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

FORM 10 - Q

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

For the quarterly period ended March 31, 2004.

or

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

Commission File Number 0-16587

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

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

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

(304) 530-7233
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes |_| No |X|

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
3,510,620 shares outstanding as of May 10, 2004

Summit Financial Group, Inc. and Subsidiaries

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Exhibits

Exhibit 10. Amended and Restated Summit Financial Group, Inc. 1998 Officer Stock Option Plan

Exhibit 11. Statement re: Computation of Earnings per Share - Information contained in Note 2 to the Consolidated Financial Statements on page 8 of this Quarterly Report is incorporated herein by reference.

Exhibit 31.1 Sarbanes-Oxley Act Section 302 Certification of Chief Executive Officer

Exhibit 31.2 Sarbanes-Oxley Act Section 302 Certification of Chief Financial Officer

Exhibit 32.1 Sarbanes-Oxley Act Section 906 Certification of Chief Executive Officer

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Summit Financial Group, Inc. and Subsidiaries

Consolidated Balance Sheets

	March 31, 2004 (unaudited)	December 31, 2003 (*)	March 31, 2003 (unaudited)
ASSETS			
Cash and due from banks	$ 9,584,246	$ 14,412,120	$ 11,816,307
Interest bearing deposits with other banks	3,223,383	3,141,092	3,820,145
Federal funds sold	1,048,000	244,000	51,223
Securities available for sale	215,732,183	235,409,228	231,559,929
Loans held for sale	9,595,896	6,352,836	2,083,065
Loans, net	532,854,898	498,340,211	433,937,306
Property held for sale, net	475,000	480,000	1,393,798
Premises and equipment, net	19,458,692	17,846,269	11,285,970
Accrued interest receivable	3,771,963	3,778,139	4,115,519
Goodwill	2,088,030	1,488,030	1,488,030
Other intangible assets	1,524,158	1,561,946	1,675,310
Other assets	9,760,944	8,411,333	7,665,365
Total assets	$ 809,117,393	$ 791,465,204	$ 710,891,967
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits			
Non interest bearing	$ 48,916,332	$ 51,004,403	$ 44,806,740
Interest bearing	481,421,526	460,797,017	424,035,131
Total deposits	530,337,858	511,801,420	468,841,871
Short-term borrowings	42,546,950	49,714,246	28,029,455
Long-term borrowings	158,266,552	164,646,208	152,713,067
Subordinated debentures owed to unconsolidated subsidiary trust	11,341,000	3,609,000	3,609,000
Other liabilities	5,951,531	4,506,787	4,319,571
Total liabilities	748,443,891	734,277,661	657,512,964
Commitments and Contingencies			
Shareholders' Equity			
Preferred stock, $1.00 par value; authorized 250,000 shares; no shares issued	-	-	-
Common stock, $2.50 par value; authorized 5,000,000 shares; issued 2004 - 3,568,560 shares ; December 2003 - 3,566,960 shares; March 2003 - 3,562,260 shares	8,921,400	8,917,400	8,905,650
Capital surplus	3,858,849	3,845,906	3,811,531
Retained earnings	45,878,181	43,427,000	38,590,570
Less cost of shares acquired for the treasury, 57,940 shares	(627,659)	(627,659)	(627,659)
Accumulated other comprehensive income	2,642,731	1,624,896	2,698,911
Total shareholders' equity	60,673,502	57,187,543	53,379,003
Total liabilities and shareholders' equity	$ 809,117,393	$ 791,465,204	$ 710,891,967

(*) - December 31, 2003 financial information has been extracted from audited consolidated financial statements

See Notes to Consolidated Financial Statements

Summit Financial Group, Inc. and Subsidiaries

Consolidated Statements of Income (unaudited)

	Three Months Ended	
	March 31, 2004	March 31, 2003
Interest income		
Interest and fees on loans		
Taxable	$ 8,216,886	$ 7,412,062
Tax-exempt	97,292	83,668
Interest and dividends on securities		
Taxable	1,974,939	2,115,315
Tax-exempt	551,562	474,714
Interest on interest bearing deposits with other banks	31,180	35,509
Interest on Federal funds sold	921	9,760
Total interest income	10,872,780	10,131,028
Interest expense		
Interest on deposits	2,414,093	2,625,468
Interest on short-term borrowings	171,909	80,196
Interest on long-term borrowings and subordinated debentures	1,685,420	1,756,993
Total interest expense	4,271,422	4,462,657
Net interest income	6,601,358	5,668,371
Provision for loan losses	232,500	217,500
Net interest income after provision for loan losses	6,368,858	5,450,871
Other income		
Insurance commissions	23,096	20,232
Service fees	509,409	339,387
Mortgage origination revenue	4,319,358	139,000
Securities gains (losses)	19,928	40,892
Gain (loss) on sale of assets	(1,615)	(19,558)
Other	72,255	53,430
Total other income	4,942,431	573,383
Other expense		
Salaries and employee benefits	3,685,959	1,918,620
Net occupancy expense	303,888	194,741
Equipment expense	429,027	300,245
Supplies	140,362	105,924
Professional fees	170,646	128,754
Postage	1,352,973	51,784
Advertising	961,636	49,051
Amortization of intangibles	37,788	37,788
Other	756,579	553,485
Total other expense	7,838,858	3,340,392
Income before income taxes	3,472,431	2,683,862
Income tax expense	1,021,250	819,875
Net income	$ 2,451,181	$ 1,863,987
Basic earnings per common share	$ 0.70	$ 0.53
Diluted earnings per common share	$ 0.69	$ 0.53
Average common shares outstanding		
Basic	3,510,063	3,503,930
Diluted	3,553,392	3,529,886
Dividends per common share	$ -	$ -

See Notes to Consolidated Financial Statements

Summit Financial Group, Inc. and Subsidiaries

Consolidated Statements of Shareholders' Equity (unaudited)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, December 31, 2003	$ 8,917,400	$ 3,845,906	$ 43,427,000	$ (627,659)	$ 1,624,896	$ 57,187,543
Three Months Ended March 31, 2004						
Comprehensive income:						
Net income	-	-	2,451,181	-	-	2,451,181
Other comprehensive income, net of deferred taxes of $623,834:						
Net unrealized gain on securities of $1,030,190, net of reclassification adjustment for gains included in net income of $12,355	-	-	-	-	1,017,835	1,017,835
Total comprehensive income						3,469,016
Exercise of stock options	4,000	12,943	-	-	-	16,943
Balance, March 31, 2004	$ 8,921,400	$ 3,858,849	$ 45,878,181	$ (627,659)	$ 2,642,731	$ 60,673,502
Balance, December 31, 2002	$ 8,904,150	$ 3,805,891	$ 36,726,583	$ (619,711)	$ 3,262,883	$ 52,079,796
Three Months Ended March 31, 2003						
Comprehensive income:						
Net income	-	-	1,863,987	-	-	1,863,987
Other comprehensive income, net of deferred tax benefit of ($345,660):						
Net unrealized (loss) on securities of ($589,325), net of reclassification adjustment for gains included in net income of $25,353	-	-	-	-	(563,972)	(563,972)
Total comprehensive income	-	-	-	-	-	1,300,015
Exercise of stock options	1,500	5,640	-	-	-	7,140
Purchase of treasury shares	-	-	-	(7,948)	-	(7,948)
Balance, March 31, 2003	$ 8,905,650	$ 3,811,531	$ 38,590,570	$ (627,659)	$ 2,698,911	$ 53,379,003

See Notes to Consolidated Financial Statements

Summit Financial Group, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (unaudited)

	Three Months Ended	
	March 31, 2004	March 31, 2003
Cash Flows from Operating Activities		
Net income	$ 2,451,181	$ 1,863,987
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	341,131	252,433
Provision for loan losses	232,500	217,500
Deferred income tax (benefit)	(145,250)	(68,000)
Loans originated for sale	(44,941,003)	(7,644,790)
Proceeds from loans sold	41,697,943	6,468,625
Securities (gains)	(19,928)	(40,892)
Loss on disposal of other assets	1,615	19,558
Amortization of securities premiums, net	142,402	306,650
Amortization of goodwill and purchase accounting adjustments, net	43,086	43,086
(Increase) decrease in accrued interest receivable	6,176	(70,804)
(Increase) in other assets	(1,014,566)	(663,774)
Increase in other liabilities	1,444,744	919,631
Net cash provided by operating activities	240,031	1,603,210
Cash Flows from Investing Activities		
Net (increase) decrease in interest bearing deposits with other banks	(82,292)	(1,634,776)
Proceeds from maturities and calls of securities available for sale	6,439,500	11,995,000
Proceeds from sales of securities available for sale	28,823,935	1,394,555
Principal payments received on securities available for sale	11,622,069	21,629,654
Purchases of securities available for sale	(25,715,293)	(55,146,213)
Net (increase) decrease in Federal funds sold	(804,000)	3,338,912
Net loans made to customers	(34,762,187)	(20,533,164)
Purchases of premises and equipment	(1,706,885)	(298,488)
Proceeds from sales of other assets	21,000	1,023,695
Net cash paid in acquisition of Sager Insurance Agency	(850,000)	-
Net cash provided by (used in) investing activities	(17,014,153)	(38,230,825)
Cash Flows from Financing Activities		
Net increase (decrease) in demand deposit, NOW and savings accounts	6,266,654	(2,388,533)
Net increase in time deposits	12,269,784	12,620,347
Net increase (decrease) in short-term borrowings	(7,167,296)	7,838,352
Proceeds from long-term borrowings	7,763,250	19,250,000
Repayment of long-term borrowings	(7,203,087)	(345,747)
Exercise of stock options	16,943	7,140
Purchase of treasury stock	-	(7,948)
Net cash provided by financing activities	11,946,248	36,973,611
Increase (decrease) in cash and due from banks	(4,827,874)	345,996
Cash and due from banks:		
Beginning	14,412,120	11,470,311
Ending	$ 9,584,246	$ 11,816,307

(Continued)

See Notes to Consolidated Financial Statements

Summit Financial Group, Inc. and Subsidiaries

Consolidated Statments of Cash Flows - continued (unaudited)

	Three Months Ended	
	March 31, 2004	March 31, 2003
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	$ 4,385,047	$ 4,508,920
Income taxes	$ 25,000	$ -
Supplemental Schedule of Noncash Investing and Financing Activities		
Other assets acquired in settlement of loans	$ 14,000	$ 622,441
Acquisition of Sager Insurance Agency:		
Net cash and cash equivalents paid in acquisition of Sager Insurance Agency	$ 850,000	$ -
Fair value of assets acquired (principally building and land)	$ 250,000	$ -
Goodwill	600,000	-
	$ 850,000	$ -

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements (unaudited)

Note 1. 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 effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these estimates.

The results of operations for the three months ended March 31, 2004 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 2003 audited financial statements and Annual Report on Form 10-K. Certain accounts in the consolidated financial statements for December 31, 2003 and March 31, 2003, as previously presented, have been reclassified to conform to current year classifications.

Note 2. Significant New Accounting Pronouncements

Variable interest entities: In December 2003 the Financial Accounting Standards Board (FASB) issued revised Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN 46-R"). In accordance with FIN 46-R, business enterprises that represent the primary beneficiary of another entity by retaining a controlling interest in that entity's assets, liabilities and results of operations must consolidate that entity in its financial statements. Prior to the issuance of FIN 46-R, consolidation generally occurred when an enterprise controlled another entity through voting interests. If applicable, transition rules allow the restatement of financial statements or prospective application with a cumulative effect adjustment. We have determined that the provisions of FIN 46-R require deconsolidation of subsidiary trusts which issued guaranteed preferred beneficial interests in subordinated debentures (Trust Preferred Securities). Prior to the adoption of FIN 46-R, we consolidated the trust and the balance sheet included the guaranteed beneficial interests in the subordinated debentures of the trust. Upon adoption of FIN 46-R at December 31, 2003, the trust has been deconsolidated and the junior subordinated debentures of the Company owned by the trust are being disclosed. The Trust Preferred Securities continue to qualify as Tier 1 capital for regulatory purposes. The banking regulatory agencies have not issued any guidance which would change the regulatory capital treatment for the Trust Preferred Securities based on the adoption of FIN 46-R. The adoption of the provisions of FIN 46-R has had no material impact on our results of operations, financial condition, or liquidity. See Note 9 of our Notes to Consolidated Financial Statements for a discussion of our subordinated debentures.

Loan commitments: During 2003, we adopted the provisions of Statement of Financial Accounting Standards No. 149 ("SFAS 149"), Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS 149 requires that commitments to make mortgage loans should be accounted for as derivatives if the loans are to be held for sale, because the commitment represents a written option and accordingly is recorded at the fair value of the option liability. The adoption of SFAS 149 did not have a material impact on our results of operations, financial position, or liquidity.

Note 3. Earnings per Share

The computations of basic and diluted earnings per share follow:

	Three Months Ended March 31, 2004	2003
Numerator:		
Net Income	$ 2,451,181	$ 1,863,987
Denominator:		
Denominator for basic earnings per share - weighted average common shares outstanding	3,510,063	3,503,930
Effect of dilutive securities:		
Stock options	43,329	25,956
Denominator for diluted earnings per share - weighted average common shares outstanding and assumed conversions	3,553,392	3,529,886
Basic earnings per share	$ 0.70	$ 0.53
Diluted earnings per share	$ 0.69	$ 0.53

Note 4. Securities

The amortized cost, unrealized gains, unrealized losses and estimated fair values of securities at March 31, 2004 and December 31, 2003, and March 31, 2003 are summarized as follows:

	March 31, 2004			
	Amortized	Unrealized		Estimated
	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable:				
U. S. Government agencies and corporations	$ 17,794,757	$ 479,850	$ -	$ 18,274,607
Mortgage-backed securities	117,221,262	1,572,589	194,851	118,599,000
State and political subdivisions	3,748,011	28,149	-	3,776,160
Corporate debt securities	12,601,813	623,458	-	13,225,271
Federal Reserve Bank stock	436,000	-	-	436,000
Federal Home Loan Bank stock	10,499,000	-	-	10,499,000
Other equity securities	175,535	-	-	175,535
Total taxable	162,476,378	2,704,046	194,851	164,985,573
Tax-exempt:				
State and political subdivisions	41,561,208	2,173,834	20,029	43,715,013
Federal Reserve Bank stock	8,400	-	-	8,400
Other equity securities	7,509,726	9,873	496,402	7,023,197
Total tax-exempt	49,079,334	2,183,707	516,431	50,746,610
Total	$211,555,712	$ 4,887,753	$ 711,282	$215,732,183

	December 31, 2003			
	Amortized	Unrealized		Estimated
	Cost	Gains	Losses	Fair Value
Available for sale				
Taxable:				
U. S. Government agencies and corporations	$ 21,323,741	$ 556,785	$ 37,831	$ 21,842,695
Mortgage-backed securities	132,030,288	959,890	532,445	132,457,733
State and political subdivisions	4,008,910	24,685	-	4,033,595
Corporate debt securities	16,516,090	774,306	-	17,290,396
Federal Reserve Bank stock	436,000	-	-	436,000
Federal Home Loan Bank stock	10,319,400	-	-	10,319,400
Other equity securities	175,535	-	-	175,535
Total taxable	184,809,964	2,315,666	570,276	186,555,354
Tax-exempt:				
State and political subdivisions	40,510,819	1,448,023	31,757	41,927,085
Federal Reserve Bank stock	8,400	-	-	8,400
Other equity securities	7,519,216	-	600,827	6,918,389
Total tax-exempt	48,038,435	1,448,023	632,584	48,853,874
Total	$232,848,399	$ 3,763,689	$ 1,202,860	$235,409,228

	March 31, 2003			
	Amortized	Unrealized		Estimated
	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable:				
U. S. Government agencies				
and corporations	$ 26,769,001	$ 943,685	$ -	$ 27,712,686
Mortgage-backed securities	115,746,226	1,679,106	555,378	116,869,954
State and political subdivisions	5,119,239	40,581	-	5,159,820
Corporate debt securities	29,416,044	1,176,470	24,326	30,568,188
Federal Reserve Bank stock	418,000	-	-	418,000
Federal Home Loan Bank stock	9,051,100	-	-	9,051,100
Other equity securities	102,452	-	-	102,452
Total taxable	186,622,062	3,839,842	579,704	189,882,200
Tax-exempt:				
State and political subdivisions	34,103,877	1,074,465	15,749	35,162,593
Federal Reserve Bank stock	8,400	-	-	8,400
Other equity securities	6,561,822	89,577	144,663	6,506,736
Total tax-exempt	40,674,099	1,164,042	160,412	41,677,729
Total	$227,296,161	$ 5,003,884	$ 740,116	$231,559,929

The maturites, amortized cost and estimated fair values of securities at March 31, 2004, are summarized as follows:

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 52,706,917	$ 53,218,315
Due from one to five years	77,062,641	78,631,941
Due from five to ten years	32,523,438	33,606,150
Due after ten years	30,634,055	32,133,644
Equity securities	18,628,661	18,142,133
	$ 211,555,712	$ 215,732,183

Note 5. Loans

Loans are summarized as follows:

	March 31, 2004	December 31, 2003	March 31, 2003
Commerical	$ 47,178,262	$ 46,860,481	$ 38,837,124
Commercial real estate	235,565,159	209,391,036	182,146,228
Real estate - construction	2,697,409	2,368,552	3,980,003
Real estate - mortgage	203,224,889	196,134,926	168,273,675
Consumer	41,059,663	41,112,132	39,628,271
Other	8,968,088	8,223,033	6,041,761
Total loans	538,693,470	504,090,160	438,907,062
Less unearned income	1,117,909	1,069,324	841,220
Total loans net of unearned income	537,575,561	503,020,836	438,065,842
Less allowance for loan losses	4,720,663	4,680,625	4,128,536
Loans, net	$532,854,898	$498,340,211	$433,937,306

Note 6. Allowance for Loan Losses

An analysis of the allowance for loan losses for the three month periods ended March 31, 2004 and 2003, and for the year ended December 31, 2003 is as follows:

	Three Months Ended March 31,		Year Ended December 31,
	2004	2003	2003
Balance, beginning of period	$4,680,624	$4,052,949	$4,053,131
Losses:			
Commercial	136,765	-	1,308
Commercial real estate	6,862	96,640	96,640
Real estate - mortgage	-	33,653	59,952
Consumer	42,657	35,118	178,305
Other	71,694	7,642	72,539
Total	257,978	173,053	408,744
Recoveries:			
Commercial	184	954	1,805
Commercial real estate	6,000	-	2,602
Real estate - mortgage	9,413	300	413
Consumer	31,658	22,513	78,515
Other	18,262	7,373	37,903
Total	65,517	31,140	121,238
Net losses	192,461	141,913	287,506
Provision for loan losses	232,500	217,500	915,000
Balance, end of period	$4,720,663	$4,128,536	$4,680,625

Note 7. Goodwill and Other Intangible Assets

The following tables present our goodwill at March 31, 2004 and other intangible assets at March 31, 2004, December 31, 2003, and March 31, 2003. There was no goodwill activity during 2003.

	Goodwill Activity by Operating Segment			
	Community Banking	Mortgage Banking	Parent and Other	Total
Balance, January 1, 2004	$ 1,488,030	$ -	$ -	$ 1,488,030
Acquired goodwill, net	-	-	600,000	600,000
Balance, March 31, 2004	$ 1,488,030	$ -	$ 600,000	$ 2,088,030

	Unidentifiable Intangible Assets		
	March 31, 2004	December 31, 2003	March 31, 2003
Unidentifiable intangible assets			
Gross carrying amount	$ 2,267,323	$ 2,267,323	$ 2,267,323
Less: accumulated amortization	743,165	705,377	592,013
Net carrying amount	$ 1,524,158	$ 1,561,946	$ 1,675,310

We recorded amortization expense of $38,000 for the quarter ended March 31, 2004 relative to our unidentifiable intangible assets. Annual amortization is expected to be approximately $151,000 for each of the years ending 2004 through 2008.

Note 8. Deposits

The following is a summary of interest bearing deposits by type as of March 31, 2004 and 2003 and December 31, 2003:

	March 31, 2004	December 31, 2003	March 31, 2003
Interest bearing demand deposits	$119,924,697	$112,670,844	$ 97,850,089
Savings deposits	48,497,876	47,397,004	47,751,642
Certificates of deposit	286,663,692	274,543,713	253,475,978
Individual retirement accounts	26,335,261	26,185,456	24,957,422
Total	$481,421,526	$460,797,017	$424,035,131

The following is a summary of the maturity distribution of certificates of deposit and Individual Retirement Accounts in denominations of $100,000 or more as of March 31, 2004:

	Amount	Percent
Three months or less	$ 12,929,152	11.3%
Three through six months	16,352,946	14.2%
Six through twelve months	41,248,532	35.9%
Over twelve months	44,315,920	38.6%
Total	$ 114,846,550	100.0%

A summary of the scheduled maturities for all time deposits as of March 31, 2004 is as follows:

Nine month period ending December 31, 2004	$ 161,051,833
Year ending December 31, 2005	97,704,980
Year ending December 31, 2006	20,936,842
Year ending December 31, 2007	15,523,127
Year ending December 31, 2008	14,085,668
Thereafter	3,696,503
	$ 312,998,953

Note 9. Borrowed Funds

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

	Quarter Ended March 31, 2004		
	Federal Funds Purchased and Lines of Credit	Repurchase Agreements	Federal Home Loan Bank Short-term Advances
Balance at March 31	$ -	$ 10,125,050	$ 32,421,900
Average balance outstanding for the quarter	1,694,341	9,973,395	42,532,134
Maximum balance outstanding at any month end during quarter	945,000	10,524,126	52,721,900
Weighted average interest rate for the quarter	2.16%	1.50%	1.18%
Weighted average interest rate for balances outstanding at March 31	-	1.53%	1.26%

	Year Ended December 31, 2003		
	Federal Funds Purchased and Lines of Credit	Repurchase Agreements	Federal Home Loan Bank Short-term Advances
Balance at December 31	$ 39,285,100	$ 10,429,146	$ -
Average balance outstanding for the year	22,177,797	8,419,384	1,191,013
Maximum balance outstanding at any month end	39,285,100	10,429,146	6,851,000
Weighted average interest rate for the year	1.27%	1.55%	2.37%
Weighted average interest rate for balances outstanding at December 31	1.07%	1.59%	-

	Quarter Ended March 31, 2003		
	Federal Funds Purchased and Lines of Credit	Repurchase Agreements	Federal Home Loan Bank Short-term Advances
Balance at March 31	$ 490,000	$ 8,979,955	$ 18,559,500
Average balance outstanding for the quarter	338,300	8,385,866	12,645,338
Maximum balance outstanding at any month end during quarter	490,000	8,979,955	18,559,500
Weighted average interest rate for the quarter	2.32%	1.56%	1.44%
Weighted average interest rate for balances outstanding at March 31	2.99%	1.59%	1.48%

Long-term borrowings: Our long-term borrowings of $158,266,552, $164,646,208 and $152,713,067 at March 31, 2004, December 31, 2003, and March 31, 2003 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, 2003 was 4.04% compared to 4.96% for the first three months of 2003.

Subordinated Debentures: We have two statutory business trusts that were formed for the purpose of issuing corporation obligated mandatorily redeemable securities (the "capital securities") 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 $11,341,000 at March 31, 2004, and $3,609,000 at both December 31, 2003 and March 31, 2003.

In October 2002, we sponsored SFG Capital Trust I, and in March 2004, we sponsored SFG Capital Trust II, of which 100% of the common equity of both trusts 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. 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 and 3 month LIBOR plus 280 basis points for SFG Capital Trust II, 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 and SFG Capital Trust II are first redeemable by us in November 2007 and March 2009, respectively.

In fourth quarter 2003, as a result of applying the provisions of FIN 46-R, which governs when an equity interest should be consolidated, we were required to deconsolidate SFG Capital Trust I from our financial statements. The deconsolidation of the net assets and results of operations of the trust had virtually no impact on our financial statements or liquidity position, since we continue to be obligated to repay the debentures held by the trust and guarantee repayment of the capital securities issued by the trust. The consolidated debt obligation related to the trust increased from $3,500,000 to $3,609,000 upon deconsolidation with the difference representing our common ownership interest in the trust. The accompanying financial statements reflect the deconsolidation for all periods presented.

The capital securities held by SFG Capital Trust I and SFG Capital Trust II qualify as Tier 1 capital under Federal Reserve Board guidelines. As a result of the issuance of FIN 46-R, the Federal Reserve Board is currently evaluating whether deconsolidation of the trust will affect the qualification of the capital securities as Tier 1 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
2004	$ 17,615,937
2005	21,885,818
2006	11,686,368
2007	5,519,208
2008	14,344,851
Thereafter	98,555,370
Total	$ 169,607,552

Note 10. Stock Option Plan

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

The Officer Stock Option Plan, which provides for the granting of stock options for up to 480,000 shares of common stock to our key officers, was adopted in 1998 and expires in 2008. Each option granted under the plan vests according to a schedule designated at the grant date and shall have a term of no more than 10 years following the vesting date. Also, the option price per share shall not be less than the fair market value of our common stock on the date of grant. Accordingly, no compensation expense is recognized for options granted under the Plan.

The following pro forma disclosures present for the quarters ended March 31, 2004 and 2003, our reported net income and basic and diluted earnings per share had we recognized compensation expense for our Officer Stock Option Plan based on the grant date fair values of the options (the fair value method described in Statement of Financial Accounting Standards No. 123).

(in thousands, except per share data)	Quarter Ended March 31, 2004	Quarter Ended March 31, 2003
Net income:		
As reported	$ 2,451	$ 1,864
Deduct total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(34)	(10)
Pro forma	$ 2,417	$ 1,854
Basic earnings per share:		
As reported	$ 0.70	$ 0.53
Pro forma	$ 0.69	$ 0.53
Diluted earnings per share:		
As reported	$ 0.69	$ 0.53
Pro forma	$ 0.68	$ 0.53

For purposes of computing the above pro forma amounts, we estimated the fair value of the options at the date of grant using a Black-Scholes option pricing model using the following weighted-average assumptions for grants during the first quarter of 2004: risk free interest rate of 2.96%; dividend yield of 1.21%; volatility factor of the expected market price of our common stock of 22; and an expected option life of 5 years. The weighted-average grant date fair value of the options granted was $7.68. There were no option grants during the first quarter of 2003. For purposes of the pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

Note 11. Acquisitions

On March 1, 2004, we acquired Sager Insurance Agency located in Moorefield, West Virginia. This acquisition had no material impact on our results of operations, financial condition, or liquidity.

Note 12. 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, 2004, 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"), Capital State Bank, Inc.'s ("Capital State") 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	Ratio	Amount	Ratio	Amount	Ratio
As of March 31, 2004						
Total Capital (to risk weighted assets)						
Summit	$ 69,652	12.1%	$ 46,174	8.0%	$ 57,717	10.0%
Summit Community	29,842	11.1%	21,442	8.0%	26,802	10.0%
Capital State	13,360	10.9%	9,806	8.0%	12,257	10.0%
Shenandoah	18,056	10.2%	14,185	8.0%	17,731	10.0%
Tier I Capital (to risk weighted assets)						
Summit	64,931	11.2%	23,087	4.0%	34,630	6.0%
Summit Community	27,511	10.3%	10,721	4.0%	16,081	6.0%
Capital State	12,279	10.0%	4,903	4.0%	7,354	6.0%
Shenandoah	16,747	9.4%	7,092	4.0%	10,639	6.0%
Tier I Capital (to average assets)						
Summit	64,931	8.2%	23,802	3.0%	39,671	5.0%
Summit Community	27,511	7.1%	11,609	3.0%	19,348	5.0%
Capital State	12,279	7.1%	5,199	3.0%	8,666	5.0%
Shenandoah	16,747	7.3%	6,838	3.0%	11,396	5.0%
As of December 31, 2003						
Total Capital (to risk weighted assets)						
Summit	$ 60,092	11.0%	43,678	8.0%	54,598	10.0%
Summit Community	28,449	10.9%	20,791	8.0%	25,989	10.0%
Capital State	12,843	10.7%	9,621	8.0%	12,026	10.0%
Shenandoah	16,650	10.4%	12,780	8.0%	15,975	10.0%
Tier I Capital (to risk weighted assets)						
Summit	55,411	10.1%	21,839	4.0%	32,759	6.0%
Summit Community	26,032	10.0%	10,396	4.0%	15,593	6.0%
Capital State	11,830	9.8%	4,810	4.0%	7,216	6.0%
Shenandoah	15,399	9.6%	6,390	4.0%	9,585	6.0%
Tier I Capital (to average assets)						
Summit	55,411	7.3%	22,692	3.0%	37,820	5.0%
Summit Community	26,032	7.0%	11,184	3.0%	18,639	5.0%
Capital State	11,830	7.0%	5,064	3.0%	8,440	5.0%
Shenandoah	15,399	7.1%	6,472	3.0%	10,786	5.0%

Note 13. Segment Information

We operate two business segments: community banking and mortgage banking. These segments are primarily identified by the products or services offered and the channels through which they are offered. The community banking segment consists of our full service banks which offer customers traditional banking products and services through various delivery channels. The mortgage banking segment consists of mortgage origination facilities that originate and sell mortgage products. Information for each of our segments is included below:

Dollars in thousands	For the Quarter Ended March 31, 2004				
	Community Banking	Mortgage Banking	Parent and Other	Eliminations	Total
Condensed Statements of Income					
Interest income	$ 10,755	$ 207	$ 3	$ (92)	$ 10,873
Interest expense	4,169	89	105	(92)	4,271
Net interest income	6,586	118	(102)	-	6,602
Provision for loan losses	233	-	-	-	233
Net interest income after provision for loan losses	6,353	118	(102)	-	6,369
Noninterest income	624	4,318	888	(888)	4,942
Noninterest expense	3,600	4,062	1,065	(888)	7,839
Income before income taxes	3,377	374	(279)	-	3,472
Income taxes	999	130	(108)	-	1,021
Net income	$ 2,378	$ 244	$ (171)	$ -	$ 2,451
Average assets	$790,721	$ 9,417	$ 68,282	$(71,397)	$797,023

Dollars in thousands	For the Quarter Ended March 31, 2003				
	Community Banking	Mortgage Banking	Parent and Other	Eliminations	Total
Condensed Statements of Income					
Interest income	$ 10,134	$ -	$ 2	$ (6)	$ 10,130
Interest expense	4,413	-	54	(6)	4,461
Net interest income	5,721	-	(52)	-	5,669
Provision for loan losses	218	-	-	-	218
Net interest income after provision for loan losses	5,503	-	(52)	-	5,451
Noninterest income	454	139	782	(802)	573
Noninterest expense	3,167	83	892	(802)	3,340
Income before income taxes	2,790	56	(162)	-	2,684
Income taxes	854	19	(53)	-	820
Net income	$ 1,936	$ 37	$ (109)	$ -	$ 1,864
Average assets	$683,562	$ 2,278	$ 55,725	$(55,256)	$686,309

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 wholly owned subsidiaries, Summit Community Bank ("Summit Community"), Capital State Bank, Inc. ("Capital State"), Shenandoah Valley National Bank ("Shenandoah"), and Summit Financial LLC ("SFLLC") for the periods indicated. This discussion and analysis should be read in conjunction with our 2003 audited financial statements and Annual Report on Form 10-K.

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.

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.

Strong growth in our interest earning assets resulted in an increase of 16.5%, or $979,000, in our net interest earnings on a tax equivalent basis in first quarter 2004 compared to the same period of 2003. Further, our mortgage banking segment, SFLLC, which began operations during third quarter 2003, contributed $244,000 to our first quarter 2004 earnings. During the first quarter of 2004, we acquired an insurance agency located in Moorefield, West Virginia. This acquisition had no material impact on our results of operations, financial condition, or liquidity.

CRITICAL ACCOUNTING POLICIES

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

Our most significant accounting policies are presented in Note 1 to the consolidated financial statements of our 2003 Annual Report on Form 10-K. These policies, along with the disclosures presented in the other financial statement notes and in this financial review, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined.

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

The allowance for loan losses represents our estimate of probable credit losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset type on our consolidated balance sheet. To the extent actual outcomes differ from our estimates, additional provisions for loan losses may be required that would negatively impact earnings in future periods. Note 1 to the consolidated financial statements of our 2003 Annual Report on Form 10-K 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 2003 Annual Report on Form 10-K.

With the adoption of SFAS No. 142 on January 1, 2002, we discontinued the amortization of goodwill resulting from acquisitions. Goodwill is now subject to impairment testing at least annually to determine whether write-downs of the recorded balances are necessary. A fair value is determined based on at least one of three various market valuation methodologies. If the fair value equals or exceeds the book value, no write-down of recorded goodwill is necessary. If the fair value is less than the book value, an expense may be required on our books to write down the goodwill to the proper carrying value. During the third quarter, we will complete the required annual impairment test for 2004. We cannot assure you that future goodwill impairment tests will not result in a charge to earnings. See Notes 1 and 9 of the consolidated financial statements of our Annual Report on Form 10-K for further discussion of our intangible assets, which include goodwill.

BUSINESS SEGMENT RESULTS

We are organized and managed along two major business segments, as described in Note 13 of the accompanying consolidated financial statements. The results of each business segment are intended to reflect each segment as if it were a stand alone business. Net income by segment follows:

	For the Quarter Ended March 31,	
(in thousands)	2004	2003
ommunity banking	$ 2,378	$ 1,936
Mortgage banking	244	37
Parent and other	(171)	(109)
Consolidated net income	$ 2,451	$ 1,864

RESULTS OF OPERATIONS

Earnings Summary

Net income for the quarter ended March 31, 2004 grew 31.5% to $2,451,000, or $0.69 per diluted share as compared to $1,864,000, or $0.53 per diluted share for the quarter ended March 31, 2003. Returns on average equity and assets for the first quarter of 2004 were 16.77% and 1.23%, respectively, compared with 14.33% and 1.09% for the same period of 2003.

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 net interest income on a fully tax-equivalent basis totaled $6,925,000 for the three month period ended March 31, 2004 compared to $5,946,000 for the same period of 2003, representing an increase of $979,000 or 16.5%. This increase resulted from growth in interest earning assets, primarily loans, which served to more than offset the 47 basis points decline in the yield on average interest earning assets during the same period. Average interest earning assets grew 16.1% from $649,572,000 during the first quarter of 2003 to $753,894,000 for the first quarter of 2004. Average interest bearing liabilities grew 17.0% from $584,923,000 at March 31, 2003 to $684,309,000 at March 31, 2004, at an average yield for the first three months of 2004 of 2.50% compared to 3.05% for the same period of 2003.

Our net yield on interest earning assets increased to 3.67% for the three month period ended March 31, 2004, compared to 3.66% for the same period in 2003. The yields on taxable securities and loans declined 27 and 71 basis points, respectively, during the period ended March 31, 2004, and during the same period, our cost of interest bearing funds also decreased by 55 basis points. Consistent with the experience of many other financial institutions, this margin compression is the result of earning assets repricing at historically low yields, while at the same time, we have limited ability to decrease correspondingly the rates paid on interest bearing liabilities. Further contributing to this situation are historically high prepayments of loans and mortgage-backed securities which necessitate the reinvestment of significant cash flows at rates well below each respective portfolio's overall yield.

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 compression 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.

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

	For the Quarter Ended					
	March 31, 2004			March 31, 2003		
	Average Balance	Earnings/ Expense	Yield/ Rate	Average Balance	Earnings/ Expense	Yield/ Rate
Interest earning assets						
Loans, net of unearned income						
Taxable	$ 522,007	$ 8,217	6.30%	$ 422,953	$ 7,412	7.01%
Tax-exempt (1)	7,630	147	7.71%	6,208	127	8.18%
Securities						
Taxable	172,397	1,975	4.58%	174,478	2,114	4.85%
Tax-exempt (1)	48,288	825	6.83%	39,209	710	7.24%
Federal funds sold and interest bearing deposits with other banks	3,572	32	3.58%	6,724	45	2.68%
Total interest earning assets	753,894	11,196	5.94%	649,572	10,408	6.41%
Noninterest earning assets						
Cash & due from banks	9,965			8,168		
Premises and equipment	18,777			12,765		
Other assets	19,161			19,895		
Allowance for loan losses	(4,774)			(4,091)		
Total assets	$ 797,023			$ 686,309		
Interest bearing liabilities						
Interest bearing demand deposits	$ 115,233	$ 253	0.88%	$ 99,283	$ 229	0.92%
Savings deposits	48,053	56	0.47%	46,098	73	0.63%
Time deposits	301,375	2,105	2.79%	273,566	2,323	3.40%
Short-term borrowings	54,183	172	1.27%	21,337	80	1.50%
Long-term borrowings and capital trust securities	165,465	1,685	4.07%	144,639	1,757	4.86%
Total interest bearing liabilities	684,309	4,271	2.50%	584,923	4,462	3.05%
Noninterest bearing liabilities and shareholders' equity						
Demand deposits	48,394			44,217		
Other liabilities	5,847			5,152		
Shareholders' equity	58,473			52,017		
Total liabilities and shareholders' equity	$ 797,023			$ 686,309		
Net interest earnings		$ 6,925			$ 5,946	
Net yield on interest earning assets			3.67%			3.66%

(1) - Interest income on tax-exempt securities has been adjusted assuming an effective tax rate of 34% for both periods presented. The tax equivalent adjustment resulted in an increase in interest income of $322,000, and $277,000 for the quarters ended March 31, 2004 and 2003, respectively.

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

	For the Quarter Ended March 31, 2004 versus March 31, 2003		
	Increase (Decrease) Due to Change in:		
	Volume	Rate	Net
Interest earned on:			
Loans			
Taxable	$ 1,613	$ (808)	$ 805
Tax-exempt	28	(8)	20
Securities			
Taxable	(25)	(114)	(139)
Tax-exempt	157	(42)	115
Federal funds sold and interest bearing deposits with other banks	(25)	12	(13)
Total interest earned on interest earning assets	1,748	(960)	788
Interest paid on:			
Interest bearing demand deposits	36	(12)	24
Savings deposits	3	(20)	(17)
Time deposits	221	(439)	(218)
Short-term borrowings	106	(14)	92
Long-term borrowings and subordinated debentures	234	(306)	(72)
Total interest paid on interest bearing liabilities	600	(791)	(191)
Net interest income	$ 1,148	$ (169)	$ 979

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.

We recorded a $233,000 provision for loan losses for the first three months of 2004, compared to $218,000 for the same period in 2003. Net loan charge offs for the first quarter of 2004 were $192,000, as compared to $142,000 over the same period of 2003. At March 31, 2004, the allowance for loan losses totaled $4,721,000 or 0.88% of loans, net of unearned income, compared to $4,681,000 or 0.93% of loans, net of unearned income at December 31, 2003.

Our asset quality remains sound. As illustrated in Table III 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 still remain at a historically moderate level.

(Dollars in thousands)

	March 31, 2004	March 31, 2003	December 31, 2003
Accruing loans past due 90 days or more	$ 233	$ 247	$ 342
Nonperforming assets:			
Nonaccrual loans	1,215	468	1,014
Nonaccrual securities	389	412	396
Foreclosed properties	475	677	497
Repossessed assets	14	19	-
Total	$ 2,326	$ 1,823	$ 2,249
Total nonperforming loans as a percentage of total loans	0.36%	0.33%	0.27%
Total nonperforming assets as a percentage of total assets	0.29%	0.26%	0.28%

Noninterest Income

On the strength of mortgage origination revenue, total noninterest income increased to $4,942,000 in the first quarter of 2004, compared to $573,000 in the same period of 2003. Mortgage origination revenue grew to $4,319,000 for the first quarter of 2004, compared to $139,000 for the same period of 2003. This increase was due to the organization of SFLLC during the third quarter of 2003. This revenue includes mortgage loan origination and sales activity conducted through SFLLC. Refer to Note 13 of the accompanying consolidated financial statements for our segment information.

Noninterest Expense

Total noninterest expense increased approximately $4,498,000, or 134.70% to $7,839,000 during the first quarter of 2004 as compared to the same period in 2003. The primary factor contributing to growth in noninterest expense was an increase in salaries and employee benefits expense due to the staffing requirements of SFLLC. Two other major contributors to the increase in total noninterest expense for the quarter ended March 31, 2004 were advertising and postage expense. These increased expenses resulted from SFLLC's direct mail program utilized to obtain customers. Refer to Note 13 of the accompanying consolidated financial statements for our segment information.

FINANCIAL CONDITION

Our total assets were $809,117,000 at March 31, 2004, compared to $791,465,000 at December 31, 2003, representing a 2.23% increase. Table IV below serves to illustrate significant changes in our financial position between December 31, 2003 and March 31, 2004.

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

	Balance December 31, 2003	Increase (Decrease) Amount	Increase (Decrease) Percentage	Balance March 31, 2004
Assets				
Federal funds sold	$ 244	$ 804	329.5%	$ 1,048
Securities available for sale	235,409	(19,677)	-8.4%	215,732
Loans, net of unearned income	504,693	37,758	7.5%	542,451
Liabilities				
Interest bearing deposits	$ 460,797	$ 20,625	4.5%	$ 481,422
Short-term borrowings	49,714	(7,167)	-14.4%	42,547
Long-term borrowings and subordinated debentures	168,255	1,353	0.8%	169,608

Loan growth during the first three months of 2004, occurring principally in the commercial and real estate portfolios, was funded primarily by deposit growth.

Refer to Notes 4, 5, 8 and 9 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, 2004 and December 31, 2003.

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 $112 million, or 13.8% of total assets at March 31, 2004 versus $115 million, or 14.7% of total assets at December 31, 2003.

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.

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, 2004 totaled $60,674,000 compared to $57,188,000 at December 31, 2003, representing an increase of 6.10%.

Refer to Note 9 of the notes to the accompanying consolidated financial statements for a discussion of our subordinated debentures which currently qualify as Tier I capital, and Note 12 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, 2004.

	Long Term Debt	Subordinated Debentures
2004	$ 17,615,937	$ -
2005	21,885,818	-
2006	11,686,368	-
2007	5,519,208	-
2008	14,344,851	-
Thereafter	87,214,370	11,341,000
Total	$ 158,266,552	$ 11,341,000

OFF-BALANCE SHEET ARRANGEMENTS

We are involved with some off-balance sheet arrangements that have or are reasonably likely to have an effect on our financial condition, liquidity, or capital. These arrangements at March 31, 2004 are presented in the following table.

	March 31, 2004
Commitments to extend credit:	
Revolving home equity and credit card lines	$ 22,640,577
Construction loans	38,437,882
Other loans	21,389,660
Standby letters of credit	4,652,571
Total	$ 87,120,690

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, liabilities are likely to reprice faster than assets, resulting in a decrease in net income in a rising rate environment. Conversely, net income should 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, assuming a static balance sheet with a similar mix of assets and liabilities, under a variety of interest rate scenarios that incorporate changes in the absolute level of interest rates and changes in the shape of the yield curve. Assumptions used to project yields and rates for new loans and deposits are derived from historical analysis. Securities portfolio maturities and prepayments are reinvested in like instruments. Mortgage loan prepayment assumptions are developed from industry estimates of prepayment speeds. Noncontractual deposit repricings are modeled on historical patterns.

The following table shows our projected earnings sensitivity as of March 31, 2004 which is well within our ALCO policy limit of +/- 10%:

Change in Interest Rates (basis points)	Percentage Change in Net Interest Income
Down 100	1.23%
Up 100	-0.34%
Up 200	-0.75%

CONTROLS AND PROCEDURES

Our management, including the Chief Executive Officer and Chief Financial Officer, have conducted as of March 31, 2004, an evaluation of the effectiveness of disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures as of March 31, 2004 were effective. There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2004 that have 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 pending legal actions, all of which are regarded as litigation arising in the ordinary course of business and are not expected to have a materially adverse effect on our business or financial condition.

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 and the alleged use of trade secrets. The individual defendants have also been sued based on allegations arising out of their former employment relationship with Corinthian Mortgage and their current employment with Summit Financial, LLC.

The plaintiff seeks damages in the amount proven at trial on each claim and punitive damages in the amount of $350,000 on each claim. Plaintiff also seeks permanent and temporary injunctive relief prohibiting the alleged use of trade secrets by Summit Financial and the alleged solicitation of Corinthian's employees.

On January 22, 2004, we successfully defeated the Petition for Temporary Injunction brought against us by Corinthian Mortgage Corporation. The Circuit Court of Fairfax County, Virginia denied Corinthian's petition.

We, after consultation with legal counsel, believe that Corinthian's claims made in its recent lawsuit arising out of the hiring of former employees of Corinthian Mortgage Corporation and the alleged use of trade secrets are without foundation and that meritorious defenses exist as to all the claims. We will continue to evaluate the claims in the Corinthian lawsuit and intend to vigorously defend against them. We believe that the lawsuit is without merit and will have no material adverse effect on us. 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.

Item 6. Reports on Form 8-K

On January 22, 2004, we announced our fourth quarter and year ended December 31, 2003 earnings. We further announced that Corinthian Mortgage Corporation's petition for temporary injunction against Summit Financial, LLC and Shenandoah Valley National Bank, subsidiaries of Summit Financial Group, Inc., was denied.

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

Date: May 14, 2004

Exhibit 31.1

SARBANES-OXLEY ACT SECTION 302
CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

1. I have reviewed this 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)) 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) 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

    c) 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 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: May 14, 2004

/s/ H. Charles Maddy, III

H. Charles Maddy, III
President and Chief Executive Officer

Exhibit 31.2

SARBANES-OXLEY ACT SECTION 302
CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Robert S. Tissue, certify that:

1. I have reviewed this 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)) 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) 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

   c) 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 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: May 14, 2004

/s/ Robert S. Tissue

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

Exhibit 32.1

SARBANES-OXLEY ACT SECTION 906
CERTIFICATION OF CHIEF EXECUTIVE OFFICER

In connection with the Quarterly Report of Summit Financial Group, Inc. ("Summit") on Form 10-Q for the quarter ending March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, H. Charles Maddy, III, President and Chief Executive Officer of Summit, certify pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ H. Charles Maddy, III

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

Date: May 14, 2004

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

Exhibit 32.2

SARBANES-OXLEY ACT SECTION 906
CERTIFICATION OF CHIEF FINANCIAL OFFICER

In connection with the Quarterly Report of Summit Financial Group, Inc. ("Summit ") on Form 10-Q for the quarter ending March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert S. Tissue, Senior Vice President and Chief Financial Officer of Summit, certify pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Robert S. Tissue

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

Date: May 14, 2004

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