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

Form 10-K

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

For the fiscal year ended December 31, 2000

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 (I.R.S. Employer
incorporation or organization) Identification No.)

223 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: 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 [ss.229.405 of this chapter] is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. |X|

The aggregate market value of the voting stock held by non-affiliates of the Registrant at March 23,2001, was approximately $24,311,000. The number of shares of the Registrant's Common Stock outstanding on March 23, 2001, was 877,155.

Documents Incorporated by Reference

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

| Document | Part of Form 10-K into which document is incorporated |
|---|---|
| Portions of the Registrant's 2000 Annual Report to Shareholders | Part II - Items 5, 6, 7, 7A, and 8 |
| Portions of the Registrant's Proxy Statementfor the Annual Meeting of Shareholders to be held May 15, 2001 | Part III - Items 10, 11, 12 and 13 |

SUMMIT FINANCIAL GROUP, INC

Form 10-K Index


| | | Page |
|---|---|---|
| PART I. | | |
| Item 1. | Business | 3-8 |
| Item 2. | Properties | 8 |
| Item 3. | Legal Proceedings | 8 |
| Item 4. | Submission of Matters to a Vote of Shareholders | 8 |
| PART II. | | |
| Item 5. | Market for the Registrant's Common Stock and Related Shareholder Matters | 9 |
| Item 6. | Selected Financial Data | 9 |
| Item 7. | Management's Discussion and Analysis of Financial Condition | |

| | | |
|---|---|---|
| | and Results of Operations and Related Statistical Disclosures | 9 |
| Item 7A. | Quantitative and Qualitative Disclosures about Market Risk | |
| Item 8. | Financial Statements and Supplementary Data | 9 |
| Item 9. | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | 9 |
| PART III. | | |
| Item 10. | Directors and Executive Officers of the Registrant | 10 |
| Item 11. | Executive Compensation | 10 |
| Item 12. | Security Ownership of Certain Beneficial Owners and Management | 10 |
| Item 13. | Certain Relationships and Related Transactions | 10 |
| PART IV. | | |
| Item 14. | Exhibits, Financial Statement Schedules and Reports on Form 8-K | 11-12 |
| SIGNATURES | | 13-14 |

PART I.

Item 1. Business

Organized in 1987 as a West Virginia Corporation, Summit Financial Group, Inc. ("Company" or "Summit") is a $481million financial holding company headquartered in Moorefield, West Virginia. 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 bank 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 principally through its four bank subsidiaries, South Branch, Capital State, Shenandoah and Potomac (collectively, the "Bank Subsidiaries"). The Bank Subsidiaries 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, and consumer 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 38.1% of total loans at December 31, 2000, are generally secured by various collateral including commercial real estate, accounts receivable and business machinery and equipment. Residential real estate loans represented approximately 46.7% of total loans as of December 31, 2000 and consist primarily of mortgages on the borrower's personal residence, and are typically secured by a first lien on the subject property. Consumer 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 8 of this Form 10-K, for a summary of the Summit's loan balances at December 31, 2000 and 1999. 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, 2000, 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 financial holding company, is subject to the restrictions of the Bank Holding Company Act of 1956 ("BHCA"), and is registered pursuant to its provisions. As a registered financial 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 financial holding company of direct or indirect ownership of more than five percent of the voting shares of any bank within the United States without prior approval of the FRB. With certain exceptions, a financial holding company is prohibited from acquiring direct or indirect ownership or control or more than five percent of the voting shares of any company which is not a bank, and from engaging directly or indirectly in business unrelated to the business of banking or managing or controlling banks.

The 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 financial holding company is well-capitalized; (ii) the financial holding company is well-managed and (iii) the financial holding company is not the subject of any unresolved supervisory issues.

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

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

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

## 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 financial holding company is expected to act as a source of financial and managerial strength to each of its subsidiary banks and to commit resources to support each such subsidiary bank. Under the source of strength doctrine, the FRB may require a financial holding company to contribute capital to a troubled subsidiary bank, and may charge the financial holding company with engaging in unsafe and unsound practices for failure to commit resources to such a subsidiary bank. This capital injection may be required at times when Summit may not have the resources to provide it. Any capital loans by a holding company to any 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 financial holding company's bankruptcy, any commitment by such holding company to a Federal bank or thrift regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

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

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

## Capital Requirements

As a financial 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, financial holding companies must maintain capital sufficient to meet both a risk-based asset ratio test and leverage ratio test on a consolidated basis. The risk-based ratio is determined by allocating assets and specified off-balance sheet commitments into four weighted categories, with higher levels of capital being required for categories perceived as representing greater risk. The Bank Subsidiaries are subject to substantially similar capital requirements adopted by adopted by its applicable regulatory agencies.

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

Financial holding companies are required to maintain a risk-based 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 financial holding companies that meet certain specified criteria, including excellent asset quality, high liquidity, low interest rate exposure and the highest regulatory rating. Financial holding companies not meeting these criteria are required to maintain a leverage ratio which exceeds 3% by a cushion of at least 1 to 2 percent.

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

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

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

As of December 31, 2000, 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 undercapitalized.

By regulation, an institution is "well-capitalized" if it has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater and a Tier 1 leverage ratio of 5% or greater and is not subject to a regulatory order, agreement or directive to meet and maintain a specific capital level for any capital measure. Each of the Bank Subsidiaries were "well capitalized" institutions as of December 31, 2000. As well-capitalized institutions, they are permitted to engage in a wider range of banking activities, including among other things, the accepting of "brokered deposits," and the offering of interest rates on deposits higher than the prevailing rate in their respective markets.

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

Community Reinvestment Act

Financial holding companies and their subsidiary banks are also subject to the provisions of the Community Reinvestment Act of 1977 ("CRA"). Under the CRA, the Federal Reserve Board (or other appropriate bank regulatory agency) is required, in connection with its examination of a bank, to assess such bank's record in meeting the credit needs of the communities served by that bank, including low and moderate income neighborhoods. Further such assessment is also required of any financial holding company which has applied to (i) charter a national bank, (ii) obtain deposit insurance coverage for a newly chartered institution, (iii) establish a new branch office that will accept deposits, (iv) relocate an office, or (v) merge or consolidate with, or acquire the assets or assume the liabilities of a federally-regulated financial institution. In the case of a financial holding company applying for approval to acquire a bank or other financial holding company, the FRB will assess the record of each subsidiary of the applicant financial holding company, and such records may be the basis for denying the application or imposing conditions in connection with approval of the application. On December 8, 1993, the Federal regulators jointly announced proposed regulations to simplify enforcement of the CRA by substituting the present twelve categories with three assessment categories for use in calculating CRA ratings (the "December 1993 Proposal"). In response to comments received by the regulators regarding the December 1993 Proposal, the federal bank regulators issued revised CRA proposed regulations on September 26, 1994 (the "Revised CRA Proposal"). The Revised CRA Proposal, compared to the December 1993 Proposal, 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 were available for banks, other depository institutions, insurance companies and securities firms to enter into combinations that permit a single financial services organization to offer customers a more complete array of financial products and services. The GLB Act provides a new regulatory framework for regulation through the financial holding company, which have as its umbrella regulator the FRB. Functional regulation of the financial holding company's separately regulated subsidiaries are conducted by their primary functional 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, 2001, Summit employed 129 full-time equivalent employees.

Item 2. Properties

Summit's headquarters office is located in Moorefield, West Virginia in a building owned by the Company. Additionally, Summit's subsidiaries banks' headquarters and branch locations occupy offices which are either owned or operated under long-term lease arrangements. At December 31, 2000, Summit's subsidiary banks operated 11 banking offices as follows:

| Subsidiary / Office Location | Number of Offices |
|---|---|
| South Branch Valley National Bank | |
| Moorefield, West Virginia | 1 |
| Mathias, West Virginia | 1 |
| Franklin, West Virginia | 1 |
| Capital State Bank, Inc. | |
| Charleston, West Virginia | 2 |
| Rainelle, West Virginia | 1 |
| Rupert, West Virginia | 1 |
| Shenandoah Valley National Bank | |
| Winchester, Virginia | 2 |
| Potomac Valley Bank | |
| Petersburg, West Virginia | 2 |

Management believes that the premises occupied by Summit and its subsidiaries are well-located and suitably equipped to serve as financial services facilities. See Note 7 of the accompanying consolidated financial statements for additional disclosures related to the Company's properties and other fixed assets.

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

No matters were submitted during the fourth quarter of 2000 to a vote of Company shareholders.

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

Information required by this item is set forth under the captions "COMMON STOCK LISTING" and "COMMON STOCK DIVIDEND AND MARKET PRICE INFORMATION" on page 16 of Summit's 2000 Annual Report, and is incorporated herein by reference.

Item 6. Selected Financial Data

Information required by this item is set forth under the heading "SELECTED FINANCIAL DATA" on page 2 of Financial Information 2000 included as a supplement to Summit's 2000 Annual Report, and is incorporated herein by reference.

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

Information required by this item is set forth under the heading "MANAGEMENT'S DISCUSSION AND ANALYSIS" on pages 3 through 12 of Financial Information 2000 included as a supplement to Summit's 2000 Annual Report, and is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Information required by this item is set forth under the caption "MARKET RISK MANAGEMENT" on page 12 of Financial Information 2000 included as a supplement to Summit's 2000 Annual Report, and is incorporated herein by reference.

Item 8. Financial Statements and Supplement Data

Information required by this item is set forth under the heading "QUARTERLY FINANCIAL INFORMATION" on page 13, under the heading "REPORT OF INDEPENDENT AUDITORS" on page 14, and under the headings "CONSOLIDATED FINANCIAL STATEMENTS" and "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS" on pages 15 through 36 of Financial Information 2000 included as a supplement to Summit's 2000 Annual Report, and is incorporated herein by reference.

Item 9. 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 10. 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 pages 4 through 5, under the captions "NOMINEES FOR DIRECTOR WHOSE TERMS WILL EXPIRE IN 2004", "DIRECTORS WHOSE TERMS EXPIRE IN 2003" and "DIRECTORS WHOSE TERMS EXPIRE IN 2002" on pages 6 through 11, and under the caption "EXECUTIVE OFFICERS" on page 14 of Summit's 2001 Proxy Statement, and is incorporated herein by reference.

Item 11. Executive Compensation

Information required by this item is set forth under the caption "EXECUTIVE COMPENSATION" on pages 15 through 23, and under the caption "Fees and Benefit Plans for Directors" on pages 3 through 4 of Summit's 2001 Proxy Statement, and is incorporated herein by reference.

Item 12. 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 pages 4 through 5, under the captions "NOMINEES FOR DIRECTOR WHOSE TERMS WILL EXPIRE IN 2004", "DIRECTORS WHOSE TERMS EXPIRE IN 2003", and "DIRECTORS WHOSE TERMS EXPIRE IN 2002" on pages 6 through 11, and under the caption "EXECUTIVE OFFICERS" on page 14 of Summit's 2001 Proxy Statement, and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

Information required by this item is set forth under the caption "Related Transactions" on page 3 of Summit's 2001 Proxy Statement, and is incorporated herein by reference.

Item 14. 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-X, which are applicable to the registrant, have been presented in the financial statements and notes thereto in Item 8 in management's discussion and analysis of financial condition and results of operation in Item 7 or elsewhere in this filing where appropriate. The listing of exhibits follows:

A. Exhibits

INDEX TO EXHIBITS

| Exhibit Number | | Description | Page(s) in Form 10-K or Prior Filing Reference |
|---|---|---|---|
| (3) | | Articles of Incorporation and By-laws: | |
| | (i) | Articles of Incorporation of Summit Financial Group, Inc. as last amended on May 2, 2000 | (a) |
| | (ii) | By-laws of Summit Financial Group, Inc. as last amended, effective December 31, 1999 | (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 | 15 |
| (13) | | Portions of 2000 Annual Report to Shareholders Incorporated by Reference into this Form 10-K | 16 |
| (21) | | Subsidiaries of Registrant | 57 |
| (23) | | Consent of Arnett & Foster, P.L.L.C. | 58 |

(a) Incorporated by reference to Exhibit 3(i) of Summit Financial Group, Inc.'s filing on Form 10-Q dated June 30, 2000.

(b) Incorporated by reference to Exhibit 3(b) of Summit financial Group, Inc.'s filing on Form 10-Q dated June 30, 2000.

(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, 2000.

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 3/23/2001 | By: /s/ H. Charles Maddy, III 3/23/2001 |
| Oscar M. Bean Date<br>Chairman of the Board | H. Charles Maddy, III Date<br>President & Chief Executive Officer |
| By: /s/ Robert S. Tissue 3/28/2001 | By: /s/ Julie R. Cook 3/27/2001 |
| Robert S. Tissue Date<br>Vice President<br>&Chief Financial Officer | Julie R. Cook Date<br>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<br>Oscar M. Bean | Director | 3/23/2001 |
| Frank A. Baer, III | Director | ________ |
| Dewey F. Bensenhaver, M.D. | Director | ________ |
| /s/ James M. Cookman<br>James M. Cookman | Director | 3/23/2001 |
| John W. Crites | Director | ________ |
| /s/ Patrick N. Frye<br>Patrick N. Frye | Director | 3/23/2001 |
| James Paul Geary | Director | ______ |
| /s/ Thomas J. Hawse, III<br>Thomas J. Hawse, III | Director | 3/23/2001 |

SIGNATURES - continued

| | Title | Date |
|---|---|---|
| /s/ Phoebe Fisher Heishman<br>Phoebe Fisher Heishman | Director | 3/23/2001 |
| /s/ Gary L. Hinkle<br>Gary L. Hinkle | Director | 3/23/2001 |
| Gerald W. Huffman | Director | |
| /s/ H. Charles Maddy, III<br>H. Charles Maddy, III | Director | 3/23/2001 |
| Duke A. McDaniel | Director | |
| Harold K. Michael | Director | |
| /s/ Ronald F. Miller<br>Ronald F. Miller | Director | 3/23/2001 |
| /s/ George R. Ours<br>George R. Ours | Director | 3/23/2001 |
| Charles S. Piccirillo | Director | |
| /s/ Harry C. Welton, Jr.<br>Harry C. Welton, Jr. | Director | 3/23/2001 |

EXHIBIT 11

STATEMENT RE: COMPUTATION OF EARNINGS PER SHARE

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| Numerator: | | | |
| Net Income | $ 3,249,919 | $ 3,043,129 | $ 2,602,165 |
| Denominator: | | | |
| Denominator for basic earnings per share -- weighted average common shares outstanding | 880,423 | 897,811 | 854,430 |
| Effect of dilutive securities: | | | |
| Officer stock option plan | - | - | - |
| Denominator for diluted earnings per share -- weighted average common shares outstanding and assumed conversions | 880,423 | 897,811 | 854,430 |
| Basic earnings per share | $ 3.69 | $ 3.39 | $ 3.05 |
| Diluted earnings per share | $ 3.69 | $ 3.39 | $ 3.05 |

Exhibit 13

COMMON STOCK LISTING

Current market quotations for the common stock of Summit Financial Group,Inc. are available on the OTC Bulletin Board under the symbol SMMF.

COMMON STOCK DIVIDEND AND MARKET PRICE INFORMATION

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

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| 2000 | | | | |
| Dividends paid | $ - | $ 0.50 | $ - | $ 0.70 |
| High Bid | 41.00 | 36.50 | 36.50 | 36.75 |
| Low Bid | 36.50 | 30.38 | 31.00 | 35.50 |
| 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 |

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

As of February 15, 2001, there were approximately 1,250 shareholders of record of Summit's common stock.



SELECTED FINANCIAL DATA

| (Dollars in thousands, except per share amounts) | For the Year Ended (unless otherwise noted) 2000 | 1999 | 1998 (1) | 1997 (1) | 1996 (1) |
|---|---|---|---|---|---|
| Summary of Operations | | | | | |
| Interest income | $ 32,264 | $ 25,114 | $ 20,638 | $ 17,358 | $ 16,176 |
| Interest expense | 18,276 | 12,234 | 10,288 | 8,880 | 8,318 |
| Net interest income | 13,988 | 12,880 | 10,350 | 8,478 | 7,858 |
| Provision for loan losses | 558 | 370 | 615 | 554 | 425 |
| Net interest income after provision for loan losses | 13,430 | 12,510 | 9,735 | 7,924 | 7,433 |
| Noninterest income | 1,228 | 821 | 753 | 575 | 576 |
| Noninterest expense | 9,865 | 8,718 | 6,638 | 5,256 | 4,910 |
| Income before income taxes | 4,793 | 4,613 | 3,850 | 3,243 | 3,099 |
| Income taxes | 1,543 | 1,570 | 1,248 | 943 | 688 |
| Net income | $ 3,250 | $ 3,043 | $ 2,602 | $ 2,300 | $ 2,411 |
| Balance Sheet Data (at year end) | | | | | |
| Assets | $ 481,239 | $ 385,767 | $ 287,296 | $ 235,241 | $ 216,376 |
| Securities | 176,741 | 112,770 | 64,978 | 59,134 | 66,531 |
| Loans | 274,153 | 238,299 | 195,277 | 145,067 | 134,180 |
| Deposits | 345,962 | 297,139 | 228,341 | 190,051 | 183,886 |
| Short-term borrowings | 9,391 | 32,348 | 4,644 | 7,145 | 4,377 |
| Long-term borrowings | 81,086 | 17,943 | 16,469 | 10,396 | 3,515 |
| Shareholders' equity | 39,773 | 35,083 | 35,958 | 26,190 | 22,711 |
| Per Share Data | | | | | |
| Basic earnings | $ 3.69 | $ 3.39 | $ 3.05 | $ 3.27 | $ 3.52 |
| Diluted earnings | 3.69 | 3.39 | 3.05 | 3.27 | 3.52 |
| Shareholders' equity (at year end) | 45.32 | 39.80 | 40.05 | 36.40 | 33.15 |
| Cash dividends | 1.20 | 0.95 | 0.89 | 0.84 | 0.77 |
| Performance Ratios | | | | | |
| Return on average equity | 8.93% | 8.52% | 7.44% | 9.45% | 11.25% |
| Return on average assets | 0.75% | 0.88% | 0.95% | 1.01% | 1.15% |
| Dividend payout | 32.5% | 27.3% | 30.7% | 26.2% | 23.3% |
| Equity to assets | 8.3% | 9.1% | 12.5% | 11.1% | 10.5% |

(1) - All amounts prior to 1999, with the exception of cash dividends per share, have been restated to give effect to the Potomac merger accounted for as a pooling of interests.

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, 2000. 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 accompanying Consolidated Financial Statements and Notes thereto of the Company as of December 31, 2000 and for each of the three years then ended.

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

## 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, 2000, 1999, and 1998, was $3,250,000, $3,043,000 and $2,602,000, respectively. On a per share basis, diluted net income was $3.69 in 2000 compared to $3.39 in 1999, and $3.05 in 1998. Return on average equity was 8.93% in 2000 compared to 8.52% in 1999, and 7.44% in 1998. Return on average assets for the year ended December 31, 2000 was 0.75% compared to 0.88% in 1999 and 0.95% in 1998. 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 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 on a fully tax equivalent basis, average balance sheet amounts, and corresponding average yields on interest earning assets and costs of interest bearing liabilities for the years 2000, 1999 and 1998 are presented in Table I. Table II presents, for the periods indicated, the changes in interest income and expense attributable to (a) changes in volume (changes in volume multiplied by prior period rate) and (b) changes in rate (change in rate multiplied by prior period volume). Changes in interest income and expense attributable to both rate and volume have been allocated between the factors in proportion to the relationship of the absolute dollar amounts of the change in each.

Net interest income, adjusted to a fully tax equivalent basis, totaled $14,431,000, $13,223,000 and $10,696,000 for the years ended December 31, 2000, 1999, and 1998, respectively resulting in a net interest margin of 3.5% for 2000 compared to 4.1% and 4.2% for 1999 and 1998, respectively. The net interest margin recognizes earning asset growth by expressing net interest income as a percentage of total average earning assets. During 2000, higher-cost funding in a rising rate environment, combined with a liability sensitive interest rate risk position and a highly competitive market for deposits contributed to the 60 basis point decrease in Summit'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.

As identified in Table II, despite the Company's contracting net interest margin in 2000 and 1999, tax equivalent net interest income grew $1,208,000 and $2,527,000 during 2000 and 1999, respectively, due primarily to the substantial growth in the volumes of the interest earning assets in both years.

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 2001. Management continues to monitor the net interest margin through net interest income simulation to minimize the potential for any significant negative impact.

The majority of Summit's assets and liabilities are monetary in nature and, therefore, differ greatly from most commercial and industrial entities which have large investments in fixed assets or inventories. Fluctuations in interest rates have a greater effect on the Company's profitability than do the effects of higher costs for goods and services. See the Market Risk Management section for further discussion of the impact changes in market interest rates could have on Summit.

Table I - Average Distribution of Assets, Liabilities and Shareholders' Equity,
Interest Earnings & Expenses, and Average Rates
Dollars in thousands

| | 2000 | | | 1999 | | | 1998 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Average Balances | Earnings/ Expense | Yield Rate | Average Balances | Earnings/ Expense | Yield Rate | Average Balances | Earnings/ Expense | Yield Rate |
| ASSETS | | | | | | | | | |
| Interest earning assets | | | | | | | | | |
| Loans, net of unearned interest (1) | | | | | | | | | |
| Taxable | $ 248,404 | $ 21,630 | 8.7% | $ 217,625 | $ 18,645 | 8.6% | $ 172,256 | $ 15,719 | 9.1% |
| Tax-exempt (2) | 2,211 | 261 | 11.8% | 1,551 | 173 | 11.2% | 1,604 | 182 | 11.3% |
| Securities | | | | | | | | | |
| Taxable | 139,476 | 9,484 | 6.8% | 84,353 | 5,288 | 6.3% | 55,933 | 3,522 | 6.3% |
| Tax-exempt (2) | 13,202 | 1,046 | 7.9% | 11,135 | 835 | 7.5% | 11,312 | 834 | 7.4% |
| Federal funds sold and interest bearing deposits with other banks | 4,305 | 286 | 6.6% | 10,251 | 516 | 5.0% | 13,642 | 727 | 5.3% |
| | 407,598 | 32,707 | 8.0% | 324,915 | 25,457 | 7.8% | 254,747 | 20,984 | 8.2% |
| Noninterest earning assets | | | | | | | | | |
| Cash and due from banks | 8,166 | | | 6,860 | | | 5,694 | | |
| Bank premises and equipment | 10,666 | | | 8,634 | | | 6,294 | | |
| Other assets | 8,877 | | | 6,402 | | | 7,766 | | |
| Allowance for loan losses | (2,414) | | | (2,175) | | | (1,829) | | |
| Total assets | $ 432,893 | | | $ 344,636 | | | $ 272,672 | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | | | | |
| Liabilities | | | | | | | | | |
| Interest bearing liabilities | | | | | | | | | |
| Interest bearing demand deposits | $ 60,351 | $ 2,027 | 3.4% | $ 56,201 | $ 1,717 | 3.1% | $ 40,027 | $ 1,246 | 3.1% |
| Savings deposits | 39,738 | 1,094 | 2.8% | 38,782 | 1,030 | 2.7% | 31,394 | 1,048 | 3.3% |
| Time deposits | 187,665 | 10,476 | 5.6% | 153,617 | 7,811 | 5.1% | 126,369 | 7,043 | 5.6% |
| Short-term borrowings | 48,867 | 3,087 | 6.3% | 13,714 | 673 | 4.9% | 5,371 | 232 | 4.3% |
| Long-term borrowings | 28,033 | 1,592 | 5.7% | 18,818 | 1,003 | 5.3% | 13,004 | 719 | 5.5% |
| | 364,654 | 18,276 | 5.0% | 281,132 | 12,234 | 4.4% | 216,165 | 10,288 | 4.8% |
| Noninterest bearing liabilities | | | | | | | | | |
| Demand deposits | 28,017 | | | 25,608 | | | 19,267 | | |
| Other liabilities | 3,845 | | | 2,178 | | | 2,244 | | |
| Total liabilities | 396,516 | | | 308,918 | | | 237,676 | | |
| Shareholders' equity | 36,377 | | | 35,718 | | | 34,996 | | |
| Total liabilities and shareholders' equity | $ 432,893 | | | $ 344,636 | | | $ 272,672 | | |
| NET INTEREST EARNINGS | $ 14,431 | | | $ 13,223 | | | $ 10,696 | | |
| NET INTEREST YIELD ON EARNING ASSETS | | | 3.5% | | | 4.1% | | | 4.2% |

(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 $343,000, $277,000 and $362,000 for the years ended December 31, 2000, 1999 and 1998, 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 $443,000, $343,000 and $346,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

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

| | 2000 Versus 1999 | | | 1999 Versus 1998 | | |
|---|---|---|---|---|---|---|
| | Increase (Decrease) Due to Change in: | | | Increase (Decrease) Due to Change in: | | |
| | Volume | Rate | Net | Volume | Rate | Net |
| Interest earned on: | | | | | | |
| Loans | | | | | | |
| Taxable | $ 2,676 | $ 309 | $ 2,985 | $ 3,935 | $(1,009) | $ 2,926 |
| Tax-exempt | 78 | 10 | 88 | (6) | (3) | (9) |
| Securities | | | | | | |
| Taxable | 3,715 | 481 | 4,196 | 1,783 | (17) | 1,766 |
| Tax-exempt | 162 | 49 | 211 | (13) | 14 | 1 |
| Federal funds sold and interest bearing deposits with other banks | (361) | 131 | (230) | (173) | (38) | (211) |
| Total interest earned on interest earning assets | 6,270 | 980 | 7,250 | 5,526 | (1,053) | 4,473 |
| Interest paid on: | | | | | | |
| Interest bearing demand deposits | 132 | 178 | 310 | 494 | (23) | 471 |
| Savings deposits | 25 | 39 | 64 | 220 | (238) | (18) |
| Time deposits | 1,849 | 816 | 2,665 | 1,424 | (656) | 768 |
| Short-term borrowings | 2,171 | 243 | 2,414 | 405 | 36 | 441 |
| Long-term borrowings | 519 | 70 | 589 | 310 | (26) | 284 |
| Total interest paid on interest bearing liabilities | 4,696 | 1,346 | 6,042 | 2,853 | (907) | 1,946 |
| Net interest income | $ 1,574 | $ (366) | $ 1,208 | $ 2,673 | $ (146) | $ 2,527 |

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, 2000, 1999 and 1998 totaled $558,000, $370,000 and $615,000, respectively. As further discussed in the Loan Portfolio and Asset Quality sections of this analysis, the $188,000 increase in the provision for loan losses in 2000 reflects the continued growth of Summit's loan portfolio. Conversely, the $245,000 reduction in the provision in 1999 compared to 1998 was attributable primarily to the improved credit quality of the Potomac's loan portfolio during the same period. An analysis of the components comprising the allowance for loan losses for each of the past five years, including charge offs and recoveries within each significant loan classification, is presented in Table VIII.

Noninterest Income

Noninterest income totaled $1,228,000, $821,000 and $753,000, or 0.28%, 0.24% and 0.28% of average assets, in 2000, 1999, and 1998, respectively. Included in noninterest income for 2000 is a $225,000 gain South Branch recognized on the sale of its Petersburg, West Virginia branch office. Further detail regarding noninterest income follows in Table III.

Noninterest Expense

Noninterest expense totaled $9,865,000, $8,718,000 and $6,638,000 or 2.28%, 2.53% and 2.43% of average assets for each of the years ended December 31, 2000, 1999, and 1998, respectively. Total noninterest expense increased $1,147,000 in 2000 compared to 1999 and $2,080,000 in 1999 compared to 1998. The primary factors contributing to growth in noninterest expense in both years were: operating expenses of Capital State's Greenbrier County branches following their acquisition in April 1999, operating expenses of Shenandoah following its opening in May 1999, and one time expenses associated with the Potomac merger. Table III presents additional information regarding Summit's noninterest expense.

Table III - Noninterest Income and Expense
In thousands

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Noninterest income | | | |
| Insurance commissions | $ 110 | $ 91 | $ 104 |
| Service fees | 876 | 792 | 518 |
| Securities gains (losses) | 2 | (236) | 8 |
| Gain on sale of branch bank | 225 | - | - |
| Other | 15 | 174 | 123 |
| Total | $ 1,228 | $ 821 | $ 753 |
| Noninterest expense | | | |
| Salaries and employee benefits | $ 4,863 | $ 4,359 | $ 3,432 |
| Net occupancy expense | 628 | 559 | 456 |
| Equipment expense | 974 | 716 | 546 |
| Supplies | 303 | 299 | 143 |
| Amortization of intangibles | 298 | 269 | 135 |
| Other | 2,799 | 2,516 | 1,926 |
| Total | $ 9,865 | $ 8,718 | $ 6,638 |

Income Tax Expense

Income tax expense for the three years ended December 31, 2000, 1999, and 1998 totaled $1,543,000, $1,570,000 and $1,248,000, 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 in 2000 were $432,893,000, an increase of 25.6% over 1999's average of $344,636,000. Similarly, average assets grew 26.4% in 1999, from $272,672,000 in 1998. The primary factors contributing to these increases are the continued strong growth of Shenandoah following its organization in May 1999 and Capital State's acquisition of the Greenbrier County branches in April 1999. Significant changes in the components of the Summit's balance sheet 2000 and 1999 are discussed below.

Securities

Securities comprised approximately 36.7% of total assets at December 31, 2000 compared to 29.2% at December 31, 1999. Average securities approximated $152,678,000 for 2000 or 59.9% more than 1999's average of $95,488,000. 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 deposit growth of Shenandoah in 2000 and by the $35.1 million in net funds the Company realized in conjunction with the acquisition of Greenbrier County branch banks in 1999. 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, 2000, Summit 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, 2000, together with the weighted average yields for each range of maturity, are summarized in Table IV. The stated average yields are actual yields and are not stated on a tax equivalent basis.

Table IV - 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 | $ 1,499 | 6.3% | $ - | - | $ - | - | $ - | - |
| U. S. Government agencies and corporations | 2,541 | 6.2% | 44,721 | 6.7% | 31,366 | 7.0% | 2,219 | 7.5% |
| Mortgage backed securities - U. S. Government agencies and corporations | 17,113 | 6.7% | 25,155 | 6.8% | 10,810 | 6.7% | 2,052 | 6.8% |
| State and political subdivisions | 1,951 | 5.5% | 4,032 | 4.8% | 3,192 | 5.2% | 3,222 | 6.0% |
| Other | - | - | 13,226 | 7.3% | 349 | 7.6% | 11,576 | 6.3% |
| Total available for sale | $23,104 | 6.5% | $87,134 | 6.7% | $45,717 | 6.8% | $19,069 | 6.4% |
| Held to maturity | | | | | | | | |
| State and political subdivisions | $ 250 | 5.7% | $ 151 | 4.8% | $ - | - | $ - | - |

Loan Portfolio

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

Table V - Loans by Type
Dollars in thousands

| | 2000 | | 1999 | | 1998 | | 1997 | | 1996 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Amount | Percent of Total | Amount | Percent of Total | Amount | Percent of Total | Amount | Percent of Total | Amount | Percent of Total |
| Commercial, financial, and agricultural | $104,510 | 38.1% | $ 78,894 | 33.1% | $ 54,359 | 27.8% | $ 42,736 | 29.5% | $ 38,982 | 29.1% |
| Real estate - construction | 2,730 | 1.0% | 2,012 | 0.8% | 1,801 | 0.9% | 144 | 0.1% | 154 | 0.1% |
| Real estate - mortgage | 127,930 | 46.7% | 116,779 | 49.0% | 101,014 | 51.7% | 69,155 | 47.7% | 64,695 | 48.2% |
| Installment | 36,983 | 13.5% | 38,091 | 16.0% | 36,197 | 18.5% | 32,248 | 22.2% | 29,454 | 22.0% |
| Other | 2,001 | 0.7% | 2,524 | 1.1% | 1,906 | 1.0% | 784 | 0.5% | 894 | 0.7% |
| Total loans | $274,154 | 100.0% | $238,300 | 100.0% | $195,277 | 100.0% | $145,067 | 100.0% | $134,179 | 100.0% |

Total net loans averaged $250,615,000 in 2000 and comprised 57.9% of total average assets compared to $219,176,000 or 63.6% of total average assets during 1999. 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 Summit's loan maturities and a discussion of the Company's adjustable rate loans as of December 31, 2000.

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.

Deposits

Total deposits at December 31, 2000 increased $48,823,000 or 16.4% compared to December 31, 1999. Average deposits increased $41,563,000, or 15.2% during 2000. This increase resulted primarily from the growth of Shenandoah's deposits.

See Table I above for average deposit balance and rate information by deposit type for 2000, 1999 and 1998 and Note 8 of the accompanying consolidated financial statements for a maturity distribution of time deposits as of December 31, 2000.

Borrowings

Lines of Credit: The Company has remaining available lines of credit from the Federal Home Loan Bank totaling $70,961,000 at December 31, 2000. Management uses these lines primarily to fund loans to customers. Funds acquired through this program are reflected on the consolidated balance sheet in short-term borrowings or long-term borrowings, depending on the repayment terms of the debt agreement.

Short-term Borrowings: Total short-term borrowings decreased $22,957,000 from $32,348,000 at December 31, 1999 to $9,391,000 at December 31, 2000, as Summit refinanced substantially all of its short-term Federal Home Loan Bank advances with long-term advances late in 2000. This action was taken to obtain lower funding costs and to reduce the Company's sensitivity to rising interest rates. See Note 9 of the accompanying consolidated financial statements for additional disclosures regarding the Company's short-term borrowings.

Long-term Borrowings: Total long-term borrowings of $81,086,000 at December 31, 2000, consisting entirely of funds borrowed on available lines of credit from the Federal Home Loan Bank, increased $63,143,000 compared to the $17,943,000 outstanding at December 31, 1999. These borrowings were made principally to fund the refinancing of short-term advances discussed above and to fund the Company's loan growth. Refer to Note 9 of the accompanying consolidated financial statements for additional information regarding the Summit's long-term borrowings.

ASSET QUALITY

Table VI presents a summary of non-performing loans at December 31, as follows.

Table VI - Nonperforming Loans
Dollars in thousands

| | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| Nonaccrual loans | $ 568 | $ 522 | $ 783 | $ 220 | $ 343 |
| Accruing loans past due 90 days or more | 267 | 476 | 431 | 402 | 545 |
| Restructured loans | - | - | - | 55 | 55 |
| Total | $ 835 | $ 998 | $1,214 | $ 677 | $ 943 |
| Percentage of total loans | 0.3% | 0.4% | 0.6% | 0.5% | 0.7% |

As illustrated in Table VI, the quality of the Summit's loan portfolio remains sound. The total of nonaccrual loans and loans past due 90 days or more and still accruing interest declined from $998,000 at December 31, 1999 to $835,000 at December 31, 2000, 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.

Summit maintains an allowance for loan losses at a level considered adequate to provide for losses that can be reasonably anticipated. The Company conducts quarterly evaluations of its 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. In addition, the Company conducts comprehensive, ongoing reviews of its loan portfolio, which encompass the identification of all potential problem credits to be included on an internally generated watch list. The identification of loans for inclusion on the watch list is facilitated through the use of various sources, including past due loan reports, previous internal and external loan evaluations, classified loans identified as part of regulatory agency loan reviews and reviews of new loans representative of current lending practices. Once this list is reviewed to ensure it is complete, management 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 each subsidiary bank's primary regulatory agency. Based on the results of these reviews, specific reserves for potential losses are identified and the allowance for loan losses is adjusted appropriately through a provision for loan losses.

While there may be some loans or portions of loans identified as potential problem credits which are not specifically identified as either nonaccrual or accruing loans past due 90 or more days, 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 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.

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 judgment based on various qualitative factors in the loan portfolio and the market in which the Company operates. At December 31, 2000 and 1999, respectively, the unallocated portion of the allowance approximated $94,000 and $92,000, or 3.7% and 4.1% of the total allowance. This unallocated portion of the allowance is considered necessary based on consideration of the known risk elements in certain pools of loans in the loan portfolio and 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 negative factors or trends, such as increases in bankruptcies, unemployment rates or past due loans.

At December 31, 2000 and 1999, Summit's allowance for loan losses totaled $2,571,000 and $2,232,000, respectively, representing 0.94% of gross loans as of both year end dates, and is considered adequate to cover inherent losses in the Company's loan portfolio. Table VII presents an allocation of the allowance for loan losses by loan type at each respective year end date, as follows.

Table VII - Allocation of the Allowance for Loan Losses
Dollars in thousands

| | 2000 | | 1999 | | 1998 | | 1997 | | 1996 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Amount | % of loans in each category to total loans | Amount | % of loans in each category to total loans | Amount | % of loans in each category to total loans | Amount | % of loans in each category to total loans | Amount | % of loans in each category to total loans |
| Commercial, financial and agricultural | $1,037 | 38.1% | $ 951 | 33.3% | $ 861 | 27.8% | $ 584 | 29.5% | $ 620 | 29.1% |
| Real estate | 127 | 47.7% | 383 | 49.5% | 366 | 52.7% | 302 | 47.8% | 303 | 48.3% |
| Installment | 1,086 | 13.5% | 596 | 16.1% | 739 | 18.5% | 513 | 22.2% | 364 | 22.0% |
| Other | 227 | 0.7% | 210 | 1.1% | 61 | 1.0% | 23 | 0.5% | 11 | 0.6% |
| Unallocated | 94 | - | 92 | - | 86 | - | 67 | - | 69 | - |
| | $2,571 | 100.0% | $2,232 | 100.0% | $2,113 | 100.0% | $1,489 | 100.0% | $1,367 | 100.0% |

At December 31, 2000, the Company had approximately $36,000 in other real estate owned which was obtained as the result of foreclosure proceedings and $36,000 in other repossessed assets which was obtained as the result of auto repossessions. These repossessions have been insignificant throughout 2000 and management does not anticipate any material losses on any of the items currently held in other real estate owned or other repossessed assets.

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

Table VIII - Allowance for Loan Losses
In thousands

| | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| Balance, beginning of year | $2,232 | $2,113 | $1,489 | $1,367 | $1,514 |
| Losses: | | | | | |
| Commercial financial & agriculture | - | 165 | 183 | 93 | 391 |
| Real estate - mortgage | 63 | 32 | 1 | 30 | 13 |
| Installment | 175 | 144 | 204 | 371 | 197 |
| Other | 49 | 37 | 25 | 67 | 10 |
| Total | 287 | 378 | 413 | 561 | 611 |
| Recoveries: | | | | | |
| Commercial financial & agriculture | 2 | 40 | 3 | 52 | 6 |
| Real estate - mortgage | 2 | 10 | 22 | 15 | 2 |
| Installment | 53 | 71 | 118 | 60 | 28 |
| Other | 11 | 6 | 7 | 2 | 3 |
| Total | 68 | 127 | 150 | 129 | 39 |
| Net losses | 219 | 251 | 263 | 432 | 572 |
| Allowance of purchased subsidiary | - | - | 272 | - | - |
| Provision for loan losses | 558 | 370 | 615 | 554 | 425 |
| Balance, end of year | $2,571 | $2,232 | $2,113 | $1,489 | $1,367 |

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 (net of float and reserves), Federal funds sold, non-pledged securities, and available lines of credit with the Federal Home Loan Bank, the total of which approximated at December 31, 2000 $143 million, or 30% of total consolidated assets.

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 Summit's liquidity.

MARKET RISK MANAGEMENT

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, exchange rates and equity prices. Interest rate risk is Summit's primary market risk and results from timing differences in the repricing of assets, liabilities and off-balance sheet instruments, changes in relationships between rate indices and the potential exercise of imbedded options. The principal objective of asset/liability management is to minimize interest rate risk and the Company's actions in this regard are taken under the guidance of its Asset/Liability Management Committee ("ALCO"), which is comprised of members of senior management and members of the Board of Directors. The ALCO actively formulates the economic assumptions that 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. Summit'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 and changes in the shape of the yield curve. Assumptions used to project yields and rates for new loans and deposits are derived from historical analysis. Securities portfolio maturities and prepayments are reinvested in like instruments. Mortgage loan prepayment assumptions are developed from industry estimates of prepayment speeds. Noncontractual deposit repricings are modeled on historical patterns.

As of December 31, 2000, Summit's earnings simulation model projects net interest income would decrease by approximately 5.0% 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 2.0%, as compared to projected stable rate net interest income. These projected changes are well within Summit's ALCO policy limit of +/- 10%.

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 8.3% and 9.1% at December 31, 2000 and 1999, respectively. The Company's risk weighted tier I capital, total capital and leverage capital ratios approximated 11.9%, 12.8% and 8.2%, respectively, at December 31, 2000, 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.

Cash dividends per share rose 26.3% to $1.20 in 2000 compared to $0.95 in 1999, representing dividend payout ratios of 32.5% and 27.3% for 2000 and 1999, respectively. It is the intention of management and the Board of Directors to continue to pay dividends on a similar schedule during 2001. 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 Summit's 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. As of December 31, 2000, no significant retained profits are available for distribution to Summit as dividends from its subsidiary banks without regulatory approval. Management is presently not aware of any circumstances, conditions or events which would reasonably preclude the approval of dividend requests for its subsidiary banks' net retained profits in 2001.

QUARTERLY FINANCIAL INFORMATION

| (Dollars in thousands, except per share amounts) | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Full Year |
|---|---|---|---|---|---|
| 2000 | | | | | |
| Interest income | $ 7,291 | $ 7,800 | $ 8,335 | $ 8,837 | $32,263 |
| Interest expense | 3,749 | 4,329 | 4,912 | 5,286 | 18,276 |
| Net interest income | 3,542 | 3,471 | 3,423 | 3,551 | 13,987 |
| Provision for loan losses | 128 | 128 | 140 | 161 | 557 |
| Securities gains (losses) | - | - | - | 2 | 2 |
| Gain on sale of branch bank | - | 225 | - | - | 225 |
| Other noninterest income | 260 | 274 | 289 | 178 | 1,001 |
| Noninterest expense | 2,307 | 2,524 | 2,476 | 2,558 | 9,865 |
| Income before income taxes | 1,367 | 1,318 | 1,096 | 1,012 | 4,793 |
| Net income | 929 | 934 | 743 | 644 | 3,250 |
| Basic earnings per share | 1.05 | 1.06 | 0.84 | 0.73 | 3.69 |
| Diluted earnings per share | 1.05 | 1.06 | 0.84 | 0.73 | 3.69 |
| Dividends paid per share | - | 0.50 | - | 0.70 | 1.20 |
| 1999 | | | | | |
| Interest income | $ 5,355 | $ 6,110 | $ 6,653 | $ 6,996 | $25,114 |
| Interest expense | 2,586 | 2,973 | 3,283 | 3,392 | 12,234 |
| Net interest income | 2,769 | 3,137 | 3,370 | 3,604 | 12,880 |
| Provision for loan losses | 98 | 62 | 98 | 112 | 370 |
| Securities gains (losses) | - | - | - | (236) | (236) |
| Other noninterest income | 211 | 274 | 340 | 232 | 1,057 |
| Noninterest expense | 1,764 | 2,262 | 2,383 | 2,309 | 8,718 |
| Income before income taxes | 1,118 | 1,087 | 1,229 | 1,179 | 4,613 |
| Net income | 724 | 703 | 886 | 730 | 3,043 |
| Basic earnings per share | 0.81 | 0.78 | 0.99 | 0.81 | 3.39 |
| Diluted earnings per share | 0.81 | 0.78 | 0.99 | 0.81 | 3.39 |
| Dividends paid per share | - | 0.47 | - | 0.48 | 0.95 |

[ARNETT & FOSTER, PLLC LETTERHEAD]

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, 2000 and 1999, 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, 2000. 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, 2000 and 1999, and the results of their operations and cash flows for each of the three years in the period ended December 31, 2000, in conformity with generally accepted accounting principles.

/s/ Arnett & Foster, PLLC

Charleston, West Virginia
February 16, 2001

SUMMIT FINANCIAL GROUP,INC. AND SUBSIDIARIES
Consolidated Balance Sheets

| | December 31, | |
|---|---|---|
| | 2000 | 1999 |
| Cash and due from banks | $ 7,091,871 | $ 7,010,196 |
| Interest bearing deposits with other banks | 473,000 | 5,800,987 |
| Federal funds sold | 1,811,000 | 2,845,216 |
| Securities available for sale | 176,340,410 | 111,972,963 |
| Securities held to maturity | 400,835 | 796,820 |
| Loans, net | 271,582,652 | 236,067,648 |
| Premises and equipment, net | 12,246,821 | 8,997,027 |
| Accrued interest receivable | 3,760,701 | 2,439,767 |
| Intangible assets | 3,634,472 | 3,954,039 |
| Other assets | 3,897,339 | 5,882,777 |
| Total assets | $ 481,239,101 | $ 385,767,440 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities | | |
| Deposits | | |
| Non interest bearing | $ 30,031,409 | $ 27,381,875 |
| Interest bearing | 315,930,441 | 269,756,745 |
| Total deposits | 345,961,850 | 297,138,620 |
| Short-term borrowings | 9,390,814 | 32,348,030 |
| Long-term borrowings | 81,085,929 | 17,942,540 |
| Other liabilities | 5,027,307 | 3,255,630 |
| Total liabilities | 441,465,900 | 350,684,820 |
| Commitments and Contingencies | | |
| Shareholders' Equity | | |
| Common stock, $2.50 par value; authorized 5,000,000 shares; issued 2000 - 890,390 shares; 1999 - 890,517 shares | 2,225,978 | 2,226,293 |
| Capital surplus | 10,482,873 | 10,533,674 |
| Retained earnings | 26,765,097 | 24,570,174 |
| Less cost of shares acquired for the treasury 2000 - 12,835; 1999 - 9,115 | (517,725) | (384,724) |
| Accumulated other comprehensive income | 816,978 | (1,862,797) |
| Total shareholders' equity | 39,773,201 | 35,082,620 |
| Total liabilities and shareholders' equity | $ 481,239,101 | $ 385,767,440 |

See notes to consolidated financial statements

SUMMIT FINANCIAL GROUP,INC. AND SUBSIDIARIES
Consolidated Statements of Income

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| Interest and fees on loans | | | |
| Taxable | $ 21,630,083 | $ 18,645,426 | $ 15,718,725 |
| Tax-exempt | 172,714 | 114,424 | 120,307 |
| Interest and dividends on securities | | | |
| Taxable | 9,484,352 | 5,287,779 | 3,521,984 |
| Tax-exempt | 690,674 | 550,855 | 550,709 |
| Interest on interest bearing deposits with other banks | 68,748 | 186,623 | 71,624 |
| Interest on Federal Funds sold | 216,944 | 329,285 | 655,114 |
| Total interest income | 32,263,515 | 25,114,392 | 20,638,463 |
| Interest expense | | | |
| Interest on deposits | 13,596,688 | 10,558,788 | 9,337,784 |
| Interest on short-term borrowings | 3,087,018 | 672,488 | 231,544 |
| Interest on long-term borrowings | 1,592,352 | 1,002,750 | 718,634 |
| Total interest expense | 18,276,058 | 12,234,026 | 10,287,962 |
| Net interest income | 13,987,457 | 12,880,366 | 10,350,501 |
| Provision for loan losses | 557,500 | 370,000 | 615,000 |
| Net interest income after provision for loan losses | 13,429,957 | 12,510,366 | 9,735,501 |
| Other income | | | |
| Insurance commissions | 109,802 | 91,363 | 103,493 |
| Service fees | 875,964 | 791,940 | 518,375 |
| Securities gains (losses) | 2,364 | (235,945) | 8,160 |
| Gain on sale of branch bank | 224,629 | - | - |
| Other | 15,568 | 173,574 | 122,517 |
| Total other income | 1,228,327 | 820,932 | 752,545 |
| Other expenses | | | |
| Salaries and employee benefits | 4,863,257 | 4,358,944 | 3,432,197 |
| Net occupancy expense | 627,834 | 559,242 | 455,876 |
| Equipment expense | 974,474 | 716,547 | 545,582 |
| Supplies | 302,652 | 298,878 | 142,967 |
| Amortization of intangibles | 297,683 | 268,986 | 135,461 |
| Other | 2,799,082 | 2,515,622 | 1,926,109 |
| Total other expenses | 9,864,982 | 8,718,219 | 6,638,192 |
| Income before income tax expense | 4,793,302 | 4,613,079 | 3,849,854 |
| Income tax expense | 1,543,383 | 1,569,950 | 1,247,689 |
| Net income | $ 3,249,919 | $ 3,043,129 | $ 2,602,165 |
| Basic earnings per common share | $ 3.69 | $ 3.39 | $ 3.05 |
| Diluted earnings per common share | $ 3.69 | $ 3.39 | $ 3.05 |
| Average common shares outstanding | | | |
| Basic | 880,423 | 897,811 | 854,430 |
| Diluted | 880,423 | 897,811 | 854,430 |

See notes to consolidated financial statements

SUMMIT FINANCIAL GROUP,INC. AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity
For the Years Ended December 31, 2000, 1999 and 1998

| | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| 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 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 |
| 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 |
| Comprehensive income: | | | | | | |
| Net income | - | - | 3,249,919 | - | - | 3,249,919 |
| Other comprehensive income, net of deferred taxes of $1,667,374: Net unrealized gain on securities of $2,681,241, net of reclassification adjustment for (gains) included in net income of $(1,466) | - | - | - | - | 2,679,775 | 2,679,775 |
| Total comprehensive income | - | - | - | - | 5,929,694 | |
| Cost of 3,720 shares acquired for the treasury | - | - | - | (133,001) | - | (133,001) |
| Purchase of fractional shares | (315) | (4,531) | - | - | - | (4,846) |
| Dissenting shares | (46,270) | (46,270) | | | | |
| Cash dividends declared ($1.20 per share | - | - | (1,054,996) | - | - | (1,054,996) |
| Balance, December 31, 2000 | $ 2,225,978 | $ 10,482,873 | $ 26,765,097 | $ (517,725) | $ 816,978 | $ 39,773,201 |

See notes to consolidated financial statements

SUMMIT FINANCIAL GROUP,INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income | $ 3,249,919 | $ 3,043,129 | $ 2,602,165 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Depreciation | 731,073 | 584,212 | 480,168 |
| Provision for loan losses | 557,500 | 370,000 | 615,000 |
| Deferred income tax expense (benefit) | (107,377) | 93,662 | (75,177) |
| Security (gains) losses | (2,364) | 235,945 | (8,160) |
| (Gain) on disposal of premises and equipment | - | - | (9,709) |
| (Gain) loss on sale of other assets | 18,212 | 3,709 | (22,117) |
| (Gain) loss on sale of branch | (224,629) | - | - |
| Amortization of securities premiums (accretion | - | | |
| of discounts), net | (97,821) | 184,399 | 71,652 |
| Amortization of goodwill and purchase accounting adjustments, net | 215,982 | 123,742 | 98,460 |
| (Increase) decrease in accrued interest receivable | (1,350,002) | (633,554) | (20,956) |
| (Increase) decrease in other assets | 42,409 | (2,242,887) | 402,443 |
| Increase (decrease) in other liabilities | 530,716 | 1,901,227 | (145,685) |
| Net cash provided by operating activities | 3,563,618 | 3,663,584 | 3,988,084 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from maturities and calls of securities held to maturity | 140,000 | 349,871 | 6,035,000 |
| Principal payments received on securities held to maturity | 254,281 | 384,326 | 135,320 |
| Proceeds from maturities and calls of securities available for sale | 2,930,109 | 13,706,762 | 13,115,000 |
| Proceeds from sales of securities available for sale | 11,506,633 | 4,062,879 | 613,160 |
| Principal payments received on securities available for sale | 4,670,845 | 4,990,386 | 5,686,747 |
| Purchases of securities available for sale | (75,662,408) | (76,831,440) | (20,689,274) |
| Purchase of common stock of affiliate | - | - | (90,465) |
| Net (increase) decrease in federal funds sold | 1,034,216 | 7,897,529 | 8,580,972 |
| Net loans made to customers | (42,357,660) | (34,671,292) | (25,875,615) |
| Purchases of premises and equipment | (4,204,622) | (1,809,722) | (1,003,586) |
| Proceeds from sales of premises and equipment | - | 252,295 | 10,693 |
| Proceeds from sales of other assets | 206,804 | 233,400 | 154,424 |
| (Purchased) proceeds from interest bearing deposits with other banks | 5,327,987 | (3,959,485) | (585,502) |
| Purchase of life insurance contracts | (1,000,000) | (1,246,000) | - |
| Net cash acquired/paid in acquisitions (divestitures) | (820,679) | 35,071,461 | 985,617 |
| Net cash (used in) investing activities | (97,974,494) | (51,569,030) | (12,927,509) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Net increase in demand deposit, NOW and savings accounts | 7,242,600 | 12,830,849 | 3,088,670 |
| Net increase in time deposits | 49,055,716 | 8,747,170 | 2,342,627 |
| Net increase (decrease) in short-term borrowings | (22,957,216) | 27,703,887 | (2,500,867) |
| Proceeds from long-term borrowings | 70,000,000 | 4,500,000 | 9,636,337 |
| Repayments of long-term borrowings | (6,856,611) | (3,026,335) | (3,563,310) |
| Purchase of treasury stock | (133,001) | - | (217,754) |
| Dividends paid | (1,054,996) | (831,727) | (798,450) |
| Purchase of fractional shares | (4,846) | - | - |
| Payment to dissenting shareholders | (799,095) | - | - |
| Net cash provided by financing activities | 94,492,551 | 49,923,844 | 7,987,253 |
| Increase (decrease) in cash and due from banks | 81,675 | 2,018,398 | (952,172) |
| Cash and due from banks: | | | |
| Beginning | 7,010,196 | 4,991,798 | 5,943,970 |
| Ending | $ 7,091,871 | $ 7,010,196 | $ 4,991,798 |

See notes to consolidated financial statements

SUMMIT FINANCIAL GROUP,INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows-continued

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | | |
| Cash payments for: | | | |
| Interest | $ 17,465,019 | $ 11,903,226 | $ 10,309,618 |
| Income taxes | $ 1,671,210 | $ 1,498,692 | $ 1,173,607 |
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES | | | |
| Other assets acquired in settlement of loans | $ 111,350 | $ 77,115 | $ 167,723 |
| Sales (purchases) of securities pending settlement, net | $ (2,026,074) | $ 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 |
| Sale of Petersburg Branch: | | | |
| Net cash and cash equilvalents paid to buyer | $ 820,679 | $ - | $ - |
| Fair value of assets sold: | | | |
| Loans | 6,173,806 | - | - |
| Property & equipment | 223,755 | - | - |
| Other | 28,645 | - | - |
| | 6,426,206 | - | - |
| Deposits and other liabilities sold | 7,246,885 | - | - |
| | $ 820,679 | $ - | $ - |

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. Total interest capitalized during the period was approximately $38,000. No interest was capitalized during 1999 and 1998.

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 $36,110 and $114,655, at December 31, 2000 and 1999, 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: The FASB has issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Financial Instruments and Hedging Activities", as amended by SFAS 137 and SFAS 138 (collectively "SFAS 133"). SFAS 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000, with early adoption allowed. The Company elected to adopt SFAS 133 on December 31, 1999.

SFAS 133 Requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, depending on the type of hedge transaction.

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

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

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

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

During 2000 the Company was party to instruments that qualified for fair-value hedge accounting and other instruments that were held for risk management purposes that did not qualify for hedge accounting.

During 1999 and 1998 the Company was not party to any derivative financial instruments as defined by SFAS 133.

Reclassifications: Certain accounts in the consolidated financial statements for 1999 and 1998, as previously presented, have been reclassified to conform to current year classifications.

NOTE 2. ACQUISTIONS 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.

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. 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 | |
| | As | Pro | As | Pro |

| | Reported | Forma | Reported | Forma |
|---|---|---|---|---|
| Total interest income | $25,114 | $25,966 | $20,638 | $24,247 |
| Total interest expense | 12,234 | 12,710 | 10,288 | 12,227 |
| Net interest income | 12,880 | 13,286 | 10,350 | 12,020 |
| Net income | 3,043 | 3,115 | 2,602 | 2,849 |
| Basic and diluted earnings per share | $3.39 | $3.47 | $3.05 | $3.33 |

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. There were no concentrations at December 31, 2000.

## note 4. Securities

The amortized cost, unrealized gains and losses, and estimated fair values of securities at December 31, 2000 and 1999, are summarized as follows:

| | 2000 | | | |
|---|---|---|---|---|
| | Amortized | Unrealized | | Estimated |
| | Cost | Gains | Losses | Fair Value |
| Available for Sale | | | | |
| Taxable: | | | | |
| U. S. Treasury securities | $ 1,499,026 | $ 2,850 | $ - | $ 1,501,876 |
| U. S. Government agencies | - | | | |
| and corporations | 80,847,229 | 805,826 | 262,259 | 81,390,796 |
| Mortgage-backed securities - | | | | |
| U. S. Government agencies | | | | |
| and corporations | 55,129,636 | 661,521 | 244,570 | 55,546,587 |
| State and political subdivisions | 2,979,364 | 12,245 | - | 2,991,609 |
| Corporate debt securities | 15,198,567 | 292,153 | 809 | 15,489,911 |
| Federal Reserve Bank stock | 236,300 | - | - | 236,300 |
| Federal Home Loan Bank stock | 4,375,900 | - | - | 4,375,900 |
| Other equity securities | 306,625 | - | 124,500 | 182,125 |
| Total taxable | 160,572,647 | 1,774,595 | 632,138 | 161,715,104 |
| Tax-exempt: | | | | |
| State and political subdivisions | 9,417,015 | 182,014 | - | 9,599,029 |
| Federal Reserve Bank stock | 4,100 | - | 4,100 | |
| Other equity securities | 5,028,978 | - | 6,801 | 5,022,177 |
| Total tax-exempt | 14,450,093 | 182,014 | 6,801 | 14,625,306 |
| Total | $175,022,740 | $ 1,956,609 | $ 638,939 | $176,340,410 |

| | | | | |
|---|---|---|---|---|
| Held to maturity | | | | |
| Tax exempt: | | | | |
| State and political subdivisions | $ 400,835 | $ 2,213 | $ - | $ 403,048 |

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

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, 2000 and 1999. 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, 2000, are summarized as follows:

| | Available for Sale | |
|---|---|---|
| | Amortized Cost | Estimated Fair Value |
| Due in one year or less | $ 23,103,944 | $ 23,306,020 |
| Due from one to five years | 87,133,068 | 89,057,714 |
| Due from five to ten years | 45,716,960 | 45,989,125 |
| Due after ten years | 9,116,862 | 8,166,943 |
| Equity securities | 9,951,906 | 9,820,608 |
| Total | $175,022,740 | $176,340,410 |

| | Held to Maturity | |
|---|---|---|
| | Amortized Cost | Estimated Fair Value |
| Due in one year or less | $250,187 | $250,703 |
| Due from one to five years | 150,648 | 152,345 |
| Due from five to ten years | - | - |
| Due after ten years | - | - |
| Equity securities | - | - |
| Total | $400,835 | $403,048 |

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

| Years Ended December 31, | Proceeds from Sales | Proceeds from Calls and Maturities | Proceeds from Principal Payments | Gross Realized Gains | Gross Realized Losses |
|---|---|---|---|---|---|
| 2000 | | | | | |
| Securities available for sale | $ 11,506,633 | $ 2,930,109 | $ 4,670,845 | $ 2,364 | $ - |
| Securities held to maturity | - | 140,000 | - | - | - |
| | $ 11,506,633 | $ 3,070,109 | $ 4,670,845 | $ 2,364 | $ - |
| 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 | $ 8,610 | $ - |
| Securities held to maturity | - | 6,035,000 | 135,320 | - | - |
| | $ 613,160 | $ 19,150,000 | $ 5,822,067 | $ 8,610 | $ - |

At December 31, 2000 and 1999, securities with amortized costs of $39,856,005 and $27,001,621, respectively, with estimated fair values of $40,062,343 and $20,139,693, respectively, were pledged to secure public deposits, and for other purposes required or permitted by law.

NOTE 5. LOANS

Loans are summarized as follows:

| | 2000 | 1999 |
|---|---|---|
| Commercial, financial and agricultural | $104,509,907 | $ 78,894,072 |
| Real estate - construction | 2,729,408 | 2,012,243 |
| Real estate - mortgage | 127,929,968 | 116,778,905 |
| Installment | 37,586,562 | 38,666,563 |
| Other | 2,000,900 | 2,522,980 |
| Total loans | 274,756,745 | 238,874,763 |
| Less unearned income | 603,317 | 575,560 |
| Total loans net of unearned income | 274,153,428 | 238,299,203 |
| Less allowance for loan losses | 2,570,776 | 2,231,555 |
| Loans, net | $271,582,652 | $ 236,067,648 |

Included in the net balance of loans are non-accrual loans amounting to $567,795 and $521,977 at December 31, 2000 and 1999, respectively. If interest on non-accrual loans had been accrued, such income would have approximated $14,745 $33,121 and $42,987 for the years ended December 31, 2000, 1999 and 1998, respectively.

The following presents loan maturities at December 31, 2000.

| | Within 1 Year | After 1 but Within 5 Years | After 5 Years |
|---|---|---|---|
| Commercial,financial and agricultural | $ 17,383,932 | $ 31,491,064 | $ 55,634,911 |
| Real estate - construction | 131,779 | 64,000 | 2,533,629 |
| Real estate - mortgage | 10,085,888 | 14,394,152 | 103,449,928 |
| Installment loans | 5,483,581 | 25,823,128 | 6,279,853 |
| Other | 856,041 | 1,008,406 | 136,453 |
| | $ 33,941,221 | $ 72,780,750 | $ 168,034,774 |

| | |
|---|---|
| Loans due after one year with: | |
| Variable rates | $ 79,936,181 |
| Fixed rates | 160,879,343 |
| | $240,815,524 |

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):

| | 2000 | 1999 |
|---|---|---|
| Balance, beginning | $ 9,864,644 | $ 10,066,896 |
| Additions | 998,305 | 5,808,627 |
| Amounts collected | (2,134,963) | (3,953,176) |
| Other changes, net | 278,111 | (2,057,703) |
| Balance, ending | $ 9,006,097 | $ 9,864,644 |

NOTE 6. ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses for the years ended December 31, 2000, 1999 and 1998 is as follows:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Balance, beginning of year | $2,231,555 | $2,113,201 | $1,489,117 |
| Losses: | | | |
| Commercial,financial and agricultural | - | 164,783 | 182,517 |
| Real estate - mortgage | 62,839 | 31,892 | 1,057 |
| Installment | 174,719 | 144,099 | 204,415 |
| Other | 48,521 | 37,407 | 25,209 |
| Total | 286,079 | 378,181 | 413,198 |
| Recoveries: | | | |
| Commercial,financial and agricultural | 2,031 | 40,115 | 3,030 |
| Real estate - mortgage | 1,603 | 9,820 | 22,219 |
| Installment | 53,165 | 70,998 | 117,996 |
| Other | 11,001 | 5,602 | 7,235 |
| Total | 67,800 | 126,535 | 150,480 |
| Net losses | 218,279 | 251,646 | 262,718 |
| Allowance of purchased subsidiary | - | - | 271,802 |
| Provision for loan losses | 557,500 | 370,000 | 615,000 |
| Balance, end of year | $2,570,776 | $2,231,555 | $2,113,201 |

The Company's total recorded investment in impaired loans at December 31, 2000 and 1999 approximated $982,539 and $345,817, respectively, for which the related allowance for loan losses determined in accordance with generally accepted accounting principles approximated $250,000 and $73,900, respectively. The Company's average investment in such loans approximated $1,010,355 and $475,222 for the years ended December 31, 2000 and 1999, respectively. All impaired loans at December 31, 1999 were collateral dependent, and accordingly, the fair value of the loan's collateral was used to measure the impairment of each loan. Impaired loans at December 31, 2000 included loans that were collateral dependent, for which the fair value of the loans collateral was used to measure impairment, and a loan that was not collateral dependent, for which the impairment was measured based on management's best estimate of discounted cash flows.

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, 2000 and 1999, the Company recognized approximately $111,025 and $400, 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, 2000 and 1999, are summarized as follows:

| | 2000 | 1999 |
|---|---|---|
| Land | $ 2,495,920 | $ 2,529,741 |
| Buildings and improvements | 9,152,420 | 6,737,044 |
| Furniture and equipment | 5,333,525 | 3,843,450 |
| | 16,981,865 | 13,110,235 |
| Less accumulated depreciation | 4,735,044 | 4,113,208 |
| Premises and equipment, net | $12,246,821 | $ 8,997,027 |

Depreciation expense for the years ended December 31, 2000, 1999 and 1998 totaled $731,073, $584,212 and $480,168, respectively.

NOTE 8. DEPOSITS

The following is a summary of interest bearing deposits by type as of December 31, 2000 and 1999:

| | 2000 | 1999 |
|---|---|---|
| Demand deposits, interest bearing | $ 69,038,854 | $ 62,741,925 |
| Savings deposits | 37,729,798 | 42,099,321 |
| Certificates of deposit | 190,986,834 | 149,440,839 |
| Individual retirement accounts | 18,174,955 | 15,474,660 |
| Total | $315,930,441 | $269,756,745 |

Time certificates of deposit and IRA's in denominations of $100,000 or more totaled $50,840,006 and $39,883,962 at December 31, 2000 and 1999, respectively. Interest paid on time certificates of deposit and Individual Retirement Accounts in denominations of $100,000 or more were $2,623,640, $1,823,421 and $1,506,154 for the years ended December 31, 2000, 1999 and 1998, 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, 2000:

| | Amount | Percent |
|---|---|---|
| Three months or less | $13,156,335 | 25.9% |
| Three through six months | 16,106,236 | 31.7% |
| Six through twelve months | 13,623,247 | 26.8% |
| Over twelve months | 7,954,188 | 15.6% |
| Total | $50,840,006 | 100.0% |

A summary of the scheduled maturities for all time deposits as of December 31, 2000, follows:

| | |
|---|---|
| 2001 | $172,020,578 |
| 2002 | 23,583,886 |
| 2003 | 8,567,582 |
| 2004 | 3,603,773 |
| 2005 | 970,257 |
| Thereafter | 415,713 |
| | $209,161,789 |

At December 31, 2000, deposits of related parties including directors, executive officers, and their related interests of the Company approximated $6,500,000.

NOTE 9. BORROWED FUNDS

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

| | 2000 | | |
|---|---|---|---|
| | Federal Funds Purchased | Repurchase Agreements | Short-term FHLB Advances |
| Balance at December 31 | $ 1,252,000 | $ 6,187,914 | $ 1,950,900 |
| Average balance outstanding for the year | 3,922,918 | 7,450,110 | 37,489,925 |
| Maximum balance outstanding at any month end | 1,252,000 | 12,758,541 | 72,702,003 |
| Weighted average interest rate for the year | 7.03% | 5.13% | 7.13% |

| | | | |
|---|---|---|---|
| Weighted average interest rate for balances outstanding at December 31 | 7.00% | 4.95% | 6.63% |

| | 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% |

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, 2000, Summit's subsidiary banks had combined additional borrowings availability of $70,961,000 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 $81,085,929 and $17,942,540 as of December 31, 2000 and 1999, respectively, consisted of advances from the FHLB.

These borrowings bear both fixed and variable interest rates and mature in varying amounts through the year 2010.

The average interest rate paid on long-term borrowings during 2000 and 1999 approximated 5.68% and 5.33%, 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 |
|---|---|
| 2001 | $ 378,081 |
| 2002 | 1,150,840 |
| 2003 | 424,973 |
| 2004 | 860,592 |
| 2005 | 12,323,714 |
| Thereafter | 65,947,729 |
| | $81,085,929 |

NOTE 10. INCOME TAXES

The components of applicable income tax expense (benefit) for the years ended December 31, 2000, 1999 and 1998, are as follows:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Current | | | |
| Federal | $ 1,446,490 | $ 1,362,370 | $ 1,154,774 |
| State | 204,270 | 154,585 | 168,092 |
| | 1,650,760 | 1,516,955 | 1,322,866 |
| Deferred | | | |
| Federal | (107,568) | 15,892 | (57,863) |
| State | 191 | 37,103 | (17,314) |
| | (107,377) | 52,995 | (75,177) |
| Total | $ 1,543,383 | $ 1,569,950 | $ 1,247,689 |

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, 2000, 1999 and 1998 is as follows:

| | 2000 | | 1999 | | 1998 | |
|---|---|---|---|---|---|---|
| | Amount | Percent | Amount | Percent | Amount | Percent |
| Computed tax at applicable statutory rate | $ 1,629,723 | 34 | $ 1,568,447 | 34 | $ 1,308,950 | 34 |
| Increase (decrease) in taxes resulting from: | | | | | | |
| Tax-exempt interest, net | (216,212) | (5) | (425,763) | (9) | (196,508) | (5) |
| State income taxes, net of Federal income tax benefit | 134,818 | 3 | 140,354 | 3 | 109,575 | 3 |
| Change in deferred tax valuation allowance | - | - | 271,733 | 6 | 61,965 | 2 |
| Nondeductible amortization of goodwill | 26,568 | 1 | 40,763 | 1 | 33,415 | 1 |
| Other, net | (31,514) | (1) | (25,584) | (1) | (69,708) | (2) |
| Applicable income taxes | $ 1,543,383 | 32 | $ 1,569,950 | 34 | $ 1,247,689 | 33 |

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, 2000 and 1999, are as follows:

| | 2000 | 1999 |
|---|---|---|
| Deferred tax assets | | |
| Allowance for loan losses | $ 704,251 | $ 622,125 |
| Deferred compensation | 156,095 | 106,439 |
| Other deferred costs and accrued expenses | 78,771 | 52,010 |
| Deductible goodwill | - | 38,463 |
| Net operating loss carryforwards | - | 3,181 |
| Net unrealized loss on securities | (500,715) | 1,155,268 |
| Net unrealized loss on invest rate caps | 44,552 | - |
| | 482,954 | 1,977,486 |
| Deferred tax liabilities | | |
| Depreciation | 63,208 | 32,322 |
| Accretion on tax-exempt securities | 12,756 | 9,670 |
| Purchase accounting adjustments | 145,387 | 125,285 |
| | 221,351 | 167,277 |
| Net deferred tax assets (liabilities) | $ 261,603 | $ 1,810,209 |

The income tax expense (benefit) on realized securities gains (losses) was $910, $(90,839), and $(3,141) for the years ended December 31, 2000, 1999 and 1998, respectively.

## 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 $150,777, $178,770, and $137,628 for the years ended December 31, 2000, 1999 and 1998, 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, 2000, 1999 and 1998 were $137,588, $66,615, and $54,559, respectively. Dividends paid by the Company to the ESOP are reported as a reduction to retained earnings. The ESOP owns 13,578 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 banks, South Branch Valley National Bank, Capital State Bank, and Shenandoah Valley National Bank as well as the Company itself, has established non-qualified deferred compensation plans for directors who voluntarily elect to defer payment of retainer, meeting and committee fees earned. The liability for deferred directors' compensation at December 31, 2000 and 1999, approximated $284,026 and $267,777, 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. During 2000 Capital State Bank and Shenandoah Valley National Bank adopted similar plans. The liabilities accrued for the SERP at December 31, 2000 and 1999 were $66,368 and $12,336 respectively, which are included in other liabilities. In addition, the subsidiary banks have purchased certain life insurance contracts to fund the liabilities arising under these plan. At December 31, 2000 and 1999, the cash surrender value of these insurance contracts was $2,370,708 and $1,281,998, respectively.

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 vests according to a schedule designated at the grant date and shall have a term of no more than 10 years following the vesting date. Also, the option price per share shall not be less than the fair market value of 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 2000 and 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).

| | 2000 | |
|---|---|---|
| | As Reported | Pro Forma |
| Net income (in thousands) | $ 3,250 | $ 3,222 |
| Basic earnings per share | $ 3.69 | $ 3.66 |
| Diluted earnings per share | $ 3.69 | $ 3.66 |

| | 1999 | |
|---|---|---|
| | As Reported | Pro Forma |
| Net income (in thousands) | $ 3,043 | $ 3,017 |
| Basic earnings per share | $ 3.39 | $ 3.36 |
| Diluted earnings per share | $ 3.39 | $ 3.36 |

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-Scholes option pricing model using the following weighted-average assumptions for grants in each respective year: risk free interest rates of 6.50% for 2000 and 5.25% for 1999; dividend yields of 3.25% for 2000 and 2.0% for 1999; volatility factors of the expected market price of Summit's common stock of 20 for 2000 and 1999; and an expected option life of 10 years for 2000 and 1999. The weighted-average grant date fair value of options granted during 2000 and 1999 was $10.07 and $12.86, respectively. For purposes of the pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

A summary of activity in Summit's Officer Stock Option Plan during 2000 and 1999 is as follows:

| | Options | Weighted-Average Exercise Price |
|---|---|---|
| Outstanding, January 1, 1999 | - | $ - |
| Granted | 7,500 | 41.65 |
| Exercised | - | - |
| Forfeited | - | - |
| Outstanding, December 31, 1999 | 7,500 | $ 41.65 |
| Granted | 4,500 | 37.00 |
| Exercised | - | - |
| Forfeited | - | - |
| Outstanding, December 31, 2000 | 12,000 | $ 39.91 |
| Exercisable Options: | | |
| December 31, 2000 | 3,900 | $ 40.58 |
| December 31, 1999 | 1,500 | $ 41.65 |

The exercise prices for all options outstanding at December 31, 2000 ranged from $37.00 to $41.65. The weighted-average remaining contractual life of those options at December 31, 2000 was 10.5 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, 2000 and 1999, approximated $27,776,257 and $18,040,810, 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).

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. As of December 31, 2000 there were no significant retained profits available for distribution to Summit as dividends without regulatory approval.

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, 2000, 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 tables (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, 2000 | | | | | | |
| Total Capital | | | | | | |
| (to risk weighted assets) | | | | | | |
| Company | $37,900 | 12.8% | 23,669 | 8.0% | $29,586 | 10.0% |
| SBVNB | 12,751 | 10.6% | 9,623 | 8.0% | 12,029 | 10.0% |
| SVNB | 6,521 | 17.1% | 3,051 | 8.0% | 3,813 | 10.0% |
| CSB | 7,679 | 11.0% | 5,585 | 8.0% | 6,981 | 10.0% |
| Potomac | 8,483 | 13.0% | 5,220 | 8.0% | 6,525 | 10.0% |
| Tier I Capital | | | | | | |
| (to risk weighted assets) | | | | | | |
| Company | 35,329 | 11.9% | 11,875 | 4.0% | 17,813 | 6.0% |
| SBVNB | 11,460 | 9.5% | 4,825 | 4.0% | 7,238 | 6.0% |
| SVNB | 6,405 | 16.8% | 1,525 | 4.0% | 2,288 | 6.0% |
| CSB | 7,135 | 10.2% | 2,798 | 4.0% | 4,197 | 6.0% |
| Potomac | 7,863 | 12.0% | 2,621 | 4.0% | 3,932 | 6.0% |
| Tier I Capital | | | | | | |
| (to average assets) | | | | | | |
| Company | 35,329 | 8.2% | 12,925 | 3.0% | 21,542 | 5.0% |
| SBVNB | 11,460 | 7.1% | 4,842 | 3.0% | 8,070 | 5.0% |
| SVNB | 6,405 | 8.3% | 2,315 | 3.0% | 3,858 | 5.0% |
| CSB | 7,135 | 6.2% | 3,452 | 3.0% | 5,754 | 5.0% |
| Potomac | 7,863 | 7.1% | 3,322 | 3.0% | 5,537 | 5.0% |

| | 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) | | | | | | |
| Summit | $35,186 | 14.8% | $19,052 | 8.0% | $23,815 | 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 | 7,064 | 12.9% | 4,372 | 8.0% | 5,465 | 10.0% |
| PVB | 12,894 | 21.0% | 4,904 | 8.0% | 6,130 | 10.0% |
| Tier I Capital | | | | | | |
| (to risk weighted assets) | | | | | | |
| Summit | 32,954 | 13.8% | 9,526 | 4.0% | 14,289 | 6.0% |
| SBVNB | 10,781 | 9.7% | 4,443 | 4.0% | 6,665 | 6.0% |
| SVNB | 3,896 | 25.6% | 609 | 4.0% | 914 | 6.0% |
| CSB | 6,660 | 12.2% | 2,186 | 4.0% | 3,279 | 6.0% |
| PVB | 12,267 | 20.0% | 2,452 | 4.0% | 3,678 | 6.0% |
| Tier I Capital | | | | | | |
| (to average assets) | | | | | | |
| Summit | 32,954 | 8.7% | 11,413 | 3.0% | 19,021 | 5.0% |
| SBVNB | 10,781 | 7.0% | 4,653 | 3.0% | 7,755 | 5.0% |
| SVNB | 3,896 | 11.6% | 1,005 | 3.0% | 1,675 | 5.0% |
| CSB | 6,660 | 6.7% | 2,965 | 3.0% | 4,942 | 5.0% |
| PVB | 12,267 | 13.3% | 2,773 | 3.0% | 4,621 | 5.0% |

NOTE 14. 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 sale included the Branch's facility and selected loans and deposit accounts. The final settlement of this transaction resulted in approximately $6.4 million of asset transfers, with the buyer assuming approximately $7.2 million in liabilities, requiring a cash payment to the purchaser of approximately $.8 million.

NOTE 15. DERIVATIVE FINANCIAL INSTRUMENTS

During 2000 the Company purchased interest rate caps with a notional amount of $50 million. These caps are used to offset interest rate risk relating to certain variable rate long-term debt.

These interest rate caps do not meet the criteria for hedge accounting and are marked to market at the end of each period with changes in market value being charged to earnings. The total amount paid for these caps was $158,500 and the cumulative market adjustments, and the amount charged to earnings in 2000 were $124,446.

During 2000 the Company entered into interest rate swap agreements where by the Company will pay a variable rate of USD-LIBOR and receive a fixed rate of 7.18% with a notional amount of $2,000,000 and a term of three years, expiring June 4, 2003. These instruments were used to hedge the fair value of certain certificates of deposit issued by the subsidiary banks. The swap agreement and the related hedged certificates are marked to market at the end of each reporting period and the net impact of the adjustments, the ineffective portion of the

hedge, is reflected in other income in the accompanying financial statements. The net of the amounts earned on the fixed rate leg of the swap and amounts due on the variable rate leg of the swap are reflected as an adjustment in the Company's cost of funds. During 2000 there was no ineffectiveness of the hedge transaction reflected in earnings.

The total amount reflected as an adjustment to interest expense during 2000 was $6,100.

NOTE 16. 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 counter parties. The amounts of fees currently charged on commitments and standby letters of credit are deemed insignificant, and therefore, the estimated fair values and carrying values are not shown below.

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

| | 2000 | | 1999 | |
|---|---|---|---|---|
| | Carrying Cost | Estimated Fair Value | Carrying Cost | Estimated Fair Value |
| Financial assets: | | | | |
| Cash and due from banks | $ 7,091,877 | $ 7,091,871 | $ 7,010,196 | $ 7,018,196 |
| Interest bearing deposits, other banks | 473,000 | 473,000 | 5,800,987 | 5,800,987 |
| Federal funds sold | 1,811,000 | 1,811,000 | 2,845,216 | 2,845,216 |
| Securities available fo | 176,340,140 | 176,340,410 | 111,972,963 | 111,972,963 |
| Securities held to maturity | 400,835 | 403,048 | 796,820 | 801,615 |
| Loans | 271,582,652 | 264,244,272 | 236,067,648 | 235,303,880 |
| Accrued interest receivab | 3,760,301 | 3,760,701 | 2,439,767 | 2,439,767 |
| | $ 461,459,805 | $ 454,124,302 | $ 366,933,597 | $ 366,182,624 |
| Financial liabilities: | | | | |
| Deposits | $ 345,961,850 | $ 346,779,838 | $ 297,138,620 | $ 298,005,504 |
| Short-term borrowings | 9,390,814 | 9,390,814 | 31,348,030 | 31,348,030 |
| Long-term borrowings | 81,085,929 | 86,626,954 | 18,942,540 | 18,942,540 |
| Accrued interest payable | 2,105,533 | 2,105,533 | 1,309,002 | 1,309,002 |
| | $ 438,544,126 | $ 444,903,139 | $ 348,738,192 | $ 349,605,076 |

NOTE 17. 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, 2000 and 1999, and the related statements of income and cash flows for the years ended December 31, 2000, 1999 and 1998, are presented as follows:

| Balance Sheets | December 31, 2000 | 1999 |
|---|---|---|
| Assets | | |
| Cash and due from banks | $ 396,077 | $ 193,831 |
| Investment in bank subsidiaries, eliminated in consolidation | 37,397,800 | 35,881,307 |
| Securities available for sale | 182,125 | 240,249 |
| Furniture and equipment | 1,794,607 | 212,018 |
| Other assets | 283,290 | 339,819 |
| Total assets | $ 40,053,899 | $ 36,867,224 |
| Liabilities and Shareholders' Equity | | |
| Long-term borrowings | $ - | $ 1,000,000 |
| Other liabilities | 280,698 | 784,604 |
| Total liabilities | 280,698 | 1,784,604 |
| Common stock, $2.50 par value, authorized 2,000,000 shares; issued 1999 - 890,517 shares, 1998 - 907,016 shares | 2,225,978 | 2,226,293 |
| Capital surplus | 10,482,873 | 10,533,674 |
| Retained earnings | 26,765,097 | 24,570,174 |
| Less cost of shares acquired for the treasury 1998-9,115 shares; 1997-4,115 shares | (517,725) | (384,724) |
| Accumulated other comprehensive income | 816,978 | (1,862,797) |
| Total shareholders' equity | 39,773,201 | 35,082,620 |
| Total liabilities and shareholder | $ 40,053,899 | $ 36,867,224 |

| Statements of Income | 2000 | 1999 | 1998 |
|---|---|---|---|
| Income | | | |
| Dividends from bank subsidiaries | $ 7,220,000 | $ 4,240,000 | $ 1,570,000 |
| Other dividends and interest income | 27,671 | 28,265 | 7,454 |
| Management fees from bank subsidiaries | 1,387,150 | 548,317 | 55,000 |
| Securities gains | - | - | 4,110 |
| Total income | 8,634,821 | 4,816,582 | 1,636,564 |
| Expense | | | |
| Interest expense | 2,736 | 51,431 | 56,689 |
| Operating expenses | 1,850,362 | 794,692 | 184,057 |
| Total expenses | 1,853,098 | 846,123 | 240,746 |
| Income before income taxes and equity in undistributed income of bank subsidiaries | 6,781,723 | 3,970,459 | 1,395,818 |
| Income tax (benefit) | (167,845) | (99,600) | (72,200) |
| Income before equity in undistributed income of bank subsidiaries | 6,949,568 | 4,070,059 | 1,468,018 |
| Equity in (distributed) undistributed income of bank subsidiaries | (3,699,649) | (1,026,930) | 1,134,147 |
| Net income | $ 3,249,919 | $ 3,043,129 | $ 2,602,165 |

Statements of Cash Flows

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income | $ 3,249,919 | $ 3,043,129 | $ 2,602,165 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Equity in undistributed net income of bank subsidiaries | 3,699,649 | 1,026,930 | (1,134,147) |
| Deferred tax expense | 19,055 | | |
| Depreciation | 121,693 | 48,913 | 1,396 |
| Securities gains/(losses) | - | - | (4,110) |
| (Increase) decrease in other assets | 59,231 | (213,783) | 8,893 |
| Increase (decrease) in other liabilities | 248,919 | 31,779 | (26,439) |
| Net cash provided by operating activities | 7,398,466 | 3,936,968 | 1,447,758 |
| 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) |
| Investment in Shenandoah Valley National Bank | (2,500,000) | (4,000,000) | - |
| Proceeds from sales of premises and equipment | - | 62,870 | - |
| Purchases of furniture and equipment | (1,704,282) | (197,835) | (127,363) |
| Net cash (used in) investing activities | (4,204,282) | (4,134,965) | (313,718) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Dividends paid to shareholders | (1,054,996) | (831,727) | (798,450) |
| Purchases of fractional shares | (4,846) | - | - |
| Payments to dissenting shareholders | (799,095) | - | - |
| Purchase of treasury stock | (133,001) | - | (217,754) |
| Proceeds from long-term borrowings | - | 1,000,000 | - |
| Repayment of long-term borrowings | (1,000,000) | - | (39,874) |
| Net cash provided by (used in) financing activities | (2,991,938) | 168,273 | (1,056,078) |
| Increase (decrease) in cash | 202,246 | (29,724) | 77,962 |
| Cash: | | | |
| Beginning | 193,831 | 223,555 | 145,593 |
| Ending | $ 396,077 | $ 193,831 | $ 223,555 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | | |
| Cash payments for: | | | |
| Interest | $ 2,736 | $ 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 |

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 incorporation by reference in this Annual Report on Form 10-K of our report dated February 16, 2001, on our audits of the consolidated financial statements of Summit Financial Group, Inc. as of December 31, 2000 and 1999 and for each of the three years in the period ended December 31, 2000, included in Summit's 2000 Annual Report.

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

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

Charleston, West Virginia
March 29, 2001