

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2005**

Commission File Number **0-16587**

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

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

55-0672148
(I.R.S. Employer
Identification No.)

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

26836
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act:
Common
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K [§229.405 of this chapter] is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. ☐

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the voting stock held by non-affiliates of the Registrant at June 30, 2005, was approximately \$171,827,000. The number of shares of the Registrant's Common Stock outstanding on March 9, 2006, was 7,126,220. (Registrant has assumed that all of its executive officers and directors are affiliates. Such assumption shall not be deemed to be conclusive for any other purpose.)

Documents Incorporated by Reference

The following lists the documents which are incorporated by reference in the Annual Report Form 10-K, and the Parts and Items of the Form 10-K into which the documents are incorporated.

Part of Form 10-K into which
document is incorporated

Document

Portions of the Registrant's

2005 Annual Report to Shareholders

Part I - Items 1, 2, 3, 5, and 9A

Part II - Items 6, 7, 7A, and 8

Portions of the Registrant's Proxy Statement for the

Annual Meeting of Shareholders to be held May 18, 2006

Part III - Items 10, 11, 12, 13, and 14

SUMMIT FINANCIAL GROUP, INC

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FORWARD-LOOKING INFORMATION

This filing contains certain forward-looking statements (as defined in the Private Securities Litigation Act of 1995), which reflect our beliefs and expectations based on information currently available. These forward-looking statements are inherently subject to significant risks and uncertainties, including changes in general economic and financial market conditions, our ability to effectively carry out our business plans and changes in regulatory or legislative requirements. Other factors that could cause or contribute to such differences are changes in competitive conditions and continuing consolidation in the financial services industry. Although we believe the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially.

PART I.

Item 1. Business

General

Summit Financial Group, Inc. (“Company” or “Summit”) is a \$1.1 billion financial holding company headquartered in Moorefield, West Virginia. We operate two major 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”). Our mortgage banking segment originates loans to customers throughout the United States from its headquarters in Chesapeake, Virginia. This entity, formerly known as Summit Financial, LLC, began operating as Summit Mortgage, a division of Shenandoah Valley National Bank during first quarter 2005. We also operate Summit Insurance Services, LLC in Moorefield, West Virginia. Our segmented financial information for 2005, 2004, and 2003 is set forth in the tables in Note 16 of the notes of the accompanying consolidated financial statements and a discussion of this information is in the Management’s Discussion and Analysis section of our 2005 annual report and is incorporated herein by reference.

Community Banking

We provide a wide range of community banking services, including demand, savings and time deposits; commercial, real estate and consumer loans; letters of credit; and cash management services. The deposits of the Bank Subsidiaries are insured by the Federal Deposit Insurance Corporation (“FDIC”).

In order to compete with other financial service providers, we principally rely upon personal relationships established by our officers, directors and employees with our customers, and specialized services tailored to meet our customers’ needs. We and our Bank Subsidiaries have maintained a strong community orientation by, among other things, supporting the active participation of staff members in local charitable, civic, school, religious and community development activities. We also have a marketing program that primarily utilizes local radio and newspapers to advertise.

Our primary lending focus is providing commercial loans to local businesses with annual sales ranging from \$300,000 to \$30 million and providing owner-occupied real estate loans to individuals. Typically, our customers have financing requirements between \$50,000 and \$1,000,000. We generally do not seek loans of more than \$5 million, but will consider larger lending relationships which involve exceptional levels of credit quality. Under our commercial banking strategy, we focus on offering a broad line of financial products and services to small and medium-sized businesses through full service banking offices. Each Bank Subsidiary has senior management with extensive lending experience. These managers exercise substantial authority over credit and pricing decisions, subject to loan committee approval for larger credits. This decentralized management approach, coupled with continuity of service by the same staff members, enables the Bank Subsidiaries to develop long-term customer relationships, maintain high quality service and respond quickly to customer needs. We believe that our emphasis on local relationship banking, together with a conservative approach to lending, are important factors in our success and growth. We centralize operational and support functions that are transparent to customers in order to achieve consistency and cost efficiencies in the delivery of products and services by each banking office. The central office provides services such as data processing, bookkeeping, accounting, treasury management, loan administration, loan review, compliance, risk management and internal auditing to enhance our delivery of quality service. 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. The banking offices work closely with us to develop new products and services needed by their customers and to introduce enhancements to existing products and services.

Our mortgage banking segment originates for resale: 1) primarily residential second mortgage debt consolidation loans to customers throughout the United States marketed utilizing direct mail to customers with reasonably good credit histories who desire to reduce their credit card and other consumer debts by obtaining second mortgage debt-consolidation loans; and 2) traditional residential first mortgage loans to borrowers in West Virginia and northern Virginia.

Supervision and Regulation

General

We, as a financial holding company, are subject to the restrictions of the Bank Holding Company Act of 1956, as amended (“BHCA”), and are registered pursuant to its provisions. As a registered financial holding company, we are subject to the reporting requirements of the Federal Reserve Board of Governors (“FRB”), and are subject to examination by the FRB.

As a financial holding company doing business in West Virginia, we are also subject to regulation by the West Virginia Board of Banking and Financial Institutions and must submit annual reports to the West Virginia Division of Banking.

The BHCA prohibits the acquisition by a financial holding company of direct or indirect ownership of more than five percent of the voting shares of any bank within the United States without prior approval of the FRB. With certain exceptions, a financial holding company is prohibited from acquiring direct or indirect ownership or control or more than five percent of the voting shares of any company which is not a bank, and from engaging directly or indirectly in business unrelated to the business of banking or managing or controlling banks.

The FRB, in its Regulation Y, permits financial holding companies to engage in non-banking activities closely related to banking or managing or controlling banks. Approval of the FRB is necessary to engage in these activities or to make acquisitions of corporations engaging in these activities as the FRB determines whether these acquisitions or activities are in the public interest. In addition, by order, and on a case by case basis, the FRB may approve other non-banking activities.

The BHCA permits us to purchase or redeem our own securities. However, Regulation Y provides that prior notice must be given to the FRB if the total consideration for such purchase or consideration, when aggregated with the net consideration paid by us for all such purchases or redemptions during the preceding 12 months is equal to 10 percent or more of the company’s consolidated net worth. Prior notice is not required if (i) both before and immediately after the redemption, the financial holding company is well-capitalized; (ii) the financial holding company is well-managed and (iii) the financial holding company is not the subject of any unresolved supervisory issues.

Federal law restricts subsidiary banks of a financial holding company from making certain extensions of credit to the parent financial holding company or to any of its subsidiaries, from investing in the holding company stock, and limits the ability of a subsidiary bank to take its parent company stock as collateral for the loans of any borrower. Additionally, federal law prohibits a financial holding company and its subsidiaries from engaging in certain tie-in arrangements in conjunction with the extension of credit or furnishing of services.

The operations of Shenandoah, as a national banking association, are subject to federal statutes and regulations which apply to national banks, and are primarily regulated by the Comptroller of Currency (“OCC”). Summit Community is subject to similar West Virginia statutes and regulations, and is primarily regulated by the West Virginia Division of Banking. The Bank Subsidiaries are also subject to regulations promulgated by the FRB and the FDIC. As members of the FDIC, the deposits of the Bank Subsidiaries are insured as required by federal law. Bank regulatory authorities regularly examine revenues, loans, investments, management practices, and other aspects of the Bank Subsidiaries. These examinations are conducted primarily to protect depositors and not shareholders. In addition to these regular examinations, the Bank Subsidiaries must furnish to regulatory authorities quarterly reports containing full and accurate statements of their affairs.

Permitted Non-banking Activities

The FRB permits, within prescribed limits, financial holding companies to engage in non-banking activities closely related to banking or to managing or controlling banks. Such activities are not limited to the state of West Virginia. Some examples of non-banking activities which presently may be performed by a financial holding company are: making or acquiring, for its own account or the account of others, loans and other extensions of credit; operating as an industrial bank, or industrial loan company, in the manner authorized by state law; servicing loans and other extensions of credit; performing or carrying on any one or more of the functions or activities that may be performed or carried on by a trust company in the manner authorized by federal or state law; acting as an investment or financial advisor; leasing real or personal property; making equity or debt investments in corporations or projects designed primarily to promote community welfare, such as the economic rehabilitation and the development of low income areas; providing bookkeeping services or financially oriented data processing services for the holding company and its subsidiaries; acting as an insurance agent or a broker; acting as an underwriter for credit life insurance which is directly related to extensions of credit by the financial holding company system; providing courier services for certain financial documents; providing management consulting advice to nonaffiliated banks; selling retail money orders having a face value of not more than \$1,000, traveler's checks and U.S. savings bonds; performing appraisals of real estate; arranging commercial real estate equity financing under certain limited circumstances; providing securities brokerage services related to securities credit activities; underwriting and dealing in government obligations and money market instruments; providing foreign exchange advisory and transactional services; and acting under certain circumstances, as futures commission merchant for nonaffiliated persons in the execution and clearance on major commodity exchanges of futures contracts and options.

The Bank Subsidiaries are affected by the fiscal and monetary policies of the federal government and its agencies, including the FRB. An important function of these policies is to curb inflation and control recessions through control of the supply of money and credit. The operations of the Bank Subsidiaries are affected by the policies of government regulatory authorities, including the FRB which regulates money and credit conditions through open market operations in United States Government and Federal agency securities, adjustments in the discount rate on member bank borrowings, and requirements against deposits and regulation of interest rates payable by member banks on time and savings deposits. These policies have a significant influence on the growth and distribution of loans, investments and deposits, and interest rates charged on loans, or paid for time and savings deposits, as well as yields on investments. The FRB has had a significant effect on the operating results of commercial banks in the past and is expected to continue to do so in the future. Future policies of the FRB and other authorities and their effect on future earnings cannot be predicted.

The FRB has a policy that a financial holding company is expected to act as a source of financial and managerial strength to each of its subsidiary banks and to commit resources to support each such subsidiary bank. Under the source of strength doctrine, the FRB may require a financial holding company to contribute capital to a troubled subsidiary bank, and may charge the financial holding company with engaging in unsafe and unsound practices for failure to commit resources to such a subsidiary bank. This capital injection may be required at times when Summit may not have the resources to provide it. Any capital loans by a holding company to any subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In addition, the Crime Control Act of 1990 provides that in the event of a financial holding company's bankruptcy, any commitment by such holding company to a Federal bank or thrift regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

In 1989, the United States Congress enacted the Financial Institutions Reform, Recovery and Enforcement Act ("FIRREA"). Under FIRREA depository institutions insured by the FDIC may now be liable for any losses incurred by, or reasonably expected to be incurred by, the FDIC after August 9, 1989, in connection with (i) the default of a commonly controlled FDIC-insured depository institution, or (ii) any assistance provided by the FDIC to commonly controlled FDIC-insured depository institution in danger of default. "Default" is defined generally as the appointment of a conservator or receiver and "in danger of default" is defined generally as the existence of certain conditions indicating that a "default" is likely to occur in the absence of regulatory assistance. Accordingly, in the event that any insured bank or subsidiary of Summit causes a loss to the FDIC, other bank subsidiaries of Summit could be liable to the FDIC for the amount of such loss.

Under federal law, the OCC may order the pro rata assessment of shareholders of a national bank whose capital stock has become impaired, by losses or otherwise, to relieve a deficiency in such national bank's capital stock. This statute also provides for the enforcement of any such pro rata assessment of shareholders of such national bank to cover such impairment of capital stock by sale, to the extent necessary, of the capital stock of any assessed shareholder failing to pay the assessment. Similarly, the laws of certain states provide for such assessment and sale with respect to the subsidiary banks chartered by such states. Summit, as the sole stockholder of Bank Subsidiaries, is subject to such provisions.

Capital Requirements

As a financial holding company, we are subject to FRB risk-based capital guidelines. The guidelines establish a systematic analytical framework that makes regulatory capital requirements more sensitive to differences in risk profiles among banking organizations, takes off-balance sheet exposures into explicit account in assessing capital adequacy, and minimizes disincentives to holding liquid, low-risk assets. Under the guidelines and related policies, financial holding companies must maintain capital sufficient to meet both a risk-based asset ratio test and leverage ratio test on a consolidated basis. The risk-based ratio is determined by allocating assets and specified off-balance sheet commitments into four weighted categories, with higher levels of capital being required for categories perceived as representing greater risk. The Bank Subsidiaries are subject to substantially similar capital requirements adopted by its applicable regulatory agencies.

Generally, under the applicable guidelines, a financial institution's capital is divided into two tiers. "Tier 1", or core capital, includes common equity, noncumulative perpetual preferred stock (excluding auction rate issues) and minority interests in equity accounts of consolidated subsidiaries, less goodwill and other intangibles. "Tier 2", or supplementary capital, includes, among other things, cumulative and limited-life preferred stock, hybrid capital instruments, mandatory convertible securities, qualifying subordinated debt, and the allowance for loan losses, subject to certain limitations, less required deductions. "Total capital" is the sum of Tier 1 and Tier 2 capital. Financial holding companies are subject to substantially identical requirements, except that cumulative perpetual preferred stock can constitute up to 25% of a financial holding company's Tier 1 capital.

Financial holding companies are required to maintain a risk-based capital ratio of 8%, of which at least 4% must be Tier 1 capital. The appropriate regulatory authority may set higher capital requirements when an institution's particular circumstances warrant. For purposes of the leverage ratio, the numerator is defined as Tier 1 capital and the denominator is defined as adjusted total assets (as specified in the guidelines). The guidelines provide for a minimum leverage ratio of 3% for financial holding companies that meet certain specified criteria, including excellent asset quality, high liquidity, low interest rate exposure and the highest regulatory rating. Financial holding companies not meeting these criteria are required to maintain a leverage ratio which exceeds 3% by a cushion of at least 1 to 2 percent.

The guidelines also provide that financial holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets. Furthermore, the FRB's guidelines indicate that the FRB will continue to consider a "tangible Tier 1 leverage ratio" in evaluating proposals for expansion or new activities. The tangible Tier 1 leverage ratio is the ratio of an institution's Tier 1 capital, less all intangibles, to total assets, less all intangibles.

On August 2, 1995, the FRB and other banking agencies issued their final rule to implement the portion of Section 305 of FDICIA that requires the banking agencies to revise their risk-based capital standards to ensure that those standards take adequate account of interest rate risk. This final rule amends the capital standards to specify that the banking agencies will include, in their evaluations of a bank's capital adequacy, an assessment of the exposure to declines in the economic value of the bank's capital due to changes in interest rates.

Failure to meet applicable capital guidelines could subject the financial holding company to a variety of enforcement remedies available to the federal regulatory authorities, including limitations on the ability to pay dividends, the issuance by the regulatory authority of a capital directive to increase capital and termination of deposit insurance by the FDIC, as well as to the measures described under the "Federal Deposit Insurance Corporation Improvement Act of 1991" as applicable to undercapitalized institutions.

Our regulatory capital ratios and each of the Bank Subsidiaries' capital ratios as of year end 2005 are set forth in the table in Note 15 of the notes to the consolidated financial statements in the *Financial Information* section of our 2005 *Annual Report*, portions of which are attached hereto as Exhibit 13 and incorporated herein by reference.

Federal Deposit Insurance Corporation Improvement Act of 1991

In December, 1991, Congress enacted the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), which substantially revised the bank regulatory and funding provisions of the Federal Deposit Insurance Corporation Act and made revisions to several other banking statutes.

FDICIA establishes a new regulatory scheme, which ties the level of supervisory intervention by bank regulatory authorities primarily to a depository institution's capital category. Among other things, FDICIA authorizes regulatory authorities to take "prompt corrective action" with respect to depository institutions that do not meet minimum capital requirements. FDICIA establishes five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

By regulation, an institution is "well-capitalized" if it has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater and a Tier 1 leverage ratio of 5% or greater and is not subject to a regulatory order, agreement or directive to meet and maintain a specific capital level for any capital measure. Each of the Bank Subsidiaries were "well capitalized" institutions as of December 31, 2005. As well-capitalized institutions, they are permitted to engage in a wider range of banking activities, including among other things, the accepting of "brokered deposits," and the offering of interest rates on deposits higher than the prevailing rate in their respective markets.

Another requirement of FDICIA is that Federal banking agencies must prescribe regulations relating to various operational areas of banks and financial holding companies. These include standards for internal audit systems, loan documentation, information systems, internal controls, credit underwriting, interest rate exposure, asset growth, compensation, a maximum ratio of classified assets to capital, minimum earnings sufficient to absorb losses, a minimum ratio of market value to book value for publicly traded shares and such other standards as the agencies deem appropriate.

Reigle-Neal Interstate Banking Bill

In 1994, Congress passed the Reigle-Neal Interstate Banking Bill (the "Interstate Bill"). The Interstate Bill permits certain interstate banking activities through a holding company structure, effective September 30, 1995. It permits interstate branching by merger effective June 1, 1997 unless states "opt-in" sooner, or "opt-out" before that date. States may elect to permit de novo branching by specific legislative election. In March, 1996, West Virginia adopted changes to its banking laws so as to permit interstate banking and branching to the fullest extent permitted by the Interstate Bill. The Interstate Bill permits consolidation of banking institutions across state lines and, under certain conditions, de novo entry.

Community Reinvestment Act

Financial holding companies and their subsidiary banks are also subject to the provisions of the Community Reinvestment Act of 1977 ("CRA"). Under the CRA, the Federal Reserve Board (or other appropriate bank regulatory agency) is required, in connection with its examination of a bank, to assess such bank's record in meeting the credit needs of the communities served by that bank, including low and moderate income neighborhoods. Further such assessment is also required of any financial holding company which has applied to (i) charter a national bank, (ii) obtain deposit insurance coverage for a newly chartered institution, (iii) establish a new branch office that will accept deposits, (iv) relocate an office, or (v) merge or consolidate with, or acquire the assets or assume the liabilities of a federally-regulated financial institution. In the case of a financial holding company applying for approval to acquire a bank or other financial holding company, the FRB will assess the record of each subsidiary of the applicant financial holding company, and such records may be the basis for denying the application or imposing conditions in connection with approval of the application. On December 8, 1993, the Federal regulators jointly announced proposed regulations to simplify enforcement of the CRA by substituting the present twelve categories with three assessment categories for use in calculating CRA ratings (the "December 1993 Proposal"). In response to comments received by the regulators regarding the December 1993 Proposal, the federal bank regulators issued revised CRA proposed regulations on September 26, 1994 (the "Revised CRA Proposal"). The Revised CRA Proposal, compared to the December 1993 Proposal, essentially broadens the scope of CRA performance examinations and more explicitly considers community development activities. Moreover, in 1994, the Department of Justice became more actively involved in enforcing fair lending laws.

In the most recent CRA examinations by the applicable bank regulatory authorities, each of the Bank Subsidiaries was given "satisfactory" or better CRA ratings.

Graham-Leach-Bliley Act of 1999

The enactment of the Graham-Leach-Bliley Act of 1999 (the "GLB Act") represents a pivotal point in the history of the financial services industry. The GLB Act swept away large parts of a regulatory framework that had its origins in the Depression Era of the 1930s. Effective March 11, 2000, new opportunities were available for banks, other depository institutions, insurance companies and securities firms to enter into combinations that permit a single financial services organization to offer customers a more complete array of financial products and services. The GLB Act provides a new regulatory framework through the financial holding company, which have as its "umbrella regulator" the FRB. Functional regulation of the financial holding company's separately regulated subsidiaries are conducted by their primary functional regulators. The GLB Act makes a CRA rating of satisfactory or above necessary for insured depository institutions and their financial holding companies to engage in new financial activities. The GLB Act also provides a Federal right to privacy of non-public personal information of individual customers.

Deposit Acquisition Limitation

Under West Virginia banking law, an acquisition or merger is not permitted if the resulting depository institution or its holding company, including its affiliated depository institutions, would assume additional deposits to cause it to control deposits in the State of West Virginia in excess of twenty five percent (25%) of such total amount of all deposits held by insured depository institutions in West Virginia. This limitation may be waived by the Commissioner of Banking by showing good cause.

Consumer Laws and Regulations

In addition to the banking laws and regulations discussed above, the Bank Subsidiaries are also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. Among the more prominent of such laws and regulations are the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, and the Fair Housing Act. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans to such customers. The Bank Subsidiaries must comply with the applicable provisions of these consumer protection laws and regulations as part of their ongoing customer relations.

On July 30, 2002, the Sarbanes-Oxley Act of 2002 (“SOA”) was enacted, which addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. Effective August 29, 2002, as directed by Section 302(a) of SOA, our Chief Executive Officer and Chief Financial Officer are each required to certify that Summit’s Quarterly and Annual Reports do not contain any untrue statement of a material fact. The rules have several requirements, including requiring these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal controls; they have made certain disclosures to our auditors and the audit committee of the Board of Directors about our internal controls; and they have included information in Summit’s Quarterly and Annual Reports about their evaluation and whether there have been significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the evaluation.

Competition

We engage in highly competitive activities. Each activity and market served involves competition with other banks and savings institutions, as well as with non-banking and non-financial enterprises that offer financial products and services that compete directly with our products and services. We actively compete with other banks, mortgage companies and other financial service companies in our efforts to obtain deposits and make loans, in the scope and types of services offered, in interest rates paid on time deposits and charged on loans, and in other aspects of banking.

In addition to competing with other banks and mortgage companies, we compete with other financial institutions engaged in the business of making loans or accepting deposits, such as savings and loan associations, credit unions, industrial loan associations, insurance companies, small loan companies, finance companies, real estate investment trusts, certain governmental agencies, credit card organizations and other enterprises. In recent years, competition for money market accounts from securities brokers has also intensified. Additional competition for deposits comes from government and private issues of debt obligations and other investment alternatives for depositors such as money market funds. We take an aggressive competitive posture, and intend to continue vigorously competing for market share within our service areas by offering competitive rates and terms on both loans and deposits.

Employees

At February 28, 2006, we employed 276 full-time equivalent employees.

Available Information

Our internet website address is www.summitfgi.com, and our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K, and amendments to such filed reports with the Securities and Exchange Commission (“SEC”) are accessible through this website free of charge as soon as reasonably practicable after we electronically file such reports with the SEC. The information on our website is not, and shall not be deemed to be, a part of this report or incorporated into any other filing with the Securities and Exchange Commission.

These reports are also available at the SEC’s Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may read and copy any materials that we file with the SEC at the Public Reference Room. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Statistical Information

The information noted below is provided pursuant to Guide 3 - Statistical Disclosure by Bank Holding Companies. Page references are to the Annual Report to Shareholders for the year ended December 31, 2005, which portions have been filed as an exhibit to this Form 10-K and are incorporated herein by reference.

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Item 1A. Risk Factors

Investments in Summit Financial Group, Inc. common stock involve risk as discussed below.

Market Price Fluctuations

The market price of our stock may fluctuate significantly in response to several factors, including:

- Changes in securities analysts’ estimates of financial performance
- Volatility of stock market prices and volumes
- Rumors or erroneous information
- Changes in market valuations of similar companies
- Changes in interest rates
- New developments in the banking industry
- Variations in our quarterly or annual operating results
- New litigation or changes in existing litigation
- Regulatory actions

Government Regulation

Future governmental regulation and legislation could limit growth. We and our subsidiaries are subject to extensive state and federal regulation, supervision, and legislation that govern nearly every aspect of our operations. Changes to these laws could affect our ability to deliver or expand our services and diminish the value of our business.

Interest Rate Risk

Changes in interest rates could reduce income and cash flow. Our income and cash flow depend primarily on the difference between the interest earned on loans and investment securities, and the interest paid on deposits and other borrowings. Interest rates are beyond our control, and they fluctuate in response to general economic conditions and the policies of various governmental and regulatory agencies, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, will influence loan originations, purchases of investments, volumes of deposits, and rates received on loans and investment securities and paid on deposits. Our results of operations may be adversely affected by increases or decreases in interest rates or by the shape of the yield curve.

Credit Risk

We take credit risk by virtue of making loans, purchasing non-governmental securities, extending loan commitments and letters of credit, and being counterparties to off-balance sheet financial instruments such as interest rate derivatives. We manage the credit risk through a program of consistent underwriting standards, the review of certain credit decisions, and an on-going process of assessment of the quality of the credit already extended. Our credit administration function uses risk management techniques to ensure that loans adhere to corporate policy and problem loans are promptly identified. These procedures provide us with the information necessary to implement policy adjustments where necessary, and to take proactive corrective actions.

Competition

We face aggressive competition not only from banks, but also from other financial institutions, including finance companies and credit unions, and, to a limited degree, from other providers of financial services, such as money market mutual funds, brokerage firms, and consumer finance companies. A number of competitors in our market areas are larger than we are and have substantially greater access to capital and other resources, as well as larger lending limits and branch systems, and offer a wider array of banking services. Many of our non-bank competitors are not subject to the same extensive regulations that govern us. As a result, these non-bank competitors have advantages over us in providing certain services. Our profitability depends upon our ability to attract loans and deposits. There is a risk that aggressive competition could result in our controlling a smaller share of our markets. A decline in market share could adversely affect our results of operations and financial condition.

Growth and Capital

We may not be able to maintain and manage our growth, which may adversely affect our results of operations and financial condition. We have had significant growth during the past five years, and we plan to continue to grow and expand. Our ability to continue to grow depends on our ability to open new branch offices, attract deposits to those locations, and identify loan and investment opportunities. Our ability to manage growth successfully also will depend on whether we can maintain capital levels adequate to support our growth and maintain cost controls and asset quality. It is possible that we may need to raise additional capital to support future growth. We cannot make any assurance that additional capital would be available on terms satisfactory to us at all. This could force us to limit our growth strategy. If we are unable to sustain our growth, our earnings could be adversely affected. If we grow too quickly, however, and are not able to control costs and maintain asset quality, rapid growth also could adversely affect our financial performance.

Key Personnel

Our success is dependent upon the continued service and skills of our executive officers and senior management. If we lose the services of these key personnel, it could have a negative impact on our business because of their skills, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

Other

Additional factors could have a negative effect on our financial performance and the value of our common stock. Some of these factors are general economic and financial market conditions, continuing consolidation in the financial services industry, new litigation or changes in existing litigation, regulatory actions, and losses.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

Our principal executive office is located at 300 North Main Street, Moorefield, West Virginia in a building that we own. Additionally, the Bank Subsidiaries’ headquarters and branch locations occupy offices which are either owned or operated under long-term lease arrangements. At December 31, 2005, our Bank Subsidiaries operated 14 banking offices and Summit Mortgage operated 2 mortgage origination offices as follows:

Subsidiary / Office Location	Owned	Leased	Total
Summit Community Bank			
Moorefield, West Virginia	1	-	1
Mathias, West Virginia	1	-	1
Franklin, West Virginia	1	-	1
Petersburg, West Virginia	1	-	1
Charleston, West Virginia	2	-	2
Rainelle, West Virginia	1	-	1
Rupert, West Virginia	1	-	1
Shenandoah Valley National Bank			
Winchester, Virginia	1	1	2
Leesburg, Virginia	-	1	1
Harrisonburg, Virginia	-	2	2
Warrenton, Virginia	-	1	1
Summit Mortgage			
Herndon, Virginia	-	1	1
Chesapeake, Virginia	-	1	1

We believe that the premises occupied by us and the Bank Subsidiaries generally are well-located and suitably equipped to serve as financial services facilities. See Notes 6 and 7 of our consolidated financial statements in the *Financial Information* section of our 2005 Annual Report, portions of which are attached hereto as Exhibit 13 and incorporated herein by reference.

Item 3. Legal Proceedings

Information required by this item is set forth under the caption "Litigation" in Note 13 of our consolidated financial statements in the *Financial Information* section of our *2005 Annual Report*, portions of which are attached hereto as Exhibit 13 and incorporated herein by reference.

Item 4. Submission of Matters to a Vote of Shareholders

No matters were submitted during the fourth quarter of 2005 to a vote of Company shareholders.

PART II.

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Common Stock Dividend and Market Price Information: Our stock trades on The NASDAQ SmallCap Market under the symbol "SMMF". 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. For a discussion of restrictions on dividends, see Note 15 of the notes to the accompanying consolidated financial statements, which is incorporated herein by reference.

As of March 1, 2006, there were approximately 1,367 shareholders of record of Summit's common stock.

Purchases of Summit Equity Securities: No purchases of our own equity securities, either as part of a publicly announced plan or otherwise, were made during any month of the fourth quarter 2005.

Item 6. Selected Financial Data

Information required by this item is set forth under the heading "SELECTED FINANCIAL DATA" in the *Financial Information* section of our *2005 Annual Report*, portions of which are attached hereto as Exhibit 13 and incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Information required by this item is set forth under the heading "MANAGEMENT'S DISCUSSION AND ANALYSIS" in the *Financial Information* section of our *2005 Annual Report*, portions of which are attached hereto as Exhibit 13 and incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Information required by this item is set forth under the caption "MARKET RISK MANAGEMENT" in the *Financial Information* section of our *2005 Annual Report*, portions of which are attached hereto as Exhibit 13 and incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

Information required by this item is set forth under the headings "QUARTERLY FINANCIAL INFORMATION", "REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON CONSOLIDATED FINANCIAL STATEMENTS", "CONSOLIDATED FINANCIAL STATEMENTS" and "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS" in the *Financial Information* section of our *2005 Annual Report*, portions of which are attached hereto as Exhibit 13 and incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Disclosure Controls and Procedures: Our management, including the Chief Executive Officer and Chief Financial Officer, have conducted as of December 31, 2005, an evaluation of the effectiveness of disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures as of December 31, 2005 were effective.

Management's Report on Internal Control Over Financial Reporting: Information required by this item is set forth under the heading "REPORT OF MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING" in the *Financial Information* section of our *2005 Annual Report*, portions of which are attached hereto as Exhibit 13 and incorporated herein by reference.

Attestation Report of the Registered Public Accounting Firm: Information required by this item is set forth under the heading "REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING" in the *Financial Information* section of our *2005 Annual Report*, portions of which are attached hereto as Exhibit 13 and incorporated herein by reference.

Changes in Internal Control Over Financial Reporting: There were no changes in our internal control over financial reporting during the fourth quarter for the year ended December 31, 2005, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

On March 4, 2005, Summit Financial Group, Inc. (the "Company") entered into an Employment Agreement (the "Employment Agreement") and a new Change in Control Agreement (the "Change in Control Agreement") with H. Charles Maddy, III, the President and Chief Executive Officer of the Company. The term of the Employment Agreement is three years, commencing on March 4, 2005, and ending on March 4, 2008. Under the terms of the Employment Agreement, the Company will review the Employment Agreement annually, and may, with the approval of Mr. Maddy, extend the term of the Employment Agreement annually for additional one year periods.

At its meeting on December 6, 2005, the Compensation and Nominating Committee of the Board of Directors of the Company extended Mr. Maddy's Employment Agreement for an additional year until March 4, 2009. Mr. Maddy approved this extension.

PART III.

Item 10. Directors and Executive Officers

Information required by this item is set forth under the captions “Section 16(a) Beneficial Ownership Reporting Compliance”, under the headings “NOMINEES FOR DIRECTOR WHOSE TERMS EXPIRE IN 2009”, “DIRECTORS WHOSE TERMS EXPIRE IN 2008”, and “DIRECTORS WHOSE TERMS EXPIRE IN 2007”, “EXECUTIVE OFFICERS” and under the caption “Audit and Compliance Committee” in our 2006 Proxy Statement, and is incorporated herein by reference.

We have adopted a Code of Ethics that applies to our chief executive officer, chief financial officer, chief accounting officer, and all directors, officers and employees. We have posted this Code of Ethics on our internet website at www.summitfgi.com under “Governance Documents”. Any amendments to or waivers from any provision of the Code of Ethics applicable to the chief executive officer, chief financial officer, or chief accounting officer will be disclosed by timely posting such information on our internet website.

There have been no material changes to the procedures by which shareholders may recommend nominees since the disclosure of the procedures in our 2005 proxy statement.

Item 11. Executive Compensation

Information required by this item is set forth under the headings “COMPENSATION OF NAMED EXECUTIVE OFFICERS”, “INFORMATION REGARDING LONG-TERM INCENTIVE COMPENSATION FOR FISCAL YEAR 2005”, “SUMMARY OF COMPENSATION AGREEMENTS”, “REPORT OF THE COMPENSATION AND NOMINATING COMMITTEE ON EXECUTIVE COMPENSATION”, and “SHAREHOLDER RETURN PERFORMANCE GRAPH”, and under the caption “Fees and Benefit Plans for Directors” in our 2006 Proxy Statement, and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The following table provides information on our stock option plan as of December 31, 2005.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (#)	Weighted-average exercise price of outstanding options, warrants and rights (\$)	Number of securities remaining available for future issuance under equity compensation plans (#)
Equity compensation plans approved by stockholders	361,740	\$ 17.41	556,100
Equity compensation plans not approved by stockholders	-	-	-
Total	361,740	\$ 17.41	556,100

The remaining information required by this item is set forth under the caption “Security Ownership of Directors and Officers” and under the headings “NOMINEES FOR DIRECTOR WHOSE TERMS EXPIRE IN 2009”, “DIRECTORS WHOSE TERMS EXPIRE IN 2008”, “DIRECTORS WHOSE TERMS EXPIRE IN 2007”, “PRINCIPAL SHAREHOLDER” and “EXECUTIVE OFFICERS” in our 2006 Proxy Statement, and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

Information required by this item is set forth under the caption “Related Transactions” in our 2006 Proxy Statement, and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

Information required by this item is set forth under the caption “Fees to Arnett & Foster, PLLC” in our 2006 Proxy Statement, and is incorporated herein by reference.

PART IV.

Item 15. Exhibits, Financial Statement Schedules

All financial statements and financial statement schedules required to be filed by this Form or by Regulation S-X, which are applicable to the Registrant, have been presented in the financial statements and notes thereto in Item 8 in Management's Discussion and Analysis of Financial Condition and Results of Operation in Item 7 or elsewhere in this filing where appropriate. The listing of exhibits follows:

Exhibit Number	Description	Page(s) in Form 10-K or Prior Filing Reference
(3)	Articles of Incorporation and By-laws: (i) Amendment to Articles of Incorporation of Summit Financial Group, Inc. dated May 14, 2004 (ii) Articles of Incorporation of Summit Financial Group, Inc. as last amended on August 17, 2004 (iii) By-laws of Summit Financial Group, Inc. as last amended, effective February 21, 2003	
(10)	Material Contracts (i) Employment Agreement with H. Charles Maddy, III (ii) Change in Control Agreement with H. Charles Maddy, III (iii) Employment Agreement with Ronald F. Miller (iv) Employment Agreement with C. David Robertson (v) Employment Agreement with Patrick N. Frye (vi) Employment Agreement with Robert S. Tissue (v) Employment Agreement with Scott C. Jennings (vi) Employment Agreement with Douglas T. Mitchell (vii) 1998 Officers Stock Option Plan (viii) Board Attendance and Compensation Policy, as amended (ix) Summary of Compensation Paid to Executive Officers of Summit Financial Group, Inc. and Amendments to Executive Agreement (x) Summit Financial Group, Inc. Directors Deferral Plan (xi) Amendment No. 1 to Directors Deferral Plan Agreement (xii) Summit Financial Group, Inc. Incentive Plan (xiii) Shenandoah Valley National Bank Incentive Plan (xiv) Summit Community Bank Incentive Compensation Plan	(a) (b) (c) (d) (e) (e) (e) (f) (g)
(12)	Statements Re: Computation of Ratios	
(13)	Portions of 2005 Annual Report to Shareholders incorporated by reference into this Form 10-K	
(21)	Subsidiaries of Registrant	
(23)	Consent of Arnett & Foster, P.L.L.C.	
(24)	Power of Attorney	
(31.1)	Sarbanes-Oxley Act Section 302 Certification of Chief Executive Officer	
(31.2)	Sarbanes-Oxley Act Section 302 Certification of Chief Financial Officer	
(32.1)	Sarbanes-Oxley Act Section 906 Certification of Chief Executive Officer	
(32.2)	Sarbanes-Oxley Act Section 906 Certification of Chief Financial Officer	

- (a) Incorporated by reference to Exhibit 10.1 of Summit Financial Group, Inc.'s filing on Form 8-K dated March 4, 2005.
- (b) Incorporated by reference to Exhibit 10.2 of Summit Financial Group, Inc.'s filing on Form 8-K dated March 4, 2005.
- (c) Incorporated by reference to Exhibit 10(ii) of South Branch Valley Bancorp, Inc.'s filing on Form 10-KSB dated December 31, 1998.
- (d) Incorporated by reference to Exhibit 10 of South Branch Valley Bancorp, Inc.'s filing on Form 10-QSB dated June 30, 1999.
- (e) Incorporated by reference to Exhibit 10.1 of Summit Financial Group, Inc. filing on Form 8-K dated December 30, 2005
- (f) Incorporated by reference to Exhibit 10 of South Branch Valley Bancorp, Inc.'s filing on Form 10-QSB dated June 30, 1998.
- (g) Incorporated by reference to Summit Financial Group, Inc.'s filing on Form 8-K dated December 6, 2005.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SUMMIT FINANCIAL GROUP, INC.
a West Virginia Corporation
(registrant)

By: /s/ H. Charles Maddy, III 3/14/2006
H. Charles Maddy, III Date
President & Chief Executive Officer

By: /s/ Julie R. Cook 3/14/06
Julie R. Cook Date
Vice President &
Chief Accounting Officer

By: /s/ Robert S. Tissue 3/14/2006
Robert S. Tissue Date
Senior Vice President &
Chief Financial Officer

The Directors of Summit Financial Group, Inc. executed a power of attorney appointing Robert S. Tissue and/or Julie R. Cook their attorneys-in-fact, empowering them to sign this report on their behalf.

By: /s/ Robert S. Tissue 3/14/2006
Robert S. Tissue Date
Attorney-in-fact

**ARTICLES OF AMENDMENT
TO
ARTICLES OF INCORPORATION
OF
SUMMIT FINANCIAL GROUP, INC.**

Pursuant to the provisions of Sections 1003 and 1006, Article 10, Chapter 31D of the Code of West Virginia, the undersigned corporation adopts the following Articles of Amendment to its Articles of Incorporation, FILED IN DUPLICATE:

I. The name of the Corporation is Summit Financial Group, Inc.

II. The following amendment to the Articles of Incorporation was adopted by the Board of Directors of the Corporation by unanimous written consent and agreement pursuant to West Virginia Code § 31D-8-821 on April 23, 2004, and was duly approved by the shareholders of the Corporation at the Annual Meeting of Shareholders held on May 13, 2004, in accordance with Chapter 31D of the Code of West Virginia and the Articles of Incorporation of the Corporation, to-wit:

RESOLVED that Paragraph A of Article IV of the Articles of Incorporation of Summit Financial Group, Inc. which now reads:

"IV. A. The amount of total authorized capital stock of said Corporation shall be Twelve Million Seven Hundred Fifty Thousand Dollars (\$12,7500,000) which shall be divided into Five Million (5,000,000) shares of common stock with the par value of \$2.50 each and Two Hundred Fifty Thousand (250,000) shares of preferred stock with the par value of \$1.00 each."

be amended to read as follows:

"IV. A. The amount of total authorized capital stock of said Corporation shall be Fifty Million Two Hundred Fifty Thousand Dollars (\$50,250,000) which shall be divided into Twenty Million (20,000,000) shares of common stock with the par value of \$2.50 each and Two Hundred Fifty Thousand (250,000) shares of preferred stock with the par value of \$1.00 each."

RESOLVED: That, as so amended, the original Articles of Incorporation, together with this amendment, shall constitute the Article of Incorporation of the Corporation.

III. The amendment does not provide for the exchange, reclassification or cancellation of issued shares.

DATE: May 14, 2004

SUMMIT FINANCIAL GROUP, INC.

By: /s/ Phoebe F. Heishman

Its: Secretary

ARTICLES OF INCORPORATION

OF

SUMMIT FINANCIAL GROUP, INC.

The undersigned, acting as incorporator of a corporation under Section 27, Article 1, Chapter 31 of the Code of West Virginia, adopts the following Articles of Incorporation for such corporation, FILED IN
DUPLICATE:

- I. The undersigned agrees to become a corporation by the name of SUMMIT FINANCIAL GROUP, INC.
- II. The address of the principal office of said corporation will be 300 North Main Street, City of Moorefield, County of Hardy, State of West Virginia.
- III. The purpose or purposes for which this corporation is organized are as follows.

 To acquire and own stock and securities, of whatever kind, nature and description, in a bank or banks, and to take such actions as are necessary or incidental to the acquisition of a bank or banks;

 To engage, either directly itself, indirectly by the formation of subsidiary corporations or otherwise, in any activity permitted to be undertaken by a bank holding company under existing or future laws, rules and regulations relating thereto;

 Subject to the foregoing and unless otherwise limited herein to own, buy, acquire, sell, exchange, assign, lease and deal in and with real property and any interest or right therein; to own, buy, acquire, sell, exchange, assign, lease and deal in and with personal property and any interest or right therein; to own, buy, acquire, sell, exchange, assign, pledge and deal with voting stock, non-voting stock, notes, bonds, evidence of indebtedness and rights and options in and to other corporate and non-corporate entities, and to pay therefor in whole or in part in cash or by exchanging therefor stocks, bonds, or other evidences of indebtedness or securities of this or any other corporation, and while the owner or holder of any such stocks, bonds, debentures, notes, evidences or indebtedness or the securities, contracts, or obligations, to receive, collect, and dispose of the interest, dividends and income arising from such property, and to possess and exercise in respect thereof, all the rights, powers and privileges of ownership, including all voting powers on any stocks so owned; and to borrow money without limit as to amount; and
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Otherwise, subject to the foregoing and unless otherwise limited herein, to engage in any lawful act or activity for which corporations may be organized under the laws of the State of West Virginia.

IV.

A. The amount of total authorized capital stock of the Corporation shall be Fifty Million Two Hundred Fifty Thousand Dollars (\$50,250,000), which shall be divided into Twenty Million (20,000,000) shares of common stock with the par value of \$2.50 each and Two Hundred Fifty Thousand (250,000) shares of preferred stock with the par value of \$1.00 each.

B. The Corporation may issue shares of preferred or special classes: (i) subject to the right of the Corporation to redeem any of such shares at the price fixed by the Articles of Incorporation for the redemption thereof; (ii) entitling the holders thereof to cumulative, non-cumulative or partially cumulative dividends; (iii) having preference over any other class or classes of shares as to the payment of dividends; (iv) having preference in the assets of the Corporation over any other class or classes of shares upon the voluntary or involuntary liquidation of the Corporation; and (v) convertible into shares of any other class or into shares of any series of the same or any other class, except a class having prior or superior rights and preferences as to dividends or distribution of assets upon liquidation, but shares without par value, if any, shall not be converted into shares with par value unless that part of the stated capital of the Corporation represented by such shares without the par value is, at the time of conversion, at least equal to the aggregate par value of the shares into which the shares without par value are to be converted or the amount of any such deficiency is transferred from surplus to stated capital.

C. Preferred stock may be divided into and issued by the Board of Directors from time to time in one or more series. All shares of preferred stock shall be of equal rank and shall be identical, except as to the following relative rights and preferences which may be fixed and determined by the Board of Directors, as to which there may be variations between different series:

1. the rate of dividends;
 2. whether shares may be redeemed and, if so, the redemption price and the terms and conditions of redemption;
 3. the amount payable upon shares in event of voluntary and involuntary liquidation;
 4. sinking fund provisions, if any, for the redemption or purchase of shares;
 5. the terms and conditions, if any, on which shares may be converted; and
 6. voting rights, if any.
-

D. The Board of Directors of the Corporation shall have all of the power and authority with respect to the shares of preferred stock that may be delegated to the Board of Directors pursuant to the terms and provisions of Chapter 31, Article 1, Sections 78 and 79 of the Code of West Virginia, as amended, or such corresponding section of the Code of West Virginia as may be adopted from time to time, and shall exercise such power and authority by the adoption of a resolution or resolutions as prescribed by law.

E. Rockingham National Bank Series Convertible Preferred Stock. A series of Preferred Stock consisting of up to Forty Thousand (40,000) shares, par value \$1.00 per share, designated and known as "Rockingham National Bank Series Convertible Preferred Stock" is hereby established with the rights, preferences and privileges set forth below in this Article IV, Paragraph E and elsewhere in Article IV of these Articles of Incorporation.

1. Definitions. For purposes of this Article IV, Paragraph E, the following definitions shall apply:

"Board" means the Board of Directors of the Corporation.

"Common Stock" means shares of common stock of the Corporation having a par value of \$2.50 per share.

"Corporation" means Summit Financial Group, Inc., a West Virginia corporation.

"Office Opening Date" means the opening date for the first banking office in the Rockingham National Bank division of May 15, 2003.

"Person" means an individual, a partnership, a joint venture, a corporation, a trust, or any other entity or organization.

"Preferred Stock" means the preferred Stock designated as the Rockingham National Bank Series Convertible Preferred Stock"

"Purchase Price" means the price per share of Preferred Stock which equals the mean of the closing prices of the Corporation's common stock reported on the last five (5) business days on which the stock traded prior to and inclusive of May 10, 2004.

"Rockingham National Bank division" means the new banking division of the Corporation's subsidiary, Shenandoah Valley National Bank.
 2. Dividends. The Preferred Stock will not pay any dividends.
 3. Conversion Rights. The shares of Preferred Stock shall be convertible into shares of Common Stock as follows:

(a) Optional Conversion. The holders of Preferred Stock have the option to convert shares of Preferred Stock into Common Stock prior to the second anniversary of the Office Opening Date. The holders of Preferred Stock must hold the shares of Preferred Stock for a minimum of sixty (60) days before converting their shares of Preferred Stock to Common Stock. If the holders of Preferred Stock convert their shares of Preferred Stock prior to the second anniversary of the Office Opening Date, then each share of Preferred Stock will be converted into one share of Common Stock.
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(b) Automatic Conversion. Each outstanding share of Preferred Stock shall automatically be converted on May 15, 2005, the second anniversary of the Office Opening Date, without any further act of the Corporation or the holders of Preferred Stock, into a certain number of fully paid and nonassessable shares of Common Stock, the exact number to be based on the total loans and deposits of the Rockingham National Bank division on May 15, 2005. The following table sets forth the conversion ratios to convert each share of Preferred Stock into the specified number of shares of Common Stock on May 15, 2005:

Total Loans and Deposits of Rockingham National Bank Division	Conversion Ratio (Number of Shares of Common Stock to Number of Shares of Preferred Stock)
\$0 - \$29,999,999	1.00 to 1.00
\$30,000,000 - \$39,999,999	1.10 to 1.00
\$40,000,000 - \$59,999,999	1.15 to 1.00
\$60,000,000 and above	1.25 to 1.00

For the purposes of determining the total deposits and loans, the Corporation will follow the following procedures:

Deposits: The term “deposits” shall have the meaning set forth in 12 U.S.C. ss. 1813(l). The Corporation’s accounting system will track and account for all depository accounts of the Rockingham National Bank division on a daily basis.

Loans: The term “loans” shall mean all loans reported on Schedule RC-C of Shenandoah Valley National Bank’s Consolidated Report of Condition and Income for a Bank with Domestic Offices Only (the “Call Report”) filed with the Federal Deposit Insurance Corporation, which are attributable to the Rockingham National Bank division. The Corporation’s accounting system will track and account for all loans made by the Rockingham National Bank division on a daily basis.

All determinations regarding the total amount of deposits and loans of the Rockingham National Bank division shall be made by the Board, whose determinations in this regard shall be final and conclusive for all purposes.

(c) Mechanics of Optional Conversion.

(i) In order for a holder of shares of Preferred Stock to convert shares of Preferred Stock into shares of Common Stock prior to the second anniversary of the Office Opening Date, such holder shall surrender the certificate or certificates evidencing the ownership of such shares of Preferred Stock at the office of the transfer agent for the shares of Preferred Stock (or at the principal office of the Corporation, if the Corporation serves as its own transfer agent), together with written notice that such holder elects to convert all or any number of the shares of the Preferred Stock represented by such certificate or certificates. Such notice shall state such holder's name or the names of the permitted nominees in which such holder wishes the certificate or certificates for shares of Common Stock to be issued. If required by the Corporation, certificates surrendered for conversion shall be endorsed or accompanied by a written instrument or instruments of transfer, in form satisfactory to the Corporation, duly executed by the registered holder or his or its attorney-in-fact duly authorized in writing. The date of receipt of such certificates and notice by the transfer agent (or by the Corporation if the Corporation serves as its own transfer agent) shall be the conversion date (the "Optional Conversion Date"). The Corporation shall, as soon as practicable after the Optional Conversion Date, issue and deliver at such office to such holder of shares of Preferred Stock, or to his or its permitted nominees, a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled, together with cash in lieu of any fraction of a share. Such conversion shall be deemed to have been made immediately prior to the close of business on the Optional Conversion Date, and the Person in whose name the certificate or certificates for Common Stock are to be issued shall be deemed to have become a holder of record of such Common Stock on the Optional Conversion Date.

(d) Mechanics of Automatic Conversion. Pursuant to the provisions in Section 3(b) hereof, the outstanding shares of Preferred Stock shall be converted automatically without any further action by the holders of such shares and whether or not the certificates representing such shares are surrendered to the office of the transfer agent for the shares of Preferred Stock (or at the principal office of the Corporation, if the Corporation serves as its own transfer agent); provided, however that the Corporation shall not be obligated to issue to any holder certificates evidencing the shares of Common Stock issuable upon such conversion unless certificates evidencing such shares of Preferred Stock are delivered either to the transfer agent for the shares of Preferred Stock (or at the principal office of the Corporation, if the Corporation serves as its own transfer agent). Conversion shall be deemed to have been effected on the second anniversary of the Office Opening Date, and such date is referred to herein as the "Automatic Conversion Date." As promptly as practicable thereafter (and after surrender of the certificate or certificates representing shares of Preferred Stock to the Corporation or any transfer agent designated by the Corporation), the Corporation shall issue and deliver to such holder a certificate or certificates for the number of full shares of Common Stock to which such holder is entitled as provided in Section 3(b) hereof. Such conversion shall be deemed to have been made immediately prior to the close of business on the Automatic Conversion Date, and the Person in whose name the certificate or certificates for Common Stock are to be issued shall be deemed to have become a holder of record of such Common Stock on the Automatic Conversion Date.

(e) Fractional Shares. No fractional shares of Common Stock shall be issued upon conversion of any shares of Preferred Stock. Instead of any fractional shares of Common Stock which would otherwise be issuable upon conversion of any shares of Preferred Stock, the Corporation will pay the value of such fractional shares in cash on the basis of the closing price of the Corporation's Common Stock as reported on the OTC Bulletin Board, the NASDAQ Stock Market or other securities exchange on the most recently completed trading day the Common Stock actually traded prior to the date of conversion.

(f) Rights after Conversion Date. From and after the Optional Conversion Date and the Automatic Conversion Date (hereinafter collectively referred to as the “Conversion Date”) (unless the Corporation defaults in issuing shares of Common Stock in exchange for the outstanding shares of Preferred Stock on the Conversion Date), such shares of Preferred Stock shall be deemed not to be outstanding and all rights of the holders of such shares as shareholders of the Corporation by reason of the ownership of such shares shall cease, except the right to receive shares of Common Stock as provided in Section 3(b) herein on presentation and surrender of the respective certificates evidencing such shares of Preferred Stock. Upon presentation and surrender, on or after the Conversion Date, of any certificate evidencing shares of Preferred Stock (properly endorsed or assigned for transfer, if the Corporation shall so require), such shares shall be exchanged by the Corporation for shares of Common Stock as provided in this Section 3.

(g) Status of Preferred Shares After Conversion to Common Shares. Any shares of Preferred Stock that shall at any time have been converted into shares of Common Stock pursuant to this Section 3 shall, after such exchange, not be reissued as Preferred Stock, but shall become authorized but unissued shares of. Preferred Stock of the Corporation and the certificates evidencing such shares shall be canceled.

(h) Reservation of Shares. The Corporation shall reserve at all times so long as any shares of Preferred Stock remain outstanding, free from preemptive rights, out of its treasury stock or its authorized but unissued shares of Common Stock, or both, solely for the purpose of effecting the conversion of the shares of Preferred Stock, sufficient shares of Common Stock to provide for the exchange of all outstanding shares of Preferred Stock.

(i) Fully Paid and Nonassessable Shares. All shares of Common Stock or other securities which may be issued upon exchange of the shares of Preferred Stock will upon issuance by the Corporation be duly and validly issued, fully paid and nonassessable and free from all taxes, liens and charges with respect to the issuance thereof and the Corporation shall take no action which would cause a contrary result.

4. Conversion Ratio Adjustments. The number of shares of Common Stock into which the shares of Preferred Stock shall be converted pursuant to Section 3 (the “Conversion Ratios”) and the securities or other property deliverable upon exchange of the Preferred Stock shall be subject to adjustment from time to time as follows:

(a) Stock Dividends, Subdivisions or Split-Ups. If the number of shares of Common Stock outstanding at any time after the date of issuance of the Preferred Stock is adjusted by a stock dividend payable in shares of Common Stock or by a subdivision or split-up of shares of Common Stock, then immediately after the record date fixed for the determination of holders of Common Stock entitled to receive such stock dividend or the effective date of such subdivision or split-up, as the case may be, the Conversion Ratios shall be appropriately adjusted so that the holder of any shares of Preferred Stock thereafter exchanged shall be entitled to receive the number of shares of Common Stock of the Corporation which he would have owned immediately following such action had such shares of Preferred Stock been exchanged immediately prior thereto.

(b) Combinations of Stock. If the number of shares of Common Stock outstanding at any time after the date of issuance of the Preferred Stock is adjusted by a combination of the outstanding shares of Common Stock, then, immediately after the effective date of such combination, the Conversion Ratios applicable thereto shall be appropriately adjusted so that the holder of any shares of Preferred Stock thereafter converted shall be entitled to receive the number of shares of Common Stock of the Corporation which he would have owned immediately following such action had such shares of Preferred Stock been exchanged immediately prior thereto.

(c) Reorganization, Reclassification, Merger, Sale of All Assets, etc. In case of any capital reorganization of the Corporation, or of any reclassification of the Common Stock, or in case of the consolidation of the Corporation with or the merger of the Corporation with or into any other Person or of the sale, lease or other transfer of all or substantially all of the assets of the Corporation to any other Person, or in the case of any distribution of cash or other assets or of notes or other indebtedness of the Corporation or any other securities of the Corporation (except Common Stock) to the holders of its Common Stock (collectively, a “Triggering Event”), each share of Preferred Stock shall be converted into a certain number of shares of Common Stock, the exact number to be based on the total deposits and total loans of the Rockingham National Bank division as set forth in the conversion chart in Section 3(b) hereof. The conversion ratio shall be based on the total deposits and total loans of the Rockingham National Bank division as set forth in the conversion chart in Section 3(b) hereof even if the Triggering Event occurs prior to the second anniversary of the Office Opening Date.

After such Triggering Event, each share of Common Stock that was converted from Preferred Stock shall be convertible into the number of shares of stock or other securities or property to which the Common Stock outstanding at the time of the Triggering Event would have been entitled upon such Triggering Event. The conversion date for purposes of determining the total deposits and total loans of the Rockingham National Bank division shall be the date the Triggering Event is announced publicly through a press release or through a Form 8-K files with the Securities and Exchange Commission.

(d) Rounding of Calculations: Minimum Adjustment. All calculations under this Section 4 shall be made to the nearest one hundredth (1/100th) of a share of Common Stock, as the case may be. Any provision of this Section 4 to the contrary notwithstanding, no adjustment in the Conversion Ratios shall be made if the amount of such adjustment would be less than one hundredth of a share of Common Stock, but any such amount shall be carried forward and an adjustment with respect thereto shall be made at the time of any together with any subsequent adjustment which, together with such amount and any other amount or amounts so carried forward, shall aggregate one hundredth of a share of Common Stock or more.

(e) Timing of Issuance of Additional Common Stock upon Certain Adjustments. In any case in which the provisions of this Section 4 shall require that an adjustment shall become effective immediately after a record date for an event, the Corporation may defer until the occurrence of such event issuing to the holder of any share of Preferred Stock exchanged after such record date and before the occurrence of such event the additional shares of Common Stock or other issuable or deliverable upon such exchange by reason of the adjustment required by such event over and above the shares of Common Stock or other property issuable or deliverable upon such exchange before giving effect to such adjustment; provided, however, that the Corporation, upon request of a holder of Preferred Stock, shall deliver to such holder a due bill or other appropriate instrument evidencing such holder's right to receive such additional shares or other property, and such cash, upon the occurrence of the event requiring such adjustment.

(f) Statement Regarding Adjustments. Whenever the Conversion Ratios shall be adjusted as provided in this Section 4, the Corporation shall forthwith file, at the office of any transfer agent for the Preferred Stock (or at the principal office of the Corporation, if the Corporation serves as its own transfer agent) a statement showing in detail the facts requiring such adjustment and the Conversion Ratios that shall be in effect after such adjustment, and the Corporation shall also cause a copy of such statement to be mailed, first class postage prepaid, to each holder of shares of Preferred Stock at his address appearing on the Corporation's records. Each such statement shall be signed by the Corporation's independent public accountants.

(g) Taxes. The Corporation shall pay all documentary, stamp, transfer or other transactional taxes attributable to the issuance or delivery of shares of Common Stock of the Corporation or other securities or property upon exchange of any shares of Preferred Stock; provided, however, that the Corporation shall not be required to pay any taxes which may be payable in respect of any transfer involved in the issuance or delivery of any certificate for such shares or securities in the name other than that of the holder of the shares of Preferred Stock in respect of which such shares are being issued.

5. Voting. The holders of shares of Preferred Stock shall have no right or power to vote on any matter except as required by law. In any matter on which the holders of Preferred Stock shall, as a matter of law, be entitled to vote, the holders shall be entitled to one vote for each share of Preferred Stock held.

6. Liquidation Rights.

(a) Upon the dissolution, liquidation or winding up of the Corporation, whether voluntary or involuntary, the holders of the shares of Preferred Stock then outstanding shall be entitled to receive out of the assets of the Corporation an amount per share in cash equal to the Purchase Price before any payment or distribution shall be made on the Common Stock or on any other class of capital stock of the Corporation ranking junior to the Preferred Stock upon liquidation. All outstanding shares of any other series of preferred stock shall rank at parity with the shares of Preferred Stock. The consolidation or merger of the Corporation, or a sale, exchange or transfer of all or substantially all of its assets as an entirety, shall not be regarded as a "dissolution, liquidation or winding up of the Corporation" within the meaning of this Section 6(a).

- (b) After the payment to the holders of shares of Preferred Stock of the full preferential amounts fixed hereby for shares of Preferred Stock, the holders of Preferred Stock as such shall have no right or claim to any of the remaining assets of the Corporation.
- (c) If the assets of the Corporation available for distribution to the holders of shares of Preferred Stock upon dissolution, liquidation or winding up of the Corporation are insufficient to pay in full all amounts to which such holders are entitled pursuant to Section 6(a), no distribution shall be made on account of any shares of a class or series of capital stock of the Corporation ranking on a parity with the shares of Preferred Stock, if any, upon such dissolution, liquidation or winding up unless proportionate distributive amounts shall be paid on account of the shares of Preferred Stock, ratably, in proportion to the full distributable amounts for which holders of all such parity shares are respectively entitled upon such dissolution, liquidation or winding up.
7. Reports to Holders of Preferred Stock. For so long as there shall remain outstanding any shares of Preferred Stock, the Corporation shall furnish to each holder of record of Preferred Stock (i) all reports sent by the Corporation to holders of record of the Common Stock of the Corporation, and (ii) a quarterly report setting forth the deposits and loans of the Rockingham National Bank division for the most recently completed quarter.
8. Certain Covenants. So long as any shares of Preferred Stock are outstanding, without the prior written consent of the holders of a majority of the outstanding shares of Preferred Stock, the Corporation shall not amend, alter or repeal any provision of the Articles of Incorporation of the Corporation so as to affect adversely the preferences, rights, powers or privileges of the Preferred Stock.
9. Restrictions on Resale; Legend. The shares of Preferred Stock have not been registered under the Securities Act or Virginia law pursuant to applicable exemptions. The shares of the Preferred Stock are subject to substantial restrictions on transfer and may not be sold, assigned, transferred or otherwise disposed of by a holder unless they are subsequently registered, or federal and other exemptions from registration are available. Upon conversion of the Preferred Stock into shares of Common Stock, such shares of Common Stock will be restricted for a period of one (1) year from the date of purchase of the Preferred Shares. This means that the shares of Common Stock may not be sold for at least one (1) year from the date the Preferred Stock was purchased. A legend will be placed on the Preferred Stock and the Common Stock certificates disclosing these restrictions, if applicable.
10. Exclusion of Other Rights. Unless otherwise required by law, the shares of Preferred Stock shall not have any voting powers, preferences or relative, participating, optional or other special rights other than those specifically set forth herein.
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V. The name and address of the incorporators and the number of shares subscribed by each of them is as follows:

NAME	ADDRESS	NUMBER OF SHARES
Oscar M. Bean	Rt. 2, Box 116 Moorefield, WV 26836	34
Donald W. Biller	Rt. 1, Box 30 35 Lost River, WV 26811	35
Thomas J. Hawse	216 Washington Street Moorefield, WV 26836	35
Phoebe F. Heishman	136 S. Main Street Moorefield, WV 26836	35
Ed A. Leatherman, Jr.	Rt. 1, Box 175 Purgitsville, WV 26852	35
J. Aleck Welton	Box 366 Moorefield, WV 26836	35
Renick C. Williams	Box 664 Moorefield, WV 26836	35
Michael T. Wilson	Rt. 4 Sunset View Moorefield, WV 26836	35
Harry C. Welton	Rt. 4, Box 27 Moorefield, WV 26836	35
A. Clyde Ours, Jr.	Box 541 Moorefield, WV 26836	35
E. E. Hott	Box 1 Franklin, WV 26807	35

VI. The existence of this corporation is to be perpetual.

VII. The name and address of the person to whom shall be sent notice or process served upon, or service of which is accepted by the Secretary of State is:

H. Charles Maddy, III
300 North Main Street
Moorefield, West Virginia 26836

- VIII. The number of directors constituting the initial board of directors of the corporation is eleven (11).
- IX. Provisions limiting preemptive rights are: the shareholders of the corporation shall not have any preemptive rights to acquire any shares of stock of the corporation.
- X. Provisions for the regulations of the internal affairs of the corporation shall be as follows:
- A. Definitions. For purposes hereof, the following terms are defined as follows:
1. Affiliate. An “affiliate” of, or a person “affiliated” with, a specific person, means a person (other than this Corporation or a majority-owned or wholly owned subsidiary of this Corporation) that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified.
2. Associate. The term “associate” when used to indicate a relationship with any person, means (i) any corporation, partnership, limited partnership, association, joint venture, group or other organization (other than this Corporation or a majority- owned or wholly owned subsidiary of this Corporation) of which such person is an officer or partner or is, directly or indirectly, the Beneficial Owner of ten percent (10%) or more of any class of equity securities or other medium of ownership rights, (ii) any trust or other estate in which such person has a substantial beneficial interest or as to which such person serves as trustee or in a similar fiduciary capacity, (iii) any relative or spouse of such person, or any relative of such spouse provided the relative has the same home as such person, or (iv) any investment company registered under the Investment Company Act of 1940 for which such person or any affiliate of such person serves as investment adviser.
3. Beneficial Owner. A person shall be considered the “Beneficial Owner” of any shares of stock whether or not owned of record by such Person:
- (a) With respect to any shares as to which such Person or any Affiliate or Associate of such Person directly or indirectly has or shares (i) voting power, including the power to vote or to direct the voting of such shares of stock and/or (ii) investment power, including the power to dispose of or to direct the disposition of such shares of stock;
- (b) With respect to any shares as to which such Person or any Affiliate or Associate of such Person has (i) the right to acquire such shares (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, and/or (ii) the right to vote pursuant to any agreement, arrangement or understanding (whether such right is exercisable immediately or only after the passage of time); or
- (c) With respect to any shares which are Beneficially Owned within the meaning of (a) or (b) of this Paragraph (3) above by any other Person with which such first-mentioned Person or any of its Affiliates or Associates has any agreement, arrangement or understanding, written or oral, with respect to acquiring, holding, voting or disposing of any shares of stock of the Corporation or any Subsidiary of the Corporation or acquiring, holding or disposing of all or substantially all, or any substantial part, of the assets or businesses of the Corporation or a Subsidiary of the Corporation.
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For the purpose only of determining whether a Person is the Beneficial Owner of a percentage of outstanding shares, such shares shall be deemed to include any shares which may be issuable pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants, options or otherwise and which are deemed to be beneficially owned by such Person pursuant to the foregoing provisions of this Paragraph (3) above.

4. Business Combination. A “Business Combination” means:

- (a) The sale, exchange, lease, transfer or other disposition to or with a Related Person or any Affiliate or Associate of such Related Person by the Corporation or any of its Subsidiaries (in a single transaction or a series of related transactions) of all or substantially all, or any substantial part, or its or their assets or businesses including, without limitation, any securities issued by a Subsidiary;
 - (b) The purchase, exchange, lease or other acquisition by the Corporation or any of its Subsidiaries (in a single transaction or a series of related transactions) of all or substantially all, or any Substantial Part, of the assets or business of a Related Person or any Affiliate or Associate of such Related Person;
 - (c) Any merger or consolidation of the Corporation or any Subsidiary thereof into or with a Related Person or any Affiliate or Associate of such Related Person or into or with another person which, after such merger or consolidation, would be an Affiliate or an Associate of a Related Person, in each case irrespective of which Person is the surviving entity in such merger or consolidation;
 - (d) Any reclassification of securities, recapitalization or other transaction (other than a redemption in accordance with the terms of the security redeemed) which has the effect, directly or indirectly, of increasing the proportionate amount of shares of the Corporation or any Subsidiary thereof which are Beneficially Owned by a Related Person, or any partial or complete liquidation, spinoff, splitoff or splitup of the Corporation or Subsidiary thereof which has the effect, directly or indirectly, of increasing the proportionate amount of shares of the Corporation or any subsidiary thereof which are Beneficially Owned by a Related Person; or
 - (e) The acquisition upon the issuance thereof of Beneficial Ownership by a Related Person of voting shares or securities convertible into voting shares or any voting securities or securities convertible into voting securities of any Subsidiary of the Corporation, or the acquisition upon the issuance thereof of Beneficial Ownership by a Related Person of any rights, warrants or options to acquire any of the foregoing or any combination of the foregoing voting shares or voting securities of a Subsidiary. As used herein a `series of related transactions' shall be deemed to include not only a series of transactions with the same Related Person but also a series of separate transactions with a Related Person or any Affiliate or Associate of such Related Person.
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(f) Notwithstanding the foregoing, the term “Business Combination” shall not mean the formation of the Corporation or the acquisition by it of South Branch Valley National Bank, a national banking association, with its principal banking offices located in Moorefield, West Virginia.

5. Corporation. “Corporation” shall mean Summit Financial Group, Inc., a West Virginia business corporation.

6. Date of Determination. The term “Date of Determination” means (a) the date on which a binding agreement (except for the fulfillment of conditions precedent, including, without limitation, votes of shareholders to approve such transaction) is entered into by this Corporation, as authorized by its board of directors, and another corporation, person or other entity providing for any merger or consolidation of this Corporation or any sale, lease, exchange or disposition of all or substantially all of the assets of this Corporation; or (b) if such an agreement as referred to in item (a) is amended so as to make it less favorable to this Corporation and its shareholders, the date on which such amendment is approved by the board of directors of this Corporation, or, (c) in cases where neither items (a) nor item (b) shall be applicable, the record date for the determination of shareholders of this Corporation entitled to notice of and to vote upon the transaction in question. The board of directors of this Corporation shall have the power and duty to determine for the purposes hereof the Date of Determination as to any transaction. Any such determination by the board of directors made in good faith shall be conclusive and binding for any and all purposes.

7. Person. The term “Person” shall mean any person, partnership, corporation, group or other entity (other than the Corporation, any Subsidiary of the Corporation, or a trustee holding stock for the benefit of the employees of the Corporation or its Subsidiaries, or any one of them, pursuant to one or more employee benefit plans or arrangements). When two or more Persons act as a partnership, limited partnership, syndicate, association or other group for the purpose of acquiring, holding or disposing of shares of stock, such partnerships, syndicate, association or group shall be deemed a “Person”.

8. Related Person. “Related Person” means any Person which is the Beneficial Owner as of the Date of Determination or immediately prior to the consummation of a Business Combination, or both, of twenty-five (25) percent or more of the voting shares of the Corporation or any Person who at any time within two (2) years preceding the Date of Determination was the Beneficial Owner of twenty-five (25) percent or more of the then outstanding voting shares of the Corporation.

9. Subsidiary. “Subsidiary” shall mean South Branch Valley National Bank, a national banking association as of the effective date of the acquisition of said bank by this corporation and any other corporation, bank, banking association or other entity at least a majority of which is owned by Summit Financial Group, Inc.

10. Capacity to Make Certain Determinations. A majority of the directors of the Corporation shall have the power to determine for the purposes hereof on the basis of information known to them: (i) the number of voting shares of the Corporation of which any Person is the Beneficial Owner, (ii) whether a Person is an Affiliate of Associate of another, (iii) whether a Person has an agreement, arrangement or understanding with another as to the matters referred to in the definition of “Beneficial Owner” as hereinabove defined, (iv) whether the assets subject to any Business Combination constitute a substantial part of total assets, (v) whether two or more transactions constitute a `series of related transactions’ as hereinabove defined, and (vi) such other matters with respect to which a determination is required hereunder.

A Related Person shall be deemed to have acquired a share of the Corporation at the time when such Related Person became the Beneficial Owner thereof. With respect to shares owned by Affiliates, Associates or other Persons whose ownership is attributed to a Related Person under the foregoing definition of Beneficial Owner, if the price paid by such Related Person for such shares is not determinable, the price so paid shall be deemed to be the higher of (i) the price paid upon acquisition thereof by the Affiliate, Associate or other Person or (ii) the market price of the shares in question (as determined by a majority of the board of directors of the Corporation) at the time when the Related Person became the Beneficial Owner thereof.

B. Voting Requirements for Merger, Consolidation or Sale of Assets. Subject to any other requirements provided for by law and in this charter or any amendment thereto, in order for any merger or consolidation of this Corporation with another corporation or any sale, lease or exchange by liquidation or otherwise of all or substantially all of the assets of this Corporation to be approved by the shareholders of this Corporation, not less than sixty-six and two-thirds percent (66 2/3%) of the authorized, issued and outstanding voting shares of the Corporation must vote in favor of such action unless the Business Combination has been previously approved by at least sixty-six and two-thirds percent (66 2/3%) of the board of directors of the Corporation in which case only a simple majority vote of the shareholders shall be required.

C. Fair Price Requirement. Neither the Corporation nor any of its Subsidiaries shall become party to any Business Combination unless all of the following conditions are satisfied:

1. The ratio of (i) the aggregate amount of the cash and the fair market value of other consideration to be received per share of common stock of the Corporation in such Business Combination by holders of common stock other than the Related Person involved in such Business Combination, to (ii) the market price per share of the common stock immediately prior to the announcement of the proposed Business Combination, is at least as great as the ratio of (x) the highest per share price (including brokerage commissions, transfer taxes and soliciting dealers’ fees) which such Related Person has theretofore paid in acquiring any common stock of the Corporation prior to such Business Combination, to (y) the market price per share of common stock of the Corporation immediately prior to the initial acquisition by such Related Person of any shares of common stock of the Corporation; and

2. The aggregate amount of the cash and the fair market value of other consideration to be received per share of common stock of the Corporation in such Business Combination by holders of common stock of the Corporation, other than the Related Person involved in such Business Combination, (i) is not less than the highest per share price (including brokerage commissions, transfer taxes and soliciting dealers' fees) paid by such Related Person in acquiring any of its holdings of common stock of the Corporation, and (ii) is not less than the earnings per share of common stock of the Corporation for the four full consecutive fiscal quarters of the Corporation immediately preceding the Date of Determination of such Business Combination multiplied by the then price/earnings multiple (if any) of such Related Person as customarily computed and reported in the financial community; provided, that for the purposes of this clause (ii), if more than one Person constitutes the Related Person involved in the Business Combination, the price/earnings multiple (if any) of the Person having the highest price/earnings multiple shall be used for the computation in this clause, (ii); and

3. The consideration (if any) to be received in such Business Combination by holders of common stock of the Corporation other than the Related Person involved shall, except to the extent that a stockholder agrees otherwise as to all or part of the shares which he or she owns, be in the same form and of the same kind as the consideration paid by the Related Person in acquiring common stock of the Corporation already owned by it.

D. Evaluation of Acquisition of this Corporation by Another Corporation. In connection with the exercise of its judgment in determining what is in the best interest of the Corporation and its stockholders when evaluating an acquisition of this Corporation by another corporation or a tender or exchange offer for control of this Corporation, the board of directors of the Corporation shall, in addition to considering the adequacy of the amount to be paid in connection with any such transaction, consider all of the following factors and any other factors which it deems relevant: (i) the social and economic effects of the transaction on the Corporation and its Subsidiaries, employees, depositors, loan and other customers, creditors and other elements of the communities in which the Corporation and its Subsidiaries operate or are located; (ii) the business and financial conditions and earnings prospects of the acquiring entity or entities, including, but not limited to, debt service and other existing or likely financial obligations of the acquiring Person or Persons, and the possible effect of such conditions upon the Corporation and its Subsidiaries operate or are located; and (iii) the competence, experience, and integrity of the acquiring entity or entities and its or their management.

E. Classified Board of Directors. At the first annual meeting of the shareholders, after the effective date of the acquisition of South Branch Valley National Bank as a bank subsidiary, the board of directors shall be divided into three classes, designated Class I, Class II and Class III, consisting of an equal number of directors per class. The term of office of directors of one class shall expire at each annual meeting of stockholders, and as to each director until his or her successor shall be elected and shall qualify, or until his or her earlier resignation, removal from office, death or incapacity. Additional directorships resulting from an increase in number of directors shall be apportioned among the classes as equally as possible. A decrease in the number of directors by death, resignation or removal may but shall not be required to be filled by the remaining board members. The initial term of office of directors of Class I shall expire at the first annual meeting of stockholders, that of Class II shall expire at the second annual meeting, and that of Class III shall expire at the third annual meeting, and in all cases as to each director until his or her successor shall be elected and shall qualify, or until his or her earlier resignation, removal from office, death or incapacity. At each annual meeting of stockholders the number of directors equal to the number of directors of the class whose term expires at the time of such meeting (or, if less, the number of directors properly nominated and qualified for election) shall be elected to hold office until the third succeeding annual meeting of the stockholders after their election. The directors remaining in office acting by a majority vote, or a sole remaining director, although less than a quorum, are hereby expressly delegated the power to fill any vacancies in the board of directors, however occurring, whether by an increase in the number of directors, death, resignation, retirement, disqualification, removal from office, or otherwise, and any director so chosen shall hold office until the next election of the class for which such director shall have been chosen and until his or her successor shall have been elected and qualified, or until his or her earlier resignation, removal from office, death or incapacity.

The total number of directors of this Corporation shall be not less than nine nor more than twenty-one as from time to time fixed by the board of directors.

F. Nomination of Directors. Nominations for election to the board of directors may be made by the board of directors or by any shareholder entitled to vote for the election of directors. Nominations, other than those made by or on behalf of the existing management of the Corporation, must be made in writing and delivered or mailed to the President of the Corporation not less than thirty (30) days prior to any meeting of shareholders called for the election of directors; provided, however, that if less than thirty (30) days notice of the meeting is given to shareholders, such nomination shall be mailed or delivered to the President of the Corporation not later than the fifth (5th) day following the day on which the notice of meeting was mailed. Such notification shall contain the following information to the extent known by the shareholder: (i) the name and address of each nominee, (ii) the principal occupation of each nominee, (iii) the name and address of the notifying shareholder, and (iv) the number of shares of the Corporation's stock owned by the notifying shareholder. Nominations not made in accordance herewith, may, in the discretion of the chairman of the meeting, be disregarded, and upon his instruction, the votes cast for each such nominee shall be disregarded.

G. Removal of a Director for Cause Only. The removal from office of any director must be for cause as set forth herein. Except as may otherwise be provided by law, cause for removal shall be construed to exist only if:

1. the director whose removal is proposed has been convicted, or where a director was granted immunity to testify where another has been convicted, of a felony by a court of competent jurisdiction and such conviction is no longer subject to direct appeal;
 2. such director has been adjudicated by a court of competent jurisdiction to be liable for negligence, or misconduct, in the performance of his duty to the Corporation and such adjudication is no longer subject to direct appeal;
 3. such director has become mentally incompetent, whether or not so adjudicated, which mental incompetency directly affects his or her ability as a director of the Corporation;
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4. such director ceases to fulfill the qualification requirements for a director of a West Virginia bank holding company; or
5. such director's actions or failure to act have been determined by a majority of the board of directors to be in derogation of the director's duties.

Removal for cause, as cause is defined in (1) and (2) above, must be brought within one year of such conviction or adjudication. For purposes of (5) above, the total number of directors as to which a majority is required will not include the director who is the subject of the removal determination, nor will such director be entitled to vote thereon except in his or her shareholder capacity.

H. Anti-Greenmail Provision. The Corporation shall not engage, directly or indirectly, in any Stock Repurchase (as hereinafter defined) from an Interested Stockholder (as hereinafter defined) or an Affiliate (as previously defined) or Associate (as previously defined) of an Interested Stockholder (as hereinafter defined) who has beneficially acquired any shares of voting stock of the Corporation within a period of less than two (2) years immediately prior to the date of such proposed Stock Repurchase (or the date of an agreement in respect thereof) without the affirmative vote of not less than a majority of the votes entitled to be cast by the holders of all then outstanding shares of voting stock of the Corporation which are Beneficially Owned (as previously defined) by persons other than such Interested Stockholder, voting together as a single class. Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that a lesser percentage or separate class vote may be specified, by law or otherwise.

The provisions of this Article shall not be applicable to any particular Stock Repurchase from an Interested Stockholder, and such Stock Repurchase shall require only such affirmative vote, if any, as is required by law if the conditions specified in either of the following Paragraphs 1 or 2 are met:

1. The Stock Repurchase is made pursuant to a tender offer or exchange offer for a class of common stock made available on the same basis to all holders of such class of common stock.

2. The Stock Repurchase is made pursuant to an open market purchase program approved by a majority of the directors of the Corporation provided that such repurchase is effected on the open market and is not the result of a privately negotiated transaction.

For purposes hereof:

1. The term "Stock Repurchase" shall mean any repurchase (or any agreement to repurchase), directly or indirectly, by the Corporation or any Subsidiary of any shares of common stock at a price greater than the Fair Market Value of such shares.
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2. The term “Interested Stockholder” shall mean any person (other than this Corporation or any Subsidiary and other than any profit-sharing, employee stock ownership or other employee benefit plan of this Corporation or any Subsidiary or any trustee of or fiduciary with respect to any such plan when acting in such capacity) who (1) is the Beneficial Owner of voting stock of the Corporation representing ten percent (10%) or more of the votes entitled to be cast by the holders of all then outstanding shares of voting stock of the Corporation; and (b) acquired at least one-half of such shares at any time within the two year period immediately prior to the date in question.

3. The term “Fair Market Value” means (a) in the case of a cash purchase, the amount of such cash, (b) in the case of a stock exchange, the fair market value on the date in questions of a share of such offered stock as determined in good faith by a majority of the directors; and (c) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined in good faith by a majority of the directors.

The board of directors shall have the power and duty to determine for the purposes hereof, on the basis of information known to then after reasonable inquiry, (a) whether a person is an Interested Stockholder, (b) the number of shares of common stock or other securities beneficially owned by any person, (c) whether a person is an Affiliate or Associate of another and (d) whether the consideration to be paid in any Stock Repurchase has an aggregate Fair Market Value in excess of the then Fair Market Value of the shares of common stock being repurchased. Any such determination made in good faith shall be binding and conclusive on all parties.

Nothing contained herein shall be construed to relieve any Interested Stockholder from any fiduciary obligation imposed by law.

I. Director and Officer Indemnification. Unless otherwise prohibited by law, each director and officer of the corporation now or hereafter serving as such, and each director and officer of any majority or wholly owned subsidiary of the corporation that has been designated as entitled to indemnification by resolution of the board of directors of the corporation as may be from time to time determined by said board, shall be indemnified by the corporation against any and all claims and liabilities (other than an action by or in the right of the corporation or any majority or wholly owned subsidiary of the corporation) including expenses of defending such claim of liability to which he or she has or shall become subject by reason of any action alleged to have been taken, omitted, or neglected by him or her as such director or officer provided the director or officer acted in good faith and in a manner which the director or officer reasonably believed to be in or not opposed to the best interests of the corporation. With respect to any criminal proceeding, a director or officer shall be entitled to indemnification if such person had no reasonable cause to believe his or her conduct was unlawful. The corporation shall reimburse each such person as provided above in connection with any claim or liability brought or arising by or in the right of the corporation or any majority or wholly owned subsidiary of the corporation provided, however, that such person shall be not indemnified in connection with, any claim or liability brought by or in the right of the corporation or any majority or wholly owned subsidiary of the corporation as to which the director or officer shall have been adjudged to be liable for negligence or misconduct in the performance of his or her duty to the corporation or any majority or wholly owned subsidiary of the corporation unless and only to the extent that the court in which such action or proceeding was brought shall determine upon application that, despite the adjudication of liability but in view of all circumstances of the case, such person is fairly and reasonably entitled to indemnify for such expenses which such court shall deem proper.

The determination of eligibility for indemnification shall be made by those board members not party to the action or proceeding or in the absence of such board members by a panel of independent shareholders appointed for such purpose by a majority of the shareholders of the corporation or in any other manner provided by law.

The right of indemnification hereinabove provided for shall not be exclusive of any rights to which any director or officer of the corporation may otherwise be entitled by law.

The board of directors may be by resolution, by law or other lawful manner from time to time as it shall determine extend the indemnification provided herein to agents and employees of the corporation, to directors, officers, agents or employees of other corporations or entities owned in whole or in part by the corporation. The corporation may purchase and maintain insurance for the purposes hereof.

J. Voting Requirements for Charter Amendments. Any amendment, change or repeal of this Article X or any other amendment of these Articles of Incorporation, which would have the effect of modifying or permitting circumvention of any provision of these Articles of Incorporation, shall require the affirmative vote, at a meeting of stockholders of the Corporation, of holders of at least sixty-six and two-thirds percent (66 2/3%) of the then outstanding voting shares of the Corporation; provided, however, that this provision shall not apply to, and such vote shall not be required for, any such amendment, change or repeal recommended to stockholders by the favorable vote of not less than sixty-six and two-thirds percent (66 2/3%) of the directors of the Corporation and any such amendment, change or repeal so recommended shall require only a simple majority vote of the shareholders to be approved.

WE, THE UNDERSIGNED, for the purpose of forming a corporation under the laws of the State of West Virginia, do make and file in duplicate these ARTICLES OF INCORPORATION, and we have accordingly hereunto set our hands this 3rd day of March, 1987.

/s/ Oscar M. Bean

Oscar M. Bean

/s/ Donald W. Biller

Donald W. Biller

/s/ Thomas J. Hawse

Thomas J. Hawse

/s/ Phoebe F. Heishman

Phoebe F. Heishman

/s/ Ed A. Leatherman, Jr.

Ed A. Leatherman, Jr.

/s/ Aleck Welton

J. Aleck Welton

/s/ Renick C. Williams

Renick C. Williams

/s/ Michael T. Wilson

Michael T. Wilson

/s/ Harry C. Welton

Harry C. Welton

/s/ A. Clyde Ours, Jr.

A. Clyde Ours, Jr.

/s/ E.E. Hott

E.E. Hott

BY-LAWS
OF
SUMMIT FINANCIAL GROUP, INC.

Article I. Offices.

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

Article II. Shareholders.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Article III. Board of Directors.

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

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

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

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

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

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

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

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

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

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

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

Article IV. Officers.

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

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

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

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

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

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

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

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

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

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

Article IV. Contracts, Loans, Checks and Deposits.

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

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

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

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

Article VI. Certificates for Shares and their Transfer.

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

Section 2. Transfer of Shares. Transfer of shares of the corporation shall be made only on the stock transfer books of the corporation by the holder of record thereof or by his legal representative, who shall furnish proper evidence of authority to transfer, or by his attorney thereunto authorized by power of attorney duly executed and filed with the secretary of the corporation, and on surrender for cancellation of the certificate for such shares. The person in whose name shares stand on the books of the corporation shall be deemed by the corporation to be the owner thereof for all purposes.

Article VII. Dividends.

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

Article VIII. Seal.

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

Article IX. Waiver of Notice.

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

Article X. Amendments.

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

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/s/ Oscar M. Bean

Secretary

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT is made and entered into on this 17th day of October, 2005, by and among SUMMIT FINANCIAL GROUP, INC. ("Summit FGI"), a West Virginia corporation, and DOUGLAS T. MITCHELL (the "Employee").

WHEREAS, Summit FGI offers the terms and conditions of employment hereinafter set forth and Employee accepts such terms and conditions in consideration of his employment with the Company; and

NOW THEREFORE, in consideration of the promises and the respective covenants and agreements of the parties herein contained, Summit FGI and Employee contract and agree as follows:

1. Definitions. The following definitions in addition to any terms otherwise defined herein, shall apply to designated phrases used in this Employment Agreement.

- (a) "Change of Control" means (i) a change of ownership of Summit FGI that would have to be reported to the Securities and Exchange Commission as a change of control, including but not limited to the acquisition by any "person" and/or entity as defined by securities regulations and law, of direct or indirect "beneficial ownership," as defined, of twenty-five percent (25%) or more of the combined voting power of Summit FGI's then outstanding securities; or (ii) the failure during any period of three (3) consecutive years of individuals who at the beginning of such period constitute the Board of Directors of Summit FGI for any reason to constitute at least a majority thereof, unless the election of each director who was not a director at the beginning of such period has been approved by at least two-thirds (2/3) of the directors at the beginning of the period. In no event shall corporate restructuring of Summit FGI and/or its affiliates be construed as a "change in control" absent one or more of the conditions set forth above.
- (b) "Salary" means Employee's average of full earnings reported on IRS Form W-2 for the two full year periods immediately prior to the date of the consummation of a Change of Control or for two full year periods immediately preceding the effective date of termination, whichever is greater.
- (c) "Good Cause" includes (i) Employee's continued poor work performance after written notice of and reasonable opportunity to correct deficiencies; (ii) Employee's behavior outside or on the job which affects the ability of management of Summit FGI or its affiliates or co-workers to perform their jobs and that is not corrected after reasonable written warning; (iii) Employee's failure to devote reasonable time to the job that is not corrected after reasonable warning; (iv) any other significant deficiency in performance by Employee that is not corrected after reasonable warning; (v) Employee's repeated negligence, malfeasance or misfeasance in the performance of Employee's duties that can reasonably be expected to have an adverse impact upon the business and affairs of Summit FGI or its affiliates; (vi) Employee's commission of any act constituting theft, intentional wrongdoing or fraud; (vii) the conviction of the Employee of a felony criminal offense in either state or federal court; (viii) any single act by Employee constituting gross negligence or that causes material harm to the reputation, financial condition or property of Summit FGI or its affiliates.
- (d) "Disability" means unable as a result of a physical or mental condition to perform Employee's normal duties as Senior Vice President from day to day in Employee's usual capacity.
- (e) "Retirement" means termination of employment by Employee in accordance with Summit FGI's 's retirement plan, including early retirement as approved by the Board of Directors of Summit FGI .
- (f) "Good Reason" means: (i) a Change of Control in Summit FGI and; (ii) a decrease in the total amount of Employee's base salary below its level in effect on the date of consummation of the Change of Control, without Employee's prior written consent; or (iii) a material change in Employee's job duties and responsibilities without Employee's prior written consent; or (iv) a geographical relocation of Employee to an office more than twenty (20) miles from Employee's location at the time of the Change of Control without Employee's prior written consent; or (v) failure of Summit FGI to obtain assumption of this Employment Agreement by its/their successor; or (vi) any purported termination of Employee's employment which is not effected pursuant to a notice of termination required in Paragraph 15 of this Employment Agreement.
- (g) "Wrongful Termination" means termination of Employee's employment prior to the expiration of eighteen (18) months after consummation of a Change of Control for any reason other than at Employee's option, Good Cause or the death, Disability or Retirement of Employee.

2. Term. The initial term of this Employment Agreement shall be for three (3) years, unless terminated sooner as provided herein. Absent termination by one of the parties as provided in this Employment Agreement, the term of this Employment Agreement shall automatically be extended for unlimited additional one (1) year term(s), in which case such term shall end one (1) year from the date on which it is last renewed.

3. Duties. Employee shall perform and have all of the duties and responsibilities that may be assigned to him from time to time by the Chief Executive Officer and/or the Board of Directors of Summit FGI. Employee's duties shall include, but not be limited to, the overall management of Summit FGI's retail banking operation , management of Summit FGI's deposit product development (commercial and retail), the successful implementation and management of a new call center, and management of Summit FGI's marketing and retail efforts. Employee shall devote his best efforts on a full-time basis to the performance of such duties.

4. Compensation and Benefits. During the term of this Employment Agreement, including any extensions, Summit FGI agrees that Employee's compensation and benefits shall be as follows:

- (a) **Base Salary.** Employee's base salary as of the effective date of this Employment Agreement is One Hundred Fifty Thousand Dollars (\$150,000.00) per year, paid on a semi-monthly basis. Employee shall be considered for salary increases on the basis of merit on an annual basis, with any future increases subject to the sole discretion of Summit FGI.
- (b) **Signing Bonus.** Upon execution of this Employment Agreement, Employee shall be entitled to receive a signing bonus in an amount equal to \$30,000 to cover relocation expenses. Subject to paragraph 6, if within eighteen (18) months of the effective date of this Employment Agreement, Employee terminates his employment for any reason other than death or Disability, then Employee shall reimburse Summit FGI the full amount of the signing bonus provided for herein..
- (c) **Bonus.** In addition to the base salary provided for herein, Employee shall be eligible for incentive-based bonuses subject to goals and criteria to be determined by the Board of Directors of Summit FGI.
- (d) **Paid Leave.** Employee shall be entitled to all paid leave as provided by Summit FGI to other similarly-situated officers.
- (e) **Fringe Benefits.** Except as specified below, Summit FGI shall afford to Employee the benefit of all fringe benefits afforded to all other similarly-situated employees of Summit FGI, including but not limited to retirement plans, stock ownership or stock option plans, life insurance, disability, health and accident insurance benefits or any other fringe benefit plan now existing or hereinafter adopted by Summit FGI, subject to the terms and conditions thereof.
- (f) **Business Expenses.** Summit FGI shall reimburse Employee for reasonable expenses incurred by Employee in carrying out his duties and responsibilities, including but not limited to reimbursing civic club organization dues and reasonable expenses for customer entertainment. All such reimbursement shall be administered in accordance with the policies and practices established by Summit FGI from time to time.
- (g) **Stock Options.** Employee will be entitled to receive stock options for a total of 3,500 shares of Summit FGI subject to the terms and conditions of Summit FGI's current Stock Option Plan.
- (h) **Supplemental Executive Retirement Benefit.** Summit FGI will provide Employee with a supplemental executive retirement benefit.

5. Termination for Good Cause. Subject to the provisions of Paragraph 7 below, if Employee terminates his employment with Summit FGI for any reason or Summit FGI terminates Employee's employment for Good Cause, Employee shall not be entitled to any compensation other than that which is earned and payable as of the effective date of termination of employment.

6. Termination Not for Good Cause. Employee's employment may be terminated by Summit FGI for any reason permitted under applicable law so long as Employee is given thirty (30) days advance written notice (or payment in lieu thereof). In the event of a termination pursuant to this paragraph, Employee shall be entitled to payment from Summit FGI equal to the base salary compensation set forth in this Agreement for the remaining term of the Agreement, or severance pay equal to 100% of his annual base salary, whichever is greater.

7. Termination for Good Reason, Wrongful Termination, or at Employee's Option.

- (a) Except as hereinafter provided, if Employee terminates his employment with Summit FGI for Good Reason or Summit FGI terminates Employee's employment in a manner constituting Wrongful Termination, Summit FGI hereby agrees to pay Employee a cash payment equal to Employee's Salary, on a monthly basis, multiplied by the number of months between the effective date of termination and the date that is eighteen (18) months after the date of consummation of Change of Control; provided that in no event shall Employee receive a lump sum payment that is less than 100% of his annual base salary. Employee shall have the right to terminate his employment without reason at his option by giving written notice of termination within six (6) months of a Change of Control. In this case, Employee will be entitled to receive a lump sum equal to six months of his annual base salary.
- (b) For the year in which Employee terminates his employment with Summit FGI for Good Reason or Summit FGI terminates Employee's employment in a manner constituting Wrongful Termination, Employee will be entitled to receive his reasonable share of Summit FGI's cash bonuses and employee benefit plan contributions, if any, allocated in accordance with existing policies and procedures and authorized by the Board of Directors of Summit FGI. The amount of Employee's cash incentive award shall not be reduced due to Employee not being actively employed for the full year.
- (c) If compensation pursuant to Paragraph 7(a) is payable, Employee will continue to participate, without discrimination, for the number of months between the Date of Termination and the date that is eighteen (18) months after the date of the consummation of the Change of Control in benefit plans (such as retirement, disability and medical insurance) maintained after any Change of Control for employees, in general, of Summit FGI and/or any successor organization(s), provided Employee's continued participation is possible under the general terms and conditions of such plans. In the event Employee's participation in any such plan is barred, Summit FGI shall arrange to provide Employee with benefits substantially similar to those which Employee would have been entitled had his participation not been barred. Notwithstanding the foregoing, if Employee terminates his employment after a Change of Control without reason at his option, as permitted under Paragraph 7(a), then Employee shall be entitled to receive the employee benefits contemplated in this Agreement for a period of six (6) months after termination. However, in no event will Employee receive from Summit FGI the employee benefits contemplated by this section if Employee receives comparable benefits from any other source.

8. **Other Employment.** Employee shall not be required to mitigate the amount of any payment provided for in this Employment Agreement by seeking other employment. The amount of any payment provided for in this Employment Agreement shall not be reduced by any compensation earned or benefits provided (except as set forth in Paragraph 7(c) above) as the result of employment by another employer after the date of termination.

9. **Rights of Summit FGI Prior to the Change of Control.** This Employment Agreement shall not affect the right of Summit FGI to terminate Employee, or to reduce the salary or benefits of Employee, with or without Good Cause, prior to any Change of Control; provided, however, any termination for any reason other than at Employee's option, Good Cause or the death, Disability or Retirement of Employee that takes place after discussions have commenced that result in a Change of Control shall be presumed to be a Wrongful Termination, absent clear and convincing evidence to the contrary.

10. **Noncompetition and Nonsolicitation.** In consideration of the covenants set forth herein, including but not limited to the compensation set forth in Paragraphs 4,6 and 7 above, Employee agrees as follows:

- (a) For the entire duration of Employee's employment with Summit FGI and for three (3) years following the termination of such employment for any reason by either Employee or Summit FGI (the "Restricted Period"), Employee shall not (i) within a seventy-five (75) mile radius of Summit FGI and/or its affiliate directly or indirectly engage in any business or activity of any nature whatsoever that is competitive with the business of Summit FGI or its affiliates **or** (ii) sell or solicit the sale of, any services related thereto, directly or indirectly, to any of Summit FGI's or its affiliates' customers or clients within the State of West Virginia, the Commonwealth of Virginia or any other states in which Summit FGI conducts such business or sells services in the future.
- (b) Without limitation of the foregoing, during the Restricted Period, Employee shall not serve as a proprietor, partner, officer, director, stockholder, employee, sales representative or consultant for any organization, company or business entity of any type that engages in any business or activity of any nature whatsoever, that engages in any activity described in Paragraph 10(a) above.
- (c) Employee acknowledges and agrees that in the event of the breach or threatened breach of this provision, the harm and damages that will be suffered by Summit FGI are not susceptible of calculation or determination with a reasonable degree of certainty, and cannot be fully remedied by an award of money damages or other remedy at law. Employee further acknowledges and agrees that considering Employee's relevant background, education and experience, Employee will be able to earn a livelihood without violating the foregoing restrictions. In addition to any and all other rights and remedies available to Summit FGI in the event of any threatened, actual or continuing breach of this covenant not to compete, Employee consents to and acknowledges Summit FGI's right and option to seek and obtain in any court of competent jurisdiction a preliminary and/or permanent injunction in respect of any threatened, actual or continuing breach of the covenant not to compete set forth herein.
- (d) In the event that this provision shall be deemed by any court or body of competent jurisdiction to be unenforceable in whole or in part by reason of its extending for too long a period of time, or too great a geographical area or over too great a range of activities, or overly broad in any other respect or for any other reason, then and in such event this Employment Agreement shall be deemed modified and interpreted to extend over only such maximum period of time, geographical area or range of activities, or otherwise, so as to render these provisions valid and enforceable, and as so modified, these provisions shall be enforceable and enforced.

- (e) The Paragraph 10 shall not apply in any respect to Employee, unless Employee agrees otherwise in writing, in the event of the consummation of a Change in Control or in the event of Employee's termination by Summit FGI for other than Good Cause.

11. Confidential Information.

- (a) Employee agrees not to use, publish or otherwise disclose (except as Employee's duties may require), either during or at any time subsequent to his/her employment, any secret, proprietary or confidential information or data of Summit FGI or any information or data of others that Summit FGI or its affiliates is obligated to maintain in confidence. Employee understands that the use, publication or other disclosure of such information may violate privacy rights, as well as expose Summit FGI or its affiliates to financial loss, competitive disadvantage and/or embarrassment. Employee also understands that it is Employee's duty to take adequate care to ensure that such secret, proprietary or confidential information is not used, published or otherwise disclosed by others.
- (b) Employee also agrees that upon any termination of his/her employment to deliver to Summit FGI promptly all items that belong to Summit FGI or that by their nature are for the use of employees of Summit FGI only, including, without limitation, all written and other materials that are of a secret, proprietary or confidential nature relating to the business of Summit FGI and/or Summit FGI's affiliates.
- (c) For purposes of this Employment Agreement, the terms "secret" or confidential" are used in the ordinary sense and do not refer to official security classifications of the United States Government. Without limitation, examples of materials, information and data that are considered to be of a secret or confidential nature are for purposes of this Employment Agreement include but are not limited to drawings, manuals, customer lists, notebooks, reports, models, inventions, formulas, processes, machines, compositions, computer programs, accounting methods, business plans and information systems including such materials, information and data that are in machine-readable form.

12. **No Prior Obligation:** Other than this Employment Agreement, Employee represents that there are no agreements, covenants or arrangements, whether written or oral, in effect which would prevent him from rendering service to Summit FGI during the term of this employment and he has not made and will not make any commitments, become associated, either directly or indirectly, in any manner, as partner, officer, director, stockholder, advisor, employee or in any other capacity in any business or organization, or do any act in conflict with the interest of Company, its subsidiaries or affiliates. Employee expressly agrees to indemnify and hold harmless Company, its affiliates, and Company's and its affiliates' and directors, officers and employees from any and all liability resulting from or arising under the breach of this representation and warranty. This indemnify is in addition to and not in substitution of rights Company may have against Employee at common law or otherwise.

13. **Successors; Binding Agreement; Exclusive Remedy.**

- (a) Summit FGI will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of Summit FGI, by agreement in form and substance satisfactory to Employee, to expressly assume and agree to perform this Employment Agreement.
- (b) This Employment Agreement and all rights of Employee hereunder shall inure to the benefit of and be enforceable by Employee's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees, and legatees. If Employee should die while any amounts would still be payable to him hereunder if he had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Employment Agreement to Employee's devisee, legatee, or other designee or, if there be no such designee, to Employee's estate.
- (c) This Employment Agreement shall represent the exclusive and only remedy of Employee in the event a termination occurs after a Change in Control. Summit FGI and Employee agree that it is impossible to determine with any reasonable accuracy the amount of prospective damages to either party should Employee be terminated or terminate his employment during the term of this Employment Agreement. Summit FGI and Employee agree that the payment provided herein is reasonable and not a penalty, based upon the facts and circumstances of the parties at the time of entering this Employment Agreement, and with due regard to future expectations.

14. **Arbitration.** Except for any dispute arising out of the obligations set forth in Paragraph 10 of this Employment Agreement, any dispute between the parties arising out of or with respect to this Employment Agreement or any of its provisions or Employee's employment with Summit FGI shall be resolved by the sole and exclusive remedy of binding arbitration. Unless otherwise agreed by the parties, the arbitration shall be conducted in Moorefield, West Virginia under the auspices of, and in accordance with the rules of the American Arbitration Association. Any decision issued by an arbitrator in accordance with this provision shall be final and binding on the parties thereto and not subject to appeal or civil litigation.

15. **Notice.** For the purposes of this Employment Agreement, notices, demands and other communications provided for in the Employment Agreement shall be in writing and shall be deemed to have been duly given when delivered or (unless otherwise specified) mailed by the United States registered mail, return receipt requested, postage prepaid, addressed as follows:

If to Employee: Douglas Mitchell
222 Mountain View St., Petersburg, WV 26847

If to Summit FGI: Summit Financial Group, Inc
Attn: H. Charles Maddy, III, President & CEO
P. O. Box 179
Moorefield, WV 26836

or such other address as any party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

16. **Miscellaneous.** No provisions of this Employment Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by Employee and authorized officers of Summit FGI. No waiver by either party hereto at any time of any breach by the other hereto of, or compliance with, any condition or provisions of this Employment Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or any prior or subsequent time.

17. **Validity.** The invalidity or unenforceability of any provision or provisions of this Employment Agreement shall not affect the validity or enforceability of any other provisions of this Employment Agreement, which shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have caused this Employment Agreement to be signed as of the day and year first above written.

SUMMIT FINANCIAL GROUP, INC.

By: /s/ H. Charles Maddy, III
Its: President

/s/ Douglas T. Mitchell
DOUGLAS T. MITCHELL

Summit Financial Group, Inc.

Board Attendance and Compensation Policy

I. Retainer and Fees for Subsidiary Board Members

Members of the board of directors of the subsidiaries of Summit Financial Group, Inc. (“Summit”) will be paid retainer fees based on the asset size for each bank as of December 31st of the prior year, as follows:

<u>Asset Size of Bank</u>	<u>Annual Retainer</u>	<u>Fee Per Meeting</u>
Up to \$100 Million	\$2,000	\$125 per meeting attended
\$101 Million - \$250 Million	\$3,000	\$125 per meeting attended
\$250 Million and Over	\$5,000	\$125 per meeting attended

In addition to the above retainer fees and fees per board meeting attended, board committee members will also be paid \$100 per committee meeting attended. Members of board committees may attend committee meetings in person or by video conference. Any member of any board or committee may attend meetings by telephone, but payment will be made for only one board meeting and one committee meeting in any given year where attendance is by telephone.

II. Retainer and Fees for Summit Board Members

Summit board members will be paid as follows:

- \$1,000 per board meeting attended;
- \$150 per committee meeting attended (other than Audit Committee and Compensation and Nominating Committee);
- \$750 per Audit Committee meeting attended;
- \$750 per Compensation and Nominating Committee attended.

Members of the board of directors of Summit may attend board meetings or committee meetings in person or by video conference. Any member of any board or committee may attend meetings by telephone, but payment will be made for only one (1) board meeting and one (1) committee meeting in any given year where attendance is by telephone. Notwithstanding the foregoing, members of the Audit Committee may not attend meetings by telephone. In addition, Audit Committee members shall receive no other remuneration other than the retainer fees and fees per meeting set forth herein for serving on the Audit Committee.

III. Meeting Fees for Division Board Members

The Chairman of each division shall appoint individuals to serve as a member of the division board of directors. Each division board member shall serve for a term of two (2) years and may be re-appointed for an additional two-year term. The division board of directors shall operate solely as an advisory board and shall have no authority to manage the business and property of Summit or its subsidiaries or to direct the operations of Summit or its subsidiaries. Members of each division board of directors shall not be paid a retainer fee; however each member of the division board of directors shall be paid \$100 per division meeting attended. The \$100 fee per meeting shall only be paid to the members of the division board of directors who attend the division meetings in person and not by telephone.

IV. Employee-Directors

If an individual is a member of the board of directors of Summit or any of its subsidiaries and is also an employee of Summit or any of its subsidiaries, then such employee/director shall be paid the retainer fees and the fees for each board meeting attended as set forth above; however, such employee/director shall not be paid the fees for each committee meeting attended.

V. Expense Reimbursement

Any member of the board of directors of Summit or any of its subsidiaries who must travel in excess of sixty (60) miles from his primary residence or place of business to attend a board meeting or committee meeting is eligible for reimbursement of direct expenses including, but not limited to, mileage and hotel expenses. Requests must be filed within 90 days of meeting date. Forms are available from the Human Resources Department for this purpose.

VI. Payment by Direct Deposit and Deferral of Payments

The retainer fees and per meeting fees described above may be paid by direct deposit into each board member’s Summit Financial Group, Inc. subsidiary bank account. If the board member is on a subsidiary board and is a participant in the Director Deferral Plan, then the compensation may be deferred. A direct deposit to a board member’s account will be made on the last day of the month; however, if the last day of the month falls on a weekend, the direct deposit will be made on the previous Friday. If the meeting date falls after the deadline for payroll, payments will be made the following month for attendance at a meeting.

VII. Attendance

Summit owns all of the shares of stock of each of its subsidiaries, and therefore, Summit has the power to elect the directors of each of its subsidiaries. Members serving on the board of directors of each of Summit’s subsidiaries serve at the will and pleasure of the board of directors of Summit. Serving on the board of directors of a financial institution is a very serious commitment. In order to do the job properly, directors must set aside the time to attend the board and committee meetings. If a director fails to attend at least 70% of the board and committee meetings of which he is a member for any given calendar year, then the director will be placed on attendance probation. If a director does not attend at least 70% of the board and committee meetings for two consecutive years, then the board will ask the individual to resign unless the director submits a good reason for his or her absence. Acceptable reasons for failing to attend board and committee meetings include, but are not limited to, public service, personal health problems, or family health problems. The Human Resources Department will send out an attendance summary at the end of June and December of each calendar year detailing the directors’ attendance at board and committee meetings.

VIII. Renomination

Each year, the Nominating Committee will meet to assess the performance of all board members and make a recommendation to the full board of Summit as to which board members should be renominated. The Nominating Committee will assess whether each member is continuing to fulfill his or her fiduciary duties to the board. Additionally the Nominating Committee will assess the contribution by said board members to furthering the mission of their respective bank.

IX. Mandatory Retirement

Members of the Board of Directors of Summit and its subsidiaries are subject to a mandatory retirement age of 70. When a Summit or subsidiary bank board member reaches age 70, he/she will not be renominated. The following exceptions have been made to this requirement:

1. Members of the board of directors of Summit Community Bank who were Potomac Valley Bank board members at the time of the merger of Potomac Valley Bank and South Branch Valley National Bank will not be renominated after obtaining age 80.
 2. Harry Welton and Donald Biller, members of the board of directors of Summit Community Bank, will not be re-nominated after the age of 80.
 3. Members of the board of directors of Summit who were board members of Potomac Valley Bank and who were at the age of 60 at the time of the Potomac Valley Bank merger into Summit will not be re-nominated after obtaining age 80.
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4. Any member of the board of directors of Summit or any of its subsidiaries who remains an active employee of Summit or any of its subsidiaries is not subject to mandatory retirement because of age.

5. The division board members are not subject to mandatory retirement because of age.

X. Benefits

Individuals who were members of either the South Branch Valley National Bank board or members of the Potomac Valley Bank board at the time of merger, will continue benefits provided before the merger until their mandatory retirement from the board. At retirement, the board member may continue their benefits through Summit provided the board member pays 100% of the premium of the benefit.

Any future offer of benefits will be reviewed and approved by the Compensation Committee before being offered to the board members.

XI. Deferred Compensation Plan

A deferred compensation plan (“Director Deferred Compensation Plan”) for the members of the board of directors of the subsidiaries of Summit was established to allow members of the board of directors of the subsidiaries of Summit to apply their deferred compensation towards the purchase of shares of stock of Summit. As further described below in Section XII, the shares of stock of Summit purchased through the Director Deferred Compensation Plan will be counted towards the minimum requirement of stock that each member of the board of directors of each subsidiary of Summit must own to maintain a seat on the board of directors.

XII. Stock Requirements

In order to be elected to and maintain a seat on the board of directors of Summit or any of its subsidiaries, a member must hold in his or her own right, a minimum number of shares of the stock of Summit. Regulations promulgated by the Office of the Comptroller of the Currency (the “OCC”) and West Virginia law set forth the minimum number of shares that must be owned by each director. Qualifying share ownership for directors of Shenandoah Valley National Bank is governed by the OCC regulations. Accordingly, the directors of Shenandoah Valley National Bank are subject to different minimum ownership requirements than the directors of Summit and Summit Community Bank, which are governed by West Virginia law. The bylaws of Summit set forth more stringent requirements than established by West Virginia law. In addition, this policy establishes more stringent requirements than the requirements set forth in the bylaws of Summit Community Bank and Shenandoah Valley National Bank.

The requirements for each bank are as follows:

• **Summit Financial Group, Inc.**

West Virginia law provides that each director of Summit must own in his or her own right, common or preferred stock of Summit, in an amount equal to or greater than any one of the following:

- (i) aggregate par value of \$500.00;
- (ii) aggregate shareholders’ equity of \$500.00; or
- (iii) aggregate fair market value of \$500.00.

Determination of the fair market value of the director’s stock in Summit is based on the value of the stock on the date it was purchased or on the date that the individual become a director, whichever is greater.

Directors should be aware that although based on the current market value of Summit stock, the minimum number of shares required to be owned under this policy exceeds the regulatory minimum, a decrease in the market value of Summit stock could require directors to purchase more shares to meet the regulatory minimums discussed below.

Summit’s bylaws and this policy impose more stringent requirements on directors than imposed by West Virginia law. Summit’s bylaws and this policy require that each director own in his or her own right, a minimum of 2,000 shares of Summit’s common stock. Summit’s bylaws specify that the following shares are held in a director’s “own right”: (i) shares held solely in the director’s name; (ii) shares held through the corporation’s employee stock option plan, a profit-sharing plan, individual retirement account, retirement plan or similar arrangement; and (iii) shares owned by a company where the director owns a controlling interest.

The West Virginia Attorney General has interpreted the language “own in his own right” in the West Virginia statute governing qualifying shares, W.Va. Code § 31A-4-8, to exclude any shares that a director owns jointly. Accordingly, Summit’s bylaws and this policy allow shares held jointly by a director and his or her spouse to be counted when determining whether the director owns 2,000 shares of common stock in his or her own right, as long as the director owns stock in his or her own name with a minimum value (calculated by the par value, shareholder’s equity or fair market value) of at least \$500 (the minimum imposed by West Virginia law).

• **Summit Community Bank**

West Virginia state law and the bylaws of Summit Community Bank provide that each director of Summit Community Bank must own in his or her own right, common or preferred stock of Summit, in an amount equal to or greater than any one of the following:

- (i) aggregate par value of \$500.00;
- (ii) aggregate shareholders’ equity of \$500.00; or
- (iii) aggregate fair market value of \$500.00.

Determination of the fair market value of the director’s stock in Summit is based on the value of the stock on the date it was purchased or on the date that the individual become a director, whichever is greater.

This policy imposes more stringent requirements on directors of Summit Community Bank than imposed by West Virginia state law and the bylaws of Summit Community Bank. This policy requires that each member of the board of directors of Summit Community Bank own, in his or her own right, a minimum of one-thousand (1,000) shares of common stock of Summit. For purposes of determining whether shares are owned by a director in his or her own right, the following shares shall be deemed owned by a director in his or her own right: (i) shares held solely in the director’s name; (ii) shares held through the Summit’s employee stock ownership plan, the Director Deferred Compensation Plan, a profit-sharing plan, individual retirement account, retirement plan or similar arrangement; and (iii) shares owned by a company where the director owns a controlling interest. Shares held jointly by a director and his or her spouse may also be counted when determining whether the director owns 1,000 shares of common stock in his or her own right as long as the director owns stock in his or her own right with a minimum value (calculated by the par value, shareholder’s equity or fair market value) of at least \$500.

• **Shenandoah Valley National Bank**

The OCC requires that each director of Shenandoah Valley National Bank own in his or her own right, shares of common or preferred stock of Summit which has not less than:

- (i) an aggregate par value of \$1,000;
 - (ii) an aggregate shareholder’s equity of \$1,000; or
 - (iii) an aggregate fair market value of \$1,000.
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The value of the common or preferred stock held by the director is valued as of the date purchased or the date on which the individual became a director, whichever is greater.

This policy imposes more stringent requirements on directors of Shenandoah Valley National Bank than imposed by West Virginia state law and the bylaws of Shenandoah Valley National Bank. This policy requires that each member of the board of directors of Shenandoah Valley National Bank own, in his or her own right, a minimum of one-thousand (1,000) shares of common stock of Summit.

The OCC has established by the following rules for determining whether shares are “held by a director in his or her own right”:

- *Joint Ownership and Tenancy in Common.* Shares held jointly or as a tenant in common are qualifying shares held by a director in his or her own right only to the extent of the aggregate value of the shares which the director would be entitled to receive on dissolution of the joint tenancy or tenancy in common.
- *Shares in a Living Trust.* Shares deposited by a director in a living trust (inter-vivos trust) as to which the director is a trustee and retains an absolute power of revocation are shares owned by the director in his or her own right.
- *Shares Held Through Retirement Plans or Similar Arrangements.* A director may hold his or her qualifying shares through a profit-sharing plan, individual retirement account, retirement plan, or similar arrangement, if the director retains beneficial ownership and legal control over the shares.
- *Shares held Subject to Buyback Agreements.* A director may acquire and hold his or her qualifying interest pursuant to a stock repurchase or buyback agreement with a transferring shareholder under which the director purchases the qualifying shares subject to an agreement that the transferring shareholder will repurchase the shares when, for any reason, the director ceases to serve in that capacity. The agreement may give the transferring shareholder a right of first refusal to repurchase the qualifying shares if the director seeks to transfer ownership of the shares to a third person.
- *Assignment of Right to Dividends or Distributions.* A director may assign the right to receive all dividends or distributions on his or her qualifying shares to another, including a transferring shareholder, if the director retains beneficial ownership and legal control over the shares.
- *Execution of Proxy.* A director may execute a revocable or irrevocable proxy authorizing another, including a transferring shareholder, to vote his or her qualifying shares, provided the director retains beneficial ownership and legal control over the shares.

The OCC has determined that the following are not shares held by a director in “his or her own right”:

- (a) Shares pledged by the holder to secure a loan. However, all or part of the funds used to purchase the required qualifying equity interest may be borrowed from any party, including the bank or its affiliates;
 - (b) Shares purchased subject to an absolute option vested in the seller to repurchase the shares within a specified period; and
 - (c) Shares deposited in a voting trust where the depositor surrenders: (1) legal ownership (depositor ceases to be registered owner of the stock); (2) power to vote the stock or to direct how it shall be voted; or (3) power to transfer legal title to the stock.
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In addition to the above rules established by the OCC, the following shares shall be deemed owned by a director in his or her own right: (1) shares held through Summit's employee stock ownership plan, (ii) shares held through the Director Deferred Compensation Plan; (iii) shares owned by a company where the director owns a controlling interest; and (iv) convertible preferred shares known as the Rockingham National Bank Series issued to directors of Shenandoah Valley National Bank.

THE SUMMIT FINANCIAL GROUP, INC.

DIRECTORS DEFERRAL PLAN

By a vote of the Summit Financial Group, Inc.'s Board of Directors, (hereinafter referred to as the, "Company") on the 25th day of April, 2000, the Company has established The Summit Financial Group, Inc.'s Company Directors Deferral Plan (hereinafter referred to as the, "Benefit Plan") to allow eligible Directors the opportunity to participate in the Plan and defer all or a portion of their fees in accordance therewith;

It is the intent of the Company that this Benefit Plan be considered an unfunded arrangement maintained primarily to provide supplemental retirement benefits, and to be considered a non-qualified benefit plan for purposes of the Employee Retirement Security Act of 1974, as amended ("ERISA").

DIRECTOR'S SERVICES

So long as the Director shall continue to be a director of the Company the Director shall devote best efforts to the performance of duties as a member of the Board of Directors and of any of its committees to which the Director is appointed.

FEES

The fees covered under this Benefit Plan shall be any and all amounts paid to the Director for services as a Director, including but not limited to annual fees, meeting fees, and committee fees. The fees covered under this Benefit Plan shall be credited to the Director in the manner and on the terms and conditions specified in Paragraph IV subject to the election requirement of Paragraph III.

ELECTION OF DEFERRED COMPENSATION AND INVESTMENTS

The Director shall at the same time as entering into this Benefit Plan file a written statement with the Company notifying them as to the percent (%) or dollar amount of fees as defined in Paragraph II that is to be deferred. The election to defer fees may only be made for fees not yet earned as of the date of said election. Signed written statements filed under this section, unless modified or revoked in writing, shall be valid for all succeeding years. In addition, the Director may file with the Company quarterly investment elections setting forth the percentage that should hypothetically be invested in each particular investment vehicle. (A copy of said investment election form is attached hereto, marked as Exhibit "A-1" and fully incorporated herein by reference). Said amounts shall not actually be invested in said investments, and said investment elections are merely for the purpose of calculating interest and returns on the Deferred Compensation Account as set forth in Paragraph V. The Company shall not be under any duty to advise a participant or beneficiary with respect to any said hypothetical investment. Said investment elections must be received by the Company on or before the 25th day of the month prior to the end of the quarter.

RABBI TRUST AND CREDITS TO DEFERRED COMPENSATION ACCOUNT

The Company shall establish a Rabbi Trust for the Benefit Plan. The Company shall pay all deferral amounts to the Rabbi Trust. The Trustee shall establish a bookkeeping account for the Director (hereinafter called the, "Directors Deferred Compensation Account") which shall be credited on the dates such fees, as defined in Paragraph II, would otherwise have been paid with the percentage or dollar amount that the Director has notified the Company in writing, pursuant to Paragraph III, that the Director elected to have deferred.

INTEREST AND RETURNS ON THE DEFERRED COMPENSATION ACCOUNT

Once each calendar quarter, the Directors Deferred Compensation Account shall be credited with an amount that is in addition to the fees credited under Paragraph IV. Such amount shall be determined by multiplying the balance of the Directors Deferred Compensation Account by a rate of interest equal to the total return for such quarter of the investments chosen by the Director pursuant to Paragraph III. Such amount shall be credited as long as there is a balance in the Directors Deferred Compensation Account and shall be credited on the last day of each calendar quarter.

NATURE OF THE DEFERRED COMPENSATION ACCOUNT

The Directors Deferred Compensation Account shall be utilized solely as a device for the measurement and determination of the amount of deferred compensation to be paid to the Director at the times hereinafter specified. On the contrary, it is understood that all amounts credited to the Directors Deferred Compensation Account shall be for the sole purpose of bookkeeping and that the Director shall have no ownership rights of any nature with respect thereto. The Director's rights are limited to the rights to receive payments as hereinafter provided and the Director's position with respect thereto is that of a general unsecured creditor of the Company.

PAYMENT OF DIRECTOR'S DEFERRED COMPENSATION

Subject to Subparagraphs VII (A) and (B) hereinbelow, the amounts in the Directors Deferred Compensation Account shall be paid, at the election of the Director, in a lump sum, or five (5), ten (10), fifteen (15), or twenty (20) equal annual installments, plus or minus each year the annual interest gained or market value lost during the year. The Director shall make said election no later than one (1) year prior to receiving the first payment. In the event the Director fails to make said election, then the Director shall receive the payments in ten (10) equal annual installments. The amount payable would be the balance of the Director's Deferred Compensation Account as defined in Section IV, including all interest and returns credited pursuant to Paragraph V. The payments set forth herein shall commence thirty (30) days after the end of the calendar quarter following the Director's retirement.

The end of the Director's term of office other than retirement: Subject to Subparagraph VII (B) hereinbelow, if the Director's term of office ends due to resignation, removal, or failure to be elected to the Board prior to retirement, then the Director shall receive the account balance¹ in a lump sum within thirty (30) days after the end of the calendar quarter following the Director's end of term of office.

The end of the Director's term of office or the Director's termination of the Plan within three (3) years of the Director's participation in the Plan: Notwithstanding the provisions set forth in Paragraph VII hereinabove, if the Director's office ends due to resignation, removal, or failure to be re-elected to the Board, prior to retirement, or the Director terminates the Plan within the first three (3) years of the Director's participation in the Plan, then the Directors account balance¹ shall be paid in two (2) equal installments on the first and last day of the calendar year following the year in which the Director would have participated in the Plan for three (3) full years.

DEATH OF DIRECTOR PRIOR TO TERMINATION OF SERVICE OR COMMENCEMENT OF PAYMENTS

In the event of the death of the Director prior to termination of service or commencement of payments, the Director's account balance shall be paid in a lump sum within thirty (30) days after the end of the calendar quarter following the Director's death and shall be made to a beneficiary or beneficiaries designated by the Director in writing and delivered to the Company. In the event no designation is made, the Director's account balance shall be paid in a lump sum to the Director's estate. The lump sum payment to be made under this Paragraph shall be the Director's account balance¹ as determined at the quarterly evaluation following the Director's death.

DIRECTOR’S DEATH

In the event of the death of the Director after commencement of payments, but prior to receiving all payments due under this Benefit Plan, the Director’s account balance shall be paid in a lump sum within thirty (30) days after the end of the calendar quarter following the Director’s death and shall be made to a beneficiary or beneficiaries designated by the Director in writing and delivered to the Company. In the event no designation is made, the Director’s account balance shall be paid in a lump sum to the Director’s estate. The lump sum payment to be made under this Paragraph shall be the Director’s account balance¹ as determined at the quarterly evaluation following the Director’s death.

FUNDING

The Company’s obligation under this Benefit Plan shall be an unfunded and unsecured promise to pay. The Company shall not be obligated under any circumstances to fund its obligations, the Company may, however, at its sole and exclusive option, elect to fund this Benefit Plan in whole or in part.

Should the Company elect to fund this Benefit Plan informally, in whole or in part, the manner of such informal funding, and the continuance or discontinuance of such informal funding shall be the sole and exclusive decision of the Company.

Should the Company determine to informally fund this Benefit Plan, in whole or in part, through the medium of life insurance or annuities, or both, the Company shall be the owner and beneficiary of the policy. The Company reserves the absolute right to terminate such life insurance or annuities, as well as any other funding at any time, either in whole or in part.

Any such life insurance or annuity policy purchased by the Company shall not in any way be considered to be security for the performance of the obligations for this Benefit Plan. It shall be, and remain, a general, unpledged, unrestricted asset of the Company and the Director shall have no interest in such policy whatsoever.

EFFECT ON OTHER COMPANY BENEFIT PLANS

Nothing contained in this Benefit Plan shall affect the right of the Director to participate in or be covered by any qualified or non-qualified pension, profit sharing, group bonus or their supplemental compensation or fringe benefit plans constituting a part of the Company’s existing or future compensation structure.

ASSIGNMENT OR PLEDGE

The Directors Deferred Compensation Account and any payment payable at any time to this Benefit Plan shall not be assignable or subject to pledge or hypothecation nor shall said payments be subject to seizure for the payment of any debts, judgments, alimony or separate maintenance, or be transferable by operation of law in the event of bankruptcy, insolvency or otherwise except to the extent as provided by law.

CONTINUATION AS DIRECTOR

Neither this Benefit Plan nor the payments of any benefits thereunder shall be construed as giving to the Director any right to be retained as a member of the Board of Directors of the Company.

NAMED FIDUCIARY

The Named Fiduciary for this Benefit Plan for purposes of claim procedures under this Benefit Plan is Russ Ratliff, or any other successor Trust Officer at South Branch Valley National Bank. The business address and telephone number of the Named Fiduciary under this Benefit Plan is as follows:

Name	Russ Ratliff, Trust Officer
Bank	South Branch Valley National Bank
Main Street	310 North Main Street
City, State	Moorefield, West Virginia
Phone Number	(304) 538-2353

The Named Fiduciary under this Benefit Plan may be changed at any time with the written consent of the Director.

CLAIMS PROCEDURE AND ARBITRATION

In the event that benefits under this Benefit Plan are not paid to the Director (or to his beneficiary in the case of the Director’s death) and such claimants feel they are entitled to receive such benefits, then a written claim must be made to the Plan Fiduciary and Administrator named above within sixty (60) days from the date payments are refused. The Plan Fiduciary and Administrator and the Company shall review the written claim and if the claim is denied, in whole or in part, they shall provide in writing within ninety (90) days of receipt of such claim provisions of this Benefit Plan upon which the denial is based and any additional material or information necessary to perfect the claim. Such written notice shall further indicate the additional steps to be taken by claimants if a further review of the claim denial is desired. A claim shall be deemed denied if the Plan Fiduciary and Administrator fail to take any action within the aforesaid ninety-day period.

If claimants desire a second review, they shall notify the Plan Fiduciary and Administrator in writing within sixty (60) days of the first claim denial. Claimants may review this Benefit Plan or any other documents relating thereto and submit any written issues and comments they may feel appropriate. In its sole discretion the Plan Fiduciary and Administrator shall then review the second claim and provide a written decision within sixty (60) days of receipt of such claim. This decision shall likewise state the specific reasons for the decision and shall include reference to specific provisions of this Benefit Plan upon which the decision is based.

If claimants continue to dispute the benefit denial based upon completed performance of this Benefit Plan or the meaning and effect of the terms and conditions thereof, then claimants may submit the dispute to a Board of Arbitration for final arbitration. Said Board shall consist of one member selected by the claimant, one member selected by the Company, one member selected by the first two members. The Board shall operate under any generally recognized set of arbitration rules. The parties hereto agree that they and their heirs, personal representatives, successors and assigns shall be bound by the decision of such Board with respect to any controversy properly submitted to it for determination.

MISCELLANEOUS

Amendment or Revocation:

It is understood that, during the lifetime of the Participant, this Benefit Plan may be amended or revoked at any time or times, in whole or in part, by the mutual written consent of the Participant, the Company, and the Trustee.

Gender:

Whenever in this Benefit Plan words are used in the masculine or neuter gender, they shall be read and construed as in the masculine, feminine or neuter gender, whenever they should so apply.

Effect on Other Company Benefit Plans:

Nothing contained in this Benefit Plan shall affect the right of the Participant to participate in or be covered by any qualified or non-qualified pension, profit-sharing, group, bonus or other supplemental compensation or fringe benefit plan constituting a part of the Company’s existing or future compensation structure.

Headings:

Headings and subheadings in this Benefit Plan are inserted for reference and convenience only and shall not be deemed a part of this Benefit Plan.

Partial Invalidity:

If any term, provision, covenant, or condition of this Benefit Plan is determined by an arbitrator or a court, as the case may be, to be invalid, void, or unenforceable, such determination shall not render any other term, provision, covenant, or condition invalid, void, or unenforceable, and this Benefit Plan shall remain in full force and effect notwithstanding such partial invalidity.

SUMMIT FINANCIAL GROUP, INC.

By: /s/ Oscar M. Bean

Chairman of the Board

¹ deferrals plus credited interest and returns

AMENDMENT NO. 1 TO DIRECTORS DEFERRAL PLAN AGREEMENT

This Amendment No. 1 to Directors Deferral Plan Agreement, to be effective as of December 30, 2005, by and among the Summit Financial Group, Inc., or any successor corporation (hereinafter referred to as the “Company”), Summit Community Bank, as successor in interest to South Branch Valley National Bank, a banking corporation with its principal place of business in West Virginia, or any successor corporation (hereinafter referred to as the “Trustee”) and _____, a member of the Board of Directors (hereinafter referred to as the “Director”)

WHEREAS, the Company established that certain Directors Deferral Plan on April 25, 2000 (the “Benefit Plan”);

WHEREAS, Director is a Participant in the Benefit Plan;

WHEREAS, Subsection A of Section XVI of the Benefit Plan allows amendment of the Benefit Plan by the mutual written consent of the Participant, the Bank and the Trustee;

WHEREAS, Summit Community Bank, as successor in interest to South Branch Valley National Bank, is the Trustee;

WHEREAS, Section III of the Benefit Plan needs to be modified to comply with provisions of Section 409A of the Internal Revenue Code, as amended, and regulations thereunder; and

NOW THEREFORE WITNESSETH: in accordance with the provisions of Subsection A of Section XVI of the Benefit Plan and in consideration of the mutual covenants set forth herein, the parties hereto agree as follows:

1. Section III of said Benefit Plan is hereby amended to read in full as follows:

III. ELECTION OF DEFERRED COMPENSATION AND INVESTMENTS

The Director shall, for any calendar year, prior to the beginning of such calendar year, file a written statement with the Company notifying them as to the percent (%) or dollar amount of fees as defined in Paragraph II and to be earned in that calendar year that is to be deferred. Provided, in the case of the first year in which a Director becomes eligible to participate in the Benefit Plan, such election may be made with respect to fees paid for services performed subsequent to the election within 30 days after the date the Director becomes eligible to participate in the Benefit Plan. Notwithstanding any of the foregoing, for deferrals relating all or in part to services performed on or before December 31, 2005, a written statement may be filed on or before March 15, 2005 with the Company by the Director participating in the Benefit Plan, notifying the Company as to the percent (%) or dollar amount of fees as defined in Paragraph II, relating all or in part to services performed after the date of said election and on or before December 31, 2005, that is to be deferred. Signed written statements filed under this section, unless modified or revoked in writing, shall be valid for all succeeding years. In addition, the Director may file with the Company quarterly investment elections setting forth the percentage that should hypothetically be invested in each particular investment vehicle. (A copy of said investment election form is attached hereto, marked as Exhibit “A-1” and fully incorporated herein by reference). Said amounts shall not actually be invested in said investments, and said investment elections are merely for the purpose of calculating interest and returns on the Deferred Compensation Account as set forth in Paragraph V. The Company shall not be under any duty to advise a participant or beneficiary with respect to any said hypothetical investment. Said investment elections must be received by the Company on or before the 25th day of the month prior to the end of the quarter.

2. Any additions or modifications to this Agreement must be in writing and signed by the parties.

IN WITNESS WHEREOF the parties hereto acknowledge that each has carefully read this Agreement and executed the original thereof, individually, in the case of Director, or by its respective duly authorized officer in the case of Trustee and Company, all on the ____ day of December, 2005.

COMPANY:

Witness

Title: _____

TRUSTEE:

Witness

Title: _____

; Witness

Summit Financial Group, Inc.
Incentive Compensation Plan

December 6, 2005

Introduction:

In order to provide management with incentive to assure that the company operates to its fullest potential, the Board of Directors of Summit Financial Group, Inc. (the “Company”) has implemented various incentive programs. The Board of Directors of the Company established the Incentive Compensation Plan to reward those officers who oversee the various facets of the entire company. The basic specific performance measure for the Incentive Compensation Plan is Return on Average Equity (ROAE). This performance measure was chosen because it is widely recognized as being a core measure of the Company’s performance and uses our shareholder’s equity as a base for measurement.

Incentive Compensation Plan Criteria and Method of Calculation:

At the end of each year, the Compensation and Nominating Committee will review data and determine the ROAE level at which officers will become eligible for a bonus. During this review, the Committee will consider, among other things, the Company’s peer group data.

After determining these levels, the Compensation and Nominating Committee will determine the percentage of earnings to allocate to the bonus pool for each bonus level.

The current ROAE levels at which bonuses will be paid and corresponding percentage allocation levels to the bonus pool are as follows:

*	*	*	*	*	*	*	*	*
*	*	*	*	*	*	*	*	*

Should the Company achieve an ROAE of *% to *%, then the allocation to the bonus pool will be calculated at *% of net earnings. An allocation of *% of earnings will be made for an ROAE of *% or greater.

The Company’s ROAE will be calculated on a quarterly basis. For bonus purposes, “other comprehensive income (loss)” will not be considered when calculating average equity. The bonus pool will be established by applying the appropriate percentage to the current earnings on a quarterly basis. The bonus pool will then be divided among plan participants using the percentages shown on “Exhibit A”*.

Attached to this policy as “Exhibit A”* is the chart which represents sample calculations that would be applicable based on the above guidelines. The sample calculation is shown on an annual basis for ease of illustration. However, the Company’s Board of Directors has approved the payment of bonuses under the Incentive Compensation Plan on a quarterly basis.

Payment:

The Board of Directors or Compensation and Nominating Committee shall approve the payments under this plan on a quarterly basis.

Any items that qualify as “Extraordinary” under Generally Accepted Accounting Principals (GAAP) shall not be considered when calculating bonuses, regardless of whether these items have a positive or negative affect.

With respect to Messrs. Miller and Robertson, the Company has established an annual incentive compensation plan which includes specific performance goals and business criteria based on their achievement of the net income budgets for their respective subsidiary banks. However, if the payments due to Messrs. Miller and Robertson under the Incentive Compensation Plan exceed those payments due under these plans, then Messrs. Miller and Robertson are entitled to receive only the payments under the Incentive Compensation Plan.

In addition to the bonus pool established based on the ROAE criteria discussed above, the Company has also established a discretionary bonus pool under the Incentive Compensation Plan. Bonuses paid from the discretionary pool are paid at the sole discretion of the Chief Executive Officer and may be awarded to any employee other than the Chief Executive Officer or any other Executive Officer.

Any conflicts, ambiguities or questions of interpretation will be resolved by the Company’s Board of Directors, in its sole discretion.

* Confidential, Business Proprietary Information

Memorandum

To: Ron Miller
From: Charlie Maddy
Date: February 10, 2006
Re: Incentive Plan - SVN

Here is the Incentive Plan for Shenandoah Valley National Bank’s community banking division, for the year ending December 31, 2006. It follows the same principles as last year’s plan.

As you know, we have established a budget of \$* in net income and approximately \$* in total assets for the community banking division of Shenandoah Valley National Bank for year ended December 31, 2006. However, if we make at least \$* and the average assets for December of 2006 are at least \$*, yourself, Dawn and Cyndie would be paid the following bonus.

Ron Miller	\$*
Dawn Frye	\$*
Cyndie Layman	\$*

In addition, if net income exceeds the budgeted \$*, we will reserve **% of the amount over the \$* to a pool, which would be divided among the above key managers. In order to qualify for this additional amount, net income for Shenandoah Valley National Bank would have to be greater than \$* after any and all bonuses (including the above “budget bonus”) were paid. The calculation would work as follows:

*	\$*
*	*
*	*
*	**%
*	\$*
*	*
*	\$*
*	\$*

The performance pool payment would be divided as follows:

Ron Miller	**%	*
Dawn Frye	**%	*
Cyndie Layman	**%	*
Discretionary	**%	*
Reserved	**%	*

The President of Shenandoah Valley National Bank could award the discretionary amount to whatever Shenandoah Valley National Bank employee(s) he thought was deserving or could leave it in income, at his discretion.

To recap, in my example, if the bank were to make \$* net in the year 2006, Ron Miller’s bonuses would be as follows:

Budget bonus	\$*
Performance bonus	*
Total bonus	\$*

The total performance pool total bonus cannot exceed \$*. Securities gains and losses will be excluded for bonus calculation purposes. The operating plan and budget may be revised if significant structural changes occur such as the purchase of a new branch, merger, etc. Summit management and board of directors will have sole discretion as to whether these changes have occurred in amounts sufficient to make such changes and will advise Shenandoah Valley National Bank management if these changes are made. Any questions or “gray” areas will be resolved using the sole discretion of the Board of Summit or the President of Summit depending on the complexity of the matter in question.

Ron, as you are aware, you may receive quarterly “ROE bonus payments” this year. If these payments exceed the amount due to you under this plan, no payment will be awarded under this plan. So, in summary, you will receive the greater of the two amounts, but not both. Thanks for all your hard work and good luck.

* Confidential, Business Proprietary Information

Memorandum

To: Dave Robertson
From: Charlie Maddy
Date: February 10, 2006
Re: 2006 Incentive Plan - SCB

Here is the 2006 Incentive Bonus Plan for Summit Community Bank.

As you know, we have established a budget of approximately \$* in net income and approximately \$* in total assets for Summit Community Bank for year ended December 31, 2006. However, if we make at least \$* and the average assets for December of 2006 are at least \$*, management would be rewarded as follows:

Dave Robertson	\$*
Discretionary	\$*

In addition, if the budgeted \$*net income is exceeded, we will reserve **% of the amount over the \$* to a pool, which would be divided among key managers. In order to qualify for this additional amount, net income for Summit Community Bank would have to be greater than \$* after any and all bonuses (including the above “budget bonus”) were paid. The calculation would work as follows:

*	\$*
*	*
*	*
*	**%
*	\$*
*	*
*	\$*
*	\$*

The performance pool payment would be divided as follows:

Dave Robertson	**%	\$*
Discretionary	**%	\$*
Reserved	**%	\$*

The President of Summit Community Bank could award the discretionary amount to whatever SCB employee(s) he thought was deserving.

To recap, in my example, if the bank were to make \$* net in the year 2005 and December’s Total Average Assets are at least \$*, Dave Robertson ’ s bonuses would be as follows:

Budget bonus	\$*
Performance bonus	*
Total bonus	\$*

The total performance pool total bonus cannot exceed \$*. Securities gains and losses initiated by Summit management will be excluded for bonus calculation purposes. The operating plan and budget may be revised if significant structural changes occur such as the purchase of a new branch, merger, etc. Summit management and board of directors will have sole discretion as to whether these changes have occurred in amounts sufficient to make such changes and will advise SCB management if these changes are made.

Dave, as you are aware, you should receive quarterly “ROE bonus payments” this year. If these payments exceed the amount due to you under this plan, no payment will be awarded under this plan. So, in summary, you will receive the greater of the two amounts, but not both. Thanks for all your hard work and good luck.

* Confidential, Business Proprietary Information

STATEMENTS RE: COMPUTATION OF RATIOS

Net Income Per Share	=	Net Income/Average Common Shares Outstanding
Cash Dividends Per Share	=	Dividends Paid/Actual Common Shares Outstanding
Book Value Per Share	=	Total Shareholders' Equity/Actual Common Shares Outstanding
Return on Average Assets	=	Net Income/Average Assets
Return on Average Shareholders' Equity	=	Net Income/Average Shareholders' Equity
Net Interest Margin	=	Net Interest Income/Average Earning Assets
Noninterest Expense to Average Assets	=	Noninterest Expense/Average Assets
Dividend Payout	=	Dividends Declared/Net Income
Average Shareholders' Equity to Average Assets	=	Average Shareholders' Equity/Average Assets
Tier I Capital Ratio	=	Shareholders' Equity - Net Unrealized Gains on Available for Sale Securities-Intangible Assets +Qualifying Capital Securities (Tier I Capital)/Risk Weighted Assets
Total Capital Ratio	=	(Tier I Capital +Qualifying Tier II Capital Securities +Allowance for Loan Losses +Qualifying Portion of Unrealized Gains on Available for Sale Marketable Equity Securities)/Risk Weighted Assets
Tier I Leverage Ratio	=	Tier I Capital/Average Assets
Net Charge-offs to Average Loans	=	(Gross Charge-offs - Recoveries)/ Average Net Loans
Non-performing Loans to Total Loans	=	(Nonaccrual Loans + Accruing Loans Past Due 90 Days or More)/ Loans Net of Unearned Income
Non-performing Assets to Period End Assets	=	(Nonaccrual Loans + Accruing Loans Past Due 90 Days or More + Other Real Estate Owned + Other Repossessed Assets + Nonaccrual Securities)/Total Assets
Allowance for Loan Losses to Period End Loans	=	Loan Loss Reserve/Loans Net of Unearned Income
Allowance for Loan Losses to Non-Performing Loans	=	Loan Loss Reserve/(Nonaccrual Loans + Accruing Loans Past Due 90 Days or More)

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SELECTED FINANCIAL DATA

	For the Year Ended (unless otherwise noted)				
(Dollars in thousands, except per share amounts)	2005	2004	2003	2002	2001
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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CRITICAL ACCOUNTING POLICIES

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

Our most significant accounting policies are presented in Note 1 to the 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

Dollars in thousands

	2005			2004			2003		
	Average Balances	Earnings/ Expense	Yield/ Rate	Average Balances	Earnings/ Expense	Yield/ Rate	Average Balances	Earnings/ Expense	Yield/ Rate
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%
	\$ 914,682	\$ 58,582	6.40%	\$ 794,611	\$ 47,056	5.92%	\$ 684,185	\$ 42,342	6.19%
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	\$ 968,968			\$ 840,883			\$ 722,744		
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%
	\$ 829,347	\$ 26,506	3.20%	\$ 719,620	\$ 17,960	2.50%	\$ 617,080	\$ 17,530	2.84%
Noninterest bearing liabilities									
Demand deposits	61,543			54,212			46,166		
Other liabilities	7,258			5,416			4,870		
Total liabilities	898,148			779,248			668,116		
Shareholders' equity	70,820			61,635			54,628		
Total liabilities and shareholders' equity	\$ 968,968			\$ 840,883			\$ 722,744		
NET INTEREST EARNINGS		\$ 32,076			\$ 29,096			\$ 24,812	
NET INTEREST YIELD ON EARNING ASSETS			3.51%			3.66%			3.63%

(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
Dollars in thousands

	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

Dollars in thousands

	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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table III - Noninterest Expense
Dollars in thousands

Community Banking and Other	2005	Change		2004	Change		2003
		\$	%		\$	%	
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

Mortgage Banking	2005	Change		2004	Change		2003
		\$	%		\$	%	
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

Consolidated	2005	Change		2004	Change		2003
		\$	%		\$	%	
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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

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
Dollars in thousands

	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	<u>\$ 801,699</u>	<u>100.0%</u>	<u>\$ 609,016</u>	<u>100.0%</u>	<u>\$ 504,090</u>	<u>100.0%</u>	<u>\$ 419,112</u>	<u>100.0%</u>	<u>\$ 348,257</u>	<u>100.0%</u>

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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
(At amortized cost, dollars in thousands)

	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 In thousands

	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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

ASSET QUALITY

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

Table VI - Nonperforming Assets
Dollars in thousands

	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	<u>1,549</u>	<u>672</u>	<u>1,356</u>	<u>1,491</u>	<u>1,116</u>
Foreclosed properties and repossessed assets	395	646	497	95	81
Nonaccrual securities	-	349	396	421	-
Total nonperforming assets	<u>\$ 1,944</u>	<u>\$ 1,667</u>	<u>\$ 2,249</u>	<u>\$ 2,007</u>	<u>\$ 1,197</u>
Total nonperforming loans as a percentage of total loans	<u>0.19%</u>	0.11%	0.27%	0.36%	0.32%
Total nonperforming assets as a percentage of total assets	<u>0.18%</u>	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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Dollars in thousands

	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	-
	\$ 6,152	100.0%	\$ 5,073	100.0%	\$ 4,681	100.0%	\$ 4,053	100.0%	\$ 3,110	100.0%

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

Dollars in thousands

	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

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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:		
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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

/s/ 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.

/s/ H. Charles Maddy, III

President and
Chief Executive Officer

/s/ Robert S. Tissue

Senior Vice President
and Chief Financial Officer

/s/ Julie R. Cook

Vice President
and Chief Accounting Officer

Moorefield, West Virginia
March 13, 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.

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

Charleston, West Virginia
March 3, 2006

CONSOLIDATED FINANCIAL STATEMENTS

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		
Non-interest 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; 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 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 (losses)	110,012	33,471	211,897
Unrealized securities gains (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 FINANCIAL STATEMENTS

Consolidated Statements of Shareholders' Equity

For the Years Ended December 31, 2005, 2004 and 2003

	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 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 (accretion of discounts), 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 (decrease) 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 (decrease) 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 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

NOTE 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 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 replighted 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

NOTE 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.

NOTE 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	\$ 225,783,488	\$ 1,412,988	\$ 3,424,178	\$ 223,772,298

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	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	\$ 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 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").

	2005					
	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
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)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2004						
	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
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	\$ 18,386,828	\$ 9,216,910	\$ 32,085,084	\$ 166,868	\$ 56,856
	\$ 18,386,828	\$ 9,216,910	\$ 32,085,084	\$ 166,868	\$ 56,856
2004					
Securities available for sale	\$ 49,689,639	\$ 22,532,825	\$ 35,379,512	\$ 409,644	\$ 376,173
	\$ 49,689,639	\$ 22,532,825	\$ 35,379,512	\$ 409,644	\$ 376,173
2003					
Securities available for sale	\$ 12,206,105	\$ 33,368,900	\$ 89,184,506	\$ 334,597	\$ 122,700
	\$ 12,206,105	\$ 33,368,900	\$ 89,184,506	\$ 334,597	\$ 122,700

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 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.

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	\$ 15,730,434	\$ 10,803,084

NOTE 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	778,066	976,853	408,744
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	377,110	319,514	121,238
Net losses	400,956	657,339	287,506
Provision for loan losses	1,479,400	1,050,000	915,000
Balance, end of year	\$ 6,151,730	\$ 5,073,286	\$ 4,680,625

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

NOTE 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.

NOTE 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
	32,143,023		28,222,279
Less accumulated depreciation	9,053,611		7,446,272
Total premises and equipment	\$ 23,089,412	\$	20,776,007

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

NOTE 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	\$ 1,488,030	\$ -	\$ 600,000	\$ 2,088,030

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

NOTE 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	\$ 611,269,308	\$ 469,212,146

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	\$ 200,976,319	100.0%

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	\$ 365,951,248

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.

NOTE 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2005			
	Short-term FHLB Advances	Repurchase Agreements	Federal Funds Purchased and Lines of Credit
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%	-

2004			
	Short-term FHLB Advances	Repurchase Agreements	Federal Funds Purchased and Lines of Credit
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	\$ 170,500,835

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 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
		5,726,500		5,031,650		3,879,575
Deferred						
Federal		(945,358)		(424,385)		(572,400)
State		(69,560)		(25,550)		203,750
		(1,014,918)		(449,935)		(368,650)
Total	\$	4,711,582	\$	4,581,715	\$	3,510,925

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
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	\$	4,711,582	30	\$	4,581,715	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
Net unrealized gain on securities and other financial instruments	-	-
	597,938	448,488
Net deferred tax assets (liabilities)	\$ 4,386,605	\$ 2,672,249

NOTE 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 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).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)	Years Ended December 31,		
	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% or 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, 2002	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	

NOTE 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 our 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).

NOTE 14. ISSUANCE OF PREFERRED STOCK

On April 23, 2004, the Board of Directors approved an amendment to our Articles of Incorporation establishing the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

NOTE 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.

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 (dollar amounts in thousands).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

	Actual		Minimum Required Regulatory Capital		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of 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%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 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 SVN. 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 and Other	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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	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

NOTE 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

NOTE 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,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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:

	December 31, 2005			
	Notional	Derivative		Net
	Amount	Fair Value		Ineffective
		Asset	Liability	Hedge Gains
FAIR VALUE HEDGES				(Losses)
Receive-fixed interest				
rate swaps				
FHLB advances	\$ 40,000,000	\$ -	\$ 1,941,645	\$ -
Brokered deposits	15,000,000	-	104,635	-
	55,000,000	-	2,046,280	-

	December 31, 2004			
	Notional	Derivative		Net
	Amount	Fair Value		Ineffective
		Asset	Liability	Hedge Gains
FAIR VALUE HEDGES				(Losses)
Receive-fixed interest				
rate swaps				
FHLB advances	\$ 46,000,000	\$ -	\$ 809,120	\$ -

	December 31, 2005			
	Notional Amount	Derivative		Net Gains (Losses)
		Asset	Liability	
OTHER DERIVATIVE INSTRUMENTS				
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
	\$ 18,293,460	\$ 231,998	\$ 167,859	\$ 120,489

	December 31, 2004			
	Notional Amount	Derivative		Net Gains (Losses)
		Asset	Liability	
OTHER DERIVATIVE INSTRUMENTS				
Equity index				
linked certificates				
of deposit	\$ 1,354,630	\$ 23,653	\$ -	\$ (33,290)
Equity index swap	1,354,630	-	138,867	28,100
	\$ 2,709,260	\$ 23,653	\$ 138,867	\$ (5,190)

NOTE 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.

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. non-interest 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 counter parties. 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:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	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

NOTE 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:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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) distributed 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)losses	(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 (decrease) 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 (used in) 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	\$ -

SUBSIDIARIES OF REGISTRANT

The following lists the subsidiaries of Summit Financial Group, Inc., a West Virginia Corporation.

Summit Community Bank, Inc., a state banking corporation
organized under the laws of the State of West Virginia

Shenandoah Valley National Bank, a national banking association
organized under the laws of the United States of America

Summit Insurance Services, LLC, a full lines insurance agency
organized under the laws of the State of West Virginia

SFG Capital Trust I, a statutory business trust
organized under the laws of the State of Delaware

SFG Capital Trust II, a statutory business trust
organized under the laws of the State of Delaware

SFG Capital Trust III, a statutory business trust
organized under the laws of the State of Delaware

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in this Annual Report to Shareholders (Form 10-K) of Summit Financial Group, Inc. and subsidiaries of our reports, dated March 3, 2006, with respect to the consolidated financial statements of Summit Financial Group, Inc. and subsidiaries, Summit Financial Group, Inc. and subsidiaries management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Summit Financial Group, Inc. and subsidiaries, included in the 2005 Annual Report to Shareholders for the year ended December 31, 2005.

We also consent to the incorporation by reference in the Registration Statement (Form S-8, No. 333-99291) pertaining to the 1998 Officer Stock Option Plan of Summit Financial Group, Inc. and subsidiaries of our reports, dated March 3, 2006, with respect to the consolidated financial statements of Summit Financial Group, Inc. and subsidiaries, Summit Financial Group, Inc. and subsidiaries management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Summit Financial Group Inc. and subsidiaries, included in this 2005 Annual Report to Shareholders for the year ended December 31, 2005.

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

Charleston, West Virginia
March 14, 2006

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below, constitutes and appoints Robert S. Tissue and Julie R. Cook or either of them his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign Summit Financial Group, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2005, and all amendments thereto, and file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

/s/ Oscar M. Bean
Oscar M. Bean

/s/ Gary L. Hinkle
Gary L. Hinkle

/s/ Frank A. Baer, III
Frank A. Baer, III

/s/ Gerald W. Huffman
Gerald W. Huffman

/s/ Dewey F. Bensenhaver, M.D.
Dewey F. Bensenhaver, M.D.

/s/ H. Charles Maddy, III
H. Charles Maddy, III

/s/ James M. Cookman
James M. Cookman

/s/ Duke A. McDaniel
Duke A. McDaniel

/s/ John W. Crites
John W. Crites

/s/ Ronald F. Miller
Ronald F. Miller

/s/ Patrick N. Frye
Patrick N. Frye

/s/ G. R. Ours, Jr.
G. R. Ours, Jr.

/s/ James Paul Geary
James Paul Geary

/s/ Phoebe Fisher Heishman
Phoebe Fisher Heishman

/s/ Thomas J. Hawse, III
Thomas J. Hawse, III

/s/ Charles S. Piccirillo
Charles S. Piccirillo

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

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

1. I have reviewed this annual report on Form 10-K of Summit Financial Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in registrant's internal control over financial reporting.

Date: March 13, 2006

/s/ H. Charles Maddy, III

H. Charles Maddy, III
President and Chief Executive Officer

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

I, Robert S. Tissue, certify that:

1. I have reviewed this annual report on Form 10-K of Summit Financial Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in registrant's internal control over financial reporting.

Date: March 13, 2006

/s/ Robert S. Tissue

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

SARBANES-OXLEY ACT SECTION 906
CERTIFICATION OF CHIEF EXECUTIVE OFFICER

In connection with the Annual Report of Summit Financial Group, Inc. ("Summit") on Form 10-K for the year ending December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, H. Charles Maddy, III, President and Chief Executive Officer of Summit, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: March 13, 2006

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

SARBANES-OXLEY ACT SECTION 906
CERTIFICATION OF CHIEF FINANCIAL OFFICER

In connection with the Annual Report of Summit Financial Group, Inc. ("Summit") on Form 10-K for the year ending December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert S. Tissue, Senior Vice President and Chief Financial Officer of Summit, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: March 13, 2006

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