U. S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

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

For the fiscal year ended December 31, 1999

Commission File Number 0-16587

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

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

310 N. Main Street Moorefield, West Virginia	26836
(Address of principal executive offices)	(Zip Code)

(304) 538-1000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	None

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

Common

(Title of Class)

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 X 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-KSB or any amendments to this Form 10-KSB. [_]

State issuer's revenues for its most recent fiscal year: $25,935,000

State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within 60 days prior to the date of filing.

Aggregate market value of voting stock	Based upon reported closing price on
$25,584,000	March 23, 2000

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding as of March 23, 2000
Common ($2.50 par value)	881,276 shares

Documents Incorporated by Reference

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

Document	Part of Form 10-KSB into which document is Incorporated
Summit Financial Group, Inc.'s definitive Proxy Statement for the 2000 Annual Shareholders' Meeting.	Part III - Item 9, Item 10, Item 11, and Item 12

This form 10-KSB is comprised of 62 pages. The exhibit index is located on page 56.

SUMMIT FINANCIAL GROUP, INC

FORM 10-KSB

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PART I.

Item 1. Business

Organized in 1987 as a West Virginia Corporation, Summit Financial Group, Inc. ("Company" or "Summit") is a registered bank holding company under the Bank Holding Company Act of 1956 ("BHCA"), as amended. Summit changed its name from South Branch Valley Bancorp, Inc. effective December 30, 1999.

At the close of business on December 31, 1987, Summit merged its wholly owned subsidiary, South Branch Valley National Bank Inc., with South Branch Valley National Bank ("South Branch"), a commercial located in Moorefield, West Virginia.

During the first half of 1997, the Company purchased approximately 40% of the outstanding common shares of Capital State Bank, Inc. ("Capital State"), located in Charleston, West Virginia. To facilitate the funding of this investment, the Company issued and sold 34,317 shares of its common stock at $43.50 per share to seven directors of the Company in a limited stock offering. Additionally, the Company obtained two long-term borrowings from two unaffiliated financial institutions totaling $3,500,000. On March 31, 1998, Summit acquired the remaining 60% of Capital State's outstanding common shares for 183,465 shares of Summit common stock valued at approximately $7.91 million.

Effective April 22, 1999, Capital State purchased three branch banking facilities located in Greenbrier County, West Virginia. The transaction included the Branches' facilities and associated loan and deposit accounts. Total deposits assumed approximated $47.4 million and total loans acquired approximated $8.9 million.

On May 14, 1999, Shenandoah Valley National Bank ("Shenandoah"), a newly organized subsidiary of Summit located in Winchester, Virginia, was granted a national bank charter. Shenandoah was initially capitalized with $4,000,000, funded by a special dividend in the amount of $3,000,000 from the Company's subsidiary bank, South Branch, and from a $1,000,000 term loan from the then unaffiliated institution, Potomac Valley Bank. Shenandoah opened for business on May 17, 1999.

On December 30, 1999, Summit merged with Potomac Valley Bank ("Potomac"), a $94 million asset bank in Petersburg, West Virginia. Summit issued 290,110 shares of common stock to the shareholders of Potomac based upon an exchange ratio of 3.4068 shares of Summit common stock for each outstanding share of Potomac common stock.

Summit's business activities are conducted through its four bank subsidiaries, South Branch, Capital State, Shenandoah and Potomac (collectively, the "Bank Subsidiaries"). The Bank Subsidiaries presently account for substantially all of the consolidated assets, revenues and earnings of Summit. Each Bank Subsidiary is a full service, FDIC insured institution engaged in commercial and retail banking.

Summit offers a wide variety of banking services to its customers. Summit accepts deposits and has night depositories and automated teller machines for the convenience of its customers. The Company offers its customers various deposit arrangements with a variety of maturities and yields, including non-interest bearing and interest bearing demand deposits, savings deposits, time certificates of deposit, club accounts, and individual retirement accounts.

Summit offers a full spectrum of lending services to their customers, including commercial loans and lines of credit, residential real estate loans, consumer installment loans and other personal loans. The Company also offers credit cards, the balances of which are insignificant to total loans. Loan terms, including interest rates, loan to value ratios, and maturities are tailored as much as possible to meet the needs of the borrower. Commercial loans, which represented approximately 33.1% of total loans at December 31, 1999, are generally secured by various collateral including commercial real estate, accounts receivable and business machinery and equipment. Residential real estate loans represented approximately 49.0% of total loans as of December 31, 1999 and consist primarily of mortgages on the borrower's personal residence, and are typically secured by a first lien on the subject property. Consumer and personal loans are generally secured, often by first liens on automobiles, consumer goods or depository accounts. See Note 5 of the accompanying Consolidated Financial Statements, included in Part II, Item 7 of this Form 10-KSB, for a summary of the Summit's loans at December 31, 1999 and 1998. Indirect lending represents less than 1.0% of the Company's total loans. A special effort is made to keep loan products as flexible as possible within the guidelines of prudent banking practices in terms of interest rate risk and credit risk. Company lending personnel adhere to established lending limits and authorities based on each individual's lending expertise and experience. Summit does not currently originate loans for sale.

When considering loan requests, the primary factors taken into consideration by the Company are the cash flow and financial condition of the borrower, the value of the underlying collateral, if any, and the character and integrity of the borrower. These factors are evaluated in a number of ways including an analysis of financial statements, credit reviews and visits to the borrower's place of business.

Summit's subsidiary bank, South Branch also serves as trustee where appointed by a court or under a private trust agreement. As trustee, South Branch invests the trust assets and makes disbursements according to the terms and conditions of the governing trust document and state and Federal law. For the year ended December 31, 1999, fees generated from the operation of the South Branch's Trust Department comprised less than one percent of gross revenues earned during the year.

In order to compete with other financial service providers, the Company principally relies upon personal relationships established by officers, directors, and employees with its customers, and specialized services tailored to meet its customer's needs. Summit also has a marketing program that primarily utilizes local radio and newspapers to advertise.

Supervision and Regulation

General

Summit, as a bank holding company, is subject to the restrictions of the BHCA, and is registered pursuant to its provisions. As a registered bank holding company, Summit is subject to the reporting requirements of the Federal Reserve Board of Governors ("FRB"), and is subject to examination by the FRB.

The BHCA prohibits the acquisition by a bank 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 bank 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 BHCA permits Summit to purchase or redeem its own securities. However, Regulation Y provides that prior notice must be given to the FRB if the gross consideration for such purchase or consideration, when aggregated with the net consideration paid by the company 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 bank holding company is well-capitalized; (ii) the bank holding company is well-managed and (iii) the bank holding company is not the subject of any unresolved supervisory issues.

The FRB, in its Regulation Y, permits bank 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.

As a bank holding company doing business in West Virginia, Summit is 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.

Federal law restricts subsidiary banks of a bank holding company from making certain extensions of credit to the parent bank 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 bank 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 South Branch and Shenandoah, as national banking associations, are subject to federal statutes and regulations which apply to national banks, and is primarily regulated by the OCC. Capital State and Potomac are subject to similar West Virginia statutes and regulations, and are 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, bank 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 bank 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, to a limited extent, in relation to insurance directly related to an extension of credit; acting as an underwriter for credit life insurance which is directly related to extensions of credit by the bank 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.

Credit and Monetary Policies and Related Matters

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 bank 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 bank holding company to contribute capital to a troubled subsidiary bank, and may charge the bank 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 of the subsidiary banks 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 bank 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 its subsidiary banks, is subject to such provisions.

Capital Requirements

As a bank holding company Summit is 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, bank 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 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. Bank holding companies are subject to substantially identical requirements, except that cumulative perpetual preferred stock can constitute up to 25% of a bank holding company's Tier 1 capital.

Bank holding companies are required to maintain a risk-based ratio of 8%, of which 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 bank holding companies that meet certain specified criteria, including excellent asset quality, high liquidity, low interest rate exposure and the highest regulatory rating. Bank 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 bank 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 bank 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.

As of December 31, 1999, the regulatory capital ratios of Summit and each of the Bank Subsidiaries are set forth in the table in Note 13 of the notes of the accompanying consolidated financial statements

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 statues.

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 under capitalized.

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, 1999. 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 bank 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 agency deems 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 Interstate Bill. The Interstate Bill will permit consolidation of banking institutions across state lines and, perhaps, de novo entry. As its provisions become effective, it is likely that the resulting restructurings and interstate activities will result in the realization of economies of scale within those institutions with entities in more than one state. One result could be increased competitiveness, due to the realization of economies of scale and, where permitted, due to de novo market entrants.

Community Reinvestment Act

Bank 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 bank 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 bank holding company applying for approval to acquire a bank or other bank holding company, the FRB will assess the record of each subsidiary of the applicant bank 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, would essentially broaden the scope of CRA performance examinations and more explicitly consider 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 were 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 sweeps away large parts of a regulatory framework that had its origins in the Depression Era of the 1930s. Effective March 11, 2000, new opportunities will be 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 for regulation through the financial holding company, which will have as its umbrella regulator the FRB. Functional regulation of the financial holding company's separately regulated subsidiaries will be conducted by their primary functional regulator. The GLB Act makes satisfactory or above Community Reinvestment Act compliance for insured depository institutions and their financial holding companies necessary in order for them to engage in new financial activities. The GLB Act 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 any depository institutions affiliated therewith, 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 for good cause shown.

Competition

Summit competes primarily with numerous other banks and financial institutions within its primary market area of the Eastern Panhandle and South Central counties of West Virginia and the northern counties of Virginia. It can be expected that with the liberalization of the branch banking laws in West Virginia, additional financial institutions may compete with the Company. Summit takes an aggressive competitive posture, and intends to continue vigorously competing for its share of the market within its service area by offering competitive rates and terms on both loans and deposits.

Employees

At March 15, 2000, Summit employed 136 full-time equivalent employees.

Item 2. Properties

In 1974, South Branch acquired 5.82 acres of land located on Main Street in Moorefield, West Virginia. This is the present location of the Summit's and South Branch's principal offices. In April 1994, South Branch acquired approximately one acre of real estate on the west side of U.S. Route 220 adjoining the main office. During 1998, South Branch acquired an additional 5 acres of the land adjoining this site.

In 1983, South Branch acquired property located in the town of Mathias, West Virginia. Since December 28, 1984 the South Branch has operated its Mathias branch bank from this site.

In 1986, South Branch acquired two parcels of land located on the east side of U.S. Route 220 in the town of Franklin, West Virginia. South Branch opened its Franklin branch at this site on January 1, 1987.

During 1995, South Branch acquired a parcel of land and branch office located on the north side of U.S. Route 220 in the town of Petersburg, West Virginia. This property was purchased from Blue Ridge Bank and began operating as a branch of South Branch on November 15, 1995.

In conjunction with the acquisition of Capital State in March 1998, the Company acquired Capital State's banking facility located in Southridge Centre in Charleston, West Virginia. Southridge is a large shopping center complex on U.S. Route 119 approximately eight miles south of the Charleston downtown area. Capital State's facility opened on December 16, 1995, and is constructed on land leased for an initial 50 year term expiring in 2045.

Capital State acquired three branch banking facilities, two located in Rainelle, West Virginia and one located in Rupert, West Virginia, from another financial institution on April 22, 1999. One of the Rainelle facilities was closed in September 1999 and is presently listed for sale.

Capital State further purchased a lot located at the corner of Virginia and Summers Streets in downtown Charleston, West Virginia in November 1999, where the Bank is constructing a branch bank. This facility is scheduled for completion in April 2000.

In May 1999, Shenandoah purchased 1.15 acres of land in Winchester, Virginia on which the Bank is presently constructing its permanent banking facility. Completion of this facility is scheduled for September 2000. Shenandoah currently occupies temporary premises across the street from this location.

Item 3. Legal Proceedings

Summit is involved in various pending legal proceedings, all of which are regarded by management as normal litigation incident to the business of banking and are not expected to have a materially adverse effect on the business or financial condition of the Company.

Item 4. Submission of Matters to a Vote of Shareholders

On December 15, 1999, at special meeting of the shareholders of Summit, the matter set forth below was voted upon. The number of votes cast for or against, as well as the number of abstentions and withheld votes concerning each matter are indicated in the following tabulations.

1. Authorization for the issuance of up to 320,000 shares of Summit stock in connection with an Agreement and Plan of Merger dated as of July 16,1999, among South Branch Valley Bancorp, Inc., and the parties to the Agreement and Plan of Merger, Potomac Valley Bank and Potomac Interim Bank, Inc., a wholly owned subsidiary of South Branch Valley Bancorp, Inc.

For	Against	Abstentions
400,117	18,591	4,825

2. Approval of an amendment to the Articles of Incorporation of South Branch Valley Bancorp, Inc. to change the Company's name to "Summit Financial Group, Inc."

For	Against	Abstentions
355,880	22,769	6,773

PART II.

Item 5. Market for Registrant's Common Stock and Related Shareholder Matters

Summit acts as its own registrar and transfer agent. During 1998, its shares were not publicly traded on any exchange or over the counter market. Shares of the Company's common stock were occasionally bought and sold in private transactions between individuals, firms or corporations. In many instances, the Company did not have knowledge of the purchase price or the terms of the purchase. No definitive record of bid, ask or sale prices were available.

Beginning on January 6, 1999, quotation of Summit's common stock began on the OTC Bulletin Board under the symbol "SMMF".

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1999				
Dividends paid	$ -	$ 0.47	$ -	$ 0.48
High Bid	44.75	44.00	40.25	40.50
Low Bid	41.25	40.25	40.00	36.00
1998				
Dividends paid	$ -	$ 0.44	$ -	$ 0.45
High Bid	(1)	(1)	(1)	(1)
Low Bid	(1)	(1)	(1)	(1)

(1)-Information not available. See above comment.

The approximate number of stockholders of record for Summit's common stock as of March 23, 2000 was 1,320.

Dividends paid by Summit to its stockholders are based on dividends it receives from the Bank Subsidiaries. The ability of the Bank Subsidiaries to pay dividends to Summit is subject to certain limitations of the national and West Virginia banking laws. In general, these limitations provide that no bank can pay dividends if the total of all dividends, including any proposed dividend declared by a bank in any calendar year, exceeds net income for that year when combined with net income for the preceding two years, less dividends for all three years. This restriction may be waived if the approval of the applicable bank regulatory authorities is obtained for such distribution. Additional information with regard to dividend restrictions is included in Note 13 of the Notes to Consolidated Financial Statements included under Part II, Item 7 of this filing.

Cash dividends increased 6.7% to $.95 per share in 1999. It is the intention of management and the Board of Directors to continue to pay dividends on similar schedule during 2000. However, future cash dividends will depend on the earnings, financial condition and the business of Summit and the Bank Subsidiaries, as well as general economic conditions; however, management is not presently aware of any reason why dividend payments should not continue.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations and Related Statistical Disclosures

INTRODUCTION AND SUMMARY

The following is management's discussion and analysis of the financial condition and financial results of operations for Summit Financial Group, Inc. ("Company" or "Summit") and its wholly owned subsidiaries, South Branch Valley National Bank ("South Branch"), Capital State Bank, Inc. ("Capital State"), Shenandoah Valley National Bank ("Shenandoah") and Potomac Valley Bank ("Potomac") as of December 31, 1999. This discussion may contain forward looking statements based on management's expectations and actual results may differ materially. Since the primary business activities of Summit are conducted through its wholly owned bank subsidiaries, the following discussion focuses primarily on the financial condition and operations of those entities. All amounts and percentages have been rounded for this discussion. This discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes thereto of the Company as of December 31, 1999 and for each of the three years then ended.

MERGER AND ACQUISITIONS

On December 30, 1999, Summit merged with Potomac, a $94 million asset bank in Petersburg, West Virginia, in a transaction accounted for as a pooling of interests. Summit issued 290,110 shares of common stock to the shareholders of Potomac based upon an exchange ratio of 3.4068 shares of Summit common stock for each outstanding share of Potomac common stock. Summit's prior year consolidated financial statements have been restated to include Potomac.

On April 22, 1999, Capital State purchased three branch banking facilities located in Greenbrier County, West Virginia (the "Branches"). The transaction included the Branches' facilities and associated loan and deposit accounts. Total deposits assumed approximated $47.4 million and total loans acquired approximated $8.9 million. This transaction was accounted for using the purchase method of accounting, and accordingly, the assets and liabilities and results of operations of the Branches are reflected in the Company's consolidated financial statements beginning April 23, 1999. The excess purchase price over the fair value of the net assets acquired as of the consummation date approximated $2,267,000, which is included in intangible assets in the accompanying consolidated balance sheets, and is being amortized over a period of 15 years using the straight-line method.

On March 31, 1998, Summit acquired 60% of the outstanding common stock of Capital State, a Charleston, West Virginia state chartered bank with total assets approximating $44 million at the time of acquisition, in exchange for 183,465 shares of Summit's common stock. Summit had previously acquired 40% of Capital State's outstanding common stock during 1997. This acquisition was accounted for using the purchase method of accounting, and accordingly, the assets and liabilities and results of operations of Capital State are reflected in the Company's consolidated financial statements beginning April 1, 1998. The excess purchase price over the fair value of the net assets acquired as of the consummation date approximated $1,979,000, which is included in intangible assets in the accompanying consolidated balance sheet as of December 31, 1998. This goodwill is being amortized over a period of 15 years using the straight line method.

Refer to Note 2 of the accompanying consolidated financial statements for additional information regarding Summit's merger and acquisitions.

NEW BANK SUBSIDIARY

On May 14, 1999, Shenandoah was granted a national bank charter and was initially capitalized with $4,000,000, funded by a special dividend in the amount of $3,000,000 from the Company's subsidiary bank, South Branch and from a $1,000,000 term loan from the then unaffiliated institution, Potomac. Shenandoah opened for business on May 17, 1999. Start up costs approximating $90,000 related to the organization of this subsidiary were expensed during 1999.

RESULTS OF OPERATIONS

Earnings Summary

Net income for the three years ended December 31, 1999, 1998, and 1997, was $3,043,000, $2,602,000, and $2,300,000, respectively. On a per share basis, diluted net income was $3.39 in 1999 compared to $3.05 in 1998, and $3.27 in 1997. Return on average assets for the year ended December 31, 1999 was 0.88% compared to 0.95% in 1998 and 1.01% in 1997. Return on average equity was 8.52% in 1999 compared to 7.44% in 1998, and 9.45% in 1997. A summary of the significant factors influencing the Summit's results of operations and related ratios is included in the following discussion.

Net Interest Income

The major component of the Summit's 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. Management seeks to maximize net interest income through management of its 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, adjusted to a fully tax equivalent basis, totaled $13,165,000, $10,634,000 and $8,831,000 for the years ended December 31, 1999, 1998, and 1997 respectively resulting in a net interest margin of 4.1% for 1999 compared to 4.2% and 4.1% for 1998 and 1997, respectively. The net interest margin recognizes earning asset growth by expressing net interest income as a percentage of total average earning assets. Lower yields on interest earning assets negatively impact the Company's net interest margin. In 1999, the yield on interest earning assets decreased 40 basis points from 8.2% in 1998 to 7.8% in 1999, primarily due to lower yields on loans. The cost of interest bearing liabilities likewise declined 40 basis points from 4.8% in 1998 to 4.4% in 1999, which served to minimize most of the impact of the lower yields on interest earning assets. The spread between interest earning assets and interest bearing liabilities could continue to contract though, thus negatively impacting the Company's net interest income in 2000. Management continues to monitor the net interest margin through net interest income simulation to minimize the potential for any significant negative impact. See the Interest Rate Risk Management section for further discussion of the impact changes in market interest rates could have on Summit.

Net interest income on a fully tax equivalent basis, average balance sheet amounts, and corresponding average yields on earning assets and costs of interest bearing liabilities for the years 1999, 1998 and 1997 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.

As identified in Table II, the $2,531,000 increase in Summit's tax equivalent net interest income from 1999 to 1998 was primarily attributed to the growth in the volume of the Company's loan portfolio during 1999.

Provision for Loan Losses

The provision for loan losses represents management's determination of the amount necessary to be charged against the current period's earnings in order to maintain the allowance for loan losses at a level which is considered adequate in relation to the estimated risk inherent in the loan portfolio. The provision for loan losses for each of the years ended December 31, 1999, 1998 and 1997 totaled $370,000, $615,000 and $554,000, respectively. As further discussed in the Loan Portfolio and Risk Elements section of this analysis, the reduction in the provision for loan losses is primarily attributed to the improved credit quality during 1999 of the loan portfolio of Potomac. An analysis of the components comprising the allowance for loan losses for the years ended December, 1999, 1998 and 1997, including charge offs and recoveries within each significant loan classification, is included in Note 6 of the accompanying consolidated financial statements.

Noninterest Income

Noninterest income totaled $821,000, $753,000 and $574,000 or 3.2%, 3.5%, and 3.2% of the Summit's total income for each of the years ended December 31, 1999, 1998, and 1997, respectively. Excluding securities gains and losses and gains from sales of premises, equipment and other assets recognized in 1999 and 1998, total noninterest income increased approximately $330,000 or 45.4% in 1999, as compared to 1998. The most significant items contributing to this increase was service fee income, which increased $274,000 from approximately $518,000 to $792,000, or 52.9%, which resulted primarily from change's in the Company's deposit fee structure resulting in improved realization of fee income, and due to greater fee volumes as result of Capital State's acquisition of the Greenbrier County branches during 1999.

Noninterest Expense

Noninterest expense totaled $8,718,000, $6,638,000 and $5,256,000 or 38.1%, 35.3% and 33.6% of total expense for each of the years ended December 31, 1999, 1998, and 1997, respectively. Total noninterest expense increased $2,080,000 or 31.3% from 1998 to 1999. The primary factors contributing to this increase were noninterest expenses of the Capital State Greenbrier County branches following their acquisition in April 1999, noninterest expenses of Shenandoah following its opening for business in May 1999, and one time expenses associated with the Potomac merger.

Table I - Average Distribution of Assets, Liabilities and Shareholders' Equity, Interest Earnings & Expenses, and Average Rates
(In thousands of dollars)

	1999			1998			1997		
	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)	$ 219,176	$18,760	8.6%	$ 173,860	$15,839	9.1%	$ 141,594	$13,094	9.2%
Securities									
Taxable	84,353	5,288	6.3%	55,933	3,522	6.3%	48,829	3,194	6.5%
Tax-exempt (2)	11,135	835	7.5%	11,312	834	7.4%	16,198	1,041	6.4%
Federal funds sold and interest bearing deposits with other banks	10,251	516	5.0%	13,642	727	5.3%	6,525	383	5.9%
Total interest earning assets	324,915	25,399	7.8%	254,747	20,922	8.2%	213,146	17,712	8.3%
Noninterest earning assets									
Cash and due from banks	6,860			5,694			4,912		
Bank premises and equipment	8,634			6,294			4,823		
Other assets	6,402			7,766			5,916		
Allowance for loan losses	(2,175)			(1,829)			(1,413)		
Total assets	$ 344,636			$ 272,672			227,384		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Liabilities									
Interest bearing liabilities									
Interest bearing demand deposits	$ 56,201	$ 1,717	3.1%	$ 40,027	$ 1,246	3.1%	$ 33,274	$ 982	3.0%
Savings deposits	38,782	1,030	2.7%	31,394	1,048	3.3%	29,134	1,039	3.6%
Time deposits	153,617	7,811	5.1%	126,369	7,043	5.6%	107,886	6,059	5.6%
Short-term borrowings	13,714	673	4.9%	5,371	232	4.3%	5,685	257	4.5%
Long-term borrowings	18,818	1,003	5.3%	13,004	719	5.5%	7,832	544	6.9%
	281,132	12,234	4.4%	216,165	10,288	4.8%	183,811	8,881	4.8%
Noninterest bearing liabilities									
Demand deposits	25,608			19,267			16,965		
Other liabilities	2,178			2,244			2,287		
Total liabilities	308,918			237,676			203,063		
Shareholders' equity	35,718			34,996			24,321		
Total liabilities and shareholders' equity	$ 344,636			$ 272,672			$ 227,384		
NET INTEREST EARNINGS		$13,165			$10,634			$ 8,831	
NET INTEREST YIELD ON EARNING ASSETS			4.1%			4.2%			4.1%

(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 $277,000, $362,000 and $213,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

(2) - For purposes of this table, interest income on tax-exempt securities 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 $284,000, $283,000 and $354,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

Table II - Changes in Interest Margin Attributable to Rate and Volume
(In thousands of dollars)

	1999 Versus 1998 Increase (Decrease) Due to Change in:			1998 Versus 1997 Increase (Decrease) Due to Change in:		
	Volume	Rate	Net	Volume	Rate	Net
Interest earned on:						
Loans	$3,925	$(1,004)	$2,921	$2,942	$(197)	$2,745
Securities						
Taxable	1,782	(16)	1,766	452	(124)	328
Tax-exempt	(13)	14	1	(345)	138	(207)
Federal funds sold and interest bearing deposits with other banks	(173)	(38)	(211)	383	(40)	343
Total interest earned on interest earning assets	5,521	(1,044)	4,477	3,432	(222)	3,210
Interest paid on:						
Interest bearing demand deposits	494	(23)	471	208	56	264
Savings deposits	220	(238)	(18)	78	(69)	9
Time deposits	1,424	(656)	768	1,030	(46)	984
Short-term borrowings	405	36	441	(14)	(11)	(25)
Long-term borrowings	310	(26)	284	303	(128)	175
Total interest paid on interest bearing liabilities	2,853	(907)	1,946	1,605	(198)	1,407
Net interest income	$2,668	$ (137)	$2,531	$1,827	$ (24)	$1,803

Income Tax Expense

Income tax expense for the three years ended December 31, 1999, 1998, and 1997 totaled $1,570,000, $1,248,000 and $943,000, respectively. Refer to Note 10 of the accompanying consolidated financial statements for further information and additional discussion of the significant components influencing the Company's effective income tax rates.

CHANGES IN FINANCIAL POSITION

Total average assets for the year ended December 31, 1999 were $344,636,000 an increase of 26.4% over 1998's average of $272,672,000. The increase in total average assets is primarily attributable to the acquisition of the Greenbrier County branches in April 1999 and the growth of Shenandoah following its organization in May 1999. Significant changes in the components of the Company's balance sheet between December 31, 1998 and December 31, 1999 are discussed below.

The Company's total average interest earning assets, expressed as a percentage of average total assets, remains high, and has increased slightly to 94.3% for 1999, as compared to 93.4% for 1998.

Securities

Securities comprised approximately 29.2% of total assets at December 31, 1999 compared to 22.6% at December 31, 1998. Average securities approximated $95,488,000 for 1999 or 42.0% more than 1998's average of $67,245,000. The growth in the Company's securities portfolio in 1999 reflects increased investments primarily in U. S. Government agency securities and mortgage-backed securities, which were funded principally by the $35.1 million in net funds the Company realized in conjunction with the acquisition of Greenbrier County branch banks. Refer to Note 4 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.

Substantially all securities are classified as available for sale to provide management with flexibility to better manage its balance sheet structure and react to asset/liability management issues as they arise. At December 31, 1999, the Company 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, 1999, together with the weighted average yields for each range of maturity, are summarized in Table III. The stated average yields are actual yields and are not stated on a tax equivalent basis.

Table III - 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
Available for sale								
U. S. Treasury securities	$ -	0.0%	$ 1,495	6.3%	$ -	0.0%	$ -	0.0%
U. S. Government agencies and corporations	833	7.0%	24,692	6.4%	32,656	6.8%	1,000	7.0%
Mortgage backed securities - U. S. Government agencies and corporations	6,589	6.6%	15,819	6.6%	6,555	6.5%	3,728	6.6%
State and political subdivisions	920	2.8%	4,583	5.3%	3,795	4.8%	1,872	5.3%
Other	-	0.0%	2,654	6.8%	1,403	6.9%	6,409	6.5%
Total available for sale	$8,342	6.2%	$49,243	6.4%	$44,409	6.6%	$13,009	6.4%
Held to maturity								
Mortgage backed securities - U. S. Government agencies and corporations	$ 255	7.6%	$ -	0.0%	$ -	0.0%	$ -	0.0%
State and political subdivisions	140	5.0%	401	4.8%	-	0.0%	-	0.0%
Total held to maturity	$ 395	6.7%	$ 401	4.8%	$ -	0.0%	$ -	0.0%

Loan Portfolio

The following table depicts loan balances at December 31, 1999 and 1998 by types along with their respective percentage of total loans outstanding.

(dollars in thousands)

	1999		1998	
	Amount	Percent of Total	Amount	Percent of Total
Commercial, financial and agricultural	$ 78,894	33.1%	$54,359	27.8%
Real estate - construction	2,012	0.8%	1,801	0.9%
Real estate - mortgage	116,779	49.0%	101,014	51.7%
Installment loans to individuals (net of unearned interest)	38,091	16.0%	36,197	18.5%
Other	2,524	1.1%	1,906	1.0%
Total loans	238,300	100.0%	195,277	100.0%
Less allowance for loan losses	2,232		2,113	
Loans, net	$236,068		$193,164	

Total net loans averaged $219,176,000 in 1999 and comprised 63.6% of total average assets compared to $173,860,000 or 63.8% of total average assets during 1998. The increase in the dollar volume of loans is primarily attributable to continuation of the Company's strategy which began in 1996 to aggressively seek quality commercial and real estate loans.

Refer to Note 5 of the accompanying consolidated financial statements for the Company's loan maturities and a discussion of the Company's adjustable rate loans as of December 31, 1999.

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities which are disclosed in Note 12 to the accompanying consolidated financial statements but not reflected in the accompanying consolidated financial statements. There have been no significant changes in these type of commitments and contingent liabilities and the Company does not anticipate any material losses as a result of these commitments.

Risk Elements

The following table presents a summary of restructured or non-performing loans for each of the three years ended December 31, 1999, 1998 and 1997.

(dollars in thousands)

	December 31,		
	1999	1998	1997
Nonaccrual loans	$ 522	$ 783	$ 220
Accruing loans past due 90 days or more	476	431	402
Restructured loans	-	-	55
Total	$ 998	$1,214	$ 677
Percentage of total loans	0.4%	0.6%	0.5%

As illustrated in the above table, the quality of the Company's loan portfolio remains sound. The total of nonaccrual loans and loans past due 90 days or more and still accruing interest has declined from $1,214,000 at December 31, 1998 to $998,000 at December 31, 1999, despite the growth in the loan portfolio previously discussed. Refer to Note 5 of the accompanying consolidated financial statements for additional discussion of non-accrual loans and to Note 6 for a discussion of impaired loans which are included in the above balances..

The Company's subsidiary banks, on a quarterly basis, perform a comprehensive loan evaluation which encompasses the identification of all potential problem credits which are included on an internally generated watch list. The identification of loans for inclusion on the watch list 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 within the Bank. Once this list is reviewed to ensure it is complete, the credit review department reviews 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 the 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, they are considered by management to be insignificant to the overall disclosure and are, therefore, not specifically quantified within this discussion. In addition, management feels these additional loans do not represent or result from trends or uncertainties which management reasonably expects will materially impact future operating results, liquidity or capital resources. Also, these loans do not represent material credits about which management is aware of any information which would cause the borrowers to not comply with the loan repayment terms.

Specific reserves are allocated to non-performing loans based on the quarterly evaluation of expected loan loss reserve requirements as determined by Company management. In addition, a portion of the reserve is determined through the use of loan loss experience factors which do not provide for identification of specific potential problem loans. As noted above, some of the loans, which are not deemed significant, are included in the watch list of potential problem loans and have specific reserves allocated to them.

At December 31, 1999 and 1998 respectively, the allowance for loan losses represented 0.94% and 1.08% of gross loans or $2,232,000 and $2,113,000, and was considered adequate to cover inherent losses in the subsidiary banks' loan portfolios as of the respective evaluation date. Summit maintains an allowance for loan losses at a level considered adequate to provide for losses that can be reasonably anticipated. The Company performs a quarterly evaluation of the loan portfolio to determine its adequacy. The evaluation is based on assessments of specifically identified loans, loss experience factors, current and anticipated economic conditions and other factors to identify and estimate inherent losses from homogeneous pools of loans.

The allocated portion of the subsidiary banks' 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 management utilizes to identify probable and estimable losses. This unallocated portion is subjective and requires judgement based on various qualitative factors in the loan portfolio and the market in which the Company operates. At December 31, 1999 and 1998, respectively, the unallocated portion of the allowance approximated $92,000 and $86,000, or 4.1% of the total allowance as of both year end dates. This unallocated portion of the allowance was considered necessary based on consideration of the known risk elements in certain pools of loans in the loan portfolio and management's assessment of the economic environment in which the Company operates. More specifically, while loan quality remains good, the subsidiary banks have typically experienced greater losses within certain homogeneous loan pools when the Company's market area has experienced economic downturns or other significant native factors or trends, such as increases in bankruptcies, unemployment rates or past due loans.

Table IV below presents an allocation of the expected allowance for loan losses by major loan type.

Table IV - Allocation of the Allowance for Loan Losses
(dollars in thousands)

	1999		1998		1997	
	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans
Commercial, financial and agricultural	$ 951	33.3%	$ 861	27.8%	$ 584	29.5%
Real estate	383	49.5%	366	52.7%	302	47.8%
Installment	596	16.1%	739	18.5%	513	22.2%
Other	210	1.1%	61	1.0%	23	0.5%
Unallocated	92	-	86	-	67	-
	$ 2,232	100.0%	$ 2,113	100.0%	$ 1,489	100.0%

At December 31, 1999, the Company had approximately $115,000 in other real estate owned which was obtained as the result of foreclosure proceedings and $15,000 in other repossessed assets which was obtained as the result of auto repossessions. These repossessions have been insignificant throughout 1999 and management does not anticipate any material losses on any of the items currently held in other real estate owned or other repossessed assets.

Deposits

Total deposits at December 31, 1999 increased approximately $68,798,000 or 30.1% compared to December 1998. Average deposits increased approximately $50,810,000, or 25.7% during 1999. This growth was primarily the result of the acquisition of the Greenbrier County branches and the growth of Shenandoah.

See Note 8 of the accompanying consolidated financial statements for a maturity distribution of time deposits as of December 31, 1999.

Borrowings

Lines of Credit: The Company has remaining available lines of credit from the Federal Home Loan Bank totaling $69,903,000 at December 31, 1999. Management uses these lines primarily to funds loans to customers. Fund 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.

Short-term Borrowings: Total short-term borrowings increased $27,704,000 from $4,644,000 at December 31, 1998 to $32,348,000 at December 31, 1999, as Summit funded a substantial portion of its loan growth in 1999 with short-term Federal Home Loan Bank advances, as such funds generally carried a lower cost compared to the cost of deposits in the Company's local market areas during 1999. See Note 9 of the accompanying consolidated financial statements for a discussion of short-term borrowings.

Long-term Borrowings: The Company's long-term borrowings of $17,943,000 at December 31, 1999, remained relatively unchanged in comparison with its balance of $16,469,000 at December 31, 1998, and consisted entirely of funds borrowed on available lines of credit from the Federal Home Loan Bank. Refer to Note 9 of the accompanying consolidated financial statements for a discussion of long-term borrowings.

LIQUIDITY

Liquidity reflects the Company's ability to ensure the availability of adequate funds to meet loan commitments and deposit withdrawals, as well as provide for other transactional requirements. Liquidity is provided primarily by funds invested in cash and due from banks, Federal funds sold, securities and interest bearing deposits with other banks maturing within one year, and available lines of credit with the Federal Home Loan Bank, totaling approximately $94.1 million at December 31, 1999. Further enhancing the Company's liquidity is the availability as of December 31, 1999 of additional securities with greater than one year maturities totaling approximately $104.2 million which could be used to collateralize additional borrowings in response to an unforeseen need for liquidity.

The Company's liquidity position is monitored continuously to ensure that day-to-day as well as anticipated funding needs are met. Management is not aware of any trends, commitments, events or uncertainties that have resulted in or are reasonably likely to result in a material change to the Summit's liquidity.

INTEREST RATE RISK MANAGEMENT

The principal objective of asset/liability management is to minimize interest rate risk, which is the vulnerability of the Company's net interest income to changes in interest rates and manage the ratio of interest rate sensitive assets to interest rate sensitive liabilities within specified maturities or repricing dates. The Company's actions in this regard are taken under the guidance of its asset/liability management committee, which is comprised of members of senior management and members of the Board of Directors. The Company's asset/liability management committee actively formulate the economic assumptions that the Company uses in its financial planning and budgeting process and establishes policies which control and monitor the Company's sources, uses and prices of funds.

Some amount of interest rate risk is inherent and appropriate to the banking business. The Company's net income is affected by changes in the absolute level of interest rates. The Company's interest rate risk position is liability sensitive; that is, liabilities are likely to reprice faster than assets, resulting in a decrease in net income in a rising rate environment. Conversely, net income should increase in a falling interest rate environment. Net income is also subject to changes in the shape of the yield curve. In general, a flattening yield curve would result in a decline in Company 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. Summit primarily uses 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, changes in the shape of the yield curve and changes in interest rate relationships against earnings in a stable rate environment. 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.

As of December 31, 1999, the Company's earnings simulation model projects net interest income would decrease by approximately 4.2% if rates rise evenly by 200 basis points over the next year, as compared to projected stable rate net interest income. Conversely, the model projects that if rates fall evenly by 200 basis points over the next year, Company net interest income would rise by approximately 4.9%, as compared to projected stable rate net interest income.

CAPITAL RESOURCES

Summit's capital position remains strong, despite its continued growth. Stated as a percentage of total assets, the Company's equity ratio was 9.1% and 12.5% at December 31, 1999 and 1998, respectively. The Company's risk weighted tier I capital, total capital and leverage capital ratios were approximately 13.8%, 14.8% and 8.7%, respectively, at December 31, 1999, all of which are well in excess of the minimum guidelines to be "well capitalized" under the regulatory prompt corrective action provisions. The Company's subsidiary banks are also subject to minimum capital ratios as further discussed in Note 13 of the accompanying consolidated financial statements.

The percentage of earnings retained by the Company to fund future growth did not change significantly during 1999. Cash dividends per share rose 6.7% to $.95 in 1999 compared to $.89 in 1998, representing dividend payout ratios of 27.3% and 30.7% for 1999 and 1998, respectively, after giving effect to the dividends paid by Potomac prior to its merger with Summit. It is the intention of management and the Board of Directors to continue to pay dividends on a similar schedule during 2000. Future cash dividends will depend on the earnings, financial condition and the business of the subsidiary banks as well as general economic conditions; however, management is not presently aware of any reason dividend payments should not continue.

Dividends paid by the subsidiary banks are subject to restrictions by banking regulations. The most restrictive provision requires approval by the regulatory agency if dividends declared in any year exceed the year's net income, as defined, plus the retained net profits of the two preceding years. During 2000 the net retained profits available for distribution to Summit as dividends without regulatory approval are approximately $1,369,000, plus net income for the interim periods through the date of declaration.

YEAR 2000

During 1999, Summit completed the process of preparing for the Year 2000 date change. This process involved identifying and remediating date recognition problems in its computer systems, software and other operating equipment, and working with third parties to address their Year 2000 issues, and developing contingency plans to address potential risks in the event of Year 2000 failures. To date, Summit has successfully managed the Year 2000 date transition issue.

Although considered unlikely, unanticipated problems in Summit's core business processes, including problems associated with non-compliant third parties and disruptions to the economy in general, could still occur despite efforts to date to remediate affected systems and develop contingency plans. Management will continue to monitor all business processes, including interaction with vendors and other third parties, throughout 2000 to address any issues and ensure all processes continue to function properly.

No significant further costs related to the Year 2000 issue are expected to be incurred by the Company.

Item 7. Financial Statements

[ARNETT & FOSTER, P.L.L.C. LETTERHEAD]

INDEPENDENT AUDITOR'S REPORT

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, 1999 and 1998, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide 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, 1999 and 1998, and the results of their operations and cash flows for each of the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles.

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

Charleston, West Virginia
January 28, 2000

SUMMIT FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 1999 and 1998

	1999	1998
ASSETS		
Cash and due from banks	$ 7,010,196	$ 4,991,798
Interest bearing deposits with other banks	5,800,987	1,841,502
Federal funds sold	2,845,216	10,742,745
Securities available for sale	111,972,963	63,439,874
Securities held to maturity	796,820	1,538,520
Loans, less allowance for loan losses of $2,231,555 and $2,113,201, respectively	236,067,648	193,163,531
Premises and equipment, net	8,997,027	6,777,907
Accrued interest receivable	2,439,767	1,755,234
Intangible assets	3,954,039	1,922,100
Other assets	5,882,777	1,123,048
Total assets	$385,767,440	$287,296,259
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Non interest bearing	$ 27,381,875	$ 20,553,937
Interest bearing	269,756,745	207,787,101
Total deposits	297,138,620	228,341,038
Short-term borrowings	32,348,030	4,644,143
Long-term borrowings	17,942,540	16,468,875
Other liabilities	3,255,630	1,884,140
Total liabilities	350,684,820	251,338,196
Commitments and Contingencies		
Shareholders' Equity		
Common stock, $2.50 par value, authorized 2,000,000 shares; issued 1999 - 890,517 shares, 1998 - 907,016 shares	2,226,293	2,267,541
Capital surplus	10,533,674	11,245,251
Retained earnings	24,570,174	22,358,772
Less cost of 9,115 shares acquired for the treasury	(384,724)	(384,724)
Accumulated other comprehensive income	(1,862,797)	471,223
Total shareholders' equity	35,082,620	35,958,063
Total liabilities and shareholders' equity	$385,767,440	$287,296,259

See Notes to Consolidated Financial Statements

SUMMIT FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
For The Years Ended December 31, 1999, 1998 and 1997

	1999	1998	1997
Interest income			
Interest and fees on loans			
Taxable	$18,645,426	$15,718,725	$12,979,522
Tax-exempt	114,424	120,307	114,406
Interest and dividends on securities			
Taxable	5,287,779	3,521,984	3,194,031
Tax-exempt	550,855	550,709	686,879
Interest on interest bearing deposits with other banks	186,623	71,624	96,549
Interest on Federal Funds sold	329,285	655,114	286,595
Total interest income	25,114,392	20,638,463	17,357,982
Interest expense			
Interest on deposits	10,558,788	9,337,784	8,079,388
Interest on short-term borrowings	672,488	231,544	256,613
Interest on long-term borrowings	1,002,750	718,634	543,566
Total interest expense	12,234,026	10,287,962	8,879,567
Net interest income	12,880,366	10,350,501	8,478,415
Provision for loan losses	370,000	615,000	554,281
Net interest income after provision for loan losses	12,510,366	9,735,501	7,924,134
Other income			
Insurance commissions	91,363	103,493	119,811
Trust services income	3,448	3,764	3,861
Service fees	791,940	518,375	362,048
Securities gains (losses)	(235,945)	8,160	(72,193)
Gain on sales of assets	-	17,751	89,919
Other	170,126	101,002	70,910
Total other income	820,932	752,545	574,356
Other expenses			
Salaries and employee benefits	4,358,944	3,432,197	2,831,679
Net occupancy expense	559,242	455,876	340,873
Equipment expense	716,547	545,582	440,015
Supplies	298,878	142,967	151,269
Amortization of intangibles	268,986	135,461	37,185
Other	2,515,622	1,926,109	1,454,513
Total other expenses	8,718,219	6,638,192	5,255,534
Income before income tax expense	4,613,079	3,849,854	3,242,956
Income tax expense	1,569,950	1,247,689	943,246
Net income	$ 3,043,129	$ 2,602,165	$ 2,299,710
Basic earnings per common share	$3.39	$3.05	$3.27
Diluted earnings per common share	$3.39	$3.05	$3.27
Average common shares outstanding			
Basic	897,811	854,430	703,131
Diluted	897,811	854,430	703,131

See Notes to Consolidated Financial Statements

SUMMIT FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Years Ended December 31, 1999, 1998 and 1997

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Compre- hensive Income	Total Share- holders' Equity
Balance, December 31, 1996	$1,723,085	$ 2,319,011	$18,858,052	$(166,970)	$(22,797)	$22,710,381
Comprehensive income:						
Net income	-	-	2,299,710	-	-	2,299,710
Other comprehensive income, net of deferred taxes of $157,087:						
Net unrealized gain on securities of $247,655, net of reclassification adjustment for (losses) included in net income of $(44,399)	-	-	-	-	292,054	292,054
Total comprehensive income	-	-	-	-	-	2,591,764
Issuance of 34,317 shares of common stock at $43.50 per share	85,793	1,404,175	-	-	-	1,489,968
Cash dividends declared:						
Summit ($.84 per share)	-	-	(332,705)	-	-	(332,705)
Potomac	-	-	(270,000)	-	-	(270,000)
Balance, December 31, 1997	1,808,878	3,723,186	20,555,057	(166,970)	269,257	26,189,408
Comprehensive income:						
Net income	-	-	2,602,165	-	-	2,602,165
Other comprehensive income, net of deferred taxes of $127,567:						
Net unrealized gain on securities of $206,984, net of reclassification adjustment for gains included in net income of $5,018	-	-	-	-	201,966	201,966
Total comprehensive income	-	-	-	-		2,804,131
Issuance of 183,465 shares of of common stock at $43.50 per share as consideration for the acquisition of Capital State Bank, Inc.	458,663	7,522,065	-	-	-	7,980,728
Cost of 5,000 shares of common stock acquired for the treasury	-	-	-	(217,754)	-	(217,754)
Cash dividends declared:						
Summit ($.89 per share)	-	-	(528,450)	-	-	(528,450)
Potomac	-	-	(270,000)	-	-	(270,000)
Balance, December 31, 1998	2,267,541	11,245,251	22,358,772	(384,724)	471,223	35,958,063

(Continued)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY - Continued
For the Years Ended December 31, 1999, 1998 and 1997

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Compre-hensive Income	Total Share-holders' Equity
Comprehensive income:						
Net income	-	-	3,043,129	-	-	3,043,129
Other comprehensive income, net of deferred taxes of $1,452,357:						
Net unrealized (loss) on securities of $(2,477,947), net of reclassification adjustment for (losses) included in net income of $(143,927)	-	-	-	-	(2,334,020)	(2,334,020)
Total comprehensive income	-	-	-	-		709,109
Dissenting shares	(41,248)	(711,577)	-	-	-	(752,825)
Cash dividends declared:						
Summit ($.95 per share)	-	-	(561,727)	-	-	(561,727)
Potomac	-	-	(270,000)	-	-	(270,000)
Balance, December 31, 1999	$2,226,293	$10,533,674	$24,570,174	$(384,724)	$(1,862,797)	$35,082,620

See Notes to Consolidated Financial Statements

SUMMIT FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 1999, 1998 and 1997

	1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES	3,043,129	2,602,165	2,299,710
Net income			
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	584,212	480,168	387,756
Provision for loan losses	370,000	615,000	554,281
Deferred income tax expense (benefit)	93,662	(75,177)	56,569
Security (gains) losses	235,945	(8,160)	72,193
(Gain) on disposal of premises and equipment	-	(9,709)	(91,507)
(Gain) loss on sale of other assets	3,709	(22,117)	1,588
Amortization of securities premiums (accretion of discounts), net	184,399	71,652	88,336
Amortization of goodwill and purchase accounting adjustments, net	123,742	98,460	37,185
(Increase) decrease in accrued interest receivable	(633,554)	(20,956)	140,863
(Increase) decrease in other assets	(2,242,887)	402,443	521,732
Increase (decrease) in other liabilities	1,901,227	(145,685)	(524,933)
Net cash provided by operating activities	3,663,584	3,988,084	3,543,773
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturities of interest bearing deposits with other banks	-	-	297,000
Proceeds from maturities and calls of securities held to maturity	349,871	6,035,000	2,649,285
Principal payments received on securities held to maturity	384,326	135,320	109,848
Proceeds from maturities and calls of securities available for sale	13,706,762	13,115,000	8,898,200
Proceeds from sales of securities available for sale	4,062,879	613,160	10,265,779
Principal payments received on securities available for sale	4,990,386	5,686,747	3,239,114
Purchases of securities available for sale	(76,831,440)	(20,689,274)	(17,452,262)
Purchase of common stock of affiliate	-	(90,465)	(5,273,481)
Net (increase) decrease in federal funds sold	7,897,529	8,580,972	(11,882,983)
Net loans made to customers	(34,671,292)	(25,875,615)	(11,464,448)
Purchases of premises and equipment	(1,809,722)	(1,003,586)	(377,079)
Proceeds from sales of premises and equipment	252,295	10,693	145,180
Proceeds from sales of other assets	233,400	154,424	44,500
Purchase of interest bearing deposits with other banks	(3,959,485)	(585,502)	-
Purchase of life insurance contracts	(1,246,000)	-	-
Net cash acquired in acquisitions	35,071,461	985,617	-
Net cash (used in) investing activities	(51,569,030)	(12,927,509)	(20,801,347)

(Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS - Continued
For the Years Ended December 31, 1999, 1998 and 1997

	1999	1998	1997
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in demand deposit,			
NOW and savings accounts	12,830,849	3,088,670	938,757
Net increase in time deposits	8,747,170	2,342,627	5,225,706
Net increase (decrease) in short-term borrowings	27,703,887	(2,500,867)	2,767,613
Proceeds from long-term borrowings	4,500,000	9,636,337	7,700,000
Repayments of long-term borrowings	(3,026,335)	(3,563,310)	(818,804)
Purchase of treasury stock	-	(217,754)	-
Dividends paid	(831,727)	(798,450)	(602,705)
Net proceeds from common stock sold	-	-	1,489,968
Net cash provided by financing activities	49,923,844	7,987,253	16,700,535
Increase (decrease) in cash and due from banks	2,018,398	(952,172)	(557,039)
Cash and due from banks:			
Beginning	4,991,798	5,943,970	6,501,009
Ending	$ 7,010,196	$ 4,991,798	$ 5,943,970
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash payments for:			
Interest	$ 11,903,226	$ 10,309,618	$ 8,801,465
Income taxes	$ 1,498,692	$ 1,173,607	$ 829,404
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Other assets acquired in settlement of loans	$ 77,115	$ 167,723	$ 144,337
Sales of securities pending settlement, net	$ 1,336,009	$ -	$ -
Acquisition of Greenbrier County branches:			
Net cash and cash equivalents received in acquisition of Greenbrier County branches	$(35,071,460)	$ -	$ -
Fair value of assets acquired (principally loans and premises and equipment)	$ 12,382,196	$ -	$ -
Deposits and other liabilities assumed	(47,453,656)	-	-
	$(35,071,460)	$ -	$ -
Acquisition of Capital State Bank, Inc.:			
Prior acquisition of 40% of the outstanding common shares purchased for cash	$ -	$ 5,363,946	$ -
Acquisition of 60% of the outstanding common shares in exchange for 183,465 shares of Company common stock	-	7,980,728	-
	$ -	$ 13,344,674	$ -
Fair value of assets acquired (principally loans and securities)	$ -	$ 46,720,306	$ -
Deposits and other liabilities assumed	-	(33,375,632)	-
	$ -	$ 13,344,674	$ -

See Notes to Consolidated Financial Statements

Note 1. Significant Accounting Policies

Nature of business: Summit Financial Group, Inc. ("Summit" or "Company") is a bank holding company with operations in Hardy, Grant, Pendleton, Kanawha and Greenbrier Counties of West Virginia and in Frederick County, Virginia. Through its four wholly owned bank subsidiaries, Summit provides loan and deposit services primarily to individuals and small businesses.

Name change: Effective December 30, 1999, the Company changed its name from South Branch Valley Bancorp, Inc. to Summit Financial Group, Inc.

Basis of financial statement presentation: The accounting and reporting policies of Summit and its subsidiaries conform to generally accepted accounting principles and to general practices within the banking industry.

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

Principles of consolidation: The accompanying consolidated financial statements include the accounts of Summit and its subsidiaries, South Branch Valley National Bank, Capital State Bank, Inc., Shenandoah Valley National Bank and Potomac Valley Bank. 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: Debt and equity securities are classified 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 the Company has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts.

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 the Bank intends 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 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 and allowance for loan losses: Loans are 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. The subsidiary banks make continuous credit reviews of the loan portfolio and consider current economic conditions, historical loan loss experience, review of specific problem loans and other factors in determining the adequacy of the allowance for loan losses. Loans are charged against the allowance for loan losses when management believes that collectibility is unlikely. While management uses the best information available to make its 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 the Company will be unable to collect all amounts due in accordance with the contractual terms of the specific loan agreement. Impaired loans, other than certain large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, are required to be reported at the present value of expected future cash flows discounted using the loan's original effective interest rate or, alternatively, at the loan's observable market price, or at the fair value of the loan's collateral if the loan is collateral dependent. The method selected to measure impairment is made on a loan-by-loan basis, unless foreclosure is deemed to be probable, in which case the fair value of the collateral method is used.

Generally, after management's evaluation, loans are placed on non-accrual 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 non-accrual status. Impaired loans are placed on non-accrual 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 non-accrual loans is recognized primarily using the cost-recovery method.

Unearned interest on discounted loans is amortized to income over the life of the loans, using methods which approximate the interest method. For all other loans, interest 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 at South Branch Valley National Bank and Shenandoah Valley National Bank. Certain loan fees and direct loan costs are recognized as income or expense when incurred at Capital State Bank, Inc. and Potomac Valley Bank. Generally accepted accounting principles require that such fees and costs be deferred and amortized as adjustments of the related loan's yield over the contractual life of the loan. This method of recognition of loan fees and direct loan costs produces results which are not materially different from those that would be recognized had Statement of Financial Accounting Standards No. 91 been adopted.

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. No interest was capitalized during any period presented in the accompanying financial statements.

Other real estate: Other real estate consists primarily of real estate held for resale which was acquired through foreclosure on loans secured by such real estate. At the time of acquisition, these properties are recorded at fair value with any write down being charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value, less cost to sell. Expenses incurred in connection with operating these properties are generally insignificant and are charged to operating expenses. Gains and losses on the sales of these properties are credited or charged to operating income in the year of the transactions.

Other real estate acquired through foreclosure with carrying values of $114,655 at December 31, 1999 and 1998, is included in other assets in the accompanying consolidated balance sheets.

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, the Company has elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for its employee stock options.

Basic and diluted earnings per share: Basic earnings per share is computed by dividing net income by the weighted-average number shares of common stock outstanding, while 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.

Trust services: Assets held in an agency or fiduciary capacity are not assets of the Company 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: During the year ended December 31, 1999, the Company adopted Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities. The Statement requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges are adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings. Summit was not a party to any derivative instruments during the year ended December 31, 1999, and accordingly the adoption of this pronouncement had no effect on the Company's earnings or financial position.

Reclassifications: Certain accounts in the consolidated financial statements for 1998 and 1997, as previously presented, have been reclassified to conform to current year classifications.

Note 2. Acquisitions and New Subsidiary

On December 30, 1999, the Company merged with Potomac Valley Bank ("Potomac"), a $94 million asset bank in Petersburg, West Virginia, in a transaction accounted for as a pooling of interests. Summit issued 290,110 shares of common stock to the shareholders of Potomac based upon an exchange ratio of 3.4068 shares of Summit common stock for each outstanding share of Potomac common stock. Summit's prior year consolidated financial statements have been restated to include Potomac.

Net interest income, net income and basic and diluted earnings per share for Summit and Potomac as originally reported for the two years ended December 31, 1998 and 1997, prior to restatement are as follows (in thousands, except per share amounts):

	Years Ended December 31,	
	1998	1997
Net interest income:		
Summit	$ 6,836	$5,183
Potomac	3,515	3,295
Combined	10,351	8,478
Net income:		
Summit	$ 1,733	$1,520
Potomac	869	780
Combined	2,602	2,300
Basic and diluted earnings per share:		
Summit	$ 3.16	$ 3.83
Potomac	9.65	8.67
Combined	3.05	3.27

Effective April 22, 1999, Capital State Bank, Inc., a subsidiary of Summit, purchased three branch banking facilities ("Branches") located in Greenbrier County, West Virginia. The transaction included the Branches' facilities and associated loan and deposit accounts, and was accounted for using the purchase method of accounting. Total deposits assumed approximated $47.4 million and total loans acquired approximated $8.9 million. This transaction was accounted for using the purchase method of accounting, and accordingly, the assets and liabilities and results of operations of the Branches are reflected in the Company's consolidated financial statements beginning April 23, 1999. The excess purchase price over the fair value of the net assets acquired as of the consummation date approximated $2,267,000, which is included in intangible assets in the accompanying consolidated balance sheet, and is being amortized over a period of 15 years using the straight-line method.

During the first half of 1997, the Company purchased approximately 40% of the outstanding common shares of Capital State Bank, Inc. To facilitate the funding of this investment, the Company issued and sold 34,317 shares of its common stock at $43.50 per share to seven directors of the Company in a limited stock offering. Additionally, the Company obtained two long-term borrowings from two unaffiliated financial institutions totaling $3,500,000.

On March 31, 1998, the Company acquired the remaining 60% of Capital State's outstanding common shares for 183,465 shares of Summit common stock valued at approximately $7.91 million. This acquisition was accounted for using the purchase method of accounting, and accordingly, the assets and liabilities and results of operations of Capital State are reflected in the Company's consolidated financial statements beginning April 1, 1998. The excess purchase price over the fair value of the net assets acquired as of the consummation date approximated $1,979,000, which is included in intangible assets in the accompanying consolidated balance sheet as of December 31, 1998. This goodwill is being amortized over a period of 15 years using the straight line method.

The following presents certain pro forma condensed consolidated financial information of Summit, using the purchase method of accounting, after giving effect to the acquisitions noted above as if they had been consummated at the beginning of the periods presented (in thousands, except per share data).

	Years Ended December 31,					
	1999		1998		1997	
	As Reported	Pro Forma	As Reported	Pro Forma	As Reported	Pro Forma
Total interest income	$25,114	$25,966	$20,638	$24,247	$17,358	$22,779
Total interest expense	12,234	12,710	10,288	12,227	8,880	11,591
Net interest income	12,880	13,286	10,350	12,020	8,478	11,188
Net income	3,043	3,115	2,602	2,849	2,300	2,318
Basic and diluted earnings earnings per share	$ 3.39	$ 3.47	$ 3.05	$ 3.33	$ 3.27	$ 3.30

This pro forma information has been included for comparative purposes only and may not be indicative of the combined results of operations that actually would have occurred had the transaction been consummated at the beginning of the periods presented, or which will be attained in the future.

On May 14, 1999, Shenandoah Valley National Bank, a subsidiary of Summit, was granted a national bank charter and was initially capitalized with $4,000,000, funded by a special dividend in the amount of $3,000,000 from the Company's subsidiary bank, South Branch Valley National Bank, and from a $1,000,000 term loan from the then unaffiliated institution, Potomac Valley Bank. Shenandoah Valley National Bank opened for business on May 17, 1999. Start up costs approximating $90,000 related to the organization of this subsidiary were expensed during 1999.

Note 3. Cash Concentration

At December 31, 1999 and 1998, the Company had concentrations totaling $10,352,593 and $8,551,123, respectively, with unaffiliated financial institutions consisting of due from bank account balances and Federal funds sold. Deposits with correspondent banks are generally unsecured and have limited insurance under current banking insurance regulations.

Note 4. Securities

The amortized cost, unrealized gains and losses, and estimated fair values of securities at December 31, 1999 and 1998, are summarized as follows:

	1999			
		Unrealized		
	Amortized Cost	Gains	Losses	Estimated Fair Value
Available for Sale				
Taxable:				
U. S. Treasury securities	$ 1,495,012	$ 4,323	$ 2,303	$ 1,497,032
U. S. Government agencies and corporations	59,181,180	7,881	1,724,889	57,464,172
Mortgage-backed securities - U. S. Government agencies and corporations	32,690,109	8,336	1,037,123	31,661,322
State and political subdivisions	1,395,327	154	5,318	1,390,163
Corporate debt securities	4,057,202	-	72,545	3,984,657
Federal Reserve Bank stock	234,150	-	-	234,150
Federal Home Loan Bank stock	2,842,800	-	-	2,842,800
Other equity securities	306,625	-	66,375	240,250
Total taxable	102,202,405	20,694	2,908,553	99,314,546
Tax-exempt:				
State and political subdivisions	9,774,662	42,679	147,174	9,670,167
Federal Reserve Bank stock	6,250			6,250
Other equity securities	3,020,000	-	38,000	2,982,000
Total tax-exempt	12,800,912	42,679	185,174	12,658,417
Total	$115,003,317	$63,373	$3,093,727	$111,972,963

	1999			
		Unrealized		
	Amortized Cost	Gains	Losses	Estimated Fair Value
Held to maturity				
Taxable:				
Mortgage-backed securities - U. S. Government agencies and corporations	$ 255,310	$ 374	$ -	$ 255,684
Tax exempt:				
State and political subdivisions	541,510	4,421	-	545,931
Total	$ 796,820	$ 4,795	$ -	$ 801,615

	1998			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Available for Sale				
Taxable:				
U. S. Treasury securities	$ 4,762,102	$ 88,187	$ -	$ 4,850,289
U. S. Government agencies and corporations	27,616,337	220,744	11,404	27,825,677
Mortgage-backed securities - U. S. Government agencies and corporations	16,321,220	217,939	149,797	16,389,362
State and political subdivisions	1,400,028	43,656		1,443,684
Corporate debt securities	249,724	1,214	-	250,938
Federal Reserve Bank stock	114,150	-	-	114,150
Federal Home Loan Bank stock	1,412,000	-	-	1,412,000
Other equity securities	306,625	-	-	306,625
Total taxable	52,182,186	571,740	161,201	52,592,725
Tax-exempt:				
State and political subdivisions	10,483,126	364,623	6,850	10,840,899
Federal Reserve Bank stock	6,250			6,250
Other equity securties	-	-	-	-
Total tax-exempt	10,489,376	364,623	6,850	10,847,149
Total	$62,671,562	$936,363	$168,051	$63,439,874

	1998			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Held to maturity:				
Taxable:				
U. S. Government agencies and corporations	$ 249,651	$ 3,474	$ -	$ 253,125
Mortgage-backed securities - U. S. Government agencies and corporations	645,936	53	3,915	642,074
Total taxable	895,587	3,527	3,915	895,199
Tax exempt:				
State and political subdivisions	642,933	17,822	-	660,755
Total	$ 1,538,520	$ 21,349	$ 3,915	$ 1,555,954

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 or another member at par value.

Mortgage-backed obligations of U.S. Government agencies and corporations and Small Business Administration guaranteed loan participation certificates are included in securities at December 31, 1999 and 1998. These 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 9 years. Accordingly, discounts are accreted and premiums are amortized over the anticipated average life to maturity of the specific obligation.

The maturities, amortized cost and estimated fair values of securities at December 31, 1999, are summarized as follows:

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 8,342,287	$ 8,169,566
Due from one to five years	49,243,315	48,230,403
Due from five to ten years	44,408,585	42,821,166
Due after ten years	6,599,305	6,446,378
Equity securities	6,409,825	6,305,450
Total	$115,003,317	$111,972,963

	Held to Maturity	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 395,497	$ 396,317
Due from one to five years	401,323	405,298
Due from five to ten years	-	-
Due after ten years	-	-
Equity securities	-	-
Total	$ 796,820	$ 801,615

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:

	Proceeds from			Gross Realized	
Years Ended December 31,	Sales	Calls and Maturities	Principal Payments	Gains	Losses
1999					
Securities available for sale	$ 4,062,879	$13,706,762	$4,990,386	$ 828	$236,773
Securities held to maturity	-	349,871	384,326	-	-
	$ 4,062,879	$14,056,633	$5,374,712	$ 828	$236,773
1998					
Securities available for sale	$ 613,160	$13,115,000	$5,686,747	$ 8,160	$ -
Securities held to maturity	-	6,035,000	135,320	-	-
	$ 613,160	$19,150,000	$5,822,067	$ 8,160	$ -
1997					
Securities available for sale	$10,265,779	$ 8,898,200	$3,239,114	$11,072	$ 83,265
Securities held to maturity	-	2,469,285	109,848	-	-
	$10,265,779	$11,367,485	$3,348,962	$11,072	$ 83,265

At December 31, 1999 and 1998, securities with amortized costs of $27,100,621 and $23,291,003, respectively, with estimated fair values of $20,139,693 and $23,673,648, respectively, were pledged to secure public deposits, and for other purposes required or permitted by law.

Note 5. Loans

Loans are summarized as follows:

	1999	1998
Commercial, financial and agricultural	$ 78,894,072	$ 54,358,681
Real estate - construction	2,012,243	1,801,317
Real estate - mortgage	116,778,905	101,013,236
Installment	38,666,563	36,687,813
Other	2,522,980	1,906,631
Total loans	238,874,763	195,767,678
Less unearned income	575,560	490,946
Total loans net of unearned income	238,299,203	195,276,732
Less allowance for loan losses	2,231,555	2,113,201
	$236,067,648	$193,163,531

Included in the net balance of loans are non-accrual loans amounting to $521,977 and $777,157 at December 31, 1999 and 1998, respectively. If interest on non-accrual loans had been accrued, such income would have approximated $33,121, $42,987 and $17,991 for the years ended December 31, 1999, 1998 and 1997, respectively.

The following presents loan maturities at December 31, 1999.

	Within 1 Year	After 1 but Within 5 Years	After 5 Years
Commercial, financial and agricultural	$14,516,859	$ 19,307,518	$ 45,069,695
Real estate - construction	637,059	-	1,375,184
Real estate - mortgage	10,267,630	17,440,447	89,070,828
Installment loans	5,998,215	28,047,869	4,620,479
Other	2,360,315	162,665	-
	$33,780,078	$ 64,958,499	$140,136,186

Loans due after one year with:	
Variable rates	$ 55,389,153
Fixed rates	149,705,532
	$205,094,685

Concentrations of credit risk: The Company grants commercial, residential and consumer loans to customers primarily located in the Eastern Panhandle and South Central counties of West Virginia, and the Northern counties of Virginia. Although the Company strives 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 the Company's market area is diverse, but primarily includes government, health care, education, poultry and various professional, financial and related service industries.

The Company evaluates the credit worthiness of each of its customers on a case-by-case basis and the amount of collateral it obtains is based upon management's credit evaluation.

Loans to related parties: Summit and its subsidiaries have had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, principal officers, their immediate families and affiliated companies in which they are principal stockholders (commonly referred to as related parties), all of which have been, in the opinion of management, 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):

	1999	1998
Balance, beginning	$10,066,896	$ 6,505,641
Additions	5,808,627	3,844,241
Amounts collected	(3,953,176)	(2,454,909)
Other changes, net	(2,057,703)	2,171,923
Balance, ending	$ 9,864,644	$10,066,896

Note 6. Allowance for loan losses

An analysis of the allowance for loan losses for the years ended December 31, 1999, 1998 and 1997 is as follows:

	1999	1998	1997
Balance, beginning of year	$2,113,201	$1,489,117	$1,366,827
Losses:			
Commercial, financial and agricultural	164,783	182,517	92,650
Real estate - mortgage	31,892	1,057	30,536
Installment	144,099	204,415	370,863
Other	37,407	25,209	66,914
Total	378,181	413,198	560,963
Recoveries:			
Commercial, financial and agricultural	40,115	3,030	52,050
Real estate - mortgage	9,820	22,219	14,675
Installment	70,998	117,996	60,011
Other	5,602	7,235	2,236
Total	126,535	150,480	128,972
Net losses	251,646	262,718	431,991
Allowance of purchased subsidiary	-	271,802	-
Provision for loan losses	370,000	615,000	554,281
Balance, end of year	$2,231,555	$2,113,201	$1,489,117

The Company's total recorded investment in impaired loans at December 31, 1999 and 1998 approximated $345,817 and $801,044, respectively, for which the related allowance for loan losses determined in accordance with generally accepted accounting principles approximated $73,900 and $124,000, respectively. The Company's average investment in such loans approximated $475,222 and $834,495 for the years ended December 31, 1999 and 1998, respectively. All impaired loans at December 31, 1999 and 1998, were collateral dependent, and accordingly, the fair value of the loan's collateral was used to measure the impairment of each loan.

For purposes of evaluating impairment, the Company considers groups of smaller-balance, homogeneous loans to include: mortgage loans secured by residential property, other than those which significantly exceed the Company's typical residential mortgage loan amount (currently those in excess of $100,000); small balance commercial loans (currently those less than $50,000); and installment loans to individuals, exclusive of those loans in excess of $50,000.

For the years ended December 31, 1999 and 1998, the Company recognized approximately $400 and $35,750, respectively, in interest income on impaired loans. Using a cash-basis method of accounting, the Company would have recognized approximately the same amount of interest income on such loans.

Note 7. Premises and Equipment

The major categories of premises and equipment and accumulated depreciation at December 31, 1999 and 1998, are summarized as follows:

	1999	1998
Land	$ 2,529,741	$ 1,588,902
Buildings and improvements	6,737,044	5,573,524
Furniture and equipment	3,843,450	3,218,163
	13,110,235	10,380,589
Less accumulated depreciation	4,113,208	3,602,682
Premises and equipment, net	$ 8,997,027	$ 6,777,907

Depreciation expense for the years ended December 31, 1999, 1998 and 1997 totaled $584,212, $480,168 and $387,756, respectively.

Note 8. Deposits

The following is a summary of interest bearing deposits by type as of December 31, 1999 and 1998:

	1999	1998
Demand deposits, interest bearing	$ 62,741,925	$ 44,321,966
Savings deposits	42,099,321	27,750,122
Certificates of deposit	149,440,839	120,623,979
Individual retirement accounts	15,474,660	15,091,034
	$269,756,745	$207,787,101

Time certificates of deposit and IRA's in denominations of $100,000 or more totaled $39,883,962 and $31,696,791 at December 31, 1999 and 1998, respectively. Interest paid on time certificates of deposit and Individual Retirement Accounts in denominations of $100,000 or more were $1,823,421, $1,506,154 and $1,023,606 for the years ended December 31, 1999, 1998 and 1997, respectively.

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, 1999:

	Amount	Percent
Three months or less	$ 8,877,717	22.3%
Three through six months	10,854,062	27.2%
Six through twelve months	10,463,603	26.2%
Over twelve months	9,688,580	24.3%
Total	$39,883,962	100.0%

A summary of the scheduled maturities for all time deposits as of December 31, 1999, follows:

2000	$117,727,506
2001	31,877,170
2002	6,521,850
2003	4,561,608
2004	3,426,270
Thereafter	801,095
	$164,915,499

At December 31, 1999, deposits of related parties including directors, executive officers, and their related interests of the Company approximated $14,000,000.

Note 9. Borrowed Funds

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

	1999		
	Federal Funds Purchased	Repurchase Agreements	Short-term FHLB Advances
Balance at December 31	$ -	$6,053,030	$26,295,000
Average balance outstanding for the year	231,681	4,136,697	9,509,159
Maximum balance outstanding at any month end	3,061,000	6,953,086	27,390,000
Weighted average interest rate for the year	4.58%	4.01%	5.21%
Weighted average interest rate for balances outstanding at December 31	- %	4.25%	4.05%

	1998		
	Federal Funds Purchased	Repurchase Agreements	Short-term FHLB Advances
Balance at December 31	$ -	$3,944,143	$ 700,000
Average balance outstanding for the year	82,164	4,981,296	307,219
Maximum balance outstanding at any month end	700,000	5,959,583	1,400,000
Weighted average interest rate for the year	6.29%	4.20%	5.49%
Weighted average interest rate for balances outstanding at December 31	- %	3.88%	4.95%

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

Summit's 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. At December 31, 1999, Summit's subsidiary banks had combined additional borrowings availability of $69,903,460 from the FHLB.

Short-term FHLB advances are granted for terms of 1 to 364 days and bear interest at a fixed or variable rate set at the time of the funding request.

Long-term borrowings: The Company's long-term borrowings of $17,942,540 and $16,468,875 as of December 31, 1999 and 1998, respectively, consisted of advances from the FHLB. These borrowings bear both fixed and variable interest rates and mature in varying amounts through the year 2008.

The average interest rate paid on long-term borrowings during 1999 and 1998 approximated 5.33% and 5.53%, respectively.

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

Year Ending December 31,	Amount
2000	$ 856,610
2001	378,079
2002	3,150,840
2003	1,424,974
2004	1,860,592
Thereafter	10,271,445
	$17,942,540

Note 10. Income Taxes

The components of applicable income tax expense (benefit) for the years ended December 31, 1999, 1998 and 1997, are as follows:

	1999	1998	1997
Current			
Federal	$1,362,370	$1,154,774	$744,896
State	154,585	168,092	141,781
	1,516,955	1,322,866	886,677
Deferred			
Federal	15,892	(57,863)	51,065
State	37,103	(17,314)	5,504
	52,995	(75,177)	56,569
Total	$1,569,950	$1,247,689	$943,246

A 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, 1999, 1998 and 1997 is as follows:

	1999		1998		1997	
	Amount	Percent	Amount	Percent	Amount	Percent
Computed tax at applicable statutory rate	$1,568,447	34	1,308,950	34	$1,102,605	34
Increase (decrease) in taxes resulting from:						
Tax-exempt interest, net	(425,763)	(9)	(196,508)	(5)	(236,664)	(7)
State income taxes, net of Federal income tax benefit	140,354	3	109,575	3	85,470	3
Change in deferred tax valuation allowance	271,733	6	61,965	2	15,758	-
Nondeductible amortization of goodwill	40,763	1	33,415	1	-	-
Noncash charitable contribution	-	-	-	-	(41,573)	(1)
Other, net	(25,584)	(1)	(69,708)	(2)	17,650	1
Applicable income taxes	$1,569,950	34	$1,247,689	33	$ 943,246	30

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 the Company's deferred tax assets and liabilities as of December 31, 1999 and 1998, are as follows:

	1999	1998
Deferred tax assets		
Allowance for loan losses	$ 622,125	$ 563,922
Deferred compensation	106,439	80,803
Depreciation	-	69,367
Other deferred costs and accrued expenses	52,010	65,558
Deductible goodwill	38,463	29,235
Net operating loss carryforwards	3,181	114,201
Net unrealized loss on securities	1,155,268	-
Charitable contribution carryforward	-	1,226
	1,977,486	924,312
Less valuation allowance	-	(271,733)
	1,977,486	652,579
Deferred tax liabilities		
Depreciation	32,322	115,432
Net unrealized gain on securities	-	297,089
Accretion on tax-exempt securities	9,670	6,377
Purchase accounting adjustments	125,285	106,126
	167,277	525,024
Net deferred tax assets (liabilities)	$1,810,209	$ 127,555

The income tax expense (benefit) on realized securities gains (losses) was $(90,839), $3,141 and $(27,794) for the years ended December 31, 1999, 1998 and 1997, respectively. The Company has available for tax purposes $76,648 in State net operating loss carryforwards to offset future taxable income of Capital State Bank, Inc. These carryforwards expire in varying amounts through 2011.

Note 11. Employee Benefits

Retirement Plans: The Company has 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 $178,770, $137,628, and $141,100 for the years ended December 31, 1999, 1998 and 1997, respectively.

Employee Stock Ownership Plan: The Company has an Employee Stock Ownership Plan ("ESOP") which enables eligible employees to acquire shares of the Company's common stock. The cost of the ESOP is borne by the Company through annual contributions to an Employee Stock Ownership Trust in amounts determined by the Board of Directors.

The expense recognized by the Company is based on cash contributed or committed to be contributed by the Company to the ESOP during the year. Contributions to the ESOP for the years ended December 31, 1999, 1998 and 1997 were $66,615, $54,559 and $51,047, respectively. Dividends paid by the Company to the ESOP are reported as a reduction to retained earnings. The ESOP owns 9,628 shares of the Company's common stock, 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 the Company's Board of Directors.

Directors Deferred Compensation Plan: The Company's subsidiary bank, South Branch Valley National Bank has established a non-qualified deferred compensation plan for directors who voluntarily elect to defer payment of retainer, meeting and committee fees earned. The liability for deferred directors' compensation at December 31, 1999 and 1998, approximated $267,777 and $211,250, respectively, which is included in other liabilities in the accompanying consolidated balance sheets.

Supplemental Executive Retirement Plan: In May 1999, South Branch Valley National 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. The liabilities accrued for the SERP at December 31, 1999 were $12,336, which are included in other liabilities. In addition, the subsidiary bank has purchased certain life insurance contracts to fund the liabilities arising under this plan. At December 31, 1999, the cash surrender value of these insurance contracts was $1,291,998.

Stock Option Plan: Summit has an Officer Stock Option Plan, which provides for the granting of stock options for up to 120,000 shares of common stock to key Company officers. Each option granted under the plan shall have a term of no more than 10 years and vests according to a schedule designated at the grant date. Also, the option price per share shall not be less than the fair market value of Summit's 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 1999, the first year for which any options were outstanding, Summit's reported net income and basic and diluted earnings per share had the Company recognized compensation expense for its 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).

	1999	
	As Reported	Pro Forma
Net income (in thousands)	$3,043	$3,031
Basic earnings per share	$ 3.39	$ 3.38
Diluted earnings per share	$ 3.39	$ 3.38

For purposes of computing the above pro forma amounts, Summit estimated the fair value of the options at the date of grant using a Black-Sholes option pricing model with the following weighted-average assumptions for grants in 1999: risk free interest rate of 5.25%; dividend yield of 2.5%; volatility factor of the expected market price of Summit's common stock of 15; and an expected option life of 7.5 years.

A summary of activity in Summit's Officer Stock Option Plan during 1999 is as follows:

	1999	
	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	-	$ -
Granted	7,500	41.65
Exercised	-	-
Forfeited	-	-
Outstanding at end of year	7,500	$41.65
Exercisable at end of year	-	$ -
Weighted-average estimated fair value of options granted during the year		$40.38

The exercise price for all options outstanding at December 31, 1999 was $41.65. The weighted-average remaining contractual life of those options at December 31, 1999 was 9.2 years.

Note 12. Commitments and Contingencies

Financial instruments with off-balance sheet risk: The Company is a party of certain financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. Such financial instruments consist solely of commitments to extend credit. 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 the Company has in this class of financial instruments. The Company's total contract amount of commitments to extend credit at December 31, 1999 and 1998, approximated $18,040,810 and $11,952,755, respectively.

The Company's 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. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

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. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, equipment or real estate.

Litigation: The Company is 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.

Employment Agreements: The Company has various employment agreements with its 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).

Merger: In conjunction with Summit's merger with Potomac Valley Bank, certain Potomac shareholders representing approximately 5% of the Bank's shares have exercised and perfected their rights to dissent.

Year 2000 Compliant: The Company has evaluated the impact of the Year 2000 issue and is not aware of any system failures or any problems encountered by vendors, customers, or other third parties that would have a significant impact on the Company's financial condition. The Company believes it has taken the necessary steps to be Year 2000 compliant, however, there may be unforeseen external or internal issues which could impact the Company's status.

Note 13. Restrictions on Capital and Dividends

The primary source of funds for the dividends paid by Summit is dividends received from its 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 1999, the net retained profits available for distribution to Summit as dividends without regulatory approval are approximately $1,369,000 plus net retained income of the subsidiary banks for the interim periods through the date of declaration.

The Company and its 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, the Company and each of its subsidiaries must meet specific capital guidelines that involve quantitative measures of the Company's and its subsidiaries' assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company and each of its subsidiaries' capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and each of its 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). Management believes, as of December 31, 1999, that the Company and each of its subsidiaries met all capital adequacy requirements to which they were subject.

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

Summit's and its subsidiary banks', South Branch Valley National Bank's ("SBVNB"), Capital State Bank, Inc.'s ("CSB"), Shenandoah Valley National Bank's ("SVNB") and Potomac Valley Bank's ("PVB") actual capital amounts and ratios are also presented in the following table (dollar amounts 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, 1999						
Total Capital (to risk weighted assets)						
Company	$35,186	14.8%	$19,058	8.0%	$23,823	10.0%
SBVNB	11,952	10.8%	8,886	8.0%	11,108	10.0%
SVNB	3,926	25.8%	1,219	8.0%	1,524	10.0%
CSB	10,580	19.4%	4,372	8.0%	5,465	10.0%
Potomac	12,991	26.3%	3,952	8.0%	4,940	10.0%
Tier I Capital (to risk weighted assets)						
Company	32,954	13.8%	9,524	4.0%	14,286	6.0%
SBVNB	10,781	9.7%	4,441	4.0%	6,662	6.0%
SVNB	3,896	25.6%	609	4.0%	914	6.0%
CSB	6,660	12.2%	2,185	4.0%	3,278	6.0%
Potomac	12,374	25.0%	1,980	4.0%	2,970	6.0%
Tier I Capital (to average assets)						
Company	32,954	8.7%	11,416	3.0%	19,027	5.0%
SBVNB	10,781	7.0%	4,601	3.0%	7,668	5.0%
SVNB	3,896	11.8%	991	3.0%	1,651	5.0%
CSB	6,660	8.5%	2,351	3.0%	3,918	5.0%
Potomac	12,330	13.3%	3,708	4.0%	4,635	5.0%
As of December 31, 1998						
Total Capital (to risk weighted assets)						
Company	$34,723	19.9%	$13,990	8.0%	$17,488	10.0%
SBVNB	13,510	14.0%	7,721	8.0%	9,652	10.0%
SVNB	*	*	*	*	*	*
CSB	8,976	30.5%	2,356	8.0%	2,945	10.0%
Potomac	12,237	26.3%	3,724	8.0%	4,656	10.0%
Tier I Capital (to risk weighted assets)						
Company	32,770	18.7%	6,995	4.0%	10,493	6.0%
SBVNB	12,468	12.9%	3,861	4.0%	5,791	6.0%
SVNB	*	*	*	*	*	*
CSB	8,646	29.4%	1,178	4.0%	1,767	6.0%
Potomac	11,656	25.0%	1,862	4.0%	2,793	6.0%
Tier I Capital (to average assets)						
Company	32,770	11.5%	8,585	3.0%	14,308	5.0%
SBVNB	12,468	8.7%	4,289	3.0%	7,148	5.0%
SVNB	*	*	*	*	*	*
CSB	8,646	17.7%	1,764	3.0%	2,441	5.0%
Potomac	11,656	12.4%	2,820	4.0%	4,718	5.0%

* - No data presented relative to SVNB for the year ended December 31, 1998, as this subsidiary was initially capitalized by the Company in May 1999.

Note 14. Pending Branch Sale

On December 17, 1999, a subsidiary of Summit, South Branch Valley National Bank entered into an agreement to sell its branch banking facility ("Branch") located in Petersburg, West Virginia. The transaction is expected to be completed in May 2000, subject to approval by the appropriate regulatory authorities, and will include the Branch's facility and selected loans and deposit accounts. Total deposits of the Branch approximated $10 million and total loans approximated $4.5 million as of December 31, 1999. The total consideration to be received will be determined at closing based upon the total deposits sold plus the net book value of the Branch office and equipment.

Note 15. Fair Value of Financial Instruments

The following summarizes the methods and significant assumptions used by the Company in estimating its 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: 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, Super 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.

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

The carrying values and estimated fair values of the Company's financial instruments are summarized below:

	December 31, 1999		December 31, 1998	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and due from banks	$ 7,010,196	$ 7,018,196	$ 4,991,798	$ 4,991,798
Interest bearing deposits, other banks	5,800,987	5,800,987	1,841,502	1,841,502
Federal funds sold	2,845,216	2,845,216	10,742,745	10,742,745
Securities available for sale	111,972,963	111,972,963	63,439,874	63,439,874
Securities held to maturity	796,820	801,615	1,538,520	1,555,954
Loans	236,067,648	235,303,880	193,163,531	195,678,715
Accrued interest receivable	2,439,767	2,439,767	1,755,234	1,755,234
	$366,933,597	$366,182,624	$277,473,204	$280,005,822
Financial liabilities:				
Deposits	$297,138,620	$298,005,504	$228,341,038	$229,693,052
Short-term borrowings	31,348,030	31,348,030	4,644,143	4,644,143
Long-term borrowings	17,942,540	17,942,540	16,468,875	16,468,875
Accrued interest payable	1,309,002	1,309,002	978,394	978,394
	$347,738,192	$348,605,076	$250,432,450	$251,784,464

Note 16. Condensed Financial Statements of Parent Company

The investment of the Company in its wholly-owned subsidiaries is presented on the equity method of accounting. Information relative to the Company's balance sheets at December 31, 1999 and 1998, and the related statements of income and cash flows for the years ended December 31, 1999, 1998 and 1997, are presented as follows:

Balance Sheets

	1999	1998
Assets		
Cash and due from banks	$ 193,831	$ 223,555
Investment in bank subsidiaries, eliminated in consolidation	35,881,307	35,201,436
Securities available for sale	240,249	306,625
Investment in affiliate	-	-
Furniture and equipment	212,018	125,966
Other assets	339,819	100,481
Total assets	$36,867,224	$35,958,063
Liabilities and Shareholders' Equity		
Long-term borrowings	$ 1,000,000	$ -
Other liabilities	784,604	-
Total liabilities	1,784,604	-
Common stock, $2.50 par value, authorized 2,000,000 shares; issued 1999 - 890,517 shares, 1998 - 907,016 shares	2,226,293	2,267,541
Capital surplus	10,533,674	11,245,251
Retained earnings (consisting of undivided profits of bank subsidiaries not yet distributed)	24,570,174	22,358,772
Less cost of shares acquired for the treasury 1998-9,115 shares; 1997-4,115 shares	(384,724)	(384,724)
Accumulated other comprehensive income	(1,862,797)	471,223
Total shareholders' equity	35,082,620	35,958,063
Total liabilities and shareholders' equity	$36,867,224	$35,958,063

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Statements of Income

	1999	1998	1997
Income			
Dividends from bank subsidiaries	$ 4,240,000	$1,570,000	$1,770,000
Other dividends and interest income	28,265	7,454	9,225
Management fees from bank subsidiaries	548,317	55,000	-
Securities gains	-	4,110	-
Total income	4,816,582	1,636,564	1,779,225
Expense			
Interest expense	51,431	56,689	214,790
Operating expenses	794,692	184,057	65,400
Total expenses	846,123	240,746	280,190
Income before income taxes and equity in undistributed income of bank subsidiaries	3,970,459	1,395,818	1,499,035
Income tax (benefit)	(99,600)	(72,200)	(107,874)
Income before equity in undistributed income of bank subsidiaries	4,070,059	1,468,018	1,606,909
Equity in undistributed income of bank subsidiaries	(1,026,930)	1,134,147	692,801
Net income	$ 3,043,129	$2,602,165	$2,299,710

Statements of Cash Flows

	1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 3,043,129	$ 2,602,165	$ 2,299,710
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Equity in undistributed net income of bank subsidiaries	1,026,930	(1,134,147)	(692,801)
Depreciation	48,913	1,396	-
Securities gains/(losses)	-	(4,110)	-
(Increase) decrease in other assets	(213,783)	8,893	(96,170)
Increase (decrease) in other liabilities	31,779	(26,439)	26,439
Net cash provided by operating activities	3,936,968	1,447,758	1,537,178
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of securities available for sale	-	204,110	-
Purchases of securities available for sale	-	(300,000)	-
Purchase of common stock of affiliate	-	(90,465)	(5,273,481)
Investment in Shenandoah Valley National Bank	(4,000,000)		
Proceeds from sales of Bank premises and equipment	62,870		
Purchases of furniture and equipment	(197,835)	(127,363)	-
Net cash (used in) investing activities	(4,134,965)	(313,718)	(5,273,481)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to shareholders	(831,727)	(798,450)	(602,705)
Net proceeds from common stock sold	-	-	1,489,968
Purchase of treasury stock	-	(217,754)	-
Proceeds from long-term borrowings	1,000,000	-	3,500,000
Repayment of long-term borrowings	-	(39,874)	(662,500)
Net cash provided by (used in) financing activities	168,273	(1,056,078)	3,724,763
Increase (decrease) in cash	(29,724)	77,962	(11,540)
Cash:			
Beginning	223,555	145,593	157,133
Ending	$ 193,831	$ 223,555	$ 145,593
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash payments for:			
Interest	$ 40,333	$ 83,128	$ -
SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES			
Issuance of 183,465 shares of Company common stock in connection with acquisition of Capital State Bank, Inc.	$ -	$ 7,980,728	$ -
Long-term borrowings transferred to bank subsidiary	$ -	$ 2,797,626	$ -

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There has been no Form 8-K filed within 24 months prior to the date of the most recent financial statements reporting a change of accountants and/or reporting disagreements on any matter of accounting principle or financial statement disclosure.

PART III.

Item 9. Directors and Executive Officers

Information required by this item is set forth under the captions "Section 16(a) Beneficial Ownership Reporting Compliance" on page 2, "Security Ownership of Directors and Officers" on page 5, under the captions "NOMINEES FOR DIRECTOR WHOSE TERMS WILL EXPIRE IN 2003", "DIRECTORS WHOSE TERMS EXPIRE IN 2002" and "DIRECTORS WHOSE TERMS EXPIRE IN 2001" on pages 6 through 11, and under the caption "Executive Officers" on page 14 of Summit's 2000 Proxy Statement, and is incorporated herein by reference.

Item 10. Executive Compensation

Information required by this item is set forth under the caption "EXECUTIVE COMPENSATION" on pages 15 through 19, and under the caption "Fees and Benefit Plans for Directors" on pages 4 through 5 of Summit's Proxy Statement, and is incorporated herein by reference.

Item 11. Security Ownership of Certain Beneficial Owners and Management

Information required by this item is set forth under the caption "Security Ownership of Directors and Officers" on page 5, under the captions "NOMINEES FOR DIRECTOR WHOSE TERMS WILL EXPIRE IN 2003", "DIRECTORS WHOSE TERMS EXPIRE IN 2002", and "DIRECTORS WHOSE TERMS EXPIRE IN 2001" on pages 6 through 11, and under the caption "EXECUTIVE OFFICERS" on page 14 of Summit's 2000 Proxy Statement, and is incorporated herein by reference.

Item 12. Certain Relationships and Related Transactions

Information required by this item is set forth under the caption "Related Transactions" on page 4 of Summit's 2000 Proxy Statement, and is incorporated herein by reference.

Item 13. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

All financial statements and financial statement schedules required to be filed by this Form or by Regulation S-B, which are applicable to the registrant, have been presented in the financial statements and notes thereto in Item 7 in management's discussion and analysis of financial condition and results of operation in Item 6 or elsewhere in this filing where appropriate. The listing of exhibits follows:

A. Exhibits

INDEX TO EXHIBITS

Exhibit Number	Description	Page(s) in Form 10-KSB or Prior Filing Reference
(3)	Articles of Incorporation and By-laws:	
	(i) Articles of Incorporation of South Valley Bancorp, Inc. as last amended on March 25, 1998	(a)
	(ii) By-laws of South Branch Valley Bancorp, Inc. as last amended, effective December 31, 1995	(b)
(10)	Material Contracts	
	(i) Agreement with H. Charles Maddy, III	(c)
	(ii) Agreement with Ronald F. Miller	(d)
	(iii) Agreement with C. David Robertson	(e)
	(iv) Agreement with Patrick N. Frye	(f)
	(v) 1998 Officers Stock Option Plan	(g)
(11)	Statement Re: Computation of Earnings per Share	60
(21)	Subsidiaries of Registrant	61
(23)	Consent of Arnett & Foster, PLLC	62
(27)	Financial Data Schedule -- electronic filing only	

(a) Incorporated by reference to Exhibit 3(i) of South Branch Valley Bancorp, Inc.'s filing on Form 10-QSB dated June 30, 1998.

(b) Incorporated by reference to Exhibit 3(b) of South Branch Valley Bancorp, Inc.'s filing on Form S-4 dated December 22, 1997.

(c) Incorporated by reference to Exhibit 10 to South Branch Valley Bancorp, Inc.'s filing on Form 10-KSB dated December 31, 1995.

(d) Incorporated by reference to Exhibit 10(ii) to South Branch Valley Bancorp, Inc.'s filing on Form 10-KSB dated December 31, 1998.

(e) Incorporated by reference to Exhibit 10 to South Branch Valley Bancorp, Inc.'s filing on Form 10-QSB dated June 30, 1999.

(f) Incorporated by reference to Exhibit 10(b) of South Branch Valley Bancorp, Inc.'s filing on Form S-4 dated October 13, 1999.

(g) Incorporated by reference to Exhibit 10 to South Branch Valley Bancorp, Inc.'s filing on Form 10-QSB dated June 30, 1998.

B. Reports on Form 8-K

No reports of Form 8-K were filed by Summit during the fourth quarter of the year ended December 31, 1999.

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/ Oscar M. Bean 3/29/2000	By: /s/ H. Charles Maddy, III 3/29/2000
Oscar M. Bean Date	H. Charles Maddy, III Date
Chairman of the Board	President & Chief Executive Officer
By: /s/ Robert S. Tissue 3/29/2000	By: /s/ Julie R. Cook 3/29/2000
Robert S. Tissue Date	Julie R. Cook Date
Vice President & Chief Financial Officer	Director of Accounting

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

	Title	Date
/s/ Oscar M. Bean Oscar M. Bean	Director	3/29/2000
Frank A. Baer, III	Director	
Dewey F. Bensenhaver, M.D.	Director	
/s/ James M. Cookman James M. Cookman	Director	3/29/2000
/s/ John W. Crites John W. Crites	Director	3/29/2000
/s/ Patrick N. Frye Patrick N. Frye	Director	3/29/2000
James Paul Geary	Director	
/s/ Thomas J. Hawse, III Thomas J. Hawse, III	Director	3/29/2000

SIGNATURES - continued

Signature	Title	Date
/s/ Phoebe Fisher Heishman Phoebe Fisher Heishman	Director	3/29/2000
/s/ Gary L. Hinkle Gary L. Hinkle	Director	3/29/2000
Gerald W. Huffman	Director	
/s/ H. Charles Maddy, III H. Charles Maddy, III	Director	3/29/2000
Duke A. McDaniel	Director	
/s/ Harold K. Michael Harold K. Michael	Director	3/29/2000
/s/ Ronald F. Miller Ronald F. Miller	Director	3/29/2000
George R. Ours	Director	
Charles S. Piccirillo	Director	
/s/ Harry C. Welton, Jr. Harry C. Welton, Jr.	Director	3/29/200

Exhibit 11

STATEMENT RE: COMPUTATION OF EARNINGS PER SHARE

	Years Ended December 31,		
	1999	1998	1997
Numerator:			
Net Income	$3,043,129	$2,602,165	$2,299,710
Denominator:			
Denominator for basic earnings per share -- weighted average common shares outstanding	897,811	854,430	703,131
Effect of dilutive securities:			
Officer stock option plan	-	-	-
Denominator for diluted earnings per share -- weighted average common shares outstanding and assumed conversions	897,811	854,430	703,131
Basic earnings per share	$ 3.39	$ 3.05	$ 3.27
Diluted earnings per share	$ 3.39	$ 3.05	$ 3.27

Exhibit 21

SUBSIDIARIES OF REGISTRANT

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

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

Capital State Bank, Inc., a state banking association
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

Potomac Valley Bank, a state banking association
Organized under the laws of the State of West Virginia

Exhibit 23

CONSENT OF INDEPENDENT AUDITORS

Securities and Exchange Commission
Washington, D.C.

We hereby consent to the inclusion in this Annual Report on Form 10-KSB of our report dated January 28, 2000 on our audit of the consolidated financial statements of Summit Financial Group, Inc. as of December 31, 1999 appearing in Part II, Item 7 of the 1999 Form 10-KSB of Summit Financial Group, Inc.

ARNETT & FOSTER, P.L.L.C.

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

Charleston, West Virginia
March 29, 2000

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SUMMIT FINANCIAL GROUP, INC.

12-MOS	12-MOS
DEC-31-1999	DEC-31-1998
JAN-01-1999	JAN-01-1998
DEC-31-1999	DEC-31-1998
7,010,196	4,991,798
5,800,987	1,841,502
2,845,216	10,742,745
0	0
111,972,963	63,439,874
0	0
0	0
238,299,203	195,276,732
(2,231,555)	(2,113,201)
385,767,440	287,296,259
297,138,620	228,341,038
32,348,030	4,644,143
3,255,630	1,884,140
17,942,540	16,468,875
0	0
0	0
2,226,293	2,267,541
32,856,327	33,690,522
385,767,440	287,296,259
18,759,850	15,839,032
5,838,634	4,072,693
515,908	726,738
25,114,392	20,638,463
10,558,788	9,337,784
12,234,026	10,287,962
12,880,366	10,350,501
370,000	615,000
(235,945)	8,160
8,718,219	6,638,192
4,613,079	3,849,854
4,613,079	3,849,854
0	0
0	0
3,043,129	2,602,165
3.39	3.05
3.39	3.05
4.10	4.20
521,977	777,157
476,000	0
0	0
2,500,000	0
2,113,201	1,489,117
378,181	413,198
126,535	150,480
2,231,555	2,113,201
2,231,555	2,113,201
0	0
92,000	0