,547,368	165,812,828
Total liabilities	1,170,990,183	1,172,578,207	1,154,955,538	1,156,766,937	1,061,875,370	1,064,140,830
Retained earnings	64,807,164	63,822,588	62,206,325	61,083,257	59,186,406	57,781,820
Total shareholders' equity	82,934,591	81,950,015	79,875,235	78,752,167	75,816,160	74,411,574
Total liabilities and shareholders' equity	1,253,924,774	1,254,528,222	1,234,830,773	1,235,519,104	1,137,691,530	1,138,552,404

Consolidated Statements of Income

	Three Months Ended March 31,			
	2007		2006	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Interest income	\$ 21,842,147	\$ 21,842,147	\$ 17,910,990	\$ 17,910,990
Interest expense	12,818,136	12,638,816	9,531,650	9,452,367
Net interest income	9,024,011	9,203,331	8,379,340	8,458,623
Provision for loan losses	390,000	390,000	325,000	325,000
Noninterest income:				
Net cash settlement				
on derivative instruments	-	(184,346)	-	(71,760)
Change in fair value of				
derivative instruments	-	226,673	-	(473,060)
Other noninterest income	1,012,448	1,014,176	1,003,360	997,978
Noninterest expense	5,649,346	5,649,346	5,361,129	5,361,129
Income from continuing operations				
before income taxes	3,997,113	4,220,488	3,696,571	3,225,652
Income tax expense	1,201,050	1,285,932	1,107,850	928,901
Income from continuing operations				
Income (loss) from discontinued	2,796,063	2,934,556	2,588,721	2,296,751
operations, net of income taxes	(195,225)	(195,225)	382,878	382,878
Net income	<u>\$ 2,600,838</u>	<u>\$ 2,739,331</u>	<u>\$ 2,971,599</u>	<u>\$ 2,679,629</u>
Diluted earnings per share:				
Income from continuing operations	\$ 0.39	\$ 0.41	\$ 0.36	\$ 0.32
Net income	\$ 0.36	\$ 0.38	\$ 0.41	\$ 0.37
Average diluted shares outstanding	7,147,170	7,147,170	7,189,063	7,189,063

Consolidated Statements of Shareholders' Equity

	March 31,			
	2007		2006	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Balance, beginning of period	\$ 73,803,225	\$ 78,752,167	\$ 73,803,225	\$ 72,690,609
Increase attributable to net income	8,267,205	2,739,331	2,974,599	2,679,629
Balance, end of period	82,934,590	81,950,015	75,816,160	74,411,574

In addition, the following Notes to Consolidated Financial Statements have been restated: 5, 11 and 14.

Note 2. Basis of Presentation

We, Summit Financial Group, Inc. and subsidiaries, prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America for interim financial information and with instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for annual year end financial statements. In our opinion, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature.

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

The results of operations for the three months ended March 31, 2007 are not necessarily indicative of the results to be expected for the full year. The consolidated financial statements and notes included herein should be read in conjunction with our 2006 audited financial statements and Annual Report on Form 10-K/A. Certain accounts in the consolidated financial statements for December 31, 2006 and March 31, 2006, as previously presented, have been reclassified to conform to current year classifications.

Note 3. Significant New Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109" (FIN 48), which clarifies the accounting and disclosure for uncertain tax positions, as defined. FIN 48 requires that a tax position meet a "probable recognition threshold" for the benefit of the uncertain tax position to be recognized in the financial statements. A tax position that fails to meet the probable recognition threshold will result in either reduction of a current or deferred tax asset or receivable, or recording a current or deferred tax liability. FIN 48 also provides guidance on measurement, derecognition of tax benefits, classification, interim period accounting disclosure, and transition requirements in accounting for uncertain tax positions. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company will be required to apply the provisions of FIN 48 to all tax positions upon initial adoption with any cumulative effect adjustment to be recognized as an adjustment to retained earnings. We adopted the provisions of this statement January 1, 2007, which has not had a material effect on our financial statements.

Note 4. Discontinued Operations

The following table lists the assets and liabilities of Summit Mortgage included in the balance sheet as assets and liabilities related to discontinued operations.

	March 31, 2007	December 31, 2006	March 31, 2006
Assets:			
Loans held for sale, net	\$ 1,189,966	\$ 8,428,535	\$ 12,342,886
Loans, net	133,838	179,642	662,208
Premises and equipment, net	-	-	694,803
Property held for sale	-	75,000	75,000
Other assets	845,806	1,031,572	802,483
Total assets	<u>\$ 2,169,610</u>	<u>\$ 9,714,749</u>	<u>\$ 14,577,380</u>
Liabilities:			
Accrued expenses and other liabilities	\$ 1,104,319	\$ 2,109,320	\$ 755,962
Total liabilities	<u>\$ 1,104,319</u>	<u>\$ 2,109,320</u>	<u>\$ 755,962</u>

The results of Summit Mortgage are presented as discontinued operations in a separate category on the income statements following the results from continuing operations. The income (loss) from discontinued operations for the periods ended March 31, 2007 and 2006 is presented below.

Statements of Income from Discontinued Operations

	For the Quarter Ended March 31,	
	2007	2006
Interest income	\$ 112,721	\$ 562,351
Interest expense	45,411	310,548
Net interest income	67,310	251,803
Provision for loan losses	250,000	70,000
Net interest income after provision for loan losses	(182,690)	181,803
Noninterest income		
Mortgage origination revenue	803,056	6,583,913
(Loss) on sale of assets	(50,814)	-
Total noninterest income	752,242	6,583,913
Noninterest expense		
Salaries and employee benefits	442,368	2,102,875
Net occupancy expense	(3,880)	169,608
Equipment expense	21,892	70,291
Professional fees	97,422	77,507
Postage	33	1,735,774
Advertising	97,674	1,290,429
Impairment of long-lived assets	-	-
Exit costs	(80,011)	-
Other	285,780	710,354
Total noninterest expense	861,278	6,156,838
Income (loss) before income tax expense	(291,726)	608,878
Income tax expense (benefit)	(96,500)	226,000
Income (loss) from discontinued operations	<u>\$ (195,226)</u>	<u>\$ 382,878</u>

Included in liabilities related to discontinued operations in the accompanying consolidated financial statements is an accrual for exit costs related to the discontinuance of the mortgage banking segment. During fourth quarter 2006, we accrued \$1,859,000 for exit costs, which was comprised of costs related to operating lease terminations, vendor contract terminations, and severance payments. The changes in that accrual are as follows:

	Operating Lease Terminations	Vendor Contract Terminations	Severance Payments	Total
Balance, December 31, 2006	\$ 734,000	\$ 740,000	\$ 385,000	\$ 1,859,000
Less:				
Payments from the accrual	(184,863)	-	(287,889)	(472,752)
Reversal of over accrual	-	-	(80,011)	(80,011)
Balance, March 31, 2007	\$ 549,137	\$ 740,000	\$ 17,100	\$ 1,306,237

Note 5. Earnings per Share

The computations of basic and diluted earnings per share follow:

	For the Three Months Ended March 31, (Restated)	
	2007	2006
Numerator for both basic and diluted earnings per share:		
Income from continuing operations	\$ 2,934,556	\$ 2,296,751
Income (loss) from discontinued operations	(195,225)	382,878
Net Income	\$ 2,739,331	\$ 2,679,629
Denominator		
Denominator for basic earnings per share - weighted average common shares outstanding	7,084,980	7,128,076
Effect of dilutive securities:		
Stock options	62,190	60,987
	62,190	60,987
Denominator for diluted earnings per share - weighted average common shares outstanding and assumed conversions	7,147,170	7,189,063
Basic earnings per share from continuing operations	\$ 0.41	\$ 0.32
Basic earnings per share from discontinued operations	(0.03)	0.06
Basic earnings per share	\$ 0.39	\$ 0.38
Diluted earnings per share from continuing operations	\$ 0.41	\$ 0.32
Diluted earnings per share from discontinued operations	(0.03)	0.05
Diluted earnings per share	\$ 0.38	\$ 0.37

Note 6. Securities

The amortized cost, unrealized gains, unrealized losses and estimated fair values of securities at March 31, 2007, December 31, 2006, and March 31, 2006 are summarized as follows:

	March 31, 2007			
	Amortized	Unrealized		Estimated
	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable:				
U. S. Government agencies				
and corporations	\$ 36,774,275	\$ 7,704	\$ 263,509	\$ 36,518,470
Mortgage-backed securities	153,538,946	649,600	1,876,262	152,312,284
State and political subdivisions	3,758,987	25,684	-	3,784,671
Corporate debt securities	1,679,740	17,968	1,551	1,696,157
Federal Reserve Bank stock	729,000	-	-	729,000
Federal Home Loan Bank stock	13,735,100	-	-	13,735,100
Other equity securities	150,410	-	-	150,410
Total taxable	210,366,458	700,956	2,141,322	208,926,092
Tax-exempt:				
State and political subdivisions	41,685,349	1,046,096	60,783	42,670,662
Other equity securities	5,973,746	614,134	11,739	6,576,141
Total tax-exempt	47,659,095	1,660,230	72,522	49,246,803
Total	\$ 258,025,553	\$ 2,361,186	\$ 2,213,844	\$ 258,172,895

	December 31, 2006			
	Amortized	Unrealized		Estimated
	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable:				
U. S. Government agencies				
and corporations	\$ 37,671,345	\$ 2,727	\$ 333,799	\$ 37,340,273
Mortgage-backed securities	146,108,268	470,268	2,262,050	144,316,486
State and political subdivisions	3,758,978	25,225	-	3,784,203
Corporate debt securities	1,682,275	18,908	2,274	1,698,909
Federal Reserve Bank stock	669,000	-	-	669,000
Federal Home Loan Bank stock	12,093,900	-	-	12,093,900
Other equity securities	150,410	-	-	150,410
Total taxable	202,134,176	517,128	2,598,123	200,053,181
Tax-exempt:				
State and political subdivisions	40,329,315	1,026,437	67,709	41,288,043
Other equity securities	5,974,719	572,752	14,575	6,532,896
Total tax-exempt	46,304,034	1,599,189	82,284	47,820,939
Total	\$ 248,438,210	\$ 2,116,317	\$ 2,680,407	\$ 247,874,120

	March 31, 2006			
	Amortized	Unrealized		Estimated
	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable:				
U. S. Government agencies and corporations	\$ 42,089,023	\$ 13,026	\$ 671,421	\$ 41,430,628
Mortgage-backed securities	127,013,475	87,964	4,000,383	123,101,056
State and political subdivisions	3,889,504	-	15,969	3,873,535
Corporate debt securities	3,290,502	24,114	3,893	3,310,723
Federal Reserve Bank stock	639,000	-	-	639,000
Federal Home Loan Bank stock	16,384,900	-	-	16,384,900
Other equity securities	150,410	-	-	150,410
Total taxable	193,456,814	125,104	4,691,666	188,890,252
Tax-exempt:				
State and political subdivisions	37,981,230	832,995	127,911	38,686,314
Other equity securities	5,977,638	269,909	19,220	6,228,327
Total tax-exempt	43,958,868	1,102,904	147,131	44,914,641
Total	\$ 237,415,682	\$ 1,228,008	\$ 4,838,797	\$ 233,804,893

The maturities, amortized cost and estimated fair values of securities at March 31, 2007, are summarized as follows:

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 57,430,744	\$ 56,497,112
Due from one to five years	106,222,649	105,669,469
Due from five to ten years	38,674,141	38,946,187
Due after ten years	35,109,763	35,869,476
Equity securities	20,588,256	21,190,651
	\$ 258,025,553	\$ 258,172,895

Note 7. Loans

Loans are summarized as follows:

	March 31, 2007	December 31, 2006	March 31, 2006
Commercial	\$ 69,700,489	\$ 69,469,550	\$ 66,563,444
Commercial real estate	329,561,244	314,198,436	275,896,117
Construction and development	220,429,701	215,820,164	165,026,192
Residential real estate	279,563,537	282,512,334	281,300,798
Consumer	33,845,269	36,455,257	37,356,618
Other	7,208,600	6,968,465	6,381,884
Total loans	940,308,840	925,424,206	832,525,053
Less unearned income	1,757,328	1,867,613	1,730,728
Total loans net of unearned income	938,551,512	923,556,593	830,794,325
Less allowance for loan losses	7,782,523	7,511,408	6,434,943
Loans, net	\$ 930,768,989	\$ 916,045,185	\$ 824,359,382

Note 8. Allowance for Loan Losses

An analysis of the allowance for loan losses for the three month periods ended March 31, 2007 and 2006, and for the year ended December 31, 2006 is as follows:

	Three Months Ended March 31,		Year Ended December 31,
	2007	2006	2006
Balance, beginning of period	\$ 7,511,408	\$ 6,111,713	\$ 6,111,713
Losses:			
Commercial	50,000	-	31,744
Commercial real estate	40,000	-	185,436
Real estate - mortgage	-	-	35,011
Consumer	49,416	72,724	199,505
Other	67,028	47,410	289,159
Total	206,444	120,134	740,855
Recoveries:			
Commercial	20,737	1,025	1,269
Commercial real estate	4,400	19,447	45,918
Real estate - mortgage	123	82	6,518
Consumer	14,240	15,970	62,535
Other	48,059	81,840	179,310
Total	87,559	118,364	295,550
Net losses	118,885	1,770	445,305
Provision for loan losses	390,000	325,000	1,845,000
Balance, end of period	\$ 7,782,523	\$ 6,434,943	\$ 7,511,408

Note 9. Goodwill and Other Intangible Assets

The following tables present our goodwill at March 31, 2007 and other intangible assets at March 31, 2007, December 31, 2006, and March 31, 2006.

	Goodwill Activity
Balance, January 1, 2007	\$ 2,088,030
Acquired goodwill, net	-
Balance, March 31, 2007	\$ 2,088,030

	Unidentifiable Intangible Assets		
	March 31, 2007	December 31, 2006	March 31, 2006
Unidentifiable intangible assets			
Gross carrying amount	\$ 2,267,323	\$ 2,267,323	\$ 2,267,323
Less: accumulated amortization	1,196,621	1,158,833	1,045,468
Net carrying amount	\$ 1,070,702	\$ 1,108,490	\$ 1,221,855

We recorded amortization expense of approximately \$38,000 for the three months ended March 31, 2007 relative to our unidentifiable intangible assets. Annual amortization is expected to be approximately \$151,000 for each of the years ending 2007 through 2011.

Note 10. Deposits

The following is a summary of interest bearing deposits by type as of March 31, 2007 and 2006 and December 31, 2006:

	March 31, 2007	December 31, 2006	March 31, 2006
Interest bearing demand deposits	\$ 230,634,293	\$ 220,166,660	\$ 214,571,646
Savings deposits	44,712,689	47,983,961	39,474,064
Retail time deposits	287,439,479	278,321,917	243,645,391
Brokered time deposits	253,794,238	279,623,604	170,185,023
Total	\$ 816,580,699	\$ 826,096,142	\$ 667,876,124

Brokered deposits represent certificates of deposit acquired through a third party. The following is a summary of the maturity distribution of certificates of deposit in denominations of \$100,000 or more as of March 31, 2007:

	Amount	Percent
Three months or less	\$ 67,885,301	23.3%
Three through six months	58,151,193	20.0%
Six through twelve months	53,407,632	18.4%
Over twelve months	111,555,130	38.3%
Total	\$ 290,999,256	100.0%

A summary of the scheduled maturities for all time deposits as of March 31, 2007 is as follows:

Nine month period ending December 31, 2007	\$ 375,116,669
Year Ending December 31, 2008	97,064,945
Year Ending December 31, 2009	42,130,644
Year Ending December 31, 2010	23,265,877
Year Ending December 31, 2011	2,118,020
Thereafter	1,537,562
	<u>\$ 541,233,717</u>

Note 11. Borrowed Funds

Short-term borrowings: A summary of short-term borrowings is presented below:

	Quarter Ended March 31, 2007		
	Short-term FHLB Advances	Repurchase Agreements	Federal Funds Purchased and Lines of Credit
Balance at March 31	\$ 71,132,900	\$ 7,358,186	\$ 1,395,400
Average balance outstanding for the period	64,449,678	6,507,188	1,458,241
Maximum balance outstanding at any month end during period	71,132,900	7,358,185	1,625,900
Weighted average interest rate for the period	5.36%	4.09%	7.51%
Weighted average interest rate for balances outstanding at March 31	5.35%	4.13%	7.75%

	Year Ended December 31, 2006		
	Short-term FHLB Advances	Repurchase Agreements	Federal Funds Purchased and Lines of Credit
Balance at December 31	\$ 54,765,000	\$ 4,730,575	\$ 932,100
Average balance outstanding for the period	123,952,970	5,792,863	1,025,717
Maximum balance outstanding at any month end during period	175,407,800	7,036,562	1,171,200
Weighted average interest rate for the period	5.08%	4.03%	7.49%
Weighted average interest rate for balances outstanding at December 31	5.39%	4.08%	7.75%

	Quarter Ended March 31, 2006		
	Short-term FHLB Advances	Repurchase Agreements	Federal Funds Purchased and Lines of Credit
Balance at March 31	\$ 128,538,400	\$ 7,036,562	\$ 907,722
Average balance outstanding for the period	165,480,730	6,594,377	305,069
Maximum balance outstanding at any month end during period	175,407,800	7,036,562	907,722
Weighted average interest rate for the period	4.56%	3.72%	6.40%
Weighted average interest rate for balances outstanding at March 31	4.79%	4.00%	7.25%

Long-term borrowings: Our long-term borrowings of \$183,819,248, \$176,109,484 and \$165,812,828 at March 31, 2007, December 31, 2006, and March 31, 2006 respectively, consisted primarily of advances from the Federal Home Loan Bank (“FHLB”).

These borrowings bear both fixed and variable rates and mature in varying amounts through the year 2016.

The average interest rate paid on long-term borrowings for the three month period ended March 31, 2007 was 5.54% compared to 5.03% for the first three months of 2006.

Subordinated Debentures: We have three statutory business trusts that were formed for the purpose of issuing mandatorily redeemable securities (the “capital securities”) for which we are obligated to third party investors and investing the proceeds from the sale of the capital securities in our junior subordinated debentures (the “debentures”). The debentures held by the trusts are their sole assets. Our subordinated debentures totaled \$19,589,000 at March 31, 2007, December 31, 2006, and March 31, 2006.

In October 2002, we sponsored SFG Capital Trust I, in March 2004, we sponsored SFG Capital Trust II, and in December 2005, we sponsored SFG Capital Trust III, of which 100% of the common equity of each trust is owned by us. SFG Capital Trust I issued \$3,500,000 in capital securities and \$109,000 in common securities and invested the proceeds in \$3,609,000 of debentures. SFG Capital Trust II issued \$7,500,000 in capital securities and \$232,000 in common securities and invested the proceeds in \$7,732,000 of debentures. SFG Capital Trust III issued \$8,000,000 in capital securities and \$248,000 in common securities and invested the proceeds in \$8,248,000 of debentures. Distributions on the capital securities issued by the trusts are payable quarterly at a variable interest rate equal to 3 month LIBOR plus 345 basis points for SFG Capital Trust I, 3 month LIBOR plus 280 basis points for SFG Capital Trust II, and 3 month LIBOR plus 145 basis points for SFG Capital Trust III, and equals the interest rate earned on the debentures held by the trusts, and is recorded as interest expense by us. The capital securities are subject to mandatory redemption in whole or in part, upon repayment of the debentures. We have entered into agreements which, taken collectively, fully and unconditionally guarantee the capital securities subject to the terms of the guarantee. The debentures of SFG Capital Trust I, SFG Capital Trust II, and SFG Capital Trust III are first redeemable by us in November 2007, March 2009, and March 2011, respectively.

The capital securities held by SFG Capital Trust I, SFG Capital Trust II, and SFG Capital Trust III qualify as Tier 1 capital under Federal Reserve Board guidelines. In accordance with these Guidelines, trust preferred securities generally are limited to 25% of Tier 1 capital elements, net of goodwill. The amount of trust preferred securities and certain other elements in excess of the limit can be included in Tier 2 capital.

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

Year Ending December 31,	Amount (Restated)
2007	\$ 21,029,707
2008	52,376,851
2009	28,911,094
2010	54,533,194
2011	2,465,409
Thereafter	44,091,993
	<u>\$ 203,408,248</u>

Note 12. Stock Option Plan

On January 1, 2006, we adopted SFAS No. 123R, *Share-Based Payment (Revised 2004)*, which is a revision of SFAS No. 123, *Accounting for Stock Issued for Employees*. SFAS No. 123R establishes accounting requirements for share-based compensation to employees and carries forward prior guidance on accounting for awards to non-employees. Prior to the adoption of SFAS No. 123R, we reported employee compensation expense under stock option plans only if options were granted below market prices at grant date in accordance with the intrinsic value method of Accounting Principles Board Opinion (“APB”) No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. In accordance with APB No. 25, we reported no compensation expense on options granted as the exercise price of the options granted always equaled the market price of the underlying stock on the date of grant. SFAS No. 123R eliminates the ability to account for stock-based compensation using APB No. 25 and requires that such transactions be recognized as compensation cost in the income statement based on their fair values on the measurement date, which is generally the date of the grant.

We transitioned to SFAS No. 123R using the modified prospective application method (“modified prospective application”). As permitted under modified prospective application, SFAS No. 123R applies to new awards and to awards modified, repurchased, or cancelled after January 1, 2006. Additionally, compensation cost for non-vested awards that were outstanding as of January 1, 2006 will be recognized as the remaining requisite service is rendered during the period of and/or the periods after the adoption of SFAS No. 123R, adjusted for estimated forfeitures. The recognition of compensation cost for those earlier awards is based on the same method and on the same grant-date fair values previously determined for the pro forma disclosures reported by us for periods prior to January 1, 2006.

The Officer Stock Option Plan, which provides for the granting of stock options for up to 960,000 shares of common stock to our key officers, was adopted in 1998 and expires in 2008. Each option granted under the plan vests according to a schedule designated at the grant date and shall have a term of no more than 10 years following the vesting date. Also, the option price per share shall not be less than the fair market value of our common stock on the date of grant.

The fair value of our employee stock options granted is estimated at the date of grant using the Black-Scholes option-pricing model. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. Additionally, there may be other factors that would otherwise have a significant effect on the value of employee stock options granted but are not considered by the model. Because our employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management’s opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options at the time of grant. There were no option grants during the first three months of 2007 or 2006.

During first quarter 2007, we recognized \$8,000 of compensation expense for share-based payment arrangements in our income statement, with a deferred tax asset of \$3,000, compared to \$6,600 compensation expense for first quarter 2006 with a deferred tax asset of \$2,250. At March 31, 2007, we had approximately \$36,000 total compensation cost related to nonvested awards not yet recognized and we expect to recognize it over the next two years.

A summary of activity in our Officer Stock Option Plan during the first quarters of 2007 and 2006 is as follows:

	March 31, 2007		March 31, 2006	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding, January 1	349,080	\$ 17.83	361,740	\$ 17.41
Granted	-	-	-	-
Exercised	-	-	(8,700)	4.87
Forfeited	-	-	-	-
Outstanding, March 31	<u>349,080</u>	<u>\$ 17.83</u>	<u>353,040</u>	<u>\$ 17.72</u>

Other information regarding options outstanding and exercisable at March 31, 2007 is as follows:

Options Outstanding					Options Exercisable		
Range of exercise price	# of shares	WAEP	Wted. Avg. Remaining Contractual Life (yrs)	Aggregate Intrinsic Value (in thousands)	# of shares	WAEP	Aggregate Intrinsic Value (in thousands)
\$ 4.63 - \$6.00	83,600	\$ 5.34	5.60	1297	83,600	\$ 5.34	1,297
6.01 - 10.00	31,680	9.49	8.76	360	24,480	9.49	278
10.01 - 17.50	3,500	17.43	6.92	12	3,500	17.43	12
17.51 - 20.00	51,800	17.79	9.72	159	31,000	17.79	95
20.01 - 25.93	178,500	25.19	8.32	-	178,500	25.19	-
	<u>349,080</u>	<u>17.83</u>		<u>1,828</u>	<u>321,080</u>	<u>18.02</u>	<u>1,682</u>

Note 13. Commitments and Contingencies

Off-Balance Sheet Arrangements

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

Many of our lending relationships contain both funded and unfunded elements. The funded portion is reflected on our balance sheet. The unfunded portion of these commitments is not recorded on our balance sheet until a draw is made under the loan facility. Since many of the commitments to extend credit may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash flow requirements.

A summary of the total unfunded, or off-balance sheet, credit extension commitments follows:

	March 31, 2007
Commitments to extend credit:	
Revolving home equity and credit card lines	\$ 34,023,333
Construction loans	88,947,000
Other loans	32,560,000
Standby letters of credit	13,928,392
Total	\$ 169,458,725

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

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

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

Note 14. Restrictions on Capital

We and our subsidiaries are subject to various regulatory capital requirements administered by the banking regulatory agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we and each of our subsidiaries must meet specific capital guidelines that involve quantitative measures of our and our subsidiaries' assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. We and each of our subsidiaries' capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require us and each of our subsidiaries to maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). We believe, as of March 31, 2007, that we and each of our subsidiaries met all capital adequacy requirements to which they were subject.

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

Our actual capital amounts and ratios as well as our subsidiaries', Summit Community Bank's ("Summit Community"), and Shenandoah Valley National Bank's ("Shenandoah") are presented in the following table.

(Dollars in thousands)

	Actual		Minimum Required Regulatory Capital		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount (Restated)	Ratio (Restated)	Amount (Restated)	Ratio	Amount (Restated)	Ratio
As of March 31, 2007						
Total Capital (to risk weighted assets)						
Summit	\$ 106,436	10.9%	\$ 78,153	8.0%	\$ 97,691	10.0%
Summit Community	62,077	10.8%	46,155	8.0%	57,694	10.0%
Shenandoah	42,518	10.9%	31,335	8.0%	39,168	10.0%
Tier I Capital (to risk weighted assets)						
Summit	97,691	10.0%	39,076	4.0%	58,615	6.0%
Summit Community	57,396	10.0%	23,078	4.0%	34,616	6.0%
Shenandoah	38,454	9.8%	15,667	4.0%	23,501	6.0%
Tier I Capital (to average assets)						
Summit	97,691	7.9%	37,101	3.0%	61,835	5.0%
Summit Community	57,396	7.6%	22,745	3.0%	37,908	5.0%
Shenandoah	38,454	8.0%	14,345	3.0%	23,909	5.0%

As of December 31, 2006

Total Capital (to risk weighted assets)						
Summit	\$ 103,102	10.7%	77,046	8.0%	96,307	10.0%
Summit Community	59,684	10.4%	46,087	8.0%	57,609	10.0%
Shenandoah	41,243	10.9%	30,355	8.0%	37,944	10.0%
Tier I Capital (to risk weighted assets)						
Summit	94,899	9.9%	38,523	4.0%	57,784	6.0%
Summit Community	55,041	9.6%	23,044	4.0%	34,565	6.0%
Shenandoah	37,683	9.9%	15,178	4.0%	22,766	6.0%
Tier I Capital (to average assets)						
Summit	94,899	7.8%	36,492	3.0%	60,820	5.0%
Summit Community	55,041	7.4%	22,383	3.0%	37,305	5.0%
Shenandoah	37,683	8.0%	14,097	3.0%	23,495	5.0%

Note 15. Subsequent Events

Effective July 2, 2007, we acquired Kelly Insurance Agency, Inc. and Kelly Property and Casualty, Inc., two Virginia corporations located in Leesburg, Virginia, which were merged into Summit Insurance Services, LLC, our wholly owned subsidiary. We have deemed this transaction to be an immaterial acquisition.

As announced on April 12, 2007, we entered into an Agreement and Plan of Reorganization (the “Agreement”) with Greater Atlantic Financial Corporation, Inc. (“Greater Atlantic”), headquartered in Reston, Virginia.

Under the terms of the Agreement, we will pay \$4.60 per share in cash and stock for the outstanding common stock of Great Atlantic, subject to adjustment based on Greater Atlantic’s shareholders’ equity at the end of the month in which the sale of the Pasadena branch office is completed. If, at that month-end, Greater Atlantic’s shareholders’ equity, as adjusted in accordance with the terms of the Agreement, is less than \$6.7 million, then the total aggregate value of the transaction consideration will be decreased dollar-for-dollar. If Greater Atlantic’s month end adjusted shareholders’ equity exceeds \$6.7 million, then the aggregate value of the transaction consideration will be increased dollar-for-dollar, but only to the extent that the amount in excess of \$6.7 million is attributable to the sale of the Pasadena branch office, net of all taxes, if any, Greater Atlantic would be required to pay. Greater Atlantic has entered into a definitive agreement with another financial institution to sell its Pasadena, Maryland branch office for a deposit premium of 8.5%, prior to the close to of its transaction with Summit. This branch sale closed on August 24, 2007, at which time the deposits at the Pasadena branch office approximated \$51.5 million, resulting in a deposit premium of \$4.3 million. The aggregate value of the final transaction consideration will be determined before proxy solicitation materials are sent to Greater Atlantic’s shareholders for purposes of soliciting their vote on the transaction.

The final transaction consideration will be paid 70% in the form of Summit common stock and 30% in cash. The exchange ratio for determining the number of shares of Summit common stock to be issued for each share of Greater Atlantic’s common stock will be based on the average closing price of Summit’s common stock for the twenty trading days before the closing date of the transaction (“Summit’s Average Closing Stock Price”), subject to a “collar”. The collar ranges from \$17.82 per share to \$24.10 per share. If Summit’s Average Closing Stock Price falls within this range, then Greater Atlantic shareholders will receive shares of Summit’s common stock based on an exchange ratio equal to 70% of the final per share transaction consideration divided by Summit’s Average Closing Stock Price. However, if Summit’s Average Closing Stock Price is less than \$17.82 per share, the exchange ratio will equal 70% of the final per share transaction consideration divided by \$17.82; and if Summit’s Average Closing Stock Price is more than \$24.10 per share, then the exchange ratio will equal 70% of the final per share transaction consideration divided by \$24.10.

Consummation of the Merger is subject to approval of the shareholders of Greater Atlantic and the receipt of all required regulatory approvals, as well as other customary conditions. This acquisition is expected to close during fourth quarter of this year.

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

INTRODUCTION

The following discussion and analysis focuses on significant changes in our financial condition and results of operations of Summit Financial Group, Inc. ("Company" or "Summit") and our operating units, Summit Community Bank ("Summit Community"), Shenandoah Valley National Bank ("Shenandoah"), and Summit Insurance Services, LLC for the periods indicated. This discussion and analysis should be read in conjunction with our 2006 audited financial statements and Annual Report on Form 10-K/A.

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 us. Our following 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, we note that a variety of factors could cause our actual results and experience to differ materially from the anticipated results or other expectations expressed in those forward-looking statements.

RESTATEMENT

As discussed in Note 1, Restatement, in the Notes to Consolidated Financial Statements, we are restating financial statements and other financial information for the quarter ended March 31, 2007 and all comparative financial information included herein.

In 2003, we entered into four interest rate swap agreements on certain convertible rate advances from the Federal Home Loan Bank ("FHLB") that were designated as fair value hedges. The terms of the FHLB convertible rate advances include an option of the FHLB to convert the debt's fixed interest rate to a variable rate on a quarterly basis. We evaluated these hedging relationships and concluded that the short-cut method of hedge accounting could be applied and the assumption of no ineffectiveness was valid based upon: (a) the criteria in paragraph 68 of SFAS 133 were met, and (b) the conversion options in the FHLB advances were mirrored in the interest rate swaps.

Based on comments received from the Securities and Exchange Commission, we learned that the above interpretation of paragraph 68 is incorrect. The conversion is not specifically listed in paragraph 68, and the presence of that term prohibits the application of the short-cut method of hedge accounting, even if the terms are mirrored between the interest rate swap and the hedged item. Eliminating the application of fair value hedge accounting reverses the fair value adjustments that have been made to the advances and results in all fair value changes for the interest rate swaps being recognized in noninterest income. Additionally, the net cash settlement payments received/paid during each period for these interest rate swaps were reclassified from interest expense on long-term borrowings to noninterest income.

OVERVIEW

Our primary source of income is net interest income from loans and deposits. Business volumes tend to be influenced by the overall economic factors including market interest rates, business spending, and consumer confidence, as well as competitive conditions within the marketplace.

Growth in our interest earning assets resulted in an increase of 6.42%, or \$579,000, in our net interest earnings on a tax equivalent basis for the first three months in 2007 compared to the same period of 2006.

CRITICAL ACCOUNTING POLICIES

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

Our most significant accounting policies are presented in Note 2 to the consolidated financial statements of our 2006 Annual Report on Form 10-K/A. These policies, along with the disclosures presented in the other financial statement notes and in this financial review, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined.

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

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

The allowance for loan losses represents our estimate of probable credit losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset type on our consolidated balance sheet. To the extent actual outcomes differ from our estimates, additional provisions for loan losses may be required that would negatively impact earnings in future periods. Note 2 to the consolidated financial statements of our 2006 Annual Report on Form 10-K/A describes the methodology used to determine the allowance for loan losses and a discussion of the factors driving changes in the amount of the allowance for loan losses is included in the Asset Quality section of the financial review of the 2006 Annual Report on Form 10-K/A.

Goodwill is subject to impairment testing at least annually to determine whether write-downs of the recorded balances are necessary. A fair value is determined based on at least one of three various market valuation methodologies. If the fair value equals or exceeds the book value, no write-down of recorded goodwill is necessary. If the fair value is less than the book value, an expense may be required on our books to write down the goodwill to the proper carrying value. During the third quarter, we will complete the required annual impairment test for 2007. We cannot assure you that future goodwill impairment tests will not result in a charge to earnings. See Notes 2 and 10 of the consolidated financial statements of our Annual Report on Form 10-K/A for further discussion of our intangible assets, which include goodwill.

**Management's Discussion and Analysis of Financial Condition and
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RESULTS OF OPERATIONS

Earnings Summary

Income from continuing operations for the quarter ended March 31, 2007 grew 27.78% to \$2,935,000, or \$0.41 per diluted share as compared to \$2,297,000, or \$0.32 per diluted share for the quarter ended March 31, 2006. Consolidated net income, which includes the results of discontinued operations, for the periods ended March 31, 2007 and 2006 was \$2,739,000 and \$2,680,000, respectively. Returns on average equity and assets for the first three months of 2007 were 13.40% and 0.88%, respectively, compared with 14.07% and .95% for the same period of 2006.

Net Interest Income

Net interest income is the principal component of our earnings and represents the difference between interest and fee income generated from earning assets and the interest expense paid on deposits and borrowed funds. Fluctuations in interest rates as well as changes in the volume and mix of earning assets and interest bearing liabilities can materially impact net interest income.

Our consolidated net interest income on a fully tax-equivalent basis totaled \$9,595,000 for the three month period ended March 31, 2007 compared to \$9,016,000 for the same period of 2006, representing an increase of \$579,000 or 6.42%. This increase resulted from growth in interest earning assets, primarily loans, which served to more than offset the 77 basis points increase in the cost of interest bearing liabilities during the same period. Average interest earning assets grew 11.52% from \$1,070,582,000 during the first three months of 2006 to \$1,193,946,000 for the first three months of 2007. Average interest bearing liabilities grew 11.81% from \$977,829,000 at March 31, 2006 to \$1,093,276,000 at March 31, 2007, at an average yield for the first three months of 2007 of 4.69% compared to 3.92% for the same period of 2006.

Our consolidated net interest margin decreased to 3.26% for the three month period ended March 31, 2007, compared to 3.42% for the same period in 2006. Our net interest margin decreased 6 basis points compared to the linked quarter. Our margin continues to be affected by our loan growth in an extremely competitive environment. The current competitive pressures are causing loan rates to be lower. Also, our loan growth is at a faster pace than we have been able to grow lower cost retail funds, causing us to rely more on higher cost, non-retail deposit funding vehicles. The current competitive and market conditions are also causing deposit rates to be higher. For the three months ended March 31, 2007 compared to March 31, 2006, the yields on earning assets increased 55 basis points, while the cost of our interest bearing funds increased by 77 basis points.

We anticipate modest growth in our net interest income to continue over the near term as the growth in the volume of interest earning assets will more than offset the expected continued decline in our net interest margin. However, if market interest rates remain significantly unchanged, or go lower over the next 12 to 18 months, the spread between interest earning assets and interest bearing liabilities could narrow such that its impact could not be offset by growth in earning assets. See the "Market Risk Management" section for further discussion of the impact changes in market interest rates could have on us. Further analysis of our yields on interest earning assets and interest bearing liabilities are presented in Tables I and II below.

Management's Discussion and Analysis of Financial Condition and Results of Operations
Table I - Average Balance Sheet and Net Interest Income Analysis
(Dollars in thousands)

	For the Three Months Ended					
	March 31, 2007			March 31, 2006		
	Average Balance	Earnings/Expense (Restated)	Yield/Rate (Restated)	Average Balance	Earnings/Expense (Restated)	Yield/Rate (Restated)
Interest earning assets						
Loans, net of unearned income						
Taxable	\$ 928,979	\$ 18,665	8.15%	\$ 829,381	\$ 15,392	7.53%
Tax-exempt (1)	8,917	173	7.87%	8,244	150	7.38%
Securities						
Taxable	208,315	2,577	5.02%	186,586	2,135	4.64%
Tax-exempt (1)	47,289	814	6.98%	44,077	767	7.06%
Federal funds sold and interest bearing deposits with other banks	446	5	4.55%	2,294	24	4.24%
Total interest earning assets	1,193,946	22,234	7.55%	1,070,582	18,468	7.00%
Noninterest earning assets						
Cash & due from banks	13,099			14,449		
Premises and equipment	22,332			23,361		
Other assets	26,993			24,659		
Allowance for loan losses	(8,135)			(6,338)		
Total assets	\$ 1,248,235			\$ 1,126,713		
Interest bearing liabilities						
Interest bearing demand deposits	\$ 221,924	\$ 2,066	3.78%	\$ 204,161	\$ 1,543	3.07%
Savings deposits	46,407	217	1.90%	43,067	73	0.69%
Time deposits	556,525	6,745	4.92%	374,170	3,537	3.83%
Short-term borrowings	72,415	958	5.37%	172,380	1,964	4.62%
Long-term borrowings and capital trust securities	196,005	2,653	5.49%	184,051	2,335	5.15%
Total interest bearing liabilities	1,093,276	12,639	4.69%	977,829	9,452	3.92%
Noninterest bearing liabilities and shareholders' equity						
Demand deposits	61,288			63,308		
Other liabilities	11,881			9,395		
Shareholders' equity	81,790			76,181		
Total liabilities and shareholders' equity	\$ 1,248,235			\$ 1,126,713		
Net interest earnings		\$ 9,595			\$ 9,016	
Net yield on interest earning assets			3.26%			3.42%

(1) - Interest income on tax-exempt securities has been adjusted assuming an effective tax rate of 34% for all periods presented. The tax equivalent adjustment resulted in an increase in interest income of \$319,000 and \$305,000 for the periods ended March 31, 2007 and March 31, 2006, respectively.

**Management's Discussion and Analysis of Financial Condition and
Results of Operations**
Table II - Changes in Interest Margin Attributable to Rate and Volume
(Dollars in thousands)

	For the Quarter Ended March 31, 2007 versus March 31, 2006 (Restated)		
	Increase (Decrease) Due to Change in:		
	Volume	Rate	Net
Interest earned on:			
Loans			
Taxable	\$ 1,938	\$ 1,335	\$ 3,273
Tax-exempt	12	11	23
Securities			
Taxable	261	181	442
Tax-exempt	55	(8)	47
Federal funds sold and interest bearing deposits with other banks	(20)	1	(19)
Total interest earned on interest earning assets	2,246	1,520	3,766
Interest paid on:			
Interest bearing demand deposits	142	381	523
Savings deposits	6	138	144
Time deposits	2,032	1,176	3,208
Short-term borrowings	(1,283)	277	(1,006)
Long-term borrowings and capital trust securities	157	161	318
Total interest paid on interest bearing liabilities	1,054	2,133	3,187
Net interest income	\$ 1,192	\$ (613)	\$ 579

Noninterest Income

Total noninterest income from continuing operations increased to \$1,057,000 for the first quarter of 2007, compared to \$453,000 for the same period of 2006. Other income increased \$48,000 for the first quarter 2007 due to increases in financial services revenue and debit card income due to increased customer activity. Further detail regarding noninterest income is reflected in the following table.

**Management's Discussion and Analysis of Financial Condition and
Results of Operations**
Noninterest Income

<i>Dollars in thousands</i>	For the Quarter Ended March 31,	
	2007 (Restated)	2006 (Restated)
Insurance commissions	\$ 206	\$ 230
Service fees	617	631
Net cash settlement on derivative instruments	(184)	(72)
Change in fair value of derivative instruments	227	(473)
(Loss) on sale of assets	2	(4)
Other	189	141
Total	\$ 1,057	\$ 453

Noninterest Expense

Total noninterest expense for continuing operations increased approximately \$288,000, or 5.4% to \$5,649,000 during the first three months of 2007 as compared to the same period in 2006. Salaries and employee benefits expense represented the largest category of expense growth. Table III below shows the breakdown of these increases.

Table III - Noninterest Expense
Dollars in thousands

	For the Quarter Ended March 31,			
	Change			2006
	2007	\$	%	
Salaries and employee benefits	\$ 3,226	\$ 171	5.6%	\$ 3,055
Net occupancy expense	418	17	4.2%	401
Equipment expense	446	(4)	-0.9%	450
Supplies	172	6	3.6%	166
Professional fees	174	(33)	-15.9%	207
Amortization of intangibles	38	-	0.0%	38
Other	1,175	131	12.5%	1,044
Total	\$ 5,649	\$ 288	5.4%	\$ 5,361

Salaries and employee benefits: The 5.6% growth in salaries and employee benefits was primarily due to general merit raises.

Other: Other expenses increased 12.5% for first quarter 2007 compared to first quarter 2006. This increase includes \$30,000 of merger expenses related to the upcoming merger of our two subsidiary banks, an increase of \$60,000 in FDIC insurance premiums, and an increase of \$30,000 in ATM expense.

Credit Experience

The provision for loan losses represents charges to earnings necessary to maintain an adequate allowance for potential future loan losses. Our 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.

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

We recorded a \$390,000 provision for loan losses for the first three months of 2007, compared to \$325,000 for the same period in 2006. Net loan charge offs for the first three months of 2007 were \$119,000, as compared to \$2,000 over the same period of 2006. At March 31, 2007, the allowance for loan losses totaled \$7,783,000 or 0.83% of loans, net of unearned income, compared to \$7,511,000 or 0.81% of loans, net of unearned income at December 31, 2006.

Overall, our asset quality remains sound. As illustrated in Table IV below, our non-performing assets and loans past due 90 days or more and still accruing interest have increased during the past 12 months, but have shown a slight decrease between December 31, 2006 and March 31, 2007, and still remain at a historically moderate level.

Table IV - Summary of Past Due Loans and Non-Performing Assets

(Dollars in thousands)

	March 31,		December 31,
	2007	2006	2006
Accruing loans past due 90 days or more	\$ 4,233	\$ 1,046	\$ 4,638
Nonperforming assets:			
Nonaccrual loans	241	401	638
Foreclosed properties	42	268	77
Reposessed assets	1	3	-
Total	<u>\$ 4,517</u>	<u>\$ 1,718</u>	<u>\$ 5,353</u>
Total nonperforming loans as a percentage of total loans	<u>0.48%</u>	<u>0.17%</u>	<u>0.57%</u>
Total nonperforming assets as a percentage of total assets	<u>0.36%</u>	<u>0.15%</u>	<u>0.43%</u>

However, we have experienced an upward trend in our internally classified assets. This trend has primarily been in residential real estate development loans due to the recent slowdown in the sales of newly constructed homes. The ratio of internally classified loans to total loans increased from 4.13% at December 31, 2006 to 6.45% at March 31, 2007. This increase is primarily due to two customer relationships. Management downgraded these two relationships, as they fell outside of our internal lending policy guidelines but does not expect any material future losses related to these two relationships. Refer to the Asset Quality section of the financial review of the 2006 Annual Report on Form 10-K/A for further discussion of the processes related to internally classified loans

FINANCIAL CONDITION

Our total assets were \$1,254,528,000 at March 31, 2007, compared to \$1,235,519,000 at December 31, 2006, representing a 1.5% increase. Table V below serves to illustrate significant changes in our financial position between December 31, 2006 and March 31, 2007.

**Management's Discussion and Analysis of Financial Condition and
Results of Operations**
**Table V - Summary of Significant Changes in Financial Position
(Dollars in thousands)**

		Increase (Decrease)		
	Balance December 31, 2006 (Restated)			Balance March 31, 2007 (Restated)
		Amount	Percentage	
Assets				
Securities available for sale	\$ 247,874	10,299	4.2%	\$ 258,173
Loans, net of unearned income	916,045	14,724	1.6%	930,769
Liabilities				
Deposits	\$ 888,688	\$ (11,463)	-1.3%	\$ 877,225
Short-term borrowings	60,428	19,458	32.2%	79,886
Long-term borrowings and subordinated debentures	195,698	7,710	3.9%	203,408

Loan growth during the first three months of 2007, occurring principally in the commercial and real estate portfolios, was funded both by borrowings from the FHLB and deposits, including brokered certificates of deposit.

Deposits decreased approximately \$11 million during the first quarter of 2007. This decrease was primarily in brokered deposits, which were replaced with FHLB short-term borrowings, which is reflected in their \$19 million increase.

Refer to Notes 6, 7, and 10 of the notes to the accompanying consolidated financial statements for additional information with regard to changes in the composition of our securities, loans, deposits and borrowings between March 31, 2007 and December 31, 2006.

LIQUIDITY

Liquidity reflects our ability to ensure the availability of adequate funds to meet loan commitments and deposit withdrawals, as well as provide for other transactional requirements. Liquidity is provided primarily by funds invested in cash and due from banks, Federal funds sold, non-pledged securities, and available lines of credit with the FHLB, the total of which approximated \$215 million, or 17.2% of total assets at March 31, 2007 versus \$275 million, or 22.3% of total assets at December 31, 2006.

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

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

One of our continuous goals is maintenance of a strong capital position. Through management of our capital resources, we seek to provide an attractive financial return to our shareholders while retaining sufficient capital to support future growth. Shareholders' equity at March 31, 2007 totaled \$81,950,000 compared to \$78,752,000 at December 31, 2006.

Refer to Note 14 of the notes to the accompanying consolidated financial statements for information regarding regulatory restrictions on our capital as well as our subsidiaries' capital.

CONTRACTUAL CASH OBLIGATIONS

During our normal course of business, we incur contractual cash obligations. The following table summarizes our contractual cash obligations at March 31, 2007.

	Long Term Debt (Restated)	Capital Trust Securities	Operating Leases
2007	\$ 21,029,707	\$ -	\$ 836,447
2008	52,376,851	-	997,070
2009	28,911,094	-	431,349
2010	54,533,194	-	123,389
2011	2,465,409	-	88,620
Thereafter	24,502,993	19,589,000	199,395
Total	\$183,819,248	\$19,589,000	\$ 2,676,270

OFF-BALANCE SHEET ARRANGEMENTS

We are involved with some off-balance sheet arrangements that have or are reasonably likely to have an effect on our financial condition, liquidity, or capital. These arrangements at March 31, 2007 are presented in the following table.

	March 31, 2007
Commitments to extend credit:	
Revolving home equity and credit card lines	\$ 34,023,333
Construction loans	88,947,000
Other loans	32,560,000
Standby letters of credit	13,928,392
Total	\$ 169,458,725

Management's Discussion and Analysis of Financial Condition and Results of Operations
MARKET RISK MANAGEMENT

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

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

Several techniques are available to monitor and control the level of interest rate risk. We primarily use earnings simulations modeling to monitor interest rate risk. The earnings simulation model forecasts the effects on net interest income under a variety of interest rate scenarios that incorporate changes in the absolute level of interest rates and changes in the shape of the yield curve. Each increase or decrease in interest rates is assumed to gradually take place over the next 12 months, and then remain stable. Assumptions used to project yields and rates for new loans and deposits are derived from historical analysis. Securities portfolio maturities and prepayments are reinvested in like instruments. Mortgage loan prepayment assumptions are developed from industry estimates of prepayment speeds. Noncontractual deposit repricings are modeled on historical patterns.

The following table shows our projected earnings sensitivity as of March 31, 2007 which is well within our ALCO policy limit of +/- 10%:

Change in Interest Rates	Estimated % Change in Net Interest Income Over:	
	0 - 12	13 - 24
	Months	Months
(basis points)		
Down 200 (1)	1.60%	4.70%
Down 200, steepening yield curve (2)	2.59%	9.23%
Up 100 (1)	-0.80%	-0.82%
Up 200 (1)	-2.03%	-7.09%

(1) assumes a parallel shift in the yield curve

(2) assumes steepening curve whereby short term rates decline by 200 basis points, while long term rates decline by 50 basis points

CONTROLS AND PROCEDURES
(a) Restatement

As a result of a review by the Staff of the Securities and Exchange Commission (the "Staff") of Summit's Form 10-K filed for the year ended December 31, 2006, the Company determined that its interpretation with respect to applying the short-cut method of hedge accounting under paragraph 68 of SFAS 133 to certain of its interest rate swaps was incorrect.

In August 2003, Summit entered into four interest rate swaps with notional values totaling \$36 million that were designated as fair value hedges of certain convertible rate advances from the Federal Home Loan Bank ("FHLB"). The terms of the FHLB convertible rate advances include an option of the FHLB to convert the debt's fixed interest rate to a variable rate on a quarterly basis. Summit evaluated these hedging relationships and concluded that the short-cut method of hedge accounting could be applied and the assumption of no ineffectiveness was valid based upon: (a) the criteria in paragraph 68 of SFAS 133 were met, and (b) the conversion options in the FHLB advances were mirrored in the interest rate swaps.

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

Based on comments received from the Staff, Summit learned that the above interpretation of paragraph 68 is incorrect. The conversion is not specifically listed in paragraph 68, and the presence of that term prohibits the application of the short-cut method of hedge accounting, even if the terms are mirrored between the interest rate swap and the hedged item. Although these hedging relationships would have qualified for hedge accounting if the "long haul" method had been applied, SFAS 133 does not permit the use of the "long haul" method retroactively. Consequently, the restatement assumes hedge accounting was not applied to these derivatives and the related hedged item during the periods under review.

On August 16, 2007, Management, the Audit Committee of the Board of Directors and the Executive Committee of the Board of Directors of Summit Financial Group, Inc. ("Summit" or the "Company") concluded that a restatement of its financial statements and other financial information for the year ended December 31, 2006 and for the quarters ended March 31 and June 30 of 2007 (including the financial statements and other financial information for all comparative periods contained therein) with respect to the accounting for certain derivatives transactions under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended ("SFAS 133") was necessary.

(b) Evaluation of Disclosure Controls and Procedures

In connection with the restatement, under the direction of our Chief Executive Officer and Chief Financial Officer, we reevaluated our disclosure controls and procedures. As a result we determined that a deficiency in processes and procedures over financial reporting of derivatives and hedging originally classified as effective at March 31, 2007 should have been classified as ineffective at March 31, 2007. Solely as a result of this condition, we concluded that our disclosure controls and procedures were not effective as of December 31, 2006, March 31, 2007 and June 30, 2007.

(c) Remediation of Material Weakness in Internal Control

We believe that we will have fully remediated the material weakness in our internal control over financial reporting with respect to accounting for derivative transactions used as hedges as of September 30, 2007. The remedial actions planned include:

- implementing additional management and oversight controls to review and approve hedging strategies and related documentation to ensure hedge accounting is appropriately applied with respect to SFAS 133 and related guidance;
- retesting our internal financial controls with respect to the deficiencies related to the material weakness to ensure they are operating effectively to ensure compliance with SFAS 133; and
- improving training, education and accounting reviews to ensure that all relevant personnel involved in derivatives transactions understand and apply hedge accounting in compliance with generally accepted accounting principles, including SFAS 133 and its related interpretations.

Changes in Internal Control Over Financial Reporting: As previously reported, there were no changes in our internal control over financial reporting during the quarter ended March 31, 2007 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

We are involved in various legal actions arising in the ordinary course of business. In the opinion of counsel, the outcome of these matters will not have a significant adverse effect on the consolidated financial statements. The Company is also involved in other legal proceedings described more fully below.

On December 26, 2003, two of our subsidiaries, Summit Financial, LLC and Shenandoah Valley National Bank, and various employees of Summit Financial, LLC were served with a Petition for Temporary Injunction and a Bill of Complaint filed in the Circuit Court of Fairfax County, Virginia by Corinthian Mortgage Corporation. The filings allege various claims against Summit Financial, LLC and Shenandoah Valley National Bank arising out of the hiring of former employees of Corinthian Mortgage Corporation (“Corinthian”) and the alleged use of its proprietary information. The individual defendants have also been sued based on allegations arising out of their former employment relationship with Corinthian and their employment with Summit Financial, LLC. In an 8-K filed on November 15, 2006, Summit announced it would close its mortgage operations which at the time operated as Summit Mortgage, a division of Shenandoah Valley National Bank.

The plaintiff seeks damages in the amount proven at trial on each claim and punitive damages in the amount of \$350,000. Plaintiff also seeks permanent and temporary injunctive relief prohibiting the alleged use of proprietary information by Summit Financial and the alleged solicitation of Corinthian’s employees. On January 22, 2004, the Circuit Court of Fairfax County, Virginia denied Corinthian’s petition for a temporary injunction.

On November 20, 2006, Corinthian filed an Amended Complaint which joined Summit Financial Group as a defendant and requested damages in the amount of 20 million dollars. Trial of this matter is currently scheduled to begin on January 14, 2008.

After consultation with legal counsel, we believe that significant and meritorious defenses exist as to all the claims including with respect to plaintiff’s claim for damages. We will continue to evaluate the claims in the Corinthian lawsuit and intend to vigorously defend against them. Management, at the present time, is unable to estimate the impact, if any, an adverse decision may have on our results of operations or financial condition. However, an adverse decision resulting in a large damage award could have a significant negative impact on Summit’s regulatory capital thereby limiting Summit’s near term growth and its ability to pay dividends to its shareholders.

On January 4, 2006, Mary Forrest, an individual, filed an alleged class action suit in the United States District Court for the Eastern District of Wisconsin, Milwaukee Division, against our subsidiary, Shenandoah Valley National Bank (“Shenandoah”). Further, on May 19, 2006, Marti L. Klutho, an individual, filed an alleged class action suit in the United States District Court for the Eastern District of Missouri, Eastern Division, also against Shenandoah. The plaintiffs in each case claimed that Shenandoah violated the Federal Fair Credit Reporting Act (“FCRA”) alleging that Shenandoah used information contained in their consumer reports, without extending a “firm offer of credit” within the meaning of the FCRA.

In the Klutho case the Company moved for judgment on the pleadings, claiming that plaintiff has no legally viable claim. On May 22, 2007, Shenandoah's motion for judgment in the Klutho case was granted, and the case was dismissed. Plaintiff did not appeal, and the case has been concluded.

On March 28, 2007, plaintiff’s motion for class certification in the Forrest case was denied. Her subsequent petition for appeal to the Federal Seventh Circuit Court of Appeals was also denied. The parties have since settled on a one plaintiff basis for an insignificant amount, and this case has also been concluded.

Part II. Other Information

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K/A for the year ended December 31, 2006, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K/A are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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,
Senior Vice President and Chief Financial Officer

By: /s/ Julie R. Cook
Julie R. Cook,
Vice President and Chief Accounting Officer

Date: September 25, 2007

**BY-LAWS
OF
SUMMIT FINANCIAL GROUP, INC.**

Article I. Offices

The principal office of the corporation shall be located at 300 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 Thursday in the month of May in each year, beginning with the year 1988, at the hour of 1:00 p.m., 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 if the holders of at least 10% of all the votes entitled to be cast on an issue to be considered at the proposed special meeting sign, date and deliver to the corporation one or more written demands for the meeting describing the purpose or purposes for which it shall be held.

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 date, time and place of the meeting and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered no fewer than ten nor more than sixty 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. Fixing of Record Date.

The Board of Directors may fix a future date as a record date in order to determine the shareholders entitled to a distribution, to notice of a shareholders' meeting, to demand a special meeting, to vote or to take any other action. A record date fixed under this section may not be more than seventy days before the meeting or action requiring a determination of shareholders.

A determination of shareholders entitled to notice of or to vote at a shareholders' meeting is effective for any adjournment of the meeting unless the board of directors fixes a new record date, which it must do if the meeting is adjourned to a date more than one hundred twenty days after the date fixed for the original meeting.

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 beginning two business days after notice of the meeting for which the list is prepared and continuing through the meeting. Such list shall 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 votes entitled to be cast on a matter, represented in person or by proxy, shall constitute a quorum at a meeting of shareholders. If less than a majority of the votes to be cast are represented at a meeting, a majority of the votes 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 unless a new record date is set or must be set for the adjourned meeting. 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. Corporation's Acceptance of Votes. If the name signed on a vote, consent, waiver or proxy does not correspond to the name of a shareholder, the corporation is entitled to accept such vote, consent, waiver or proxy and give it effect as the act of the shareholder if: (a) the shareholder is an entity and the name signed purports to be that of an officer or agent of the entity; (b) the name signed purports to be that of an administrator, executor, guardian or conservator representing the shareholder and, if the corporation requests, evidence of this status acceptable to the corporation has been presented; (c) the name signed purports to be that of a receiver or trustee in bankruptcy of the shareholder and, if the corporation requests, evidence of this status acceptable to the corporation has been presented; (d) the name signed purports to be that of a pledgee, beneficial owner or attorney-in-fact of the shareholder and, if the corporation requests, evidence acceptable to the corporation of the signatory's authority to sign for the shareholder has been presented; and (e) two or more persons are shareholders as co-tenants or fiduciaries and the name signed purports to be the name of at least one of the co-tenants or fiduciaries and the person signing appears to be acting on behalf of all co-tenants or fiduciaries. The corporation may reject a vote, consent, waiver or proxy if the secretary or other officer authorized to tabulate votes, acting in good faith, has reasonable basis for doubt as to the validity of the signature or the signatory's authority to sign for the shareholder.

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 not be less than nine (9) nor more than twenty-one (21). Each and every outside director must own in his or her own right a minimum of two-thousand (2,000) shares of the corporation's common stock. For purposes of determining whether shares are owned by a director in his or her own right, the following shares shall be deemed owned by a director in his or her own right: (i) shares held solely in the director's name; (ii) shares held through the corporation's employee stock ownership plan, a profit-sharing plan, individual retirement account, retirement plan or similar arrangement; and (iii) shares owned by a company where the director owns a controlling interest. Shares held jointly by a director and his or her spouse may also be counted when determining whether the director owns 2,000 shares of common stock in his or her own right as long as the director owns stock in a non-joint capacity with a minimum value (calculated by the par value, shareholder's equity or fair market value) of at least \$500. A director need not be a resident of West Virginia.

Section 3. Regular Meetings. The board of directors may provide, by resolution, the time, date, and place, either within or without the State of West Virginia for the holding of 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 by fifty percent of the 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 electronic transmission, which includes any process of communication not directly involving the physical transfer of paper that is suitable for the retention, retrieval and reproduction of information by the recipient. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail so addressed, with postage thereon prepaid. 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, and such director does not thereafter vote for or assent to action taken at the meeting. 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.

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 two-thirds of the directors: (a) mergers and closures of banks and branches; (b) any amendment to the Articles of Incorporation or Bylaws of the corporation; and (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. 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.

The Executive Committee shall have the authority to act on behalf of the Board of Directors and in the name of and on behalf of the Corporation, to the fullest extent permitted by law and the corporation's Articles of Incorporation and these Bylaws.

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 may be filled by the board of directors at their regular meeting or at a special meeting.

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. 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 offices may be held by the same person.

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 or her 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 (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 or her 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 and as permitted by law.

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 V. Contracts, Loans, Checks and Deposit.

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 involving an amount greater than the amount authorized by the corporation's Capital Expenditure and Purchasing Policy shall be binding upon the corporation unless and until acceptance thereof has been made by the 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. Book Entry Shares. The Board of Directors may authorize the issuance of some or all of the shares of any class or series without certificates ("Book Entry Shares"). The authorization will not affect shares already represented by certificates until the certificates are surrendered to the corporation. Within a reasonable time after the issuance or transfer of shares without certificates, the corporation or its transfer agent shall send the shareholder a written notification of the information required on certificates by applicable law, rule or regulation.

Section 2. Certificates for Shares. The interest of each shareholder of the corporation shall be evidenced by certificates or as Book Entry Shares without certificates. Every holder of stock represented by certificate in the corporation shall be entitled to a certificate 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 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 certificate may be issued therefor or the shares represented thereby may be issued as Book Entry Shares upon such terms and indemnity to the corporation as the board of directors may prescribe.

Section 3. Transfer of Shares. Transfer of shares of the corporation shall be made on the stock transfer books of the corporation (a) in the case of shares represented by certificates, 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, or (b) in the case of Book Entry Shares, upon receipt of the proper transfer instructions from the registered owner of such Book Entry Shares, 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. 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/ Phoebe F. Heishman
Secretary

Summit Financial Group, Inc.
2007 Annual Incentive Compensation Plan

Douglas Mitchell
Position: Chief Banking Officer

Award Range		
Threshold:	10.00%	16,000
Target:	20.00%	32,000
Maximum	30.00%	48,000

Objective	Weight	Expected Performance	Measurement Date	Threshold	Payout Potential Target	Maximum	Actual Performance	Payout
Individual Performance --								
Account Growth	%%	Ensure that we have a net positive number of transaction accounts, both business and personal, interest bearing and non-interest bearing accounts. <u>Threshold:</u> %% Growth; <u>Target:</u> %%; <u>Maximum:</u> %% or >	12/07	\$*	\$*	\$*		
Core Deposit Growth	%%	Grow our core deposits by <u>Threshold:</u> %%; <u>Target:</u> %%; <u>Maximum:</u> %% or >	12/07	\$*	\$*	\$*		
Internet Banking	%%	Continued Growth in "Active" Internet Banking Users. <u>Threshold:</u> %%; <u>Target:</u> %%; <u>Maximum:</u> %% or >	12/07	\$*	\$*	\$*		
Non-Interest Bearing Checking Growth (Includes Forever Free w/ Interest) measured in terms of avg. balance	%%	<u>Threshold:</u> %% <u>Target:</u> %%; <u>Maximum:</u> %% or >	12/07	\$*	\$*	\$*		
Remote Capture	%%	Increase Active Remote Capture Customers not currently depositing with us. <u>Threshold:</u> *; <u>Target:</u> *; <u>Maximum:</u> * or >	12/07	\$*	\$*	\$*		
Totals	100.00%							

* Confidential and proprietary information

Approved: _____
H. Charles Maddy, III, President & CEO

**SARBANES-OXLEY ACT SECTION 302
CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

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

1. I have reviewed this Amendment No. 1 to the quarterly report on Form 10-Q of Summit Financial Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in registrant's internal control over financial reporting.

Date: September 25, 2007

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

SARBANES-OXLEY ACT SECTION 302
CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Robert S. Tissue, certify that:

1. I have reviewed this Amendment No. 1 to the quarterly report on Form 10-Q of Summit Financial Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in registrant's internal control over financial reporting.

Date: September 25, 2007

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

**SARBANES-OXLEY ACT SECTION 906
CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

In connection with this Amendment No. 1 to the Quarterly Report of Summit Financial Group, Inc. ("Summit") on Form 10-Q for the period ending March 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, H. Charles Maddy, III, President and Chief Executive Officer of Summit, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of Summit.

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

Date: September 25, 2007

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

**SARBANES-OXLEY ACT SECTION 906
CERTIFICATION OF CHIEF FINANCIAL OFFICER**

In connection with this Amendment No. 1 to the Quarterly Report of Summit Financial Group, Inc. ("Summit") on Form 10-Q for the period ending March 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert S. Tissue, Senior Vice President and Chief Financial Officer of Summit, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of Summit.

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

Date: September 25, 2007

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