



2005 Annual Report



CORPORATE PROFILE

Summit Financial Group, Inc. is a \$1.1 billion financial holding company headquartered in Moorefield, West Virginia. The Company provides a full range of banking services to individuals and businesses through its two wholly owned subsidiary banks — Summit Community Bank and Shenandoah Valley National Bank — having a combined total of 14 banking offices located in West Virginia and Virginia.

Summit also operates Summit Mortgage, a residential mortgage loan originator headquartered in Chesapeake, Virginia, and Summit Insurance Services, LLC, a full lines insurance agency in Moorefield, West Virginia.

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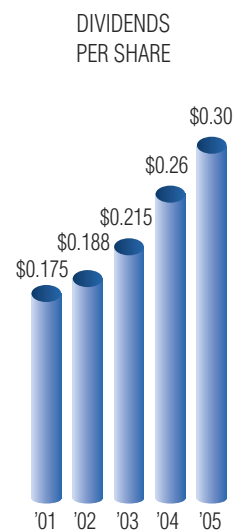
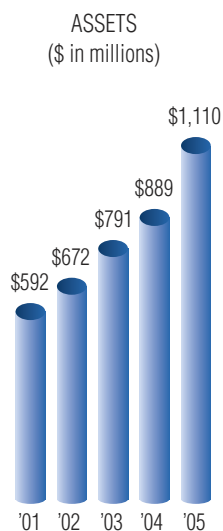
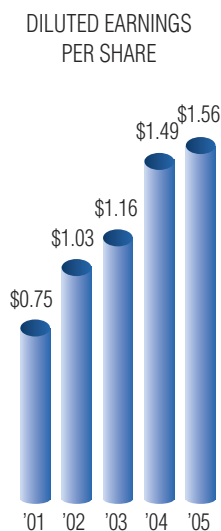
LOCATIONS



FINANCIAL HIGHLIGHTS

(Dollars in thousands, except per share amounts)

	2005	2004	Percent Change
FOR THE YEAR			
Interest income	\$ 57,311	\$ 45,737	25.3%
Interest expense	26,506	17,960	47.6%
Net interest income	30,805	27,777	10.9%
Provision for loan losses	1,479	1,050	40.9%
Noninterest income	28,874	27,252	6.0%
Noninterest expense	42,246	38,789	8.9%
Net income	11,242	10,608	6.0%
AT YEAR END			
Assets	\$1,109,532	\$ 889,489	24.7%
Securities	223,772	211,362	5.9%
Loans	816,504	622,075	31.3%
Deposits	673,901	524,614	28.5%
Shareholders' equity	73,803	65,708	12.3%
PER SHARE DATA			
Basic earnings	\$ 1.58	\$ 1.51	4.6%
Diluted earnings	1.56	1.49	4.7%
Shareholders' equity	10.36	9.33	11.0%
Cash dividends	0.30	0.26	15.4%
RATIOS			
Return on average equity	15.87%	17.21%	-7.8%
Return on average assets	1.16%	1.26%	-7.9%
Dividend payout	19.0%	17.2%	10.5%
Equity to assets	6.7%	7.4%	-9.5%



LETTER TO SHAREHOLDERS

We achieved gratifying operating results last year. Earnings for 2005 were a record \$11.2 million, an increase of 6.0% from the \$10.6 million reported for the prior year. This marked our 18th consecutive year of increased earnings. Diluted earnings per share were \$1.56 compared with \$1.49 for 2004, an increase of 4.7%.

Included in 2005's earnings was a non-cash other-than-temporary impairment charge of \$1.5 million pre-tax, equivalent to \$940,000 after-tax, or \$0.13 per diluted share. This impairment charge relates to \$5.7 million of certain preferred stock issuances of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation which we continue to own. Our earnings growth last year was the result of strong revenue growth both in our community banking and mortgage banking activities, and well-controlled expense growth.

Cash dividends paid last year were also the highest in history at 30 cents per share, an increase of 15.4% from 2004. This marked the 16th consecutive year of dividend increases.

A YEAR OF GROWTH

We experienced another year of extraordinary growth for our Company. During 2005:

- Total assets surpassed \$1 billion, growing 24.7 percent to \$1.1 billion by year-end.
- Portfolio loans grew \$192.1 million, or 31.6 percent.
- Deposits increased \$149.3 million, or 28.5 percent. More importantly, core deposits (checking and savings accounts) grew 35.0 percent.
- Shareholders' equity was up 12.3 percent to \$73.8 million. Our year-end 2005 book value per share was \$10.36 compared to \$9.33 per share at year-end 2004.
- Summit Mortgage, our residential mortgage banking operation, originated \$315 million in loans for resale, up 20.6 percent compared to 2004.

Despite this growth, our asset quality remained strong. Loan net charge-offs were \$401,000 for 2005, equivalent to just 0.06 percent of average loans.

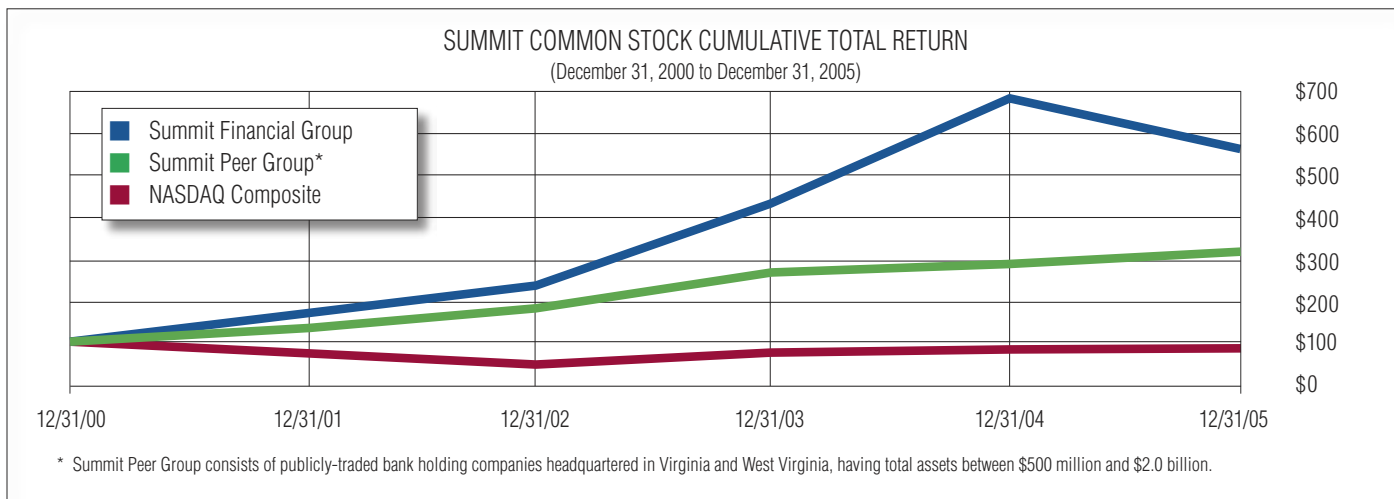
Further, our nonperforming assets were only 0.18 percent of total assets, which compares very favorably to that of our peers.

PROGRESS AND NEW MARKETS

Our continuing investments in people and infrastructure have allowed us to achieve these outstanding results and still provide ample capacity for further growth in the future. Moreover, our strong performance validates the strategies we have embarked on to expand into high growth areas and to diversify our revenue stream. We continue to see excellent upside in our Virginia markets, which have some of the best demographics in the country, combined with stable to moderate growth in our West Virginia markets.

In July 2005, we opened our sixth Virginia banking office in Warrenton. Based upon our early successes there, we are quite optimistic about the opportunities going forward in this new market. We also plan expansion into Martinsburg, West Virginia by opening a banking office there in mid-2006. The robust economy of Martinsburg and its surrounding area

Below: The cumulative total return of a \$100 investment in Summit's common stock at year end 2000 compared to that of the NASDAQ Composite Index and a Peer Group.



should make this another exceptional market for us.

THE CRITICAL FACTORS: PEOPLE AND PRODUCTS

Growth in the numbers of customer relationships is a clear signal that we are providing them not only outstanding service, but also the kinds of banking products they want and need.

For instance, we recently introduced a new product known as the *Certificate of Deposit Account Registry Service*®, or simply *CDARS*®. The CDARS program gives customers the ability to deposit up to \$25 million with us and remain fully FDIC insured. We do this by exchanging CDARS funds in excess of the FDIC insurance through an extensive national network of banks participating in the program. In return, we receive an equivalent amount of CDARS funds back from the other CDARS network member institutions. In addition, our T-Fund Checking product, the interest rate of which is indexed weekly to the 13 week US Treasury T-Bill rate, was a very successful product for us in the past year.

However, in our view, the single most important factor differentiating us from our competition is our people. We have been able to attract and retain top banking talent through a combination of highly competitive compensation, continuing education, and merit-based promotion. Accordingly, we have many highly-skilled banking veterans that provide exceptional customer service, which we believe is our hallmark. In this regard, we sincerely thank each and every one of employees for their outstanding efforts in the past year – you are truly remarkable!

STOCK PERFORMANCE

Our stock's performance in 2005 unfortunately did not mirror our exceptional operating performance during the same time frame. For example:



H. Charles Maddy, III, President and CEO (left)
and Oscar M. Bean, Chairman

- Just prior to our listing on the NASDAQ SmallCap Market on January 31 of last year, our stock closed at \$36 per share on January 20 — the high for the year, representing a price-to-earnings multiple in excess of 24.
- By late April, the price had declined to a low of \$24 per share; the price-to-earnings multiple was 16.
- Then, by late June, following the announcements that our stock had been added to the Russell 2000 Index and to the American Community Banker NASDAQ Index, the price again rebounded to a high of \$33 per share, with price-to-earnings multiple near 22.
- For the remainder of the year, the stock's price generally drifted lower, closing the year at \$22.98 per share, and more recently has traded in the \$20 range, or near a price-to-earnings multiple of 13.

So, why the fluctuations in price? We can not know for sure. We can only surmise that demand preceding both the NASDAQ listing early in the year and the stock's inclusion in the Russell and American Community Banker indices at mid-year contributed significantly to the two rapid run-up's in the stock's price.

And, in each case, it appears that once the immediate demand subsided following these events, the price moved back more in line with that of our peer institutions. The present median price-to-earnings multiple for all publicly-traded bank holding companies headquartered in West Virginia and Virginia with assets between \$500 million and \$2 billion approximates 16.

We believe another factor presently pressuring our stock's price is recent analyst reports which indicate that when the Russell 2000 Index is rebalanced this year in June, our stock will no longer qualify for inclusion. The Russell 2000 Index is comprised of the 1,001st through 3,000th largest U.S. public companies ranked solely based on market capitalization, or outstanding shares multiplied by stock price.

We will continue to look for the best strategies available for enhancing shareholder value. However, we do not anticipate any significant change to our focus – we will continue to place great emphasis on core earnings growth, asset growth, asset quality and an exceptional staff. These have been the keys to our past success, and we believe they will continue to serve us well in the future.

In closing, we wish to thank our customers for their continued loyalty, and of course, our shareholders for their continued belief in our strategy.

Best regards,

Oscar M. Bean
Chairman of the Board

H. Charles Maddy, III
President and Chief Executive Officer

Moorefield, WV
April 10, 2006

THE YEAR IN REVIEW

CONTINUED GROWTH AND BUSINESS EXPANSION



Summit Financial Group's corporate offices in Moorefield, West Virginia.

Our operations and the profits derived from them in 2005 were exceptional. Our reported net income, however, was less impressive because we incurred a one-time impairment charge of \$1.5 million pretax. As a result, net income for 2005 reflected only a 6% gain to \$11.2 million, or \$1.56 per diluted share, from \$10.6 million, or \$1.49 per diluted share, in 2004.

This \$1.5 million impairment charge (\$940,000 after taxes) referred to in the letter to shareholders was taken to reflect uncertainties in accurately projecting the future recovery period of some Fannie Mae and Freddie Mac preferred stocks that we hold in our investment portfolio. Consequently this impairment charge, which did not affect our balance sheet, obscured the spectacular business growth we actually achieved last year.

BUSINESS GROWTH — 2005

Except for the special charge of \$1.5 million, revenue would have gained 11.2% to \$61.2 million instead of the 8.5% gain to \$59.7 million actually reported. Similarly, net income would have advanced 14.8% to \$12.2

million, or \$1.69 per share, from \$10.6 million, or \$1.49 per share, for 2004. Again, return on average shareholders' equity and average assets would have been 17.20% and 1.26%, respectively, for 2005 instead of the 15.87% and 1.16%, respectively, actually reported for that year compared with 17.21% and 1.26% for 2004.

Even with the impairment charge, overall growth in 2005 was substantial.

- Net earnings were higher for the 18th year in a row.
- The Company's compound annual growth rate during the past 5 years was an impressive 18.2%.
- Interest income soared 25.3% to \$57.3 million last year from \$45.7 million in 2004.
- Net interest income increased 10.9% to \$30.8 million from \$27.8 million in 2004.
- Bank service fees were up 15.7%, and
- Average earning assets were up 15.1%.

Much of these gains resulted from our strong balance sheet as it

supported substantially greater loan volume, especially in the commercial sector.

For example, net loans increased from \$603 million at December 31, 2004, to \$794 million one year later, a gain of \$191 million in one year, or 31.7%.

Commercial loans, including commercial real estate mortgages,

were particularly robust, increasing 50.2% on a year-over-year basis.

Our loan volume was up primarily because:

- We essentially operated two additional branches in Virginia last year — in Harrisonburg (November 2004) and in Warrenton (early 2005). We now have six branches in that State.



Rankins Hardware, a customer of our recently opened Peoples National Bank of Warrenton. Shown left to right are: Jim Underhill, President, Peoples National Bank of Warrenton, Glen Rankin, Jim Rankin, Alvin Rankin, and Ronald F. Miller, President and Chief Executive Officer, Shenandoah Valley National Bank.



Alleghany Medical Services PC, a customer of Summit Community Bank, was recently highlighted by The Center for Rural Health Development, Inc. as a recipient of West Virginia Rural Health Infrastructure Loan funds to construct a new family practice medical office in Rupert, WV. Shown left to right are: Gina Still, Officer Manager – Rupert, Summit Community Bank, George Bryant, PA, Alleghany Medical Services PC and Ann Urling, Senior Vice President, Summit Community Bank

Consequently, our expanded presence there enabled us to reach more customers.

- During the past 18 months or so, we hired three outstanding loan officers, and each came aboard with an impressive following.
- We were able to attract nearly \$150 million in net new deposits, and short-term borrowings were up nearly \$61 million to support our growth.

While our newer operations in Virginia are providing the major growth play, our operations in West

Virginia continue to grow in revenue and earnings year after year. In 2005, for example, they provided an annual compound growth rate of 12.2% over the past 5 years.

Our net interest margin contracted somewhat last year to 3.51% from 3.66%. The contraction is due to the many interest rate increases that all banks experienced last year and for us, in particular, the fact that our loan growth exceeded our core deposit growth. Consequently, to fund our loan growth, we had to pay higher interest rates on that

portion of our wholesale borrowings that were in excess of our deposit growth.

RETAIL BANKING

Summit management increased its emphasis on retail banking last year to enhance its net interest margin. To lead this retail effort, Summit recently recruited Doug Mitchell as Senior Vice President and Chief Banking Officer. Doug has more than 19 years of experience as a retail banker and comes to Summit with an excellent track record.

His fundamental thrust last year was to gain new customers and simultaneously increase the amount of business our banks do with each customer—expanding a single banking relationship, such as a checking account, into multiple relationships that extend to savings accounts, CDs, mortgages, and retirement planning.

Retail efforts now extend to product mapping to ensure that Summit is offering the right products in each of its markets.

In addition, we are working to develop a sales culture within our banks, and our employees are becoming more proactive rather than reactive in educating customers about products.

The look of Summit's community banks will be changed to help educate customers to the wide variety of financial products we offer. Among other things, it will include large, in-bank prominent displays that illustrate our various banking products.

COMMUNITY BANKING SEGMENT

Community banking remained by far the largest portion of our business. Some of the highlight performances for 2005 included:

- A 10.9% increase in net income to \$10.7 million, excluding the impairment charge.

- A 12.9% increase in total revenue to \$34.4 million, excluding the impairment charge.
- A 13.7% increase in non-interest expense to \$17.6 million.
- A virtually unchanged efficiency ratio at 52.85 in 2005 vs. 52.13 in 2004—a solid achievement given the rate of our growth. We opened two branches last year in Virginia, and quite naturally, the addition of two new offices necessarily incurs higher than normal expenses relative to business produced in the early months following their openings.
- We broke new ground in technological innovation last year. We were the first bank within the Fifth Federal Reserve District (Richmond, VA) to fully implement Check 21. Accordingly, we now process all checks with other banks electronically. This speeds the delivery of funds, virtually eliminates the float, and reduces our costs considerably.



Summit Financial Group's Executive Management Team: (left to right): Scott C. Jennings, H. Charles Maddy, III, Patrick N. Frye, Robert S. Tissue and Douglas T. Mitchell



Customers of Summit Community Bank include the owners of the Stray Cat Café, Dave and Ann Nesbit, and daughter Isabelle with Mark Wright, Senior Vice President of Summit Community Bank and David Robertson, President and CEO.



Summit Insurance Services — Moorefield: (left to right): Kevin Reed, Bruce Kesner and DiAnna Liller. Summit Insurance is a full lines agency offering commercial, personal and group products.

- Non-interest expense was well-controlled. It increased by 5.3% on a 20.4% gain in loan originations.
- We also moved our mortgage operation headquarters to Chesapeake, VA, to maximize efficiencies and further reduce expenses.
- Expenses incurred per loan originated declined 8.7% in 2005 due to greater economies of scale from higher origination volumes and improved operational efficiencies.

NET INTEREST MARGIN

Our net interest margin declined slightly in 2005 compared with the previous year, yet our net interest income was up substantially. The net interest margin is only one of the two factors which impact net interest income. The other factor is volume.

MORTGAGE BANKING SEGMENT

This part of our business continued to do very well in 2005. Among its major achievements compared to those of 2004 were:

- A 32.4% increase in net income to \$2.4 million.
- A 9.5% gain in mortgage origination revenue to \$26.4 million. This growth reflects a larger volume of loan sales last year. They advanced 23% to \$309.2 million on a year-to-year basis, but the overall impact was partially offset by a less profitable loan mix.
- A 20.4% increase in mortgage originations for the year. This was especially evident in our fourth quarter results. Compared to the

2004 fourth quarter, the same quarter in 2005 witnessed a 19% increase in its mortgage volume.



Loudoun National Bank Team (LNB), (left to right): James Bowman, President, LNB, Andre H. Fontaine, Epic Development, LLC, Kathryn L. Kearns, Senior Vice President, LNB, and Andre R. Fontaine, Epic Development, LLC. The Fontaines are successful real estate developers with projects in Northern Virginia and along the I-81 corridor.



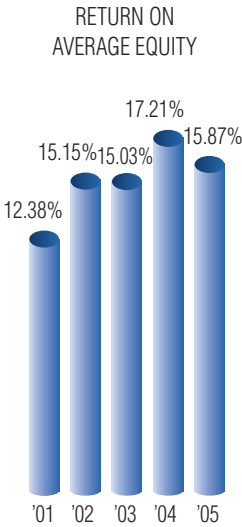
Harman Realty, Inc. townhouse construction project financed by Rockingham National Bank. Shown left to right are: Carl B. Harman, President, Harman Realty, Inc. with Rockingham National Bank, Senior Vice President, Garth M. Kunkle and President, Dennis L. Snyder.

And in 2005 our volume rose much faster than our net interest margin declined.

Loan volume is generally more desirable than net interest margin because new loans usually mean the addition of new customers. And an expanding customer base is a surer way to increase future profits than is

a fractionally-improved net interest margin.

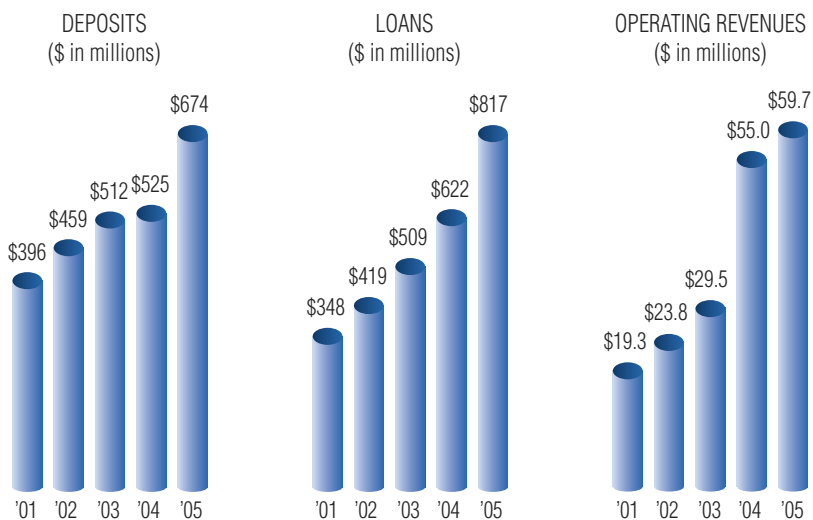
BALANCE SHEET ANALYSIS
Assets at December 31, 2005, were \$1.1 billion, a 24.7% increase over the previous year. Loan growth led the way, particularly in the commercial sector, which recorded



an approximate \$167 million increase, or slightly more than 50% in the past year.

Asset quality remained quite strong. Net charge offs for 2005 were \$401,000, or just 0.06% of average total loans.

Loan revenue is particularly valuable because it provides a higher net income than a similar sum invested in securities.



Summit Mortgage Team — Chesapeake, VA: (seated, left to right): Rick DelaVega, Production Director, Theresa Ritter, Managing Director, Cathy Bromwell, Operations Director (back): Melanie Shippee, Underwriting Director and David Jefferlone, Sales Director.

THE YEAR IN REVIEW



Summit Financial Group Board of Directors: (front row, left to right): G.R. Ours, Jr.; Duke A. McDaniel; Gerald W. Huffman; H. Charles Maddy, III, President & CEO; James P. Geary. (Middle row): Oscar M. Bean, Chairman; Phoebe Fisher Heishman; John W. Crites; James M. Cookman; Patrick N. Frye. (Third row): Ronald F. Miller; Thomas J. Hawse, III; Gary L. Hinkle; Charles S. Piccirillo; Harold K. Michael. (Not pictured: Frank A. Baer, III and Dewey F. Bensenhaver, M.D.).

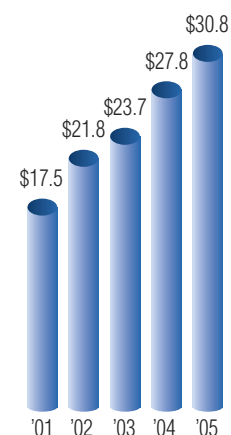
Funding our loan growth continued to be a major issue. While we have traditionally relied on wholesale funds to support our loans, we made a major effort last year to attract more customer deposits. In this regard, year-over-year deposits increased 28.5% to \$674 million from \$525 million at 2004 year-end. More significantly, core deposits (checking and savings accounts) increased 35.0 percent year-over-year. We are continuing to accelerate our efforts to

increase our deposit base in 2006.

In addition, we also increased our year-over-year short-term borrowings by approximately \$61 million from approximately \$121 million to \$182 million. This increase was due to loan growth in excess of our deposit growth during 2005.

Finally, we also issued an additional \$8.0 million in variable rate trust preferred securities in December, 2005, to bolster our capital as a result of our extraordinary growth in 2005.

NET INTEREST INCOME
(\$ in millions)



FINANCIAL INFORMATION — 2005

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SELECTED FINANCIAL DATA

	For the year ended (unless otherwise noted)				
	2005	2004	2003	2002	2001
<i>Dollars in thousands, except per share amounts</i>					
SUMMARY OF OPERATIONS					
Interest income	\$ 57,311	\$ 45,737	\$ 41,224	\$ 40,689	\$ 37,919
Interest expense	26,506	17,960	17,530	18,842	20,438
Net interest income	30,805	27,777	23,694	21,847	17,481
Provision for loan losses	1,479	1,050	915	1,215	830
Net interest income after provision for loan losses	29,326	26,727	22,779	20,632	16,651
Noninterest income	28,874	27,252	5,824	1,945	1,810
Noninterest expense	42,246	38,789	16,884	12,607	10,737
Income before income taxes	15,954	15,190	11,719	9,970	7,724
Income taxes	4,712	4,582	3,511	2,732	2,458
Net income	\$ 11,242	\$ 10,608	\$ 8,208	\$ 7,238	\$ 5,266
BALANCE SHEET DATA (AT YEAR END)					
Assets	\$1,109,532	\$ 889,489	\$ 791,465	\$ 671,894	\$ 591,757
Securities	223,772	211,362	235,409	212,598	207,117
Loans	816,504	622,075	509,374	419,205	347,526
Deposits	673,901	524,614	511,801	458,648	396,205
Short-term borrowings	182,028	120,629	49,714	20,191	24,033
Long-term borrowings and subordinated debentures	170,501	172,201	168,255	137,396	123,445
Shareholders' equity	73,803	65,708	57,188	52,080	44,287
PER SHARE DATA					
Basic earnings	\$ 1.58	\$ 1.51	\$ 1.17	\$ 1.03	\$ 0.75
Diluted earnings	1.56	1.49	1.16	1.03	0.75
Shareholders' equity (at year end)	10.36	9.33	8.15	7.43	6.31
Cash dividends	0.30	0.26	0.215	0.1875	0.175
PERFORMANCE RATIOS					
Return on average equity	15.87%	17.21%	15.03%	15.15%	12.38%
Return on average assets	1.16%	1.26%	1.14%	1.15%	1.00%
Dividend payout	19.0%	17.2%	18.4%	18.2%	23.3%
Equity to assets	6.7%	7.4%	7.2%	7.8%	7.5%

MANAGEMENT'S DISCUSSION AND ANALYSIS

FORWARD LOOKING STATEMENTS

This annual report contains comments or information that constitute forward-looking statements (within the meaning of the Private Securities Litigation Act of 1995) that are based on current expectations that involve a number of risks and uncertainties. Words such as “expects”, “anticipates”, “believes”, “estimates” and other similar expressions or future or conditional verbs such as “will”, “should”, “would” and “could” are intended to identify such forward-looking statements.

Although we believe the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially. Factors that might cause such a difference include changes in interest rates and interest rate relationships; demand for products and services; the degree of competition by traditional and non-traditional competitors; changes in banking laws and regulations; changes in tax laws; the impact of technological advances; the outcomes of contingencies; trends in customer behavior as well as their ability to repay loans; and changes in the national and local economy.

DESCRIPTION OF BUSINESS

We are a \$1 billion community-based financial services company providing a full range of banking and other financial services to individuals and businesses through two major business segments: community banking and mortgage banking. Our two community banks, Summit Community Bank and Shenandoah Valley National Bank, have a combined total of 14 banking offices located in West Virginia and Virginia. In addition, Summit Mortgage, which comprises our entire mortgage banking segment, originates mortgage loans to consumers located throughout the United States. We continue to seek other business opportunities which earn non-interest income. Thus, in 2004, we acquired an insurance agency in Moorefield, West Virginia, Summit Insurance Services, LLC, which offers both commercial and personal lines of insurance. Summit Financial Group, Inc. employs approximately 255 full-time equivalent employees.

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.

Key Items in 2005

- We achieved record earnings in 2005 despite an after tax other-than-temporary charge of \$940,000 on certain preferred stocks that we own. Net income totaled \$11,242,000, or \$1.56 per diluted share, an increase of 4.7%.
- Our earnings allowed us to return \$2.1 million, or \$0.30 per share, to our shareholders in 2005 in the form of cash dividends.
- Total assets surpassed \$1 billion, growing 25% during 2005, as commercial loans grew 50%, primarily in commercial real estate loans, which grew 56%.
- Our net interest margin came under pressure, dropping to 3.51% for 2005, compared to 3.66% for 2004, due to continued robust loan growth in excess of our ability to grow low cost retail deposits.
- Our mortgage banking segment contributed \$2,375,000 to net income in 2005, compared to \$1,794,000 in 2004.
- Our mortgage banking segment originated 5,900 loans totaling \$315 million in mortgage loans for resale.
- We funded our 2005 balance sheet growth through both retail deposits, which grew 16% and wholesale deposits and other non-deposit funding sources, which increased 39%.
- Our credit quality remains strong, evidenced by a decrease of \$256,000 in net charge offs compared to 2004, and our total nonperforming loans as a percentage of total loans remains low at 0.19% at December 31, 2005, compared to 0.11% at December 31, 2004.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our most significant accounting policies are presented in Note 1 to the accompanying consolidated financial statements. 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 accompanying consolidated financial statements 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 this financial review.

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 of 2005, we completed the required annual impairment test and determined that no impairment write-offs were necessary. We can not assure you that future goodwill impairment tests will not result in a charge to earnings.

See Notes 1 and 8 of the accompanying consolidated financial statements 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 16 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:

<i>Dollars in thousands</i>	2005	2004	2003
Community banking	\$ 9,790	\$ 9,671	\$8,540
Mortgage banking	2,375	1,794	96
Parent and other	(923)	(857)	(428)
Consolidated net income	<u>\$11,242</u>	<u>\$10,608</u>	<u>\$8,208</u>

RESULTS OF OPERATIONS

Earnings Summary

Net income for the three years ended December 31, 2005, 2004 and 2003, was \$11,242,000, \$10,608,000, and \$8,208,000, respectively. On a per share basis, diluted net income was \$1.56 in 2005, compared to \$1.49 in 2004 and \$1.16 in 2003. Return on average equity was 15.87% in 2005 compared to 17.21% in 2004, and 15.03% in 2003. Return on average assets for the year ended December 31, 2005 was 1.16% compared to 1.26% in 2004 and 1.14% in 2003. During 2005, we took an other-than-temporary non-cash impairment charge of \$1.5 million pre-tax, equivalent to \$940,000 after-tax, related to \$5.7 million of certain preferred stock issuances of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. A summary of the significant factors influencing our results of operations and related ratios is included in the following discussion.

Net Interest Income

The major component of our net earnings is net interest income, which is the excess of interest earned on earning assets over the interest expense incurred on interest bearing sources of funds. Net interest income is affected by changes in volume, resulting from growth and alterations of the balance sheet's composition, fluctuations in interest rates and maturities of sources and uses of funds. We seek to maximize net interest income through management of our balance sheet components. This is accomplished by determining the optimal product mix with respect to yields on assets and costs of funds in light of projected economic conditions, while maintaining portfolio risk at an acceptable level.

Net interest income on a fully tax equivalent basis, average balance sheet amounts, and corresponding average yields on interest earning assets and costs of interest bearing liabilities for the years 2005, 2004 and 2003 are presented in Table I. Table II presents, for the periods indicated, the changes in interest income and expense attributable to (a) changes in volume (changes in volume multiplied by prior period rate) and (b) changes in rate (change in rate multiplied by prior period volume). Changes in interest income and expense attributable to both rate and volume have been allocated between the factors in proportion to the relationship of the absolute dollar amounts of the change in each.

Net interest income on a fully tax equivalent basis, totaled \$32,076,000, \$29,096,000, and \$24,812,000 for the years ended December 31, 2005, 2004 and 2003, respectively. This increase in net interest income is the result of substantial loan growth in the commercial real estate and residential mortgage portfolios in all three years, which more than offset the impact of a lower interest rate environment. Total average earning assets increased 15.1% to \$914,682,000 from \$794,611,000 at December 31, 2004. Total average interest bearing liabilities increased 15.2% to \$829,347,000 at December 31, 2005, compared to \$719,620,000 at December 31, 2004. As identified in Table II, tax equivalent net interest income grew \$2,980,000 and \$4,284,000 during 2005 and 2004, respectively.

Our net interest margin was 3.51% for 2005 compared to 3.66% and 3.63% for 2004 and 2003, respectively. Our net interest margin decreased 15 basis points in 2005, despite an increase of 48 basis points on the yields on interest earning assets, which

was more than offset by the 70 basis point increase in the cost of interest bearing liabilities. Our margin continues to be affected by our rapid loan growth, as that 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. If loan growth continues at levels similar to 2005, this could cause continued margin contraction. Although our net interest margin increased 3 basis points in 2004, the yields on taxable securities and loans declined 21 and 46 basis points, respectively. At the same time, we had a decrease in our cost of funds, declining to 2.50% for 2004, compared to 2.84% for 2003. Despite 5 increases in rates by the Fed during the second half of 2004, assets that repriced during the year typically repriced downward. See Tables I and II for further details regarding changes in volumes and rates of average assets and liabilities and how those changes affect our net interest income.

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 modest decline in our net interest margin. However, if market interest rates were to rise significantly in 2006, the spread between interest earning assets and interest bearing liabilities could narrow, thus negatively impacting our net interest income. We continue to monitor the net interest margin through net interest income simulation to minimize the potential for any significant negative impact. See the Market Risk Management section for further discussion of the impact changes in market interest rates could have on us.

MANAGEMENT'S DISCUSSION AND ANALYSIS

TABLE I – AVERAGE DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY, INTEREST EARNINGS & EXPENSES, AND AVERAGE YIELDS/RATES

	2005			2004			2003		
	Average Balances	Earnings/Expense	Yield/Rate	Average Balances	Earnings/Expense	Yield/Rate	Average Balances	Earnings/Expense	Yield/Rate
<i>Dollars in thousands</i>									
ASSETS									
Interest earning assets									
Loans, net of unearned interest ⁽¹⁾									
Taxable	\$691,041	\$ 47,582	6.89%	\$ 567,066	\$ 35,769	6.31%	\$ 455,526	\$ 30,842	6.77%
Tax-exempt ⁽²⁾	8,688	635	7.31%	8,818	662	7.51%	5,933	489	8.24%
Securities									
Taxable	164,611	7,076	4.30%	166,882	7,195	4.31%	175,821	7,952	4.52%
Tax-exempt ⁽²⁾	47,563	3,180	6.69%	48,356	3,303	6.83%	41,537	2,889	6.96%
Federal Funds sold and interest bearing deposits with other banks	2,779	109	3.92%	3,489	127	3.64%	5,368	170	3.17%
	<u>\$914,682</u>	<u>\$ 58,582</u>	<u>6.40%</u>	<u>\$ 794,611</u>	<u>\$ 47,056</u>	<u>5.92%</u>	<u>\$ 684,185</u>	<u>\$ 42,342</u>	<u>6.19%</u>
Noninterest earning assets									
Cash and due from banks	17,583			14,367			8,970		
Banks premises and equipment	21,234			19,998			14,168		
Other assets	21,121			16,879			19,746		
Allowance for loan losses	(5,652)			(4,972)			(4,325)		
Total assets	<u>\$968,968</u>			<u>\$ 840,883</u>			<u>\$ 722,744</u>		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Liabilities									
Interest bearing liabilities									
Interest bearing demand deposits	\$151,271	\$ 3,120	2.06%	\$ 120,066	\$ 1,183	0.99%	\$ 100,084	\$ 793	0.79%
Savings deposits	47,745	312	0.65%	49,806	242	0.49%	46,985	256	0.54%
Time deposits	319,377	9,970	3.12%	306,850	8,285	2.70%	280,064	8,950	3.20%
Short-term borrowings	138,694	4,824	3.48%	70,318	1,204	1.71%	31,907	441	1.38%
Long-term borrowings and subordinated debentures	172,260	8,280	4.81%	172,580	7,046	4.08%	158,040	7,090	4.49%
	<u>\$829,347</u>	<u>\$ 26,506</u>	<u>3.20%</u>	<u>\$ 719,620</u>	<u>\$ 17,960</u>	<u>2.50%</u>	<u>\$ 617,080</u>	<u>\$ 17,530</u>	<u>2.84%</u>
Noninterest bearing liabilities									
Demand deposits	61,543			54,212			46,166		
Other liabilities	7,258			5,416			4,870		
Total liabilities	<u>898,148</u>			<u>779,248</u>			<u>668,116</u>		
Shareholders' equity	<u>70,820</u>			<u>61,635</u>			<u>54,628</u>		
Total liabilities and shareholders' equity	<u>\$968,968</u>			<u>\$ 840,883</u>			<u>\$ 722,744</u>		
NET INTEREST EARNINGS		<u>\$ 32,076</u>			<u>\$ 29,096</u>			<u>\$ 24,812</u>	
NET INTEREST YIELD ON EARNING ASSETS			<u>3.51%</u>			<u>3.66%</u>			<u>3.63%</u>

(1) For purposes of this table, non-accrual loans are included in average loan balances. Included in interest and fees on loans are loan fees of \$469,000, \$421,000 and \$416,000 for the years ended December 31, 2005, 2004 and 2003 respectively.

(2) For purposes of this table, interest income on tax-exempt securities and loans has been adjusted assuming an effective combined Federal and state tax rate of 34% for all years presented. The tax equivalent adjustment results in an increase in interest income of \$1,271,000, \$1,319,000 and \$1,118,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

TABLE II – CHANGES IN INTEREST MARGIN ATTRIBUTABLE TO RATE AND VOLUME

<i>Dollars in thousands</i>	2005 Versus 2004			2004 Versus 2003		
	Increase (Decrease)			Increase (Decrease)		
	Due to Change in:			Due to Change in:		
	Volume	Rate	Net	Volume	Rate	Net
Interest earned on:						
Loans						
Taxable	\$ 8,325	\$ 3,488	\$11,813	\$ 7,148	\$ (2,221)	\$ 4,927
Tax-exempt	(10)	(17)	(27)	220	(47)	173
Securities						
Taxable	(98)	(21)	(119)	(394)	(363)	(757)
Tax-exempt	(53)	(70)	(123)	466	(52)	414
Federal funds sold and interest bearing deposits with other banks	(27)	9	(18)	(66)	23	(43)
Total interest earned on interest earning assets	8,137	3,389	11,526	7,374	(2,660)	4,714
Interest paid on:						
Interest bearing demand deposits	372	1,565	1,937	175	215	390
Savings deposits	(10)	80	70	14	(28)	(14)
Time deposits	349	1,336	1,685	805	(1,470)	(665)
Short-term borrowings	1,757	1,863	3,620	637	126	763
Long-term borrowings and subordinated debentures	(13)	1,247	1,234	622	(666)	(44)
Total interest paid on interest bearing liabilities	2,455	6,091	8,546	2,253	(1,823)	430
Net interest income	\$ 5,682	\$ (2,702)	\$ 2,980	\$ 5,121	\$ (837)	\$ 4,284

Noninterest Income

Noninterest income totaled 3.0%, 3.2%, and 0.8% of average assets in 2005, 2004, and 2003, respectively. Noninterest income totaled \$28,874,000 in 2005, compared to \$27,252,000 in 2004, and \$5,824,000 in 2003, as mortgage origination revenue continues to be the primary component. Further detail regarding noninterest income is reflected in the following table. Also, refer to Note 16 of the accompanying consolidated financial statements for our segment information.

Noninterest Income

<i>Dollars in thousands</i>	2005	2004	2003
Insurance commissions	\$ 853	\$ 527	\$ 239
Service fees	2,589	2,238	1,586
Mortgage origination revenue	26,371	24,089	3,138
Securities gains (losses)	(1,390)	33	212
Gain (loss) on sale of assets	(198)	(29)	336
Other	649	394	313
Total	\$28,874	\$ 27,252	\$ 5,824

Insurance commissions: These commissions increased 61.9% in 2005 and 120.5% in 2004 over 2003 due to our acquisition in 2004 of a full lines insurance agency offering both commercial and personal lines of insurance.

Service fees: Total service fees increased 15.7% in 2005 and 41.1% in 2004 as a result of increases in overdraft and nonsufficient funds (NSF) fees due to an increased number of overdrafts by customers. These increases reflect policy changes made during 2004 permitting additional customer flexibility regarding overdraft privileges.

Mortgage origination revenue: The following table shows our mortgage origination segment's loan activity:

<i>Dollars in thousands</i>	2005	2004	2003
Loans originated			
Principal amount	\$314,702	\$261,355	\$ 62,936
Number	5,896	5,116	948
Loans sold			
Principal amount	\$309,157	\$251,052	\$ 57,225
Number	5,786	4,983	826

The growth in mortgage origination revenue during 2004 reflected the first full year of operation for Summit Mortgage.

Summit Mortgage originates loans solely for the purpose of selling them. We do not service these loans, therefore there is no servicing intangible associated with this segment. Our mortgage banking revenue consists entirely of two components: 1) fees

MANAGEMENT'S DISCUSSION AND ANALYSIS

collected at the time of origination and 2) the gains we receive when selling the loans. The breakout of these fees and gains follows:

Mortgage origination revenue

<i>Dollars in thousands</i>	2005	2004	2003
Origination fees, net	\$15,514	\$15,005	\$ 2,178
Gains	10,857	9,084	960
Total	\$26,371	\$24,089	\$ 3,138

Although mortgage origination revenue increased in 2005, profitability was impacted by the continued change in mix of loans originated. During 2005, 19.2% of the total dollar amount of loan originations were first mortgage loans as compared to 14.5% for 2004. Sales of first mortgage loans typically result in smaller margins than sales of second mortgage loans. Although mortgage origination revenue increased for 2004, we experienced a decline in this revenue for the 4th quarter of 2004, compared to the 3rd quarter of 2004. This decline was caused by increased competitive conditions, causing reduced margins on loan sales. These margins rebounded in early 2005, and remained relatively stable during the year.

Securities losses: During 2005, we took an other-than-temporary non-cash impairment charge of \$1.5 million pre-tax, equivalent to \$940,000 after-tax, related to \$5.7 million of certain preferred stock issuances of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation.

Gains/losses on sales of assets: Included in noninterest income are losses on sales of assets of \$198,000 in 2005 and \$29,000 in 2004, and gains on sales of assets of \$336,000 in 2003. The \$198,000 loss in 2005 includes the loss on the sale of one of our foreclosed properties. The gain in 2003 included a gain on the sale of one of our facilities.

Other: Other income increased 64.7% during 2005 to \$649,000, compared to \$394,000 in 2004. The three major components of this increase are: 1) an increase in financial services revenue, 2) increases in debit card and ATM income due to increased card usage by customers, and 3) fee income earned on interest rate swaps between us and loan customers to hedge the interest rate risk of their loans.

Noninterest Expense

Noninterest expense totaled \$42,246,000, \$38,789,000, and \$16,884,000 or 4.4%, 4.6%, and 2.3% of average assets for each of the years ended December 31, 2005, 2004 and 2003, respectively. Total noninterest expense increased \$3,457,000 in 2005 compared to 2004 and \$21,905,000 in 2004 compared to 2003. Table III below shows the breakdown of these increases by segment. Also, refer to Note 16 of the accompanying consolidated financial statements for our segment information.

Community Banking, Parent and Other Segments

Total noninterest expense for our community banking segment, parent, and other increased 13.7% over 2004, and 21.1% from 2003 to 2004. The major factors contributing to these increases follow.

Salaries and employee benefits: Salaries and employee benefits expense increased 15.4% in 2005 due to an increase in performance based incentive compensation, general merit raises, and also additional staffing requirements needed as a result of our growth, including opening a new community banking office in Warrenton, Virginia. The increase of 24.1% in 2004 over 2003 was attributed to an increase in performance based incentive compensation, increased staffing needs as a result of our growth, including opening an office in Harrisonburg, Virginia, and general merit raises.

Net occupancy and Equipment expense: The 32.8% increase in net occupancy and equipment expense in 2004 is attributed to increased depreciation expense recognized for our new corporate headquarters in Moorefield, West Virginia and our new community banking facility in Petersburg, West Virginia.

Advertising: Advertising expense increased \$321,000 during 2005 as we have more aggressively advertised our recently opened offices in the Virginia markets.

Mortgage Banking Segment

Total noninterest expense for our mortgage banking segment in 2005 increased 5.3% over 2003 and 620.2% from 2003 to 2004. The 2004 increase is attributed to the formation of Summit Mortgage in 3rd quarter 2003. 2003 expenses were comprised of 3 full months of operation of Summit Mortgage while 2004 is for the entire year.

Salaries and employee benefits: The 9.0% increase in salaries and employee benefits during 2005 is due to an increase in profitability based incentive compensation paid to Summit Mortgage management, and increases in both employee health insurance and employee pension expense due to employees reaching eligibility status. 2004 reflects the first full year of operation for Summit Mortgage.

Net occupancy and Equipment expense: In 2004, we entered into a lease for a larger location to support our additional staffing needs, which increased net occupancy expense \$273,000. The \$194,000 net occupancy expense increase in 2005 was impacted by this new 2004 lease, and also, in late 2005, we entered into a lease for a second location.

Supplies and Professional fees: The 2004 increase in these categories is a result of 2004 being the first full year of operation for Summit Mortgage.

Postage and Advertising expense: Postage expense and advertising expense, combined, increased 670.6% from 2003 to 2004. This increase reflects the costs incurred with the direct mail method of obtaining customers.

TABLE III – NONINTEREST EXPENSE

TABLE III - NONINTEREST EXPENSE							
Dollars in thousands	2005	Change		2004	Change		2003
		\$	%		\$	%	
Community Banking and Other							
Salaries and employee benefits	\$10,810	\$1,446	15.4%	\$ 9,364	\$ 1,818	24.1%	\$ 7,546
Net occupancy expense	1,371	184	15.5%	1,187	362	43.9%	825
Equipment expense	1,713	136	8.6%	1,577	321	25.6%	1,256
Supplies	549	10	1.9%	539	91	20.3%	448
Professional fees	749	155	26.1%	594	81	15.8%	513
Postage	231	(3)	-1.3%	234	47	25.1%	187
Advertising	615	321	109.2%	294	27	10.1%	267
Amortization of intangibles	151	—	0.0%	151	—	0.0%	151
Other	2,849	45	1.6%	2,804	174	6.6%	2,630
Total	\$19,038	\$2,294	13.7%	\$ 16,744	\$ 2,921	21.1%	\$ 13,823
	2005	Change		2004	Change		2003
		\$	%		\$	%	
Mortgage Banking							
Salaries and employee benefits	\$ 9,505	\$ 782	9.0%	\$ 8,723	\$ 7,265	498.3%	\$ 1,458
Net occupancy expense	510	194	61.4%	316	273	634.9%	43
Equipment expense	198	(1)	-0.5%	199	135	210.9%	64
Supplies	109	(18)	-14.2%	127	94	284.8%	33
Professional fees	221	(6)	-2.6%	227	175	336.5%	52
Postage	5,632	15	0.3%	5,617	4,819	603.9%	798
Advertising	4,263	(168)	-3.8%	4,431	3,925	775.7%	506
Other	2,770	365	15.2%	2,405	2,298	2147.7%	107
Total	\$23,208	\$1,163	5.3%	\$22,045	\$18,984	620.2%	\$ 3,061
	2005	Change		2004	Change		2003
		\$	%		\$	%	
Consolidated							
Salaries and employee benefits	\$20,315	\$2,228	12.3%	\$ 18,087	\$ 9,083	100.9%	\$ 9,004
Net occupancy expense	1,881	378	25.1%	1,503	635	73.2%	868
Equipment expense	1,911	135	7.6%	1,776	456	34.5%	1,320
Supplies	658	(8)	-1.2%	666	185	38.5%	481
Professional fees	970	149	18.1%	821	256	45.3%	565
Postage	5,863	12	0.2%	5,851	4,866	494.0%	985
Advertising	4,878	153	3.2%	4,725	3,952	511.3%	773
Amortization of intangibles	151	—	0.0%	151	—	0.0%	151
Other	5,619	410	7.9%	5,209	2,472	90.3%	2,737
Total	\$42,246	\$3,457	8.9%	\$38,789	\$21,905	129.7%	\$16,884

Income Tax Expense

Income tax expense for the three years ended December 31, 2005, 2004 and 2003 totaled \$4,712,000, \$4,582,000, and \$3,511,000, respectively. Refer to Note 11 of the accompanying consolidated financial statements for further information and additional discussion of the significant components influencing our effective income tax rates.

CHANGES IN FINANCIAL POSITION

Total average assets in 2005 were \$968,968,000, an increase of 15.2% over 2004's average of \$840,883,000. Similarly, average assets grew 16.3% in 2004, from \$722,744,000 in 2003. The primary growth in both 2005 and 2004 was in loans throughout our company. Significant changes in the components of our balance sheet in 2005 and 2004 are discussed below.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Loan Portfolio

Table IV depicts loan balances by type and the respective percentage of each to total loans at December 31, as follows:

TABLE IV – LOANS BY TYPE

<i>Dollars in thousands</i>	2005		2004		2003		2002		2001	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Commercial	\$ 63,206	7.9%	\$ 53,226	8.7%	\$ 46,860	9.3%	\$ 34,745	8.3%	\$ 26,464	7.6%
Commercial real estate	436,803	54.5%	279,631	46.0%	209,391	41.5%	171,822	41.0%	121,576	34.9%
Real estate – construction	4,343	0.5%	3,916	0.6%	2,369	0.5%	4,494	1.1%	2,394	0.7%
Real estate – mortgage	251,886	31.4%	223,690	36.7%	196,135	38.9%	161,006	38.4%	149,050	42.9%
Consumer	36,863	4.6%	38,948	6.4%	41,112	8.2%	40,655	9.7%	41,509	11.9%
Other	8,598	1.1%	9,605	1.6%	8,223	1.6%	6,390	1.5%	7,264	2.0%
Total loans	\$801,699	100.0%	\$609,016	100.0%	\$504,090	100.0%	\$419,112	100.0%	\$348,257	100.0%

Total net loans averaged \$699,729,000 in 2005 and comprised 72.2% of total average assets compared to \$575,884,000 or 68.5% of total average assets during 2004. The increase in the dollar volume of loans is primarily attributable to our current growth mode. We are aggressively seeking loans in the Virginia markets, primarily in the Shenandoah Valley of northern Virginia, as this area is currently a vibrant market for commercial loans, especially commercial real estate loans. Also, at December 31, 2005, Summit Mortgage had \$17,037,000 of loans that had been originated and in the process of being sold. These loans are included on our balance sheet.

Refer to Note 4 of the accompanying consolidated financial statements for our loan maturities and a discussion of our adjustable rate loans as of December 31, 2005.

In the normal course of business, we make various commitments and incur certain contingent liabilities, which are disclosed in Note 13 of the accompanying consolidated financial statements but not reflected in the accompanying consolidated financial statements. There have been no significant changes in these types of commitments and contingent liabilities and we do not anticipate any material losses as a result of these commitments.

Securities

Securities comprised approximately 20.2% of total assets at December 31, 2005 compared to 23.8% at December 31, 2004. This decrease was the result of our high loan demand,

reducing our need to invest funds in securities. Average securities approximated \$212,174,000 for 2005 or 1.4% less than 2004's average of \$215,238,000. Refer to Note 3 of the accompanying consolidated financial statements for details of amortized cost, the estimated fair values, unrealized gains and losses as well as the security classifications by type.

All of our securities are classified as available for sale to provide us with flexibility to better manage our balance sheet structure and react to asset/liability management issues as they arise. Pursuant to SFAS No. 115, anytime that we carry a security with an unrealized loss that has been determined to be "other than temporary", we must recognize that loss in income. During 2005, we took an other-than-temporary non-cash impairment charge of \$1.5 million pre-tax, equivalent to \$940,000 after-tax, related to \$5.7 million of certain preferred stock issuances of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. We continue to own these securities, and this charge was taken primarily due to difficulty in accurately projecting the future recovery period of these securities. At December 31, 2005, we did not own securities of any one issuer that were not issued by the U.S. Treasury or a U.S. Government agency that exceeded ten percent of shareholders' equity. The maturity distribution of the securities portfolio at December 31, 2005, together with the weighted average yields for each range of maturity, is summarized in Table V. The stated average yields are actual yields and are not stated on a tax equivalent basis.

TABLE V – SECURITIES MATURITY ANALYSIS

<i>At amortized cost, dollars in thousands</i>	Within one year		After one but within five years		After five but within ten years		After ten years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U. S. Government agencies and corporations	\$ 1,993	4.6%	\$ 29,691	4.4%	\$ 8,543	5.4%	\$ —	—
Mortgage backed securities	35,016	4.4%	74,046	4.5%	7,938	4.8%	530	5.4%
State and political subdivisions	1,369	6.3%	3,828	5.4%	14,632	7.2%	22,441	7.4%
Corporate debt securities	1,602	6.1%	1,692	5.0%	—	—	—	—
Other	—	—	—	—	—	—	22,462	2.5%
Total	\$39,980	4.6%	\$109,257	4.5%	\$31,113	6.1%	\$45,433	4.9%

Deposits

Total deposits at December 31, 2005 increased \$149,287,000 or 28.5% compared to December 31, 2004. Average interest bearing deposits increased \$41,671,000, or 8.7% during 2005. This increase resulted primarily from growth of Shenandoah's

deposits. Also, presented as other deposits below, are brokered deposits, which increased 141.8% to \$128,797,000 at December 31, 2005. These deposits totaled \$53,268,000 at December 31, 2004, an increase of 60.5% over 2003. Brokered deposits represent certificates of deposit acquired through a third party.

Deposits

<i>Dollars in thousands</i>	2005	2004	2003	2002	2001
Noninterest bearing demand	\$ 62,631	\$ 55,402	\$ 51,004	\$ 46,313	\$ 38,686
Interest bearing demand	200,638	122,355	112,671	99,752	81,510
Savings	44,681	50,428	47,397	46,732	43,766
Consumer time	210,923	217,863	241,351	234,060	211,116
Individual Retirement Accounts	26,231	25,298	26,185	24,411	21,127
Core deposits	545,104	471,346	478,608	451,268	396,205
Other deposits	128,797	53,268	33,193	7,380	—
Total deposits	\$ 673,901	\$524,614	\$511,801	\$458,648	\$396,205

See Table I for average deposit balance and rate information by deposit type for 2005, 2004 and 2003 and Note 9 of the accompanying consolidated financial statements for a maturity distribution of time deposits as of December 31, 2005.

Borrowings

Lines of Credit: We have available lines of credit from various correspondent banks totaling \$19,700,000 at December 31, 2005. These lines are utilized when temporary day to day funding needs arise. They are reflected on the consolidated balance sheet as short-term borrowings. We also have remaining available lines of credit from the Federal Home Loan Bank totaling \$68,657,000 at December 31, 2005. We use these lines primarily to fund loans to customers. Funds acquired through this program are reflected on the consolidated balance sheet in short-term borrowings or long-term borrowings, depending on the repayment terms of the debt agreement. In addition, Summit Financial Group, Inc. has a

long-term line of credit available through an unaffiliated banking institution which is secured by the common stock of one of our subsidiary banks. At December 31, 2005, we had \$5,500,000 available to draw on this line.

Short-term Borrowings: Total short-term borrowings increased \$61,399,000 from \$120,629,000 at December 31, 2004 to \$182,028,000 at December 31, 2005. See Note 10 of the accompanying consolidated financial statements for additional disclosures regarding our short-term borrowings. These borrowings were made principally to fund our loan growth.

Long-term Borrowings: Total long-term borrowings of \$150,912,000 at December 31, 2005, consisting primarily of funds borrowed on available lines of credit from the Federal Home Loan Bank, decreased \$9,948,000 compared to the \$160,860,000 outstanding at December 31, 2004. Refer to Note 10 of the accompanying consolidated financial statements for additional information regarding our long-term borrowings.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ASSET QUALITY

Table VI presents a summary of non-performing assets at December 31, as follows:

TABLE VI – NONPERFORMING ASSETS

<i>Dollars in thousands</i>	2005	2004	2003	2002	2001
Nonaccrual loans	\$ 750	\$ 532	\$ 1,014	\$ 917	\$ 788
Accruing loans past due 90 days or more	799	140	342	574	328
Total nonperforming loans	1,549	672	1,356	1,491	1,116
Foreclosed properties and repossessed assets	395	646	497	95	81
Nonaccrual securities	–	349	396	421	–
Total nonperforming assets	\$ 1,944	\$ 1,667	\$ 2,249	\$ 2,007	\$ 1,197
Total nonperforming loans as a percentage of total loans	0.19%	0.11%	0.27%	0.36%	0.32%
Total nonperforming assets as a percentage of total assets	0.18%	0.19%	0.28%	0.30%	0.20%

As illustrated in Table VI, the quality of our loan portfolio remains sound. Although total nonaccrual loans and accruing loans past due 90 days or more increased from \$672,000 at December 31, 2004 to \$1,549,000 at December 31, 2005, they remain at historically moderate levels in relation to the loan portfolio's size and substantially below recent industry averages. Refer to Note 5 of the accompanying consolidated financial statements for a discussion of impaired loans which are included in the above balances.

Included in the net balance of loans are nonaccrual loans amounting to \$750,000 and \$532,000 at December 31, 2005 and 2004, respectively. If these loans had been on accrual status throughout 2005, the amount of interest income that we would have recognized would have been \$64,000. The actual amount of interest income recognized in 2005 on these loans was \$21,000.

We maintain the allowance for loan losses at a level considered adequate to provide for losses that can be reasonably anticipated. We conduct quarterly evaluations of our loan portfolio to determine its adequacy. In assessing the adequacy of our allowance for loan losses, we conduct a two part evaluation. First, we specifically identify loans that have weaknesses that have been identified, using the fair value of collateral method. Second, we stratify the loan portfolio into 11 homogeneous loan pools, including commercial real estate, other commercial, residential real estate, autos, and others. Historical loss rates, as adjusted, are applied against the then outstanding balance of loans in each classification to estimate probable losses inherent in each segment of the portfolio. Historical loss rates are adjusted using potential risk factors that could result in actual losses deviating from prior loss experience. Such risk factors considered are (1) levels of and trends in delinquencies and impaired loans, (2) levels of and trends in charge-offs and recoveries, (3) trends in volume and term of loans, (4) effects of any changes in risk selection and underwriting standards, and other changes in lending policies, procedures, and practice, (5) experience, ability, and depth of lending management and other relevant staff, (6) national and local economic trends and conditions, (7) industry conditions,

and (8) effects of changes in credit concentrations. In addition, we conduct comprehensive, ongoing reviews of our loan portfolio, which encompasses the identification of all potential problem credits to be included on an internally generated watch list.

The identification of loans for inclusion on the watch list of loans that have been specifically identified is facilitated through the use of various sources, including past due loan reports, previous internal and external loan evaluations, classified loans identified as part of regulatory agency loan reviews and reviews of new loans representative of current lending practices. Once this list is reviewed to ensure it is complete, we review the specific loans for collectibility, performance and collateral protection. In addition, a grade is assigned to the individual loans utilizing internal grading criteria, which is somewhat similar to the criteria utilized by each subsidiary bank's primary regulatory agency. Based on the results of these reviews, specific reserves for potential losses are identified and the allowance for loan losses is adjusted appropriately through a provision for loan losses.

While there may be some loans or portions of loans identified as potential problem credits which are not specifically identified as either nonaccrual or accruing loans past due 90 or more days, we consider them to be insignificant to the overall disclosure and are, therefore, not specifically quantified within this discussion. In addition, we feel these additional loans do not represent or result from trends or uncertainties which we reasonably expect will materially impact future operating results, liquidity or capital resources. Also, these loans do not represent material credits about which we are aware of any information which would cause the borrowers to not comply with the loan repayment terms.

The allocated portion of the allowance for loan losses is established on a loan-by-loan and pool-by-pool basis. The unallocated portion is for inherent losses that probably exist as of the evaluation date, but which have not been specifically identified by the processes used to establish the allocated portion due to inherent imprecision in the objective processes we utilize to identify probable and estimable losses. This unallocated portion

is subjective and requires judgment based on various qualitative factors in the loan portfolio and the market in which we operate. At December 31, 2005 and 2004, respectively, the unallocated portion of the allowance approximated \$4,000 and \$32,000, or 0.1% and 0.6% of the total allowance. This unallocated portion of the allowance is considered necessary based on consideration of the known risk elements in certain pools of loans in the loan portfolio and our assessment of the economic environment in which we operate. More specifically, while loan quality remains good, the subsidiary banks have typically experienced greater

losses within certain homogeneous loan pools when our market area has experienced economic downturns or other significant negative factors or trends, such as increases in bankruptcies, unemployment rates or past due loans.

At December 31, 2005 and 2004, our allowance for loan losses totaled \$6,152,000, or 0.77% of total loans and \$5,073,000 or 0.83% of total loans, respectively, and is considered adequate to cover inherent losses in our loan portfolio. Table VII presents an allocation of the allowance for loan losses by loan type at each respective year end date, as follows:

TABLE VII – ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

<i>Dollars in thousands</i>	2005		2004		2003		2002		2001	
	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans
Commercial	\$4,502	62.3%	\$2,649	54.6%	\$2,353	50.8%	\$2,054	49.4%	\$1,036	42.8%
Real estate	1,019	32.0%	1,376	37.4%	1,127	39.4%	939	39.6%	985	43.8%
Consumer	580	4.6%	1,016	6.4%	1,174	8.2%	998	9.5%	937	11.8%
Other	47	1.1%	—	1.6%	13	1.6%	—	1.5%	—	1.6%
Unallocated	4	—	32	—	14	—	62	—	152	—
	<u>\$6,152</u>	<u>100.0%</u>	<u>\$5,073</u>	<u>100.0%</u>	<u>\$4,681</u>	<u>100.0%</u>	<u>\$4,053</u>	<u>100.0%</u>	<u>\$3,110</u>	<u>100.0%</u>

At December 31, 2005, we had approximately \$378,000 in other real estate owned which was obtained as the result of foreclosure proceedings. Foreclosures have been insignificant

throughout 2005 and we do not anticipate any material losses on the property currently held in other real estate owned.

A reconciliation of the activity in the allowance for loan losses follows:

TABLE VIII – ALLOWANCE FOR LOAN LOSSES

<i>Dollars in thousands</i>	2005	2004	2003	2002	2001
Balance, beginning of year	\$5,073	\$4,681	\$4,053	\$3,110	\$2,571
Losses:					
Commercial, financial & agricultural	36	478	98	138	108
Residential – mortgage	204	5	60	30	47
Consumer	173	208	178	173	191
Other	364	286	73	75	76
Total	777	977	409	416	422
Recoveries:					
Commercial, financial & agricultural	47	46	5	39	10
Residential – mortgage	—	9	—	17	1
Consumer	56	109	79	71	99
Other	274	155	38	17	21
Total	377	319	122	144	131
Net Losses	400	658	287	272	291
Provision for loan losses	1,479	1,050	915	1,215	830
Balance, end of year	\$6,152	\$5,073	\$4,681	\$4,053	\$3,110

MANAGEMENT'S DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES

Bank 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 (net of float and reserves), Federal funds sold, non-pledged securities, and available lines of credit with the Federal Home Loan Bank, which totaled approximately \$125.2 million or 11.3% of total consolidated assets at December 31, 2005.

Our liquidity strategy is to fund loan growth with deposits and other borrowed funds while maintaining an adequate level of short- and medium-term investments to meet normal daily loan and deposit activity. Core deposits increased \$74 million in 2005, while loans increased approximately \$192 million. This caused us to rely on other wholesale funding vehicles, which included brokered deposits, which increased \$76 million, and FHLB advances, which increased approximately \$56 million. As a member of the Federal Home Loan Banks of Pittsburgh and Atlanta, we have access to approximately \$396 million. As of December 31, 2005 and 2004, these advances totaled approximately \$327 million and \$272 million, respectively. At December 31, 2005, we had additional borrowing capacity of \$69 million through FHLB programs. We also have the ability to borrow money on a daily basis through correspondent banks using established federal funds purchased lines. These available lines totaled \$20 million at December 31, 2005. Also, we classify all of our securities as available for sale to enable us to liquidate them if the need arises.

We continuously monitor our liquidity position 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.

Growth and Expansion: During 2005, we continued our community bank branching strategy in Virginia, by opening our first full service branch in Warrenton, Virginia. We now have 14 total banking offices, and plan to continue to branch in Northwestern Virginia and the Eastern panhandle of West Virginia, with our next branch opening planned in Martinsburg, West Virginia. Our branching strategy is subject to availability of suitable sites, hiring qualified personnel, obtaining regulatory approval, and other conditions and contingencies.

We also continue to seek and enter into business opportunities which earn noninterest income. Accordingly, in first quarter 2004, we acquired a full lines insurance agency in Moorefield, West Virginia.

During 2005, we spent approximately \$3.9 million on capital expenditures for premises and equipment. We expect our capital expenditures to approximate \$2 million in 2006, primarily for

building construction, furniture and equipment related to office openings. Actual expenditures may vary significantly from those expected, primarily depending on the number and cost of additional branch openings.

Capital Compliance: Our capital position remains strong, despite our continued growth. Stated as a percentage of total assets, our equity ratio was 6.7% and 7.4% at December 31, 2005 and 2004, respectively. Our risk weighted Tier 1 capital, total capital and leverage capital ratios approximated 11.4%, 10.7% and 8.6%, respectively, at December 31, 2005, all of which are in excess of the minimum guidelines to be "well capitalized" under the regulatory prompt corrective action provisions. Our subsidiary banks are also subject to minimum capital ratios as further discussed in Note 15 of the accompanying consolidated financial statements.

Issuance of Trust Preferred Securities: In December 2005, we issued an additional \$8 million of adjustable rate trust preferred securities (see Note 10 of the accompanying consolidated financial statements). The proceeds from this issuance were used to pay company debt that had been obtained to fund additional capital needs at our subsidiary banks, and to provide us additional regulatory capital to support our growth. Under Federal Reserve Board guidelines, we had the ability to issue an additional \$4 million of trust preferred securities as of December 31, 2005 that would qualify as Tier 1 regulatory capital to support our future growth. Trust preferred securities issuances in excess of this limit generally may be included in Tier 2 capital.

Dividends: Cash dividends per share rose 15.4% to \$0.30 in 2005 compared to \$0.26 in 2004, representing dividend payout ratios of 19.0% and 17.2% for 2005 and 2004, respectively. It is our intention to continue to pay dividends on a similar schedule during 2006. Future cash dividends will depend on the earnings and financial condition of our subsidiary banks as well as general economic conditions.

The primary source of funds for the dividends paid to our shareholders is dividends received from our subsidiary banks. Dividends paid by our subsidiary banks are subject to restrictions by banking regulations. The most restrictive provision requires approval by the respective bank's regulatory agency if dividends declared in any year exceed the bank's current year's net income, as defined, plus its retained net profits of the two preceding years. During 2006, the net retained profits available for distribution to Summit as dividends without regulatory approval are approximately \$18,962,000, plus net income for the interim periods through the date of declaration.

On October 29, 2004, our Board of Directors authorized a 2-for-1 split of our common stock to be effected in the form of a 100% stock dividend which was distributed on December 15, 2004 to shareholders of record as of December 1, 2004.

Contractual Cash Obligations: During our normal course of business, we incur contractual cash obligations. The following table summarizes our contractual cash obligations at December 31, 2005.

	Long Term Debt and Subordinated Debentures	Operating Leases
2006	\$ 21,944,946	\$1,068,283
2007	18,318,204	1,019,498
2008	16,085,851	984,275
2009	2,110,094	431,349
2010	62,734,338	116,263
Thereafter	49,307,402	257,140
Total	\$170,500,835	\$3,876,808

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 December 31, 2005 are presented in the following table. Refer to Note 13 of the accompanying consolidated financial statements for further discussion of our off-balance sheet arrangements.

Commitments to extend credit: (dollars in thousands)

Revolving home equity and credit card lines	\$ 28,721
Construction loans	100,524
Other loans	37,926
Standby letters of credit	11,254
Total	\$ 178,425

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 embedded 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"). The ALCO 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 moderately liability sensitive in the short term, and asset sensitive beyond two years. That is, in the short term, liabilities are likely to reprice faster than assets, resulting in a decrease in net income in a rising rate environment. Our net income would increase modestly in a falling interest rate environment. Over the long term, assets are likely to reprice faster than liabilities, resulting in an increase in net income in a rising rate environment while a falling interest rate environment would produce a decrease in net income. 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 rates is assumed to take place over a 12 month period, 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 presents the estimated sensitivity of our net interest income to changes in interest rates, as measured by our earnings simulation model as of December 31, 2005. The sensitivity is measured as a percentage change in net interest income given the stated changes in interest rates (gradual change over 12 months, stable thereafter) compared to net interest income with rates unchanged. The estimated changes set forth below are dependent on the assumptions discussed above and are well within our ALCO policy limit of +/- 10%.

Change in Interest Rates (basis points)	Estimated % Change in Net Interest Income Over:	
	12 Months	24 Months
Down 200 ⁽¹⁾	0.51%	-0.71%
Down 200, steepening yield curve ⁽²⁾	1.39%	5.10%
Up 100 ⁽¹⁾	-0.95%	0.03%
Up 200 ⁽¹⁾	-2.71%	-5.22%

(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

QUARTERLY FINANCIAL INFORMATION

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
<i>(Dollars in thousands, except per share amounts)</i>					
2005					
Interest income	\$12,293	\$13,524	\$14,837	\$ 16,657	\$57,311
Interest expense	5,138	5,920	7,027	8,421	26,506
Net interest income	7,155	7,604	7,810	8,236	30,805
Provision for loan losses	330	425	424	300	1,479
Securities gains (losses)	—	5	39	(1,434)	(1,390)
Other noninterest income	6,667	8,210	8,426	6,961	30,264
Noninterest expense	10,055	10,875	10,878	10,438	42,246
Income before income taxes	3,437	4,519	4,973	3,025	15,954
Income taxes	1,026	1,403	1,700	583	4,712
Net income	2,411	3,116	3,273	2,442	11,242
Basic earnings per share	0.34	0.44	0.46	0.34	1.58
Diluted earnings per share	0.34	0.43	0.45	0.34	1.56
Dividends paid per share	—	0.14	—	0.16	0.30
2004					
Interest income	\$10,873	\$11,092	\$11,634	\$ 12,138	\$45,737
Interest expense	4,271	4,294	4,573	4,822	17,960
Net interest income	6,602	6,798	7,061	7,316	27,777
Provision for loan losses	233	233	293	291	1,050
Securities gains (losses)	20	17	(35)	31	33
Other noninterest income	4,922	7,415	8,580	6,302	27,219
Noninterest expense	7,839	10,168	10,767	10,015	38,789
Income before income taxes	3,472	3,829	4,546	3,343	15,190
Income taxes	1,021	1,155	1,420	986	4,582
Net income	2,451	2,674	3,126	2,357	10,608
Basic earnings per share	0.35	0.38	0.44	0.34	1.51
Diluted earnings per share	0.35	0.38	0.43	0.33	1.49
Dividends paid per share	—	0.12	—	0.14	0.26

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING**



To the Board of Directors
Summit Financial Group, Inc.
Moorefield, West Virginia

We have audited management's assessment, included in the accompanying Report on Management's Assessment of Internal Control Over Financial Reporting, that Summit Financial Group, Inc. and subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Summit Financial Group, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements

in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Summit Financial Group, Inc. and subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also in our opinion, Summit Financial Group, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Summit Financial Group, Inc. and subsidiaries and our report dated March 3, 2006, expressed an unqualified opinion.

Arnett & Foster, P.L.L.C.

Charleston, West Virginia
March 3, 2006

REPORT OF MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

Summit Financial Group, Inc. is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements included in this annual report. The consolidated financial statements and notes included in this annual report have been prepared in conformity with United States generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgments.

We, as management of Summit Financial Group, Inc., are responsible for establishing and maintaining effective internal control over financial reporting that is designed to produce reliable financial statements in conformity with United States generally accepted accounting principles. The system of internal control over financial reporting as it relates to the financial statements is evaluated for effectiveness by management and tested for reliability through a program of internal audits. Actions are taken to correct potential deficiencies as they are identified. Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

The Audit Committee, consisting entirely of independent directors, meets regularly with management, internal auditors and the independent registered public accounting firm, and reviews audit plans and results, as well as management's actions taken in discharging responsibilities for accounting, financial reporting, and internal control. Arnett & Foster, P.L.L.C., independent registered public accounting firm, and the internal auditors have direct and confidential access to the Audit Committee at all times to discuss the results of their examinations.

Management assessed the Corporation's system of internal control over financial reporting as of December 31, 2005. In making this assessment, we used the criteria for effective internal control over financial reporting set forth in *Internal Control-Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concludes that, as of December 31, 2005, its system of internal control over financial reporting is effective and meets the criteria of the *Internal Control-Integrated Framework*. Arnett & Foster, P.L.L.C., independent registered public accounting firm, has issued an attestation report on management's assessment of the Corporation's internal control over financial reporting.



President and
Chief Executive Officer



Senior Vice President
and Chief Financial Officer



Vice President
and Chief Accounting Officer

Moorefield, West Virginia
March 3, 2006

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON CONSOLIDATED FINANCIAL STATEMENTS**



To the Board of Directors
Summit Financial Group, Inc.
Moorefield, West Virginia

We have audited the accompanying consolidated balance sheets of Summit Financial Group, Inc. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provided a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Summit Financial Group, Inc. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Summit Financial Group, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 3, 2006, expressed an unqualified opinion on management's assessment of the effectiveness of Summit Financial Group, Inc. and subsidiaries' internal control over financial reporting and an unqualified opinion on the effectiveness of Summit Financial Group, Inc. and subsidiaries' internal control over financial reporting.

A handwritten signature in black ink that reads 'Arnett & Foster, P.L.L.C.' in a cursive, flowing script.

Charleston, West Virginia
March 3, 2006

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2005	2004
ASSETS		
Cash and due from banks	\$ 22,535,761	\$ 19,416,219
Interest bearing deposits with other banks	1,536,506	2,338,698
Federal funds sold	3,650,000	48,000
Securities available for sale	223,772,298	211,361,504
Loans held for sale, net	16,584,990	14,273,916
Loans, net	793,766,837	602,727,975
Property held for sale, net	378,287	593,137
Premises and equipment, net	23,089,412	20,776,007
Accrued interest receivable	4,835,763	3,651,907
Intangible assets	3,347,672	3,498,824
Other assets	16,034,499	10,802,330
Total assets	\$1,109,532,025	\$ 889,488,517
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing	\$ 62,631,410	\$ 55,401,552
Interest bearing	611,269,308	469,212,146
Total deposits	673,900,718	524,613,698
Short-term borrowings	182,028,113	120,629,214
Long-term borrowings	150,911,835	160,860,182
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589,000	11,341,000
Other liabilities	9,299,134	6,336,402
Total liabilities	1,035,728,800	823,780,496
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock and related surplus, \$1.00 par value; authorized 250,000 shares, 2004 - 33,400 shares issued	—	1,158,471
Common stock and related surplus, \$2.50 par value; authorized 20,000,000 shares; issued 2005 - 7,126,220 shares; 2004 - 7,155,420 shares	18,856,774	18,123,492
Retained earnings	56,214,807	47,108,898
Less cost of shares acquired for the treasury, 2004 - 115,880 shares	—	(627,659)
Accumulated other comprehensive income	(1,268,356)	(55,181)
Total shareholders' equity	73,803,225	65,708,021
Total liabilities and shareholders' equity	\$1,109,532,025	\$ 889,488,517

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

	For the Year Ended December 31,		
	2005	2004	2003
Interest income			
Interest and fees on loans			
Taxable	\$ 47,582,262	\$ 35,768,855	\$ 30,842,054
Tax-exempt	419,541	437,658	323,148
Interest and dividends on securities			
Taxable	7,076,226	7,194,736	7,952,074
Tax-exempt	2,124,699	2,208,424	1,936,831
Interest on interest bearing deposits with other banks	90,563	123,036	151,068
Interest on Federal Funds sold	18,194	4,117	18,391
Total interest income	57,311,485	45,736,826	41,223,566
Interest expense			
Interest on deposits	13,401,988	9,710,108	9,998,904
Interest on short-term borrowings	4,824,365	1,203,395	441,447
Interest on long-term borrowings and subordinated debentures	8,279,489	7,046,299	7,089,635
Total interest expense	26,505,842	17,959,802	17,529,986
Net interest income	30,805,643	27,777,024	23,693,580
Provision for loan losses	1,479,400	1,050,000	915,000
Net interest income after provision for loan losses	29,326,243	26,727,024	22,778,580
Noninterest income			
Insurance commissions	852,664	527,492	239,356
Service fees	2,589,234	2,237,887	1,585,778
Mortgage origination revenue	26,370,978	24,088,909	3,137,702
Realized securities gains	110,012	33,471	211,897
Unrealized securities (losses)	(1,500,000)	—	—
Gain (loss) on sale of assets	(198,460)	(29,183)	335,969
Other	649,776	393,561	313,687
Total noninterest income	28,874,204	27,252,137	5,824,389
Noninterest expenses			
Salaries and employee benefits	20,315,017	18,087,278	9,004,422
Net occupancy expense	1,881,063	1,502,583	868,261
Equipment expense	1,911,076	1,776,004	1,320,353
Supplies	658,260	666,061	481,157
Professional fees	969,794	821,225	564,477
Postage	5,862,812	5,851,393	984,929
Advertising	4,878,312	4,724,647	772,358
Amortization of intangibles	151,152	151,152	151,152
Other	5,618,975	5,208,730	2,736,579
Total noninterest expenses	42,246,461	38,789,073	16,883,688
Income before income tax expense	15,953,986	15,190,088	11,719,281
Income tax expense	4,711,582	4,581,715	3,510,925
Net income	\$ 11,242,404	\$ 10,608,373	\$ 8,208,356
Basic earnings per common share	\$ 1.58	\$ 1.51	\$ 1.17
Diluted earnings per common share	\$ 1.56	\$ 1.49	\$ 1.16
Average common shares outstanding			
Basic	7,093,402	7,025,118	7,010,007
Diluted	7,206,838	7,121,761	7,073,287

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Preferred Stock and Related Surplus	Common Stock and Related Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, December 31, 2002	\$ —	\$ 17,808,990	\$ 31,627,634	\$(619,711)	\$ 3,262,883	\$ 52,079,796
Comprehensive income:						
Net income	—	—	8,208,356	—	—	8,208,356
Other comprehensive income, net of deferred tax (benefit) of (\$1,003,928):						
Net unrealized (loss) on securities of (\$1,506,611), net of reclassification adjustment for gains included in net income of \$131,376	—	—	—	—	(1,637,987)	(1,637,987)
Total comprehensive income						6,570,369
Exercise of stock options	—	53,265	—	—	—	53,265
Purchase of 800 shares for treasury	—	—	—	(7,948)	—	(7,948)
Cash dividends declared (\$0.215 per share)	—	—	(1,507,939)	—	—	(1,507,939)
Balance, December 31, 2003	—	17,862,255	38,328,051	(627,659)	1,624,896	57,187,543
Comprehensive income:						
Net income	—	—	10,608,373	—	—	10,608,373
Other comprehensive income, net of deferred tax (benefit) of (\$1,029,725):						
Net unrealized (loss) on securities of (\$1,659,325), net of reclassification adjustment for gains included in net income of \$20,752	—	—	—	—	(1,680,077)	(1,680,077)
Total comprehensive income						8,928,296
Exercise of stock options	—	261,237	—	—	—	261,237
Issuance of preferred stock	1,158,471	—	—	—	—	1,158,471
Cash dividends declared (\$0.26 per share)	—	—	(1,827,526)	—	—	(1,827,526)
Balance, December 31, 2004	1,158,471	18,123,492	47,108,898	(627,659)	(55,181)	65,708,021
Comprehensive income:						
Net income	—	—	11,242,404	—	—	11,242,404
Other comprehensive income, net of deferred tax (benefit) of (\$743,559):						
Net unrealized (loss) on securities of (\$2,074,968), net of reclassification adjustment for losses included in net income of (\$861,793)	—	—	—	—	(1,213,175)	(1,213,175)
Total comprehensive income						10,029,229
Exercise of stock options	—	202,470	—	—	—	202,470
Conversion of preferred shares	(1,158,471)	1,158,471	—	—	—	—
Retirement of treasury shares	—	(627,659)	—	627,659	—	—
Cash dividends declared (\$0.30 per share)	—	—	(2,136,495)	—	—	(2,136,495)
Balance, December 31, 2005	\$ —	\$18,856,774	\$56,214,807	\$ —	\$(1,268,356)	\$73,803,225

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31,		
	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 11,242,404	\$ 10,608,373	\$ 8,208,356
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	1,680,779	1,506,698	1,058,354
Provision for loan losses	1,479,400	1,050,000	915,000
Deferred income tax (benefit)	(1,014,918)	(449,935)	(368,650)
Loans originated for sale	(314,600,774)	(259,316,402)	(62,670,581)
Proceeds from loans sold	323,146,988	260,478,758	58,184,770
(Gains) on loans sold	(10,857,288)	(9,083,436)	(960,125)
Security (gains) losses	(110,012)	(33,471)	(211,897)
Writedown of preferred stock	1,500,000	—	—
(Gain) loss on disposal of premises, equipment and other assets	198,460	29,183	(171,590)
Amortization of securities premiums, net	653,483	848,775	1,341,955
Amortization of goodwill and purchase accounting adjustments, net	162,684	176,340	171,010
Tax benefit of exercise of stock options	77,000	141,000	—
(Increase) decrease in accrued interest receivable	(1,183,856)	126,233	248,049
(Increase) in other assets	(920,936)	(684,038)	(910,575)
Increase in other liabilities	1,995,379	1,106,824	1,174,571
Net cash provided by operating activities	13,448,793	6,504,902	6,008,647
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturities and calls of securities available for sale	9,216,910	22,532,825	33,368,900
Proceeds from sales of securities available for sale	18,386,829	49,689,639	12,206,105
Principal payments received on securities available for sale	32,085,084	35,379,512	89,184,506
Purchases of securities available for sale	(76,054,905)	(87,029,752)	(161,303,052)
Net (increase) decrease in federal funds sold	(3,602,000)	196,000	3,146,135
Net loans made to customers	(192,861,006)	(105,705,168)	(85,792,687)
Purchases of premises and equipment	(3,994,963)	(4,463,284)	(8,273,263)
Proceeds from sales of premises, equipment and other assets	419,351	351,425	2,890,424
(Purchases of) proceeds from interest bearing deposits with other banks	802,192	802,394	(955,723)
Purchases of life insurance contracts	(2,500,000)	—	—
Net cash paid in acquisition of Sager Insurance Agency	—	(850,000)	—
Net cash (used in) investing activities	(218,102,508)	(89,096,409)	(115,528,655)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in demand deposit, NOW and savings accounts	79,765,031	17,112,187	18,275,248
Net increase (decrease) in time deposits	69,630,895	(4,299,909)	34,940,815
Net increase in short-term borrowings	61,398,899	70,914,968	29,523,143
Proceeds from long-term borrowings	32,764,000	23,326,000	37,320,000
Repayments of long-term borrowings	(41,774,543)	(26,315,072)	(6,134,767)
Net proceeds from issuance of trust preferred securities	8,000,000	7,406,250	—
Purchases of treasury stock	—	—	(7,948)
Net proceeds from issuance of preferred stock	—	1,158,471	—
Exercise of stock options	125,470	120,237	53,265
Dividends paid	(2,136,495)	(1,827,526)	(1,507,939)
Net cash provided by financing activities	207,773,257	87,595,606	112,461,817
Increase (decrease) in cash and due from banks	3,119,542	5,004,099	2,941,809
Cash and due from banks:			
Beginning	19,416,219	14,412,120	11,470,311
Ending	\$ 22,535,761	\$ 19,416,219	\$ 14,412,120

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS – CONTINUED

	For the Year Ended December 31,		
	2005	2004	2003
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash payments for:			
Interest	\$ 25,528,195	\$ 18,045,519	\$ 17,346,163
Income taxes	\$ 5,245,000	\$ 5,030,534	\$ 3,420,000
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Other assets acquired in settlement of loans	\$ 342,744	\$ 515,593	\$ 779,896
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	\$ —
Noncash investment in unconsolidated subsidiary trust	\$ 248,000	\$ 232,000	\$ —

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of business: Summit Financial Group, Inc. (“We”, “Company” or “Summit”) is a financial holding company headquartered in Moorefield, West Virginia. We operate two primary business segments, community banking and mortgage banking. Our community banking segment provides commercial and retail banking services primarily in the Eastern Panhandle and South Central regions of West Virginia and the Northern region of Virginia. We provide these services through our two community bank subsidiaries: Summit Community Bank (“Summit Community”) and Shenandoah Valley National Bank (“Shenandoah”) (collectively, the “Bank Subsidiaries”). Summit Mortgage, our mortgage banking segment, originates loans to customers throughout the United States from its headquarters in Chesapeake, Virginia. We also operate Summit Insurance Services, LLC.

Basis of financial statement presentation: Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry.

Use of estimates: We must make estimates and assumptions that affect the reported amounts and disclosures in preparing our financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

Principles of consolidation: The accompanying consolidated financial statements include the accounts of Summit and its subsidiaries. All significant accounts and transactions among these entities have been eliminated.

Presentation of cash flows: For purposes of reporting cash flows, cash and due from banks includes cash on hand and amounts due from banks (including cash items in process of clearing). Cash flows from federal funds sold, demand deposits, NOW accounts, savings accounts and short-term borrowings are reported on a net basis, since their original maturities are less than three months. Cash flows from loans and certificates of deposit and other time deposits are reported net.

Securities: We classify debt and equity securities as “held to maturity”, “available for sale” or “trading” according to management’s intent. The appropriate classification is determined at the time of purchase of each security and re-evaluated at each reporting date.

Securities held to maturity – Certain debt securities for which we have the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts. There are no securities classified as held to maturity in the accompanying financial statements.

Securities available for sale – Securities not classified as “held to maturity” or as “trading” are classified as “available for sale.” Securities classified as “available for sale” are those securities that we intend to hold for an indefinite period of time, but not necessarily to maturity. “Available for sale” securities are reported at estimated fair value net of unrealized gains or losses, which are adjusted for applicable income taxes, and reported as a separate component of shareholders’ equity.

Trading securities – There are no securities classified as “trading” in the accompanying financial statements.

We review our securities portfolio quarterly for possible other-than-temporary impairment. This determination requires significant judgment. In making this judgment, Management evaluates the facts and circumstances of each individual investment such as the severity of loss, the length of time the fair value has been below cost, the expectation for that security’s performance, the creditworthiness of the issuer and our intent and ability to hold the security. A decline in value that is considered to be other-than-temporary is recorded as a loss within noninterest income in the Consolidated Financial Statements.

Realized gains and losses on sales of securities are recognized on the specific identification method. Amortization of premiums and accretion of discounts are computed using the interest method.

Loans held for sale: Loans held for sale are valued at the lower of aggregate carrying cost or fair value. Gains or losses realized on the sales of loans are recognized at the time of sale. These gains and losses are included in mortgage origination revenue.

Loans and allowance for loan losses: Loans are generally stated at the amount of unpaid principal, reduced by unearned discount and allowance for loan losses.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. The allowance is increased by provisions charged to operating expense and reduced by net charge-offs. We make continuous credit reviews of the loan portfolio and consider current economic conditions, historical loan loss experience, review of specific problem loans and other potential risk factors in determining the adequacy of the allowance for

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

loan losses. Loans are charged against the allowance for loan losses when we believe that collectibility is unlikely. While we use the best information available to make our evaluation, future adjustments may be necessary if there are significant changes in conditions.

A loan is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due in accordance with the contractual terms of the specific loan agreement. Impaired loans, other than certain large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, are required to be reported at the present value of expected future cash flows discounted using the loan's original effective interest rate or, alternatively, at the loan's observable market price, or at the fair value of the loan's collateral if the loan is collateral dependent. The method selected to measure impairment is made on a loan-by-loan basis, unless foreclosure is deemed to be probable, in which case the fair value of the collateral method is used.

Generally, after our evaluation, loans are placed on nonaccrual status when principal or interest is greater than 90 days past due based upon the loan's contractual terms. Interest is accrued daily on impaired loans unless the loan is placed on nonaccrual status. Impaired loans are placed on nonaccrual status when the payments of principal and interest are in default for a period of 90 days, unless the loan is both well-secured and in the process of collection. Interest on nonaccrual loans is recognized primarily using the cost-recovery method.

Interest on loans is accrued daily on the outstanding balances.

Loan origination fees and certain direct loan origination costs are deferred and amortized as adjustments of the related loan yield over its contractual life.

Property held for sale: Property held for sale consists of premises qualifying as held for sale under Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*, and of real estate acquired through foreclosure on loans secured by such real estate. Qualifying premises are transferred to property held for sale at the lower of carrying value or estimated fair value less anticipated selling costs. Foreclosed property is recorded at the estimated fair value less anticipated selling costs based upon the property's appraised value at the date of foreclosure, with any difference between the fair value of foreclosed property and the carrying value of the related loan charged to the allowance for loan losses. We perform periodic valuations of property held for sale subsequent to transfer. Gains or losses not previously recognized resulting from the sale of property held for sale is recognized on the

date of sale. Changes in value subsequent to transfer are recorded in noninterest income. Depreciation is not recorded on property held for sale. Expenses incurred in connection with operating foreclosed properties are charged to noninterest expense.

Premises and equipment: Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily by the straight-line method for premises and equipment over the estimated useful lives of the assets. The estimated useful lives employed are on average 30 years for premises and 3 to 10 years for furniture and equipment. Repairs and maintenance expenditures are charged to operating expenses as incurred. Major improvements and additions to premises and equipment, including construction period interest costs, are capitalized. Total interest capitalized during 2003 was approximately \$40,000. No interest was capitalized during 2005 or 2004.

Intangible assets: Goodwill and certain other intangible assets with indefinite useful lives are not amortized into net income over an estimated life, but rather are tested at least annually for impairment. Intangible assets determined to have definite useful lives are amortized over their estimated useful lives and also are subject to impairment testing.

Securities sold under agreements to repurchase: We generally account for securities sold under agreements to repurchase as collateralized financing transactions and record them at the amounts at which the securities were sold, plus accrued interest. Securities, generally U.S. government and Federal agency securities, pledged as collateral under these financing arrangements cannot be sold or repledged by the secured party. The fair value of collateral provided is continually monitored and additional collateral is provided as needed.

Advertising: Direct response advertising is recorded as a prepaid asset and amortized to expense generally over a one month period. Our prepaid direct response advertising included in other assets approximated \$563,000 and \$431,000 December 31, 2005 and 2004, respectively. All other advertising costs are expensed as incurred.

Guarantees: In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. This interpretation expands the disclosures

to be made by a guarantor in its financial statements about its obligations under certain guarantees and requires the guarantor to recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 clarifies the requirements of SFAS 5, *Accounting for Contingencies*, relating to guarantees. In general, FIN 45 applies to contracts or indemnification agreements that contingently require the guarantor to make payments to the guaranteed party based on changes in an underlying that is related to an asset, liability, or equity security of the guaranteed party. Certain guarantee contracts are excluded from both the disclosure and recognition requirements of this interpretation, including, among others, guarantees relating to employee compensation, residual value guarantees under capital lease arrangements, commercial letters of credit, loan commitments, subordinated interests in an SPE, and guarantees of a company's own future performance. Other guarantees are subject to the disclosure requirements of FIN 45 but not to the recognition provisions and include, among others, a guarantee accounted for as a derivative instrument under SFAS 133, a parent's guarantee of debt owed to a third party by its subsidiary or vice versa, and a guarantee which is based on performance, not price.

Income taxes: The consolidated provision for income taxes includes Federal and state income taxes and is based on pretax net income reported in the consolidated financial statements, adjusted for transactions that may never enter into the computation of income taxes payable. Deferred tax assets and liabilities are determined based on the differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Valuation allowances are established when deemed necessary to reduce deferred tax assets to the amount expected to be realized.

Stock-based compensation: 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.

Basic and diluted earnings per share: Basic earnings per share is computed by dividing net income by the weighted-average number

of shares of common stock outstanding. Diluted earnings per share is computed by dividing net income by the weighted-average number of shares outstanding increased by the number of shares of common stock which would be issued assuming the exercise of employee stock options and the conversion of preferred stock.

Trust services: Assets held in an agency or fiduciary capacity are not our assets and are not included in the accompanying consolidated balance sheets. Trust services income is recognized on the cash basis in accordance with customary banking practice. Reporting such income on a cash basis rather than the accrual basis does not have a material effect on net income.

Derivative instruments and hedging activities: In accordance with SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, all derivative instruments are recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, depending on the type of hedge transaction.

Fair-value hedges – For transactions in which we are hedging changes in fair value of an asset, liability, or a firm commitment, changes in the fair value of the derivative instrument are generally offset in the income statement by changes in the hedged item's fair value.

Cash-flow hedges – For transactions in which we are hedging the variability of cash flows related to a variable-rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative instrument are reported in other comprehensive income. The gains and losses on the derivative instrument, which are reported in comprehensive income, are reclassified to earnings in the periods in which earnings are impacted by the variability of cash flows of the hedged item.

The ineffective portion of all hedges is recognized in current period earnings.

Other derivative instruments used for risk management purposes do not meet the hedge accounting criteria and, therefore, do not qualify for hedge accounting. These derivative instruments are accounted for at fair value with changes in fair value recorded in the income statement.

During 2005, 2004, and 2003 we were party to instruments that qualified for fair-value hedge accounting and other instruments that were held for risk management purposes that did not qualify for hedge accounting.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Variable interest entities: In accordance with FIN 46-R, *Consolidation of Variable Interest Entities*, 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 do not require consolidation of subsidiary trusts which issue guaranteed preferred beneficial interests in subordinated debentures (Trust Preferred Securities). 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 10 of our Notes to Consolidated Financial Statements for a discussion of our subordinated debentures.

Loan commitments: Statement of Financial Accounting Standards No. 149 ("SFAS 149"), *Amendment of Statement 133 on Derivative*

Instruments and Hedging Activities 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.

Reclassifications: Certain accounts in the consolidated financial statements for 2004 and 2003, as previously presented, have been reclassified to conform to current year classifications.

2. SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS

Stock-based compensation: In December 2004, the Financial Accounting Standards Board (FASB) issued revised statement 123, *Share-Based Payment (Revised 2004)*. SFAS 123R establishes accounting requirements for share-based compensation to employees. SFAS 123R eliminates our ability to account for stock-based compensation using APB 25 effective January 1, 2006 for all equity awards granted after the effective date. SFAS 123R requires us to recognize compensation expense based on the estimated number of stock awards expected to actually vest, exclusive of the awards expected to be forfeited. The adoption of this standard is not expected to have a material impact on our financial condition, results of operations, or liquidity.

3. SECURITIES

The amortized cost, unrealized gains and losses, and estimated fair values of securities at December 31, 2005 and 2004, are summarized as follows:

2005	Amortized Cost	Unrealized		Estimated Fair Value
		Gains	Losses	
Available for sale				
Taxable:				
U. S. Government agencies and corporations	\$ 40,227,124	\$ 33,754	\$ 426,554	\$ 39,834,324
Mortgage-backed securities	117,530,036	150,766	2,884,861	114,795,941
State and political subdivisions	3,741,271	219	—	3,741,490
Corporate debt securities	3,294,123	37,063	2,206	3,328,980
Federal Reserve Bank stock	571,500	—	—	571,500
Federal Home Loan Bank stock	15,761,400	—	—	15,761,400
Other equity securities	150,410	—	—	150,410
Total taxable	181,275,864	221,802	3,313,621	178,184,045
Tax-exempt:				
State and political subdivisions	38,529,013	1,191,186	74,709	39,645,490
Other equity securities	5,978,611	—	35,848	5,942,763
Total tax-exempt	44,507,624	1,191,186	110,557	45,588,253
Total available for sale	\$225,783,488	\$1,412,988	\$3,424,178	\$223,772,298

2004	Amortized Cost	Unrealized		Estimated Fair Value
		Gains	Losses	
Available for sale				
Taxable:				
U. S. Government agencies and corporations	\$ 21,429,728	\$ 154,012	\$ 37,242	\$ 21,546,498
Mortgage-backed securities	118,872,576	513,765	1,029,288	118,357,053
State and political subdivisions	3,745,196	8,954	—	3,754,150
Corporate debt securities	5,000,328	180,939	—	5,181,267
Federal Reserve Bank stock	436,500	—	—	436,500
Federal Home Loan Bank stock	13,843,100	—	—	13,843,100
Other equity securities	175,535	—	—	175,535
Total taxable	163,502,963	857,670	1,066,530	163,294,103
Tax-exempt:				
State and political subdivisions	40,475,405	1,508,540	24,043	41,959,902
Other equity securities	7,482,503	—	1,375,004	6,107,499
Total tax-exempt	47,957,908	1,508,540	1,399,047	48,067,401
Total available for sale	\$211,460,871	\$2,366,210	\$2,465,577	\$211,361,504

We held 155 available for sale securities having an unrealized loss at December 31, 2005. Provided below is a summary of securities available for sale which were in an unrealized loss position at December 31, 2005 and 2004. We have the ability and intent to hold these securities until such time as the value recovers or the securities mature. Further, we believe that the decline in value is attributable to changes in

market interest rates and not credit quality of the issuer, as all are rated AA or better, and no additional impairment is warranted at this time.

During 2005, we recognized a \$1.5 million pre-tax fourth quarter other-than-temporary non-cash impairment charge, which equals \$940,000 on an after-tax basis. This impairment charge relates to \$5.7 million of certain preferred stock issuances of the Federal

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

National Mortgage Association and the Federal Home Loan Mortgage Corporation which Summit continues to own, and was made primarily due to difficulty in accurately projecting the future recovery period of

these securities. Although the securities are still rated as investment grade, we recognized the impairment charge at this time, in accordance with generally accepted accounting principles ("GAAP").

	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
2005						
Taxable:						
U. S. Government agencies and corporations	\$25,474,029	\$ (255,281)	\$ 9,387,858	\$ (171,276)	\$ 34,861,887	\$ (426,557)
Mortgage-backed securities	41,326,014	(711,403)	60,441,083	(2,175,663)	101,767,097	(2,887,066)
Tax-exempt:						
State and political subdivisions	3,658,564	(41,183)	1,553,065	(33,524)	5,211,629	(74,707)
Other equity securities	—	—	1,702,763	(35,848)	1,702,763	(35,848)
Total temporarily impaired securities	\$70,458,607	\$(1,007,867)	\$73,084,769	\$(2,416,311)	\$143,543,376	\$(3,424,178)

	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
2004						
Taxable:						
U. S. Government agencies and corporations	\$ 8,280,339	\$ (37,242)	\$ —	\$ —	\$ 8,280,339	\$ (37,242)
Mortgage-backed securities	79,186,543	(936,776)	5,717,127	(92,512)	84,903,670	(1,029,288)
Tax-exempt:						
State and political subdivisions	2,293,686	(24,043)	—	—	2,293,686	(24,043)
Other equity securities	1,495,376	(4,625)	4,612,123	(1,370,379)	6,107,499	(1,375,004)
Total temporarily impaired securities	\$91,255,944	\$(1,002,686)	\$10,329,250	\$(1,462,891)	\$101,585,194	\$(2,465,577)

Federal Reserve Bank stock and Federal Home Loan Bank stock are equity securities, which are included in securities available for sale in the accompanying consolidated financial statements. Such securities are carried at cost, since they may only be sold back to the respective Federal Reserve Bank or Federal Home Loan Bank at par value.

Mortgage-backed obligations having contractual maturities ranging from 1 to 30 years, are reflected in the following maturity

distribution schedules based on their anticipated average life to maturity, which ranges from 1 to 10 years. Accordingly, discounts are accreted and premiums are amortized over the anticipated average life to maturity of the specific obligation.

The proceeds from sales, calls and maturities of securities, including principal payments received on mortgage-backed obligations and the related gross gains and losses realized are as follows:

Years ended December 31,	Proceeds from			Gross realized	
	Sales	Calls and Maturities	Principal Payments	Gains	Losses
2005					
Securities available for sale	<u>\$18,386,828</u>	<u>\$ 9,216,910</u>	<u>\$32,085,084</u>	<u>\$166,868</u>	<u>\$ 56,856</u>
2004					
Securities available for sale	<u>\$49,689,639</u>	<u>\$22,532,825</u>	<u>\$35,379,512</u>	<u>\$409,644</u>	<u>\$376,173</u>
2003					
Securities available for sale	<u>\$12,206,105</u>	<u>\$33,368,900</u>	<u>\$89,184,506</u>	<u>\$334,597</u>	<u>\$122,700</u>

The maturities, amortized cost and estimated fair values of securities at December 31, 2005, are summarized as follows:

	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 39,979,270	\$ 39,437,073
Due from one to five years	109,257,627	107,025,823
Due from five to ten years	31,113,195	31,127,631
Due after ten years	22,971,475	23,755,698
Equity securities	22,461,921	22,426,073
Total	\$225,783,488	\$223,772,298

At December 31, 2005 and 2004, securities with estimated fair values of \$92,532,692 and \$84,647,104, respectively, were pledged to secure public deposits, and for other purposes required or permitted by law.

4. LOANS

Loans are summarized as follows:

	2005	2004
Commercial	\$ 63,205,991	\$ 53,225,840
Commercial real estate	436,802,799	279,631,237
Residential—construction	4,342,926	3,916,361
Residential—mortgage	251,886,228	223,689,617
Consumer	36,863,170	38,947,775
Other	8,597,768	9,604,693
Total loans	801,698,882	609,015,523
Less unearned income	1,780,315	1,214,262
Total loans net of unearned income	799,918,567	607,801,261
Less allowance for loan losses	6,151,730	5,073,286
Loans, net	\$793,766,837	\$602,727,975

The following presents loan maturities at December 31, 2005.

	Within 1 Year	After 1 but within 5 Years	After 5 Years
Commercial	\$ 23,946,414	\$ 25,093,783	\$ 14,165,794
Commercial real estate	105,238,584	101,775,730	229,788,485
Residential—construction	2,595,586	—	1,747,340
Residential—mortgage	19,077,998	13,098,842	219,709,388
Consumer	3,721,289	28,022,194	5,119,687
Other	977,489	1,849,029	5,771,250
	\$155,557,360	\$169,839,578	\$476,301,944

Loans due after one year with:

Variable rates	\$289,691,943
Fixed rates	356,449,579
	\$646,141,522

Concentrations of credit risk: We grant commercial, residential and consumer loans to customers primarily located in the Eastern Panhandle and South Central regions of West Virginia, and the Northern region of Virginia. Although we strive to maintain a diverse loan portfolio, exposure to credit losses can be adversely impacted by downturns in local economic and employment conditions. Major employment within our market area is diverse, but primarily includes government, health care, education, poultry and various professional, financial and related service industries. As of December 31, 2005, we had no concentrations of loans to any single industry in excess of 10% of loans.

We evaluate the credit worthiness of each of our customers on a case-by-case basis and the amount of collateral we obtain is based upon this credit evaluation.

Loans to related parties: We have had, and may be expected to have in the future, banking transactions in the ordinary course of business with our directors, principal officers, their immediate families and affiliated companies in which they are principal stockholders (commonly referred to as related parties). These transactions have been, in our opinion, on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following presents the activity with respect to related party loans aggregating \$60,000 or more to any one related party (other changes represent additions to and changes in director and executive officer status):

	2005	2004
Balance, beginning	\$10,803,084	\$15,817,042
Additions	10,821,133	1,833,783
Amounts collected	(5,998,721)	(6,695,213)
Other changes, net	104,938	(152,528)
Balance, ending	<u>\$15,730,434</u>	<u>\$10,803,084</u>

5. ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses for the years ended December 31, 2005, 2004 and 2003 is as follows:

	2005	2004	2003
Balance, beginning of year	\$5,073,286	\$4,680,625	\$4,053,131
Losses:			
Commercial	35,809	141,815	1,308
Commercial real estate	—	335,777	96,640
Residential – mortgage	204,926	5,199	59,952
Consumer	173,020	208,391	178,305
Other	364,311	285,671	72,539
Total	<u>778,066</u>	<u>976,853</u>	<u>408,744</u>
Recoveries:			
Commercial	6,495	18,702	1,805
Commercial real estate	41,228	27,302	2,602
Residential - mortgage	42	9,413	413
Consumer	55,700	109,211	78,515
Other	273,645	154,886	37,903
Total	<u>377,110</u>	<u>319,514</u>	<u>121,238</u>
Net losses	400,956	657,339	287,506
Provision for loan losses	1,479,400	1,050,000	915,000
Balance, end of year	<u>\$6,151,730</u>	<u>\$5,073,286</u>	<u>\$4,680,625</u>

Our total recorded investment in impaired loans at December 31, 2005 and 2004 approximated \$3,797,000 and \$2,833,000, respectively. The related allowance associated with impaired loans for 2005 and 2004 was approximately \$452,000 and \$252,000, respectively. At December 31, 2005 and 2004, impaired loans with an associated allowance approximated \$1,298,000 and \$592,000, respectively. Approximately \$2,499,000 at December 31, 2005 and \$2,241,000 at December 31, 2004 of impaired loans had no related allowance. Our average investment in such loans approximated \$3,458,000, \$2,670,000, and \$1,373,000 for the years ended

December 31, 2005, 2004, and 2003 respectively. Impaired loans at December 31, 2005 and 2004 included loans that were collateral dependent, for which the fair values of the loans' collateral were used to measure impairment.

For purposes of evaluating impairment, we consider groups of smaller-balance, homogeneous loans to include: mortgage loans secured by residential property, other than those which significantly exceed our typical residential mortgage loan amount (currently those in excess of \$100,000); small balance commercial loans (currently those less than \$50,000); and consumer loans, exclusive of those loans in excess of \$50,000.

For the years ended December 31, 2005, 2004, and 2003, we recognized approximately \$181,000, \$123,000, and \$65,000 in interest income on impaired loans after the date that the loans were deemed to be impaired. Using a cash-basis method of accounting, we would have recognized approximately the same amount of interest income on such loans.

6. PROPERTY HELD FOR SALE

Property held for sale, consisting of foreclosed properties, was \$378,000 and \$593,000 at December 31, 2005 and December 31, 2004, respectively.

In 2005, we sold a foreclosed property that resulted in a \$214,000 pre-tax loss, which is reflected in other income. In 2003 we sold our primary branch facility in Petersburg, West Virginia, which produced a pre-tax gain of \$338,000, which is reflected in other income. A new Petersburg facility was constructed during 2004. We also sold our corporate headquarters located in Moorefield, West Virginia and have constructed new corporate headquarters in Moorefield.

7. PREMISES AND EQUIPMENT

The major categories of premises and equipment and accumulated depreciation at December 31, 2005 and 2004, are summarized as follows:

	2005	2004
Land	\$ 5,845,211	\$ 3,817,266
Buildings and improvements	16,100,504	15,216,987
Furniture and equipment	10,197,308	9,188,026
	<u>32,143,023</u>	<u>28,222,279</u>
Less accumulated depreciation	9,053,611	7,446,272
Total premises and equipment, net	<u>\$23,089,412</u>	<u>\$20,776,007</u>

Depreciation expense for the years ended December 31, 2005, 2004 and 2003 approximated \$1,681,000, \$1,507,000, and \$1,058,000, respectively.

8. INTANGIBLE ASSETS

In accordance with SFAS 142, 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 completed the required annual impairment test for 2005 and determined that no impairment write-offs were necessary.

In addition, at December 31, 2005 and December 31, 2004, we had \$1,259,642 and \$1,410,794 respectively, in unamortized acquired intangible assets consisting entirely of unidentifiable intangible assets recorded in accordance with SFAS 72.

	Goodwill Activity by Operating Segment			
	Community Banking	Mortgage Banking	Parent and Other	Total
Balance, January 1, 2005	\$1,488,030	\$ —	\$600,000	\$2,088,030
Acquired goodwill, net	—	—	—	—
Balance, December 31, 2005	<u>\$1,488,030</u>	<u>\$ —</u>	<u>\$600,000</u>	<u>\$2,088,030</u>

	Unidentifiable Intangible Assets	
	December 31, 2005	December 31, 2004
Gross carrying amount	\$2,267,323	\$2,267,323
Less: accumulated amortization	1,007,681	856,529
Net carrying amount	<u>\$1,259,642</u>	<u>\$1,410,794</u>

We recorded amortization expense of \$151,000 for the year ended December 31, 2005 relative to our unidentifiable intangible assets. Annual amortization is expected to be approximately \$151,000 for each of the years ending 2006 through 2009.

9. DEPOSITS

The following is a summary of interest bearing deposits by type as of December 31, 2005 and 2004:

	2005	2004
Demand deposits, interest bearing	\$200,637,520	\$ 122,355,331
Savings deposits	44,680,540	50,427,556
Certificates of deposit	339,720,153	271,130,829
Individual Retirement Accounts	26,231,095	25,298,430
Total	<u>\$611,269,308</u>	<u>\$469,212,146</u>

Time certificates of deposit and Individual Retirement Account's (IRA's) in denominations of \$100,000 or more totaled \$200,976,319 and \$117,179,440 at December 31, 2005 and 2004, respectively. Interest paid on time certificates of deposit and IRA's in denominations of \$100,000 or more was \$4,255,899, \$3,051,189, and \$2,535,703 for the years ended December 31, 2005, 2004 and 2003, respectively.

Included in certificates of deposits are brokered certificates of deposit, which totaled \$ 129,176,000 and \$53,268,000 at December 31, 2005 and 2004, respectively. Brokered deposits represent certificates of deposit acquired through a third party. The following is a summary of the maturity distribution of certificates of deposit and IRA's in denominations of \$100,000 or more as of December 31, 2005:

	Amount	Percent
Three months or less	\$ 23,812,718	11.9%
Three through six months	25,762,339	12.8%
Six through twelve months	52,132,857	25.9%
Over twelve months	99,268,405	49.4%
Total	<u>\$200,976,319</u>	<u>100.0%</u>

A summary of the scheduled maturities for all time deposits as of December 31, 2005, follows:

2006	\$197,121,696
2007	113,590,224
2008	32,467,450
2009	14,426,322
2010	6,973,245
Thereafter	1,372,311
Total	<u>\$365,951,248</u>

At December 31, 2005 and 2004, our deposits of related parties including directors, executive officers, and their related interests approximated \$16,605,000 and \$17,225,000, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. BORROWED FUNDS

Our subsidiary banks are members of the Federal Home Loan Bank (“FHLB”). Membership in the FHLB makes available short-term and long-term advances under collateralized borrowing arrangements with each subsidiary bank. All FHLB advances are collateralized primarily by similar amounts of residential mortgage loans, certain commercial loans, mortgage-backed securities and securities of U. S. Government agencies and corporations.

At December 31, 2005, our subsidiary banks had combined additional borrowings availability of \$68,657,000 from the FHLB. Short-term FHLB advances are granted for terms of 1 to 365 days and bear interest at a fixed or variable rate set at the time of the funding request.

In addition, Summit Financial Group, Inc. has a long-term line of credit available through an unaffiliated banking institution which is secured by the common stock of one of our subsidiary banks. At December 31, 2005 we had \$5,500,000 available to draw on this line.

Short-term borrowings: At December 31, 2005, we had \$19,700,000 borrowing availability through credit lines and Federal funds purchased agreements. A summary of short-term borrowings is presented below.

	Short-term FHLB Advances	Repurchase Agreements	Federal Funds Purchased and Lines of Credit
2005			
Balance at December 31	\$175,510,100	\$ 6,518,013	\$ —
Average balance outstanding for the year	130,023,493	8,060,676	888,214
Maximum balance outstanding at any month end	175,510,100	10,881,188	3,395,500
Weighted average interest rate for the year	3.54%	2.27%	4.77%
Weighted average interest rate for balances outstanding at December 31	4.27%	3.65%	—

	Short-term FHLB Advances	Repurchase Agreements	Federal Funds Purchased and Lines of Credit
2004			
Balance at December 31	\$109,798,900	\$10,830,314	\$ —
Average balance outstanding for the year	59,498,008	9,739,367	1,076,402
Maximum balance outstanding at any month end	109,798,900	11,098,557	1,173,000
Weighted average interest rate for the year	1.72%	1.59%	2.11%
Weighted average interest rate for balances outstanding at December 31	2.31%	1.85%	—

Federal funds purchased and repurchase agreements mature the next business day. The securities underlying the repurchase agreements are under our control and secure the total outstanding daily balances.

Long-term borrowings: Our long-term borrowings of \$150,911,835 and \$160,860,182 as of December 31, 2005 and 2004, respectively, consisted primarily of advances from the FHLB. These borrowings bear both fixed and variable interest rates and mature in varying amounts through the year 2016. The average interest rate paid on long-term borrowings during 2005 and 2004 approximated 4.67% and 4.05%, respectively.

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 December 31, 2005, and \$11,341,000 at December 31, 2004.

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
2006	\$21,944,946
2007	18,318,204
2008	16,085,851
2009	2,110,094
2010	62,734,338
Thereafter	49,307,402
Total	<u>\$170,500,835</u>

11. INCOME TAXES

The components of applicable income tax expense (benefit) for the years ended December 31, 2005, 2004 and 2003, are as follows:

	2005	2004	2003
Current			
Federal	\$5,319,400	\$4,650,000	\$3,678,325
State	407,100	381,650	201,250
	<u>5,726,500</u>	<u>5,031,650</u>	<u>3,879,575</u>
Deferred			
Federal	(945,358)	(424,385)	(572,400)
State	(69,560)	(25,550)	203,750
	<u>(1,014,918)</u>	<u>(449,935)</u>	<u>(368,650)</u>
Total	<u>\$4,711,582</u>	<u>\$4,581,715</u>	<u>\$3,510,925</u>

Reconciliation between the amount of reported income tax expense and the amount computed by multiplying the statutory income tax rates by book pretax income for the years ended December 31, 2005, 2004 and 2003 is as follows:

	2005		2004		2003	
	Amount	Percent	Amount	Percent	Amount	Percent
Computed tax at applicable statutory rate	\$5,424,355	34	\$5,164,630	34	\$3,984,556	34
Increase (decrease) in taxes resulting from:						
Tax-exempt interest and dividends, net	(865,042)	(5)	(899,668)	(6)	(768,393)	(6)
State income taxes, net of Federal income tax benefit	268,686	2	251,889	2	132,825	1
Other, net	(116,417)	(1)	64,864	—	161,937	1
Applicable income taxes	<u>\$4,711,582</u>	30	<u>\$4,581,715</u>	30	<u>\$3,510,925</u>	30

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Deferred income taxes reflect the impact of “temporary differences” between amounts of assets and liabilities for financial reporting purposes and such amounts as measured for tax purposes. Deferred tax assets and liabilities represent the future tax return consequences of temporary differences, which will either be taxable or deductible when the related assets and liabilities are recovered or settled. Valuation allowances are established when deemed necessary to reduce deferred tax assets to the amount expected to be realized.

The tax effects of temporary differences, which give rise to our deferred tax assets and liabilities as of December 31, 2005 and 2004, are as follows:

	2005	2004
Deferred tax assets		
Allowance for loan losses	\$2,253,848	\$1,861,126
Deferred compensation	685,007	581,593
Other deferred costs and accrued expenses	787,039	552,683
Net unrealized loss on securities and other financial instruments	1,258,649	125,335
	4,984,543	3,120,737
Deferred tax liabilities		
Depreciation	385,137	272,527
Accretion on tax-exempt securities	53,747	40,518
Purchase accounting adjustments and goodwill	159,054	135,443
	597,938	448,488
Net deferred tax assets (liabilities)	\$4,386,605	\$2,672,249

12. EMPLOYEE BENEFITS

Retirement Plans: We have defined contribution profit-sharing plans with 401(k) provisions covering substantially all employees. Contributions to the plans are at the discretion of the Board of Directors. Contributions made to the plans and charged to expense were \$386,893, \$277,187, and \$276,380 for the years ended December 31, 2005, 2004 and 2003, respectively.

Employee Stock Ownership Plan: We have an Employee Stock Ownership Plan (“ESOP”), which enables eligible employees to acquire shares of our common stock. The cost of the ESOP is borne by us through annual contributions to an Employee Stock Ownership Trust in amounts determined by the Board of Directors.

The expense recognized by us is based on cash contributed or committed to be contributed by us to the ESOP during the year. Contributions to the ESOP for the years ended December 31, 2005, 2004 and 2003 were \$354,757, \$233,813 and \$217,120, respectively. Dividends paid by us to the ESOP are reported as a reduction to retained earnings. The ESOP owned 202,489 and 194,408 shares of our common stock at December 31, 2005 and December 31, 2004, respectively, all of which were purchased at the prevailing market price and are considered outstanding for earnings per share computations.

The trustees of the Retirement Plans and ESOP are also members of our Board of Directors.

Supplemental Executive Retirement Plan: In May 1999, Summit Community Bank entered into a non-qualified Supplemental Executive Retirement Plan (“SERP”) with certain senior officers, which provides participating officers with an income benefit payable at retirement age or death. During 2000, Shenandoah Valley National Bank adopted a similar plan and during 2002, Summit Financial Group, Inc. adopted a similar plan. The liabilities accrued for the SERP’s at December 31, 2005 and 2004 were \$930,977 and \$730,785 respectively, which are included in other liabilities. In addition, we purchased certain life insurance contracts to fund the liabilities arising under these plans. At December 31, 2005 and 2004, the cash surrender value of these insurance contracts was \$8,057,631 and \$5,326,246, respectively, and is included in other assets in the accompanying consolidated balance sheets.

Stock Option Plan: 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. Accordingly, no compensation expense is recognized for options granted under the Plan.

The following pro forma disclosures present for 2005, 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).

	Years Ended December 31,		
(in thousands, except per share data)	2005	2004	2003
Net income:			
As reported	\$11,242	\$10,608	\$8,208
Deduct total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(717)	(260)	(42)
Pro forma	\$10,525	\$10,348	\$8,166
Basic earnings per share:			
As reported	\$ 1.58	\$ 1.51	\$ 1.17
Pro forma	\$ 1.48	\$ 1.48	\$ 1.17
Diluted earnings per share:			
As reported	\$ 1.56	\$ 1.49	\$ 1.16
Pro forma	\$ 1.46	\$ 1.46	\$ 1.16

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 in each respective year: risk free interest rates of 4.44% for 2005, 3.60% for 2004, and 3.75% for 2003; dividend yields of 1.25% for 2005, 1.04% for 2004, and 1.21% for 2003; volatility factors of the expected market price of our common stock of 25 for 2005, 20 for 2004, and 22 for 2003; and an expected option life of 8 years for 2005, 2004 and 2003. The weighted-average grant date fair value of options granted during

2005, 2004, and 2003 was \$8.07, \$7.85, and \$5.30, respectively. For purposes of the pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

A summary of activity in our Officer Stock Option Plan during 2003, 2004 and 2005 is as follows:

	Options	Weighted-Average Exercise Price
Outstanding, December 31, 2002	165,800	\$ 6.16
Granted	52,000	17.79
Exercised	(10,600)	5.03
Forfeited	—	—
Outstanding, December 31, 2003	207,200	\$ 9.14
Granted	98,400	25.55
Exercised	(21,500)	5.59
Forfeited	—	—
Outstanding, December 31, 2004	284,100	\$15.09
Granted	87,500	24.41
Exercised	(9,860)	12.73
Forfeited	—	—
Outstanding, December 31, 2005	361,740	\$17.41
Exercisable Options:		
December 31, 2005	309,340	\$17.99
December 31, 2004	153,300	\$12.14
December 31, 2003	98,800	\$ 5.47

Other information regarding options outstanding and exercisable at December 31, 2005 is as follows:

Range of exercise price	Options Outstanding			Options Exercisable	
	# of shares	WAEP	Wtd. Avg. Remaining Contractual Life (yrs)	# of shares	WAEP
\$ 4.63 - \$ 6.00	94,200	\$ 5.30	6.87	87,400	\$ 5.25
6.01 - 10.00	33,640	9.49	10.03	19,240	9.49
10.01 - 17.50	3,600	17.43	8.17	3,600	17.43
17.51 - 20.00	51,800	17.79	10.96	20,600	17.79
20.01 - 25.93	178,500	25.19	9.57	178,500	25.19
	<u>361,740</u>	17.41		<u>309,340</u>	17.99

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. COMMITMENTS AND CONTINGENCIES

Financial instruments with off-balance sheet risk: 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:

	December 31,	
	2005	2004
Commitments to extend credit:		
Revolving home equity and credit card lines	\$ 28,721,276	\$ 24,530,616
Construction loans	100,523,486	57,482,302
Other loans	37,926,160	30,836,445
Standby letters of credit	11,253,896	6,148,776
Total	\$178,424,818	\$118,998,139

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.

Operating leases: We occupy certain facilities under long-term operating leases. The aggregate minimum annual rental commitments under those leases total approximately \$1,068,000 in 2006, \$1,019,000 in 2007, \$984,000 in 2008, \$431,000 in 2009, and \$116,000 in 2010. Total net rent expense included in the accompanying consolidated financial statements was \$673,000 in 2005, \$439,000 in 2004 and \$130,000 in 2003.

Litigation: 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.

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 employment with Summit Financial, LLC. Summit Financial, LLC now operates 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 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 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.

On January 4, 2006, Mary Forrest, an individual, filed suit in the United States District Court for the Eastern District of Wisconsin, Milwaukee Division, against our subsidiary, Shenandoah Valley National Bank. The plaintiff claims that Shenandoah violated the Federal Fair Credit Reporting Act ("FCRA") alleging that Shenandoah used information contained in her consumer report, without extending a "firm offer of credit" within the meaning of the FCRA. Plaintiff requests statutory damages. This case is a purported class action. Presently, we do not have final information as to the size of the alleged class. Responsive pleadings have only recently been filed, and discovery will be initiated shortly. We will continue to evaluate the claim in this lawsuit and intend to vigorously defend against it. 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.

Employment Agreements: We have various employment agreements with our chief executive officer and certain other executive officers. These agreements contain change in control provisions that would entitle the officers to receive compensation in the event there is a change in control in the Company (as defined) and a termination of their employment without cause (as defined).

14. ISSUANCE OF PREFERRED STOCK

On April 23, 2004, the Board of Directors approved an amendment to our Articles of Incorporation establishing the Rockingham National Bank Series Convertible Preferred Stock ("Preferred Stock") and authorizing up to 40,000 shares of its issuance. On May 17, 2004, we completed the sale of 33,400 shares of Preferred Stock in a private placement. The Preferred Stock was sold to potential investors that we believed would be beneficial to the development and support of the Rockingham National Bank, a division of Summit's subsidiary, Shenandoah Valley National Bank, and to the outside directors of Shenandoah Valley National Bank. The offering price for each share of the Preferred Stock was the mean of the closing prices of Summit's common stock reported on the last five (5) business days on which the stock traded prior to and inclusive of May 10, 2004, which was \$35.28 per share, and aggregate offering proceeds were \$1,158,471, net of related issuance costs. The holders of this Preferred Stock did not receive dividends. The shares of Preferred Stock converted automatically into 76,820 shares of our common stock on May 15,

2005. The conversion was effected for the December 2004 two-for-one stock split, and was based on the total loans and deposits of the Rockingham National Bank division of Shenandoah Valley National Bank on May 15, 2005.

15. REGULATORY MATTERS

The primary source of funds for our dividends paid to our shareholders is dividends received from our subsidiary banks. Dividends paid by the subsidiary banks are subject to restrictions by banking regulations. The most restrictive provision requires approval by their regulatory agencies if dividends declared in any year exceed the year's net income, as defined, plus the net retained profits of the two preceding years. During 2006, our subsidiaries have \$18,962,000 plus net income for the interim periods through the date of declaration, available for dividends for distribution to us.

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. Our 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. Failure to meet these minimum capital requirements can result in certain mandatory and possible additional discretionary actions by regulators that could have a material impact on our financial position and results of operations.

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 December 31, 2005, that we and each of our subsidiaries met all capital adequacy requirements to which we were subject.

The most recent notifications from the banking regulatory agencies categorized us and each of our subsidiary banks 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 subsidiary banks are required to maintain noninterest bearing reserve balances with the Federal Reserve Bank. The required reserve balance was \$13,635,000 at December 31, 2005.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summit's and its subsidiary banks', Summit Community Bank ("SCB") and Shenandoah Valley National Bank's ("SVNB") actual capital amounts and ratios are also presented in the following table.

<i>(Dollars in thousands)</i>	Actual		Minimum Required Regulatory Capital		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2005						
Total Capital (to risk weighted assets)						
Summit	\$96,837	11.4%	\$68,010	8.0%	\$85,013	10.0%
Summit Community	54,550	10.4%	41,792	8.0%	52,240	10.0%
Shenandoah	35,834	11.2%	25,589	8.0%	31,986	10.0%
Tier 1 Capital (to risk weighted assets)						
Summit	90,686	10.7%	34,005	4.0%	51,008	6.0%
Summit Community	50,490	9.7%	20,896	4.0%	31,344	6.0%
Shenandoah	33,743	10.5%	12,794	4.0%	19,191	6.0%
Tier 1 Capital (to average assets)						
Summit	90,686	8.6%	31,764	3.0%	52,940	5.0%
Summit Community	50,490	7.5%	20,251	3.0%	33,752	5.0%
Shenandoah	33,743	9.0%	11,199	3.0%	18,664	5.0%
As of December 31, 2004						
Total Capital (to risk weighted assets)						
Summit	\$77,301	11.9%	51,863	8.0%	64,829	10.0%
Summit Community	45,672	10.8%	33,817	8.0%	42,271	10.0%
Shenandoah	23,253	10.7%	17,440	8.0%	21,800	10.0%
Tier 1 Capital (to risk weighted assets)						
Summit	72,228	11.1%	25,932	4.0%	38,897	6.0%
Summit Community	42,165	10.0%	16,908	4.0%	25,363	6.0%
Shenandoah	21,687	9.9%	8,720	4.0%	13,080	6.0%
Tier 1 Capital (to average assets)						
Summit	72,228	8.3%	26,256	3.0%	43,761	5.0%
Summit Community	42,165	7.1%	17,739	3.0%	29,565	5.0%
Shenandoah	21,687	8.0%	8,128	3.0%	13,546	5.0%

16. 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. The accounting policies for each of our business segments are the same as those described in Note 1.

Intersegment revenue and expense consists of management fees allocated to the banks, Summit Mortgage and Summit Insurance Services, LLC for all centralized functions that are performed at the parent location including data processing, bookkeeping, accounting, treasury management, loan administration, loan review, compliance, risk management and internal auditing. We also provide overall direction in the areas of credit policy and administration, strategic planning, marketing, investment portfolio management and other financial and administrative services. Also included is intercompany interest expense on the Summit Mortgage warehouse line of credit with SVNB. Information for each of our segments is included below:

	December 31, 2005					
	Community Banking	Mortgage Banking	Insurance Services	Parent	Eliminations	Total
Net interest income	\$31,000,104	\$ 658,442	\$ —	\$ (852,903)	\$ —	\$30,805,643
Provision for loan losses	1,295,000	184,400	—	—	—	1,479,400
Net interest income after provision for loan losses	29,705,104	474,042	—	(852,903)	—	29,326,243
Other income	1,861,713	26,370,978	620,755	4,885,636	(4,864,878)	28,874,204
Other expenses	17,643,904	23,207,664	591,561	5,668,210	(4,864,878)	42,246,461
Income (loss) before income taxes	13,922,913	3,637,356	29,194	(1,635,477)	—	15,953,986
Income tax expense (benefit)	4,132,750	1,262,237	10,845	(694,250)	—	4,711,582
Net income	\$ 9,790,163	\$ 2,375,119	\$ 18,349	\$ (941,227)	\$ —	\$11,242,404
Intersegment revenue (expense)	\$ (3,490,719)	\$ (1,342,659)	\$ (31,500)	\$ 4,864,878	\$ —	\$ —
Average assets (in thousands)	\$ 958,210	\$ 22,613	\$ 967	\$ 83,466	\$ (96,288)	\$ 968,968

	December 31, 2004					
	Community Banking	Mortgage Banking	Insurance Services	Parent	Eliminations	Total
Net interest income	\$27,570,920	\$ 696,135	\$ —	\$ (490,031)	\$ —	\$27,777,024
Provision for loan losses	1,050,000	—	—	—	—	1,050,000
Net interest income after provision for loan losses	26,520,920	696,135	—	(490,031)	—	26,727,024
Other income	2,862,390	24,087,294	312,219	3,903,104	(3,912,870)	27,252,137
Other expenses	15,522,907	22,045,525	321,362	4,812,149	(3,912,870)	38,789,073
Income (loss) before income taxes	13,860,403	2,737,904	(9,143)	(1,399,076)	—	15,190,088
Income tax expense (benefit)	4,188,450	944,000	(2,935)	(547,800)	—	4,581,715
Net income	\$ 9,671,953	\$ 1,793,904	\$ (6,208)	\$ (851,276)	\$ —	\$10,608,373
Intersegment revenue (expense)	\$ (3,063,304)	\$ (827,066)	\$ (22,500)	\$ 3,912,870	\$ —	\$ —
Average assets (in thousands)	\$ 817,414	\$ 16,701	\$ 821	\$ 73,280	\$ (67,333)	\$ 840,883

	December 31, 2003				
	Community Banking	Mortgage Banking	Parent	Eliminations	Total
Net interest income	\$23,848,159	\$ 69,097	\$ (223,676)	\$ —	\$23,693,580
Provision for loan losses	915,000	—	—	—	915,000
Net interest income after provision for loan losses	22,933,159	69,097	(223,676)	—	22,778,580
Other income	2,706,245	3,137,702	3,291,622	(3,311,180)	5,824,389
Other expenses	13,443,687	3,060,882	3,690,299	(3,311,180)	16,883,688
Income (loss) before income taxes	12,195,717	145,917	(622,353)	—	11,719,281
Income tax expense (benefit)	3,655,277	49,798	(194,150)	—	3,510,925
Net income	\$ 8,540,440	\$ 96,119	\$ (428,203)	\$ —	\$ 8,208,356
Intersegment revenue (expense)	\$ (3,225,159)	\$ (86,021)	\$ 3,311,180	\$ —	\$ —
Average assets (in thousands)	\$ 717,565	\$ 4,081	\$ 60,164	\$ (59,066)	\$ 722,744

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. EARNINGS PER SHARE

The computations of basic and diluted earnings per share follow:

	For the Year Ended December 31,		
	2005	2004	2003
Numerator:			
Net Income	\$11,242,404	\$10,608,373	\$8,208,356
Denominator:			
Denominator for basic earnings per share-weighted average common shares outstanding	7,093,402	7,025,118	7,010,007
Effect of dilutive securities:			
Convertible preferred stock	28,202	23,607	—
Stock options	85,234	73,036	63,280
	113,436	96,643	63,280
Denominator for diluted earnings per share-weighted average common shares outstanding and assumed conversions	7,206,838	7,121,761	7,073,287
Basic earnings per share	\$ 1.58	\$ 1.51	\$ 1.17
Diluted earnings per share	\$ 1.56	\$ 1.49	\$ 1.16

Stock option grants are disregarded in this calculation if they are determined to be anti-dilutive. At December 31, 2005, all stock options were dilutive. At December 31, 2004 and 2003, our anti-dilutive stock options totaled 94,000 shares, and 52,000 shares, respectively.

18. DERIVATIVE FINANCIAL INSTRUMENTS

We use derivative instruments primarily to protect against the risk of adverse interest rate movements on the value of certain liabilities. Derivative instruments represent contracts between parties that usually require little or no initial net investment and result in one party delivering cash or another type of asset to the other party based upon a notional amount and an underlying as specified in the contract. A notional amount represents the number of units of a specific item, such as currency units. An underlying represents a variable, such as an interest rate or price index. The amount of cash or other asset delivered from one party to the other is determined based upon the interaction of the notional amount of the contract with the underlying. Derivatives can also be implicit in certain contracts and commitments.

Market risk is the risk of loss arising from an adverse change in interest rates or equity prices. Our primary market risk is interest rate

risk. We use interest rate swaps to protect against the risk of interest rate movements on the value of certain funding instruments.

As with any financial instrument, derivative instruments have inherent risks, primarily market and credit risk. Market risk associated with changes in interest rates is managed by establishing and monitoring limits as to the degree of risk that may be undertaken as part of our overall market risk monitoring process. Credit risk occurs when a counterparty to a derivative contract with an unrealized gain fails to perform according to the terms of the agreement. Credit risk is managed by monitoring the size and maturity structure of the derivative portfolio, and applying uniform credit standards to all activities with credit risk.

Fair value hedges: We primarily use receive-fixed interest rate swaps to hedge the fair values of certain fixed rate long term FHLB advances and certificates of deposit against changes in interest rates. These hedges are 100% effective, therefore there is no ineffectiveness reflected in earnings. The net of the amounts earned on the fixed rate leg of the swaps and amounts due on the variable rate leg of the swaps are reflected in interest expense.

Other derivative activities: We also have other derivative financial instruments which do not qualify as SFAS 133 hedge relationships.

We have issued certain certificates of deposit which pay a return based upon changes in the S&P 500 equity index. Under SFAS 133, the equity index feature of these deposits is deemed to be an embedded derivative accounted for separately from the deposit. To hedge the returns paid to the depositors, we have entered into an equity swap indexed to the S&P 500. Both the embedded derivative and the equity swap are accounted for as other derivative instruments. Gains and losses on both the embedded derivative and the swap are included in other noninterest income on the consolidated statement of income.

We have also entered into receive-fixed interest rate swaps with certain customers ("Customer Swaps") who have a variable rate commercial real estate loan, but desire a long-term fixed interest rate. The notional amount of each Customer Swap equals the principal balance of the customer's related commercial real estate loan. Further, under the terms of each Customer Swap, the variable rate payment we pay the customer equals the interest payment the customer pays us under the terms of their commercial real estate loan. Accordingly, the customer's fixed rate payment under the Customer Swap represents the customer's effective borrowing cost. In addition, to hedge the long-term interest rate risk associated with these transactions, we have entered into receive-variable interest rate swaps with an unrelated counterparty ("Counterparty Swap") in notional amounts equaling the notional amounts of each related Customer Swap. The amounts we pay to the unrelated counterparty under the fixed rate leg

of each Counterparty Swap equals the amount we receive from each customer under the fixed rate leg of their Customer Swap. Gains and losses associated with both the Customer Swaps and Counterparty

Swaps are included in other noninterest income on the consolidated statement of income.

A summary of our derivative financial instruments by type of activity follows:

FAIR VALUE HEDGES	Notional Amount	Derivative Fair Value		Net Ineffective Hedge Gains (Losses)
		Asset	Liability	
As of December 31, 2005				
Receive—fixed interest rate swaps:				
FHLB advances	\$40,000,000	\$ —	\$1,941,645	\$ —
Brokered deposits	15,000,000	—	104,635	—
	<u>\$55,000,000</u>	<u>\$ —</u>	<u>\$2,046,280</u>	<u>\$ —</u>
As of December 31, 2004				
Receive—fixed interest rate swaps:				
FHLB advances	<u>\$46,000,000</u>	<u>\$ —</u>	<u>\$ 809,120</u>	<u>\$ —</u>
OTHER DERIVATIVE INSTRUMENTS	Notional Amount	Derivative		Net Gains (Losses)
		Asset	Liability	
As of December 31, 2005				
Equity index linked certificates of deposit	\$ 1,354,630	\$ 87,426	\$ —	\$ (11,264)
Equity index swap	1,354,630	—	150,131	4,909
Receive—fixed interest rate swaps	7,792,100	—	17,728	(17,728)
Receive—variable interest rate swaps	7,792,100	144,572	—	144,572
	<u>\$18,293,460</u>	<u>\$ 231,998</u>	<u>\$ 167,859</u>	<u>\$ 120,489</u>
As of December 31, 2004				
Equity index linked certificates of deposit	\$ 1,354,630	\$ 23,653	\$ —	\$ (33,290)
Equity index swap	1,354,630	—	138,867	28,100
	<u>\$ 2,709,260</u>	<u>\$ 23,653</u>	<u>\$ 138,867</u>	<u>\$ (5,190)</u>

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following summarizes the methods and significant assumptions we used in estimating our fair value disclosures for financial instruments.

Cash and due from banks: The carrying values of cash and due from banks approximate their estimated fair value.

Interest bearing deposits with other banks: The fair values of interest bearing deposits with other banks are estimated by discounting scheduled future receipts of principal and interest at the current rates offered on similar instruments with similar remaining maturities.

Federal funds sold: The carrying values of Federal funds sold approximate their estimated fair values.

Securities: Estimated fair values of securities are based on quoted market prices, where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities.

Loans held for sale: The carrying values of loans held for sale approximate their estimated fair values.

Loans: The estimated fair values for loans are computed based on scheduled future cash flows of principal and interest, discounted at interest rates currently offered for loans with similar terms to borrowers of similar credit quality. No prepayments of principal are assumed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accrued interest receivable and payable: The carrying values of accrued interest receivable and payable approximate their estimated fair values.

Deposits: The estimated fair values of demand deposits (i.e. noninterest bearing checking, NOW, money market and savings accounts) and other variable rate deposits approximate their carrying values. Fair values of fixed maturity deposits are estimated using a discounted cash flow methodology at rates currently offered for deposits with similar remaining maturities. Any intangible value of long-term relationships with depositors is not considered in estimating the fair values disclosed.

Short-term borrowings: The carrying values of short-term borrowings approximate their estimated fair values.

Long-term borrowings: The fair values of long-term borrowings are estimated by discounting scheduled future payments of principal and interest at current rates available on borrowings with similar terms.

Derivative financial instruments: The fair values of the interest rate swaps are valued using cash flow projection models.

Off-balance sheet instruments: The fair values of commitments to extend credit and standby letters of credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit standing of the counterparties. The amounts of fees currently charged on commitments and standby letters of credit are deemed insignificant, and therefore, the estimated fair values and carrying values are not shown below.

The carrying values and estimated fair values of our financial instruments are summarized below:

	2005		2004	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and due from banks	\$ 22,535,761	\$ 22,535,761	\$ 19,416,219	\$ 19,416,219
Interest bearing deposits, other banks	1,536,506	1,536,506	2,338,698	2,338,698
Federal funds sold	3,650,000	3,650,000	48,000	48,000
Securities available for sale	223,772,298	223,772,298	211,361,504	211,361,504
Loans held for sale, net	16,584,990	16,584,990	14,273,916	14,273,916
Loans, net	793,766,837	785,575,694	602,727,975	600,648,677
Accrued interest receivable	4,835,763	4,835,763	3,651,907	3,651,907
Derivative financial assets	231,998	231,998	23,653	23,653
	\$1,066,914,153	\$1,058,723,010	\$853,841,872	\$851,762,574
Financial liabilities:				
Deposits	\$ 673,900,718	\$ 675,526,380	\$524,613,698	\$525,367,208
Short-term borrowings	182,028,113	182,028,113	120,629,214	120,629,214
Long-term borrowings and subordinated debentures	170,500,835	172,769,867	172,201,182	179,418,281
Accrued interest payable	2,904,801	2,904,801	1,927,158	1,927,158
Derivative financial liabilities	2,214,139	2,214,139	947,987	947,987
	\$1,031,548,606	\$1,035,443,300	\$820,319,239	\$828,289,848

20. CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY

Our investment in our wholly-owned subsidiaries is presented on the equity method of accounting. Information relative to our balance

sheets at December 31, 2005 and 2004, and the related statements of income and cash flows for the years ended December 31, 2005, 2004 and 2003, are presented as follows:

PARENT COMPANY

Balance Sheets

	December 31,	
	2005	2004
Assets		
Cash and due from banks	\$ 373,693	\$ 410,282
Investment in subsidiaries, eliminated in consolidation	86,662,381	68,966,924
Securities available for sale	150,409	175,534
Premises and equipment	6,581,084	6,804,384
Accrued interest receivable	4,682	2,388
Other assets	1,711,542	1,387,502
Total assets	\$95,483,791	\$77,747,014
Liabilities and Shareholders' Equity		
Long-term borrowings	\$ 1,000,000	\$ —
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589,000	11,341,000
Other liabilities	1,091,566	697,993
Total liabilities	21,680,566	12,038,993
Preferred stock and related surplus, \$1.00 par value, authorized 250,000 shares; 2004 — 33,400 shares issued	—	1,158,471
Common stock and related surplus, \$2.50 par value, authorized 20,000,000 shares; issued 2005 — 7,126,220 shares; 2004 — 7,155,420 shares	18,856,774	18,123,492
Retained earnings	56,214,807	47,108,898
Less cost of shares acquired for the treasury — 2004 — 115,880 shares	—	(627,659)
Accumulated other comprehensive income	(1,268,356)	(55,181)
Total shareholders' equity	73,803,225	65,708,021
Total liabilities and shareholders' equity	\$95,483,791	\$77,747,014

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PARENT COMPANY Statements of Income

	For the Year Ended December 31,		
	2005	2004	2003
Income			
Dividends from bank subsidiaries	\$ 2,800,000	\$ 2,500,000	\$ 2,800,000
Other dividends and interest income	26,966	16,489	8,060
Gain (loss) on sale of assets	20,758	(9,766)	-
Management and service fees from bank subsidiaries	4,864,878	3,912,870	3,311,180
Total income	7,712,602	6,419,593	6,119,240
Expense			
Interest expense	879,870	506,519	231,736
Operating expenses	5,668,209	4,812,149	3,709,857
Total expenses	6,548,079	5,318,668	3,941,593
Income before income taxes and equity in undistributed income of bank subsidiaries	1,164,523	1,100,925	2,177,647
Income tax (benefit)	(694,250)	(547,800)	(194,150)
Income before equity in undistributed income of bank subsidiaries	1,858,773	1,648,725	2,371,797
Equity in (distributed) undistributed income of bank subsidiaries	9,383,631	8,959,648	5,836,559
Net income	\$11,242,404	\$10,608,373	\$ 8,208,356

PARENT COMPANY
Statements of Cash Flows

For the Year Ended December 31,

	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$11,242,404	\$10,608,373	\$ 8,208,356
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Equity in (undistributed) net income of bank subsidiaries	(9,383,631)	(8,959,648)	(5,836,559)
Deferred tax expense (benefit)	(43,750)	10,200	219,850
Depreciation	593,597	565,672	344,546
Securities (gains)	(20,625)	—	—
Loss on disposal of premises and equipment	—	9,766	—
Tax benefit of exercise of stock options	77,000	141,000	—
(Increase) decrease in other assets	(78,333)	(199,724)	138,841
Increase in other liabilities	437,322	376,607	120,210
Net cash provided by operating activities	2,823,984	2,552,246	3,195,244
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in subsidiaries	(9,525,000)	(3,150,000)	(2,100,000)
Proceeds sales of available for sale securities	45,750	—	—
Purchase of available for sale securities	—	—	(87,186)
Proceeds from sales of premises and equipment	—	—	1,000,000
Purchases of premises and equipment	(370,297)	(1,219,361)	(5,325,450)
Net cash (used in) investing activities	(9,849,547)	(4,369,361)	(6,512,636)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to shareholders	(2,136,495)	(1,827,526)	(1,507,939)
Exercise of stock options	125,469	120,237	53,265
Purchase of treasury stock	—	—	(7,948)
Proceeds from long-term borrowings	4,000,000	125,000	4,720,000
Repayment of long-term borrowings	(3,000,000)	(4,845,000)	—
Net proceeds from issuance of trust preferred securities	8,000,000	7,406,250	—
Net proceeds from issuance of preferred stock	—	1,158,471	—
Net cash provided by financing activities	6,988,974	2,137,432	3,257,378
Increase (decrease) in cash	(36,589)	320,317	(60,014)
Cash:			
Beginning	410,282	89,965	149,979
Ending	\$ 373,693	\$ 410,282	\$ 89,965
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash payments for:			
Interest	\$ 824,201	\$ 476,449	\$ 223,228
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Noncash investment in unconsolidated subsidiary trust	\$ 248,000	\$ 232,000	\$ —

OFFICERS AND DIRECTORS

SUMMIT FINANCIAL GROUP

H. Charles Maddy, III
President & CEO

Robert S. Tissue
Senior Vice President & Chief Financial Officer

Scott C. Jennings
Senior Vice President & Chief Operating Officer

Patrick N. Frye
Senior Vice President & Chief Credit Officer

Douglas T. Mitchell
Senior Vice President & Chief Banking Officer

Julie R. Cook
Vice President & Chief Accounting Officer

Danyl R. Freeman
Vice President & Director of Human Resources

John A. Harper
Vice President & Director of Processing

Sharetta Coleman
Director of Audit

Tina Martin
Director of Debt Management

Jennifer McGregor
Director of Accounting

Felicity Ours
Director of Credit & Loan Review

Russell F. Ratliff, Jr.
Director of Operations

Teresa D. Sherman
Director of Shareholder Relations

Jennifer Smith
Director of Compliance

Angela Zirk
Director of Marketing & Public Relations

Board of Directors

Frank Baer, III
Oscar M. Bean
Dewey F. Bensenhaver
James M. Cookman
John W. Crites
Patrick N. Frye
James P. Geary
Thomas J. Hawse, III
Phoebe Fisher Heishman
Gary L. Hinkle
Gerald W. Huffman
H. Charles Maddy, III
Duke A. McDaniel
Ronald F. Miller
G.R. Ours, Jr.
Charles Piccirillo

SUMMIT COMMUNITY BANK

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President & CEO

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Senior Vice President of Retail Operations, North

Ann Vincent – Urling
Senior Vice President of Retail Operations, South

Mark H. Wright
Senior Vice President, Commercial Lending

J.D. Koontz
Senior Vice President, Commercial Lending

Debra S. Davis
Senior Vice President, Retail Lending

Jay P. Mongold
Vice President, Commercial Lending

J. Vance Wilson
Vice President, Retail Lending

Bob A. Cooper
Vice President, Retail Lending

Joyce A. Neal
Assistant Vice President, Retail Lending

Brenda Barnett
Assistant Vice President, Retail Office Manager – Rainelle

Jill D. Runion
Assistant Vice President

SUMMIT COMMUNITY BANK – CONTINUED

Board of Directors

Frank A. Baer III
Oscar M. Bean
Dewey F. Bensenhaver
Donald W. Biller
James M. Cookman
John W. Crites
Patrick N. Frye
James P. Geary, II
Charles W. Halterman
Thomas J. Hawse, III
Phoebe Fisher Heishman
Gary L. Hinkle
Jeffrey E. Hott
Gerald W. Huffman
H. Charles Maddy, III
Duke A. McDaniel
G.R. Ours, Jr.
Charles S. Piccirillo
Russell F. Ratliff, Jr.
C. David Robertson
F. Richard Thompson
David P. VanMeter, IV
Harry C. Welton, Jr.

SUMMIT FINANCIAL SERVICES

A Division of Summit Community Bank

Robert Lewandowski
Managing Director

SHENANDOAH VALLEY NATIONAL BANK

Ronald F. Miller
President & CEO

Cyndie J. Layman
Senior Vice President

Steven D. Tavenner
Senior Vice President

Dawn P. Frye
Vice President & Cashier

Board of Directors

J. Scott Bridgeforth
George B. Caley
Randolph A. Craun
Henry P. Kern, III
H. Charles Maddy, III
Ronald F. Miller
Larry T. Omps
George W. Pace
Douglas R. Toan

LOUDOUN NATIONAL BANK

A Division of Shenandoah Valley National Bank

James L. Bowman
President

Kathryn L. Kearns
Senior Vice President

Local Board

Jane Fellows
Joel Lyles
Jeffrey Mitchell
H. Powers Thomas

ROCKINGHAM NATIONAL BANK

A Division of Shenandoah Valley National Bank

Dennis L. Snyder
President

Garth Kunkle
Senior Vice President

Local Board

Stephanne S. Byrd
Carl B. Harman
Michael Layman
Allon H. Lefever
George W. Pace
Karl D. Stoltzfus

PEOPLES NATIONAL BANK OF WARRENTON

A Division of Shenandoah Valley National Bank

James Underhill
President

SUMMIT MORTGAGE

A Division of Shenandoah Valley National Bank

Theresa Ritter
Managing Director

SUMMIT INSURANCE SERVICES, LLC

H. Charles Maddy, III
Managing Director

Kevin Reed
Vice President & Senior Commercial Agent

Bruce Kesner
Senior Agent, Consumer Insurance

DiAnna Liller
Senior Agent/Office Manager

SHAREHOLDER INFORMATION

CORPORATE ADDRESS

300 North Main Street
Moorefield, WV 26836
(304) 530-1000
www.summitfgi.com

FORM 10-K

Summit Financial Group, Inc. files an annual report to the Securities and Exchange Commission on Form 10-K. Copies of this report are available at www.summitfgi.com or may be obtained without charge upon written request to:

Julie R. Cook
Vice President & Chief Accounting Officer
Summit Financial Group, Inc.
Post Office Box 179
Moorefield, West Virginia 26836
Email: jcook@summitfgi.com

SHAREHOLDER ASSISTANCE AND GENERAL CORPORATE INFORMATION

Shareholders seeking assistance and others seeking general corporate information should contact:

Teresa D. Sherman
Director of Shareholder Relations
Summit Financial Group, Inc.
Post Office Box 179
Moorefield, West Virginia 26836
Email: tsherman@summitfgi.com

TRANSFER AGENT

Registrar & Transfer Company
10 Commerce Drive
Cranford, New Jersey 07016-3572
(800) 368-5948
www.rtco.com

COMMON STOCK LISTING

Current market quotations for the common stock of Summit Financial Group, Inc. are available on The NASDAQ SmallCap Market under the symbol SMME.

COMMON STOCK DIVIDEND AND MARKET PRICE INFORMATION

The following table presents cash dividends paid per share and information regarding bid prices per share of Summit's common stock for the periods indicated. The bid prices presented are based on information reported by NASDAQ, and may reflect inter-dealer prices, without retail mark-up, mark-down or commission and not represent actual transactions.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2005				
Dividends paid	\$ —	\$ 0.14	\$ —	\$ 0.16
High bid	36.00	33.49	33.55	28.00
Low bid	26.51	23.82	25.54	22.48

2004

Dividends paid	\$ —	\$ 0.125	\$ —	\$ 0.135
High bid	17.75	20.38	21.75	29.75
Low bid	17.28	17.00	19.55	21.38

Dividends on Summit's common stock are paid on the 15th day of June and December. The record date is the 1st day of each respective month.

As of March 31, 2006, there were approximately 1,365 shareholders of record of Summit's common stock.

LOCATIONS

SUMMIT COMMUNITY BANK

www.summitcommunitybank.com

Moorefield

310 North Main Street
Moorefield, WV 26836
(304) 530-1000

Mathias

59 Upper Cove Road
Mathias, WV 26812
(304) 897-5997

Petersburg

90 South Grove Street
Petersburg, WV 26847
(304) 257-1244

Franklin

626 Main Street
Franklin, WV 26807
(304) 358-2388

Charleston

2402 Mountaineer Boulevard
Charleston, WV 25309
(304) 746-4600

Charleston

620 Virginia Street, East
Charleston, WV 25301
(304) 343-9200

Rainelle

28 Main Street
Rainelle, WV 25962
(304) 438-6171

Rupert

910 Clay Street
Rupert, WV 25984
(304) 392-6314

SHENANDOAH VALLEY NATIONAL BANK

www.shenandoahvnb.com

Winchester

100 West Jubal Early Drive
Winchester, VA 22601
(540) 678-0300

Winchester

(Wal-Mart)
2350 South Pleasant Valley Road
Winchester, VA 22601
(540) 667-9393

Martinsburg (opening 2nd quarter, 2006)

1321 Edwin Miller Blvd.
Martinsburg, WV 25401

LOUDOUN NATIONAL BANK

A Division of Shenandoah Valley National

www.loudounnationalbank.com
9-J Catocin Circle, SW
Leesburg, VA 20175
(703) 777-6556

ROCKINGHAM NATIONAL BANK

A Division of Shenandoah Valley National Bank

www.rockinghamnationalbank.com

Harrisonburg

224 South Main Street
Harrisonburg, VA 22801
(540) 442-6776

Harrisonburg

182 Neff Avenue, W-11
Harrisonburg, VA 22801
(540) 437-0500

PEOPLES NATIONAL BANK OF WARRENTON

A Division of Shenandoah Valley National Bank

www.pnbwarrenton.com
251 West Lee Highway, Suite 730
Warrenton, VA 20186
(540) 347-7779

SUMMIT MORTGAGE

A Division of Shenandoah Valley National Bank

Chesapeake

510 Independence Parkway
Suite 200
Chesapeake, VA 23320
(800) 990-3588

Herndon

555 Herndon Parkway
Suite 200
Herndon, VA 20170
(800) 550-3588

SUMMIT INSURANCE SERVICES, LLC

310 North Main Street
Moorefield, WV 26836
(304) 530-2255

SUMMIT FINANCIAL SERVICES

A Division of Summit Community Bank

Winchester

100 West Jubal Early Drive
Winchester, VA 22601
(540) 450-3297

Charleston

2402 Mountaineer Boulevard
Charleston, WV 25309
(304) 746-4600



Summit Financial Group, Inc • 300 North Main Street • Moorefield, WV 26836 • 304/530/1000
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