U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2001.

or

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

Commission File Number 0-16587

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

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

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

(304) 538-7233
(Registrant's telephone number, including area code)

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

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock as of the latest practicable date.

Common Stock, $2.50 par value
877,155 shares outstanding as of April 17, 2001

Summit Financial Group, Inc. and Subsidiaries

Table of Contents

Summit Financial Group, Inc. and Subsidiaries

Consolidated Balance Sheets

	March 31, 2001 (unaudited)	December 31, 2000 (*)
ASSETS		
Cash and due from banks	$ 8,743,887	$ 7,091,871
Interest bearing deposits with other banks	166,008	473,000
Federal funds sold	9,799,000	1,811,000
Securities available for sale	180,414,361	176,340,410
Securities held to maturity	400,685	400,835
Loans, net	282,147,175	271,582,652
Premises and equipment, net	12,381,734	12,246,821
Accrued interest receivable	4,020,875	3,760,701
Intangible assets	3,563,924	3,634,472
Other assets	4,073,333	3,897,339
Total assets	$ 505,710,982	$ 481,239,101
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Non interest bearing	$ 33,993,217	$ 30,031,409
Interest bearing	329,399,022	315,930,441
Total deposits	363,392,239	345,961,850
Short-term borrowings	9,161,349	9,390,814
Long-term borrowings	87,493,471	81,085,929
Other liabilities	3,973,366	5,027,307
Total liabilities	464,020,425	441,465,900
Commitments and Contingencies		
Shareholders' Equity		
Common stock, $2.50 par value; authorized 5,000,000 shares; issued 890,390 shares	2,225,978	2,225,978
Capital surplus	10,482,873	10,482,873
Retained earnings	27,774,111	26,765,097
Less cost of shares acquired for the treasury 2001 - 13,235 shares; 2000 - 12,835 shares	(532,479)	(517,725)
Accumulated other comprehensive income	1,740,074	816,978
Total shareholders' equity	41,690,557	39,773,201
Total liabilities and shareholders' equity	$ 505,710,982	$ 481,239,101

(*)- December 31, 2000 financial information has been extracted from audited consolidated financial statements

Summit Financial Group, Inc. and Subsidiaries

Consolidated Statements of Income (unaudited)

	Three Months Ended	
	March 31, 2001	March 31, 2000
Interest income		
Interest and fees on loans		
Taxable	$5,969,383	$5,075,650
Tax-exempt	39,916	36,462
Interest and dividends on securities		
Taxable	2,845,899	1,902,097
Tax-exempt	220,511	173,398
Interest on interest bearing deposits with other banks	3,760	48,951
Interest on Federal funds sold	46,957	54,427
Total interest income	9,126,426	7,290,985
Interest expense		
Interest on deposits	3,960,775	2,972,164
Interest on short-term borrowings	171,150	522,526
Interest on long-term borrowings	1,171,620	254,203
Total interest expense	5,303,545	3,748,893
Net interest income	3,822,881	3,542,092
Provision for loan losses	145,000	127,501
Net interest income after provision for loan losses	3,677,881	3,414,591
Other income		
Insurance commissions	15,158	21,195
Service fees	222,273	206,391
Securities gains (losses)	84,142	-
Other	43,030	32,190
Total other income	364,603	259,776
Other expense		
Salaries and employee benefits	1,325,042	1,212,410
Net occupancy expense	194,335	147,548
Equipment expense	284,073	196,421
Supplies	51,906	47,844
Amortization of intangibles	70,548	80,736
Other	595,661	622,122
Total other expense	2,521,565	2,307,081
Income before income taxes	1,520,919	1,367,286
Income tax expense	511,905	438,055
Net income	$1,009,014	$ 929,231
Basic earnings per common share	$ 1.15	$ 1.05
Diluted earnings per common share	$ 1.15	$ 1.05
Average common shares outstanding		
Basic	877,436	881,275
Diluted	877,436	881,275
Dividends per common share	$ -	$ -

See Notes to Consolidated Financial Statements

Summit Financial Group, Inc. and Subsidiaries

Consolidated Statements of Shareholders' Equity (unaudited)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Compre-hensive Income	Total Share-holders' Equity
Balance, December 31, 2000	$ 2,225,978	$ 10,482,873	$ 26,765,097	$ (517,725)	$ 816,978	$ 39,773,201
Three Months Ended March 31, 2001						
Comprehensive income:						
Net income	-	-	1,009,014	-	-	1,009,014
Other comprehensive income, net of deferred taxes of $1,066,484:						
Net unrealized gain on securities of $870,928, net of reclassification adjustment for gains included in net income of $52,168	-	-	-	-	923,096	923,096
Total comprehensive income	-	-	-	-	-	1,932,110
Cost of 400 shares of common stock acquired for the treasury	-	-	-	(14,754)	-	(14,754)
Balance, March 31, 2001	$ 2,225,978	$ 10,482,873	$ 27,774,111	$ (532,479)	$ 1,740,074	$ 41,690,557
Balance, December 31, 1999	$ 2,226,293	$ 10,533,674	$ 24,570,174	$ (384,724)	$ (1,862,797)	$ 35,082,620
Three Months Ended March 31, 2000						
Comprehensive income:						
Net income	-	-	929,231	-	-	929,231
Other comprehensive income, net of deferred taxes of $171,048:						
Net unrealized (loss) on securities of ($285,080), net of reclassification adjustment for gains (losses) included in net income of $	-	-	-	-	(402,766)	(402,766)
Total comprehensive income						526,465
Purchase of fractional shares	(318)	(4,566)	-	-	-	(4,884)
Balance, March 31, 2000	$ 2,225,975	$ 10,529,108	$ 25,499,405	$ (384,724)	$ (2,265,563)	$ 35,604,201

See Notes to Consolidated Financial Statements

Summit Financial Group, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (unaudited)

	Three Months Ended	
	March 31, 2001	March 31, 2000
Cash Flows from Operating Activities		
Net income	$ 1,009,014	$ 929,231
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	223,069	124,526
Provision for loan losses	145,000	127,501
Deferred income tax (benefit) expense	(11,970)	(52,145)
Securities (gains) losses	(84,142)	
(Gain) loss on disposal of other assets	716	16,153
Amortization of securities premiums (accretion of discounts) net	(127,891)	(34,807)
Amortization of goodwill and purchase accounting adjustments, net	69,549	31,381
(Increase) decrease in accrued interest receivable	(260,174)	(596,566)
(Increase) decrease in other assets	(270,266)	(157,021)
Increase (decrease) in other liabilities	670,408	358,603
Net cash provided by operating activities	1,363,313	746,856
Cash Flows from Investing Activities		
Net (increase) decrease in interest bearing deposits with other banks	306,992	4,882,019
Proceeds from maturities and calls of securities available for sale	19,078,810	1,262,125
Proceeds from sales of securities available for sale	4,793,107	9,355,259
Principal payments received on securities available for sale	2,800,650	899,717
Principal payments received on securities held to maturity	-	58,759
Purchases of securities available for sale	(31,069,852)	(39,772,597)
Net (increase) decrease in Federal funds sold	(7,988,000)	319,959
Net loans made to customers	(10,707,523)	(6,477,684)
Purchases of premises and equipment	(359,398)	(715,537)
Proceeds from sales of other assets	25,822	-
Purchases of life insurance contracts	(51,200)	-
Net cash provided by (used in) investing activities	(23,170,592)	(30,187,980)
Cash Flows from Financing Activities		
Net increase (decrease) in demand deposit, NOW and savings accounts	7,882,891	(3,728,186)
Net increase (decrease) in time deposits	9,413,082	17,077,208
Net increase (decrease) in short-term borrowings	(229,466)	20,587,838
Proceeds from long-term borrowings	6,500,000	-
Repayment of long-term borrowings	(92,458)	(3,087,208)
Purchase of treasury stock	(14,754)	-
Purchase of fractional shares	-	(4,884)
Net cash provided by financing activities	23,459,295	30,844,768
Increase (decrease) in cash and due from banks	1,652,016	1,403,644
Cash and due from banks:		
Beginning	7,091,871	7,010,196
Ending	$ 8,743,887	$ 8,413,840

(Continued)

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows - continued (unaudited)

	Three Months Ended	
	March 31, 2001	March 31, 2000
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	$ 5,294,998	$ 3,720,711
Income taxes	$ -	$ 19,302

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements (unaudited)

Note 1. Basis of Presentation

These consolidated financial statements of Summit Financial Group, Inc. and Subsidiaries ("Summit" or "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for annual year end financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature.

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these estimates.

The results of operations for the three months ended March 31, 2001 are not necessarily indicative of the results to be expected for the full year. The consolidated financial statements and notes included herein should be read in conjunction with the Company's 2000 audited financial statements and Annual Report on Form 10-K. Certain accounts in the consolidated financial statements for December 31, 2000 and March 31, 2001, as previously presented, have been reclassified to conform to current year classifications.

Note 2. Earnings per Share

The computations of basic and diluted earnings per share follow:

	Three Months Ended March 31, 2001	Three Months Ended March 31, 2000
Numerator:		
Net Income	$ 1,009,014	$ 929,231
Denominator:		
Denominator for basic earnings per share - weighted average common shares outstanding	877,436	881,275
Effect of dilutive securities:		
Stock options	-	-
Denominator for diluted earnings per share - weighted average common shares outstanding and assumed conversions	877,436	881,275
Basic earnings per share	$ 1.15	$ 1.05
Diluted earnings per share	$ 1.15	$ 1.05

Note 3. Securities

The amortized cost, unrealized gains, unrealized losses and estimated fair values of securities at March 31, 2001 and December 31, 2000 are summarized as follows:

	March 31, 2001			
	Amortized	Unrealized		Estimated
	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable:				
U. S. Treasury securities	$ 499,625	$ 3,032	$ -	$ 502,657
U. S. Government agencies and corporations	59,813,997	1,252,953	35,552	61,031,398
Mortgage-backed securities - U. S. Government agencies and corporations	65,775,992	955,961	215,814	66,516,139
State and political subdivisions	5,937,031	45,191	5	5,982,217
Corporate debt securities	22,868,298	619,337	856	23,486,779
Federal Reserve Bank stock	311,300	-	-	311,300
Federal Home Loan Bank stock	5,050,400	-	-	5,050,400
Other equity securities	306,625	-	19,500	287,125
Total taxable	160,563,268	2,876,474	271,727	163,168,015
Tax-exempt:				
State and political subdivisions	9,942,762	274,431	3,044	10,214,149
Federal Reserve Bank stock	4,100	-	-	4,100
Other equity securities	7,097,694	-	69,597	7,028,097
Total tax-exempt	17,044,556	274,431	72,641	17,246,346
Total	$177,607,824	$ 3,150,905	$ 344,368	$180,414,361

	March 31, 2001			
	Amortized	Unrealized		Estimated
	Cost	Gains	Losses	Fair Value
Held to Maturity				
Tax-exempt:				
State and political subdivisions	$ 400,685	$ 3,263	$ 157	$ 403,791

	December 31, 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

	December 31, 2000			
	Amortized	Unrealized		Estimated
	Cost	Gains	Losses	Fair Value
Held to Maturity				
Tax-exempt				
State and political subdivisions	$ 400,835	$ 2,213	$ -	$ 403,048

The maturites, amortized cost and estimated fair values of securities at March 31, 2001, are summarized as follows:

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 29,655,731	$ 30,051,925
Due from one to five years	82,114,034	83,780,829
Due from five to ten years	41,691,305	42,433,144
Due after ten years	11,376,635	11,467,438
Equity securities	12,770,119	12,681,025
	$177,607,824	$180,414,361

	Held to Maturity	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 300,685	$ 302,213
Due from one to five years	100,000	101,578
Due from five to ten years	-	-
Due after ten years	-	-
Equity securities	-	-
	$ 400,685	$ 403,791

Note 4. Loans

Loans are summarized as follows:

	March 31, 2001	December 31, 2000
Commerical	$ 27,000,918	$ 26,304,675
Commercial real estate	88,201,645	81,809,039
Real estate - construction	3,013,881	2,729,408
Real estate - mortgage	126,840,174	124,326,161
Consumer	38,521,981	37,586,562
Other	1,778,551	2,000,900
Total loans	285,357,150	274,756,745
Less unearned income	573,406	603,317
Total loans net of unearned income	284,783,744	274,153,428
Less allowance for loan losses	2,636,569	2,570,776
Loans, net	$282,147,175	$271,582,652

Note 5. Allowance for Loan Losses

An analysis of the allowance for loan losses for the three month periods ended March 31, 2001 and 2000, and for the year ended December 31, 2000 is as follows:

	Three Months Ended March 31,		Year Ended December 31,
	2001	2000	2000
Balance, beginning of period	$2,570,776	$2,231,555	$2,231,555
Losses:			
Commercial	48,995	-	-
Real estate - mortgage	-	-	62,839
Consumer	28,532	13,766	174,719
Other	18,857	15,405	48,521
Total	96,384	29,171	286,079
Recoveries:			
Commercial	432	334	2,031
Real estate - mortgage	-	-	1,603
Consumer	12,735	17,710	53,165
Other	4,010	2,071	11,001
Total	17,177	20,115	67,800
Net losses	79,207	9,056	218,279
Provision for loan losses	145,000	127,501	557,500
Balance, end of period	$2,636,569	$2,350,000	$2,570,776

Note 6. Deposits

The following is a summary of interest bearing deposits by type as of March 31, 2001 and December 31, 2000:

	March 31, 2001	December 31, 2000
Interest bearing demand deposits	$ 71,443,070	$ 69,038,854
Savings deposits	39,246,665	37,729,798
Certificates of deposit	199,414,817	190,986,834
Individual retirement accounts	19,294,470	18,174,955
Total	$329,399,022	$315,930,441

The following is a summary of the maturity distribution of certificates of deposit and Individual Retirement Accounts in denominations of $100,000 or more as of March 31, 2001:

	Amount	Percent
Three months or less	$17,070,294	31.6%
Three through six months	11,892,813	22.0%
Six through twelve months	17,099,268	31.7%
Over twelve months	7,918,288	14.7%
Total	$53,980,663	100.0%

A summary of the scheduled maturities for all time deposits as of March 31, 2001 is as follows:

2001	$ 147,212,187
2002	52,130,982
2003	12,339,076
2004	5,035,876
2005	1,134,818
Thereafter	856,348
	$ 218,709,287

Note 7. Borrowed Funds

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

	Quarter Ended March 31, 2001		
	Federal Funds Purchased and Other Short-term Advances	Repurchase Agreements	Federal Home Loan Bank Short-term Advances
Balance at March 31	$2,086,000	$6,225,349	$ 850,000
Average balance outstanding for the quarter	1,127,980	6,212,282	5,570,730
Maximum balance outstanding at any month end during quarter	4,298,000	6,225,349	7,467,100
Weighted average interest rate for the quarter	6.01%	4.77%	5.75%
Weighted average interest rate for balances outstanding at March 31	6.72%	4.16%	6.55%

	Year Ended December 31, 2000		
	Federal Funds Purchased and Other Short-term Advances	Repurchase Agreements	Federal Home Loan Bank Short-term 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%

Long-term borrowings: The Company's long-term borrowings of $87,493,471 and $81,085,929 at March 31, 2001 and December 31, 2000 respectively, consisted of advances from the Federal Home Loan Bank ("FHLB").

These borrowings bear both fixed and variable rates and mature in varying amounts through the year 2011.

The average interest rate paid on long-term borrowings for the three month period ended March 31, 2001 was 5.59% compared to 5.80% for the first three months of 2000.

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	$ 285,623
2002	1,150,840
2003	424,973
2004	860,592
2005	12,323,714
Thereafter	72,447,729
	$ 87,493,471

Note 8. Restrictions on Capital

Summit 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, Summit and each of its subsidiaries must meet specific capital guidelines that involve quantitative measures of Summit's and its subsidiaries' assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Summit 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 Summit 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 March 31, 2001, that Summit 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 Summit and each of its subsidiaries as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, Summit 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 subsidiaries', South Branch Valley National Bank's ("South Branch"), Capital State Bank, Inc.'s ("Capital State"), Shenandoah Valley National Bank's ("Shenandoah") and Potomac Valley Bank's ("Potomac") actual capital amounts and ratios are also presented in the following table.

(Dollars in thousands)

	Actual		Minimum Required Regulatory Capital		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of March 31, 2001						
Total Capital (to risk weighted assets)						
Summit	$38,934	12.2%	$25,622	8.0%	$32,027	10.0%
South Branch	13,222	10.9%	9,709	8.0%	12,136	10.0%
Capital State	7,824	10.0%	6,265	8.0%	7,832	10.0%
Shenandoah	7,581	15.6%	3,892	8.0%	4,865	10.0%
Potomac	8,950	13.3%	5,373	8.0%	6,716	10.0%
Tier I Capital (to risk weighted assets)						
Summit	36,297	11.3%	12,811	4.0%	19,216	6.0%
South Branch	11,940	9.8%	4,855	4.0%	7,282	6.0%
Capital State	7,246	9.3%	3,133	4.0%	4,699	6.0%
Shenandoah	7,435	15.3%	1,946	4.0%	2,919	6.0%
Potomac	8,319	12.4%	2,687	4.0%	4,030	6.0%
Tier I Capital (to average assets)						
Summit	36,297	7.4%	14,627	3.0%	24,379	5.0%
South Branch	11,940	7.3%	4,912	3.0%	8,186	5.0%
Capital State	7,246	6.1%	3,585	3.0%	5,975	5.0%
Shenandoah	7,435	8.4%	2,648	3.0%	4,413	5.0%
Potomac	8,319	7.3%	3,405	3.0%	5,676	5.0%
As of December 31, 2000						
Total Capital (to risk weighted assets)						
Summit	$37,900	12.8%	$23,688	8.0%	$29,586	10.0%
South Branch	12,751	10.6%	9,623	8.0%	12,029	10.0%
Capital State	7,679	11.0%	5,585	8.0%	6,981	10.0%
Shenandoah	6,521	17.1%	3,051	8.0%	3,813	10.0%
Potomac	8,483	13.0%	5,220	8.0%	6,525	10.0%
Tier I Capital (to risk weighted assets)						
Summit	35,329	11.9%	11,875	4.0%	17,813	6.0%
South Branch	11,460	9.5%	4,825	4.0%	7,238	6.0%
Capital State	7,135	10.2%	2,798	4.0%	4,197	6.0%
Shenandoah	6,405	16.8%	1,525	4.0%	2,288	6.0%
Potomac	7,863	12.0%	2,621	4.0%	3,932	6.0%
Tier I Capital (to average assets)						
Summit	35,329	8.2%	12,925	3.0%	21,542	5.0%
South Branch	11,460	7.1%	4,842	3.0%	8,070	5.0%
Capital State	7,135	6.2%	3,452	3.0%	5,754	5.0%
Shenandoah	6,405	8.3%	2,315	3.0%	3,858	5.0%
Potomac	7,863	7.1%	3,322	3.0%	5,537	5.0%

Management's Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

The following discussion and analysis focuses on significant changes in the financial condition and results of operations of 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") for the periods indicated. This discussion and analysis should be read in conjunction with the Company's 2000 audited financial statements and Annual Report on Form 10-K.

The Private Securities Litigation Act of 1995 indicates that the disclosure of forward-looking information is desirable for investors and encourages such disclosure by providing a safe harbor for forward-looking statements by management. The following management's discussion and analysis of financial condition and results of operations contains certain forward-looking statements that involve risk and uncertainty. In order to comply with the terms of the safe harbor, the Company notes that a variety of factors could cause Summit's actual results and experience to differ materially from the anticipated results or other expectations expressed in those forward-looking statements.

RESULTS OF OPERATIONS

Earnings Summary

Net income for the quarter ended March 31, 2001 grew 8.6% to $1,009,000, or $1.15 per diluted share as compared to $929,000, or $1.05 per diluted share for the quarter ended March 31, 2000. Returns on average equity and assets for first quarter 2001 were 10.13% and 0.83%, respectively, compared with 10.30% and 0.93% for the same period of 2000.

Net Interest Income

The Company's net interest income on a fully tax-equivalent basis totaled $3,941,000 for the three month period ended March 31, 2001 compared to $3,643,000 for the same period of 2000, representing an increase of $298,000 or 8.2%. This increase resulted from growth in interest earning assets. Average interest earning assets grew 22.4% from $376,081,000 during the first quarter of 2000 to $460,133,000 for the first quarter of 2001, which resulted primarily from the growth of Shenandoah.

Summit's net yield on interest earning assets declined to 3.4% for the three month period ended March 31, 2001, compared to 3.9% for the same period in 2000. Consistent with industry trends, the Company's net interest margin has been narrowing as competition from nontraditional financial service providers and shifting customer preferences have made it difficult to attract core deposits, the most significant and lowest cost funding source of commercial banks.

Growth in the Company's net interest income is expected to continue due to anticipated continued growth in volumes of interest earning assets, principally loans, over the near term. Conversely, the Company's net interest margin is anticipated to continue to contract over the balance of 2001, due to continued competitive pressures discussed above.

Further analysis of the Company's yields on interest earning assets and interest bearing liabilities are presented in Tables I and II below:

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

	For the Quarter Ended March 31,					
	2001			2000		
	Average Balance	Earnings/ Expense	Yield/ Rate	Average Balance	Earnings/ Expense	Yield/ Rate
Interest earning assets						
Loans, net of unearned income						
Taxable	$ 276,735	$ 5,973	8.6%	$ 238,849	$ 5,060	8.5%
Tax-exempt (1)	2,010	53	10.5%	2,117	64	12.1%
Securities						
Taxable	160,624	2,846	7.1%	114,898	1,902	6.6%
Tax-exempt (1)	16,913	322	7.6%	13,253	263	7.9%
Federal funds sold and interest bearing deposits with other	3,851	52	5.4%	6,964	103	5.9%
Total interest earning assets	460,133	9,246	8.0%	376,081	7,392	7.9%
Noninterest earning assets						
Cash & due from banks	7,885			6,775		
Premises and equipment	12,225			9,671		
Other assets	13,383			9,428		
Allowance for loan losses	(2,636)			(2,281)		
Total assets	$ 490,990			$ 399,674		
Interest bearing liabilities						
Interest bearing demand deposits	$ 65,817	$ 539	3.3%	$ 60,357	$ 476	3.2%
Savings deposits	37,671	254	2.7%	41,137	274	2.7%
Time deposits	215,198	3,169	5.9%	173,989	2,223	5.1%
Short-term borrowings	12,910	171	5.3%	39,015	522	5.4%
Long-term borrowings	83,058	1,172	5.6%	17,511	254	5.8%
Total interest bearing liabilities	414,654	5,305	5.1%	332,009	3,749	4.5%
Noninterest bearing liabilities and shareholders' equity						
Demand deposits	31,855			26,898		
Other liabilities	4,117			4,706		
Shareholders' equity	40,364			36,061		
Total liabilities and shareholders' equity	$ 490,990			$ 399,674		
Net interest earnings		$ 3,941			$ 3,643	
Net yield on interest earning assets			3.4%			3.9%

(1)- Interest income on tax-exempt securities has been adjusted assuming an effective tax rate of 34% for both periods presented. The tax equivalent adjustment resulted in an increase in interest income of $89,000 and $70,000 for the periods ended March 31, 2000 and 1999, respectively.

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

	For the Quarter Ended March 31, 2001 versus March 31, 2000		
	Increase (Decrease) Due to Change in:		
	Volume	Rate	Net
Interest earned on:			
Loans	$ 814	$ 88	$ 902
Securities			
Taxable	802	142	944
Tax-exempt	70	(11)	59
Federal funds sold and interest bearing deposits with other banks	(43)	(8)	(51)
Total interest earned on interest earning assets	1,643	211	1,854
Interest paid on:			
Interest bearing demand deposits	44	19	63
Savings deposits	(23)	3	(20)
Time deposits	576	370	946
Short-term borrowings	(347)	(4)	(351)
Long-term borrowings	926	(8)	918
Total interest paid on interest bearing liabilities	1,176	380	1,556
Net interest income	$ 467	$ (169)	$ 298

Credit Experience

The provision for loan losses represents charges to earnings necessary to maintain an adequate allowance for potential future loan losses. Management's determination of the appropriate level of the allowance is based on an ongoing analysis of credit quality and loss potential in the loan portfolio, change in the composition and risk characteristics of the loan portfolio, and the anticipated influence of national and local economic conditions. The adequacy of the allowance for loan losses is reviewed quarterly and adjustments are made as considered necessary.

The Company recorded a $145,000 provision for loan losses for the first three months of 2001, compared to $128,000 for the same period in 2000. This increase represents continued growth of the loan portfolio. Net loan charge offs for the first quarter of 2001 were $79,000, as compared to $9,000 over the same period of 2000. At March 31, 2001, the allowance for loan losses totaled $2,637,000 or 0.93% of loans, net of unearned income, compared to $2,571,000 or 0.94% of loans, net of unearned income at December 31, 2000.

Summit's asset quality remains sound. As illustrated in Table III below, the Company's non-performing assets and loans past due 90 days or more and still accruing interest have increased during the past 12 months, but remains at a historically moderate level.

(Dollars in thousands)

	March 31, 2001	March 31, 2000	December 31, 2000
Accruing loans past due 90 days or more	$ 515	$ 272	$ 267
Nonperforming assets:			
Nonaccrual loans	530	103	568
Foreclosed properties	-	27	36
Repossessed assets	14	30	115
Total	$1,059	$ 432	$ 986
Percentage of total loans	0.4%	0.2%	0.4%

Noninterest Income and Expense

Total other income increased approximately $105,000 or 40.4% to $365,000 during the first quarter of 2001, as compared to the first three months of 2000. The most significant item contributing to this increase was non-recurring gains recognized on the sales of securities of $84,000 in the first three months of 2001.

Total noninterest expense increased approximately $214,000, or 9.3% to $2,522,000 during the first quarter of 2001 as compared to the same period in 2000. Substantially all of this increase resulted due to the increase in occupancy and equipment expense associated with the Company's centralization of data processing for all bank subsidiaries at the company headquarters in Moorefield, West Virginia.

FINANCIAL CONDITION

Total assets of the Company were $505,711,000 at March 31, 2001, compared to $481,239,000 at December 31, 2000, representing a 5.1% increase. Table IV below serves to illustrate significant changes in the Company's financial position between December 31, 2000 and March 31, 2001.

	December 31, 2000	Increase (Decrease) Amount	Percentage	March 31, 2001
Assets				
Federal funds sold	$ 1,811	$ 7,988	441.1%	$ 9,799
Securities available for sale	176,340	4,074	2.3%	180,414
Loans, net of unearned income	271,583	10,564	3.9%	282,147
Liabilities				
Interest bearing deposits	$315,930	$ 13,469	4.3%	$329,399
Short-term borrowings	9,391	(230)	-2.4%	9,161
Long-term borrowings	81,086	6,407	7.9%	87,493

Loan growth during the first three months of 2001, occurring principally in the commercial and real estate portfolios, was funded by interest bearing deposits and long-term borrowings from the FHLB.

Substantially all the increase in interest bearing deposits is attributable to the continued growth of Shenandoah's deposit base during first quarter 2001.

Refer to Notes 3, 4, 5 and 6 of the notes to the accompanying consolidated financial statements for additional information with regard to changes in the composition of the Summit's securities, loans, deposits and short-term borrowing activity between March 31, 2001 and December 31, 2000.

LIQUIDITY

Liquidity reflects the Company's ability to ensure the availability of adequate funds to meet loan commitments and deposit withdrawals, as well as provide for other transactional requirements. Liquidity is provided primarily by funds invested in cash and due from banks, Federal funds sold, non-pledged securities, and available lines of credit with the FHLB, the total of which approximated $137 million, or 27% of total assets at March 31, 2001 versus $143 million, or 30% of total assets at December 31, 2000.

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

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 March 31, 2001, Summit's earnings simulation model projects net interest income would decrease by approximately 2.9% 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 1.3%, as compared to projected stable rate net interest income. These projected changes are well within Summit's ALCO policy limit of +/- 10%.

CAPITAL RESOURCES

Maintenance of a strong capital position is a continuing goal of Company management. Through management of its capital resources, the Company seeks to provide an attractive financial return to its shareholders while retaining sufficient capital to support future growth. Shareholders' equity at March 31, 2001 totaled $41,691,000 compared to $39,773,000 at December 31, 2000, representing an increase of 4.8% which resulted primarily from net retained earnings of the Company during the first quarter of 2001 and the appreciation of the Company's available for sale securities portfolio.

Refer to Note 8 of the notes to the accompanying consolidated financial statements for information regarding regulatory restrictions on the Company's and its subsidiaries' capital.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SUMMIT FINANCIAL GROUP, INC.
(registrant)

By: /s/ H. Charles Maddy, III

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

By: /s/ Robert S. Tissue

Robert S. Tissue,
Vice President and Chief Financial Officer

Date: May 14, 2000