UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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 **September 30, 2005**.

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 incorporation or organization)	(IRS Employer Identification No.)

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

(304) 530-1000
(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 ☑ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).
Yes ☑ No o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o 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
7,125,820 shares outstanding as of November 4, 2005

Table of Contents

Table of Contents

Consolidated Balance Sheets (unaudited)

	September 30, 2005 (unaudited)	December 31, 2004 (*)	September 30, 2004 (unaudited)
ASSETS			
Cash and due from banks	$ 20,830,680	$ 19,416,219	$ 12,372,452
Interest bearing deposits with other banks	2,196,744	2,338,698	3,163,714
Federal funds sold	3,573,000	48,000	1,000
Securities available for sale	215,757,195	211,361,504	209,702,259
Loans held for sale, net	12,695,050	14,273,916	12,096,649
Loans, net	729,431,309	602,727,975	586,200,670
Property held for sale	830,145	593,137	756,181
Premises and equipment, net	21,163,790	20,776,007	20,438,860
Accrued interest receivable	4,392,003	3,651,907	3,762,409
Intangible assets	3,385,460	3,498,824	3,536,613
Other assets	14,847,760	10,802,330	10,215,068
Total assets	$ 1,029,103,136	$ 889,488,517	$ 862,245,875
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits			
Non interest bearing	$ 69,346,345	$ 55,401,552	$ 50,884,765
Interest bearing	559,572,582	469,212,146	484,936,943
Total deposits	628,918,927	524,613,698	535,821,708
Short-term borrowings	139,680,652	120,629,214	77,518,423
Long-term borrowings	168,041,711	160,860,182	166,992,593
Subordinated debentures owed to unconsolidated subsidiary trusts	11,341,000	11,341,000	11,341,000
Other liabilities	8,692,039	6,336,402	5,282,750
Total liabilities	956,674,329	823,780,496	796,956,474
Commitments and Contingencies			
Shareholders' Equity			
Preferred stock and related surplus, $1.00 par value;			
authorized 250,000 shares, issued 2004 - 33,400 shares	-	1,158,471	1,158,471
Common stock and related surplus, $2.50 par value;			
authorized 20,000,000 shares, issued and outstanding			
2005 - 7,125,820 shares; issued December 2004 - 7,155,420			
shares; issued September 2004 - 7,145,020 shares	18,776,686	18,123,492	12,828,355
Retained earnings	54,912,652	47,108,898	50,800,508
Less cost of shares acquired for the treasury - 2004 - 115,880 shares	-	(627,659)	(627,659)
Accumulated other comprehensive income	(1,260,531)	(55,181)	1,129,726
Total shareholders' equity	72,428,807	65,708,021	65,289,401
Total liabilities and shareholders' equity	$ 1,029,103,136	$ 889,488,517	$ 862,245,875

(*) - December 31, 2004 financial information has been extracted from audited consolidated financial statements

See Notes to Consolidated Financial Statements

Summit Financial Group, Inc. and Subsidiaries

Consolidated Statements of Income (unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
Interest income				
Interest and fees on loans				
Taxable	$ 12,422,549	$ 9,217,361	$ 33,420,963	$ 26,068,692
Tax-exempt	104,328	117,153	320,841	323,839
Interest and dividends on securities				
Taxable	1,750,451	1,721,219	5,228,816	5,459,491
Tax-exempt	533,000	545,597	1,603,999	1,649,723
Interest on interest bearing deposits with other banks	22,743	32,063	68,281	94,858
Interest on Federal funds sold	3,684	1,074	10,960	2,377
Total interest income	14,836,755	11,634,467	40,653,860	33,598,980
Interest expense				
Interest on deposits	3,508,549	2,450,508	8,951,622	7,254,208
Interest on short-term borrowings	1,314,966	317,243	3,124,289	692,043
Interest on long-term borrowings and subordinated debentures	2,203,152	1,805,352	6,009,161	5,191,979
Total interest expense	7,026,667	4,573,103	18,085,072	13,138,230
Net interest income	7,810,088	7,061,364	22,568,788	20,460,750
Provision for loan losses	424,400	292,500	1,179,400	757,500
Net interest income after provision for loan losses	7,385,688	6,768,864	21,389,388	19,703,250
Other income				
Insurance commissions	222,024	184,329	605,189	344,889
Service fees	711,141	574,949	1,908,848	1,646,494
Mortgage origination revenue	7,303,889	7,732,451	20,272,788	18,665,770
Securities gains (losses)	38,828	(35,657)	44,179	1,403
Gain (loss) on sale of assets	(592)	(17,002)	(1,667)	(29,183)
Other	189,863	105,440	518,540	289,253
Total other income	8,465,153	8,544,510	23,347,877	20,918,626
Other expense				
Salaries and employee benefits	5,434,668	5,054,952	15,371,119	13,480,698
Net occupancy expense	479,174	408,402	1,371,132	1,098,845
Equipment expense	464,691	432,551	1,440,885	1,302,995
Supplies	98,151	176,601	304,440	472,263
Professional fees	230,496	188,067	699,179	569,653
Postage	1,450,635	1,702,901	4,475,850	4,490,669
Advertising	1,163,782	1,228,655	3,710,634	3,493,981
Amortization of intangibles	37,788	37,788	113,364	113,364
Other	1,518,339	1,537,324	4,321,293	3,752,081
Total other expense	10,877,724	10,767,241	31,807,896	28,774,549
Income before income taxes	4,973,117	4,546,133	12,929,369	11,847,327
Income tax expense	1,700,175	1,420,115	4,129,282	3,596,065
Net income	$ 3,272,942	$ 3,126,018	$ 8,800,087	$ 8,251,262
Basic earnings per common share	$ 0.46	$ 0.44	$ 1.24	$ 1.17
Diluted earnings per common share	$ 0.45	$ 0.44	$ 1.22	$ 1.16
Average common shares outstanding				
Basic	7,125,483	7,026,173	7,082,418	7,022,635
Diluted	7,211,331	7,174,859	7,207,937	7,129,416
Dividends per common share	$ -	$ -	$ 0.14	$ 0.125

See Notes to Consolidated Financial Statements

Consolidated Statements of Shareholders' Equity (unaudited)

	Preferred Stock and Related Surplus	Common Stock and Related Surplus	Retained Earnings	Treasury Stock	Accumulated Other Compre-hensive Income	Total Share-holders' Equity
Balance, December 31, 2004	$ 1,158,471	$ 18,123,492	$ 47,108,898	$ (627,659)	$ (55,181)	$ 65,708,021
Nine Months Ended September 30, 2005						
Comprehensive income:						
Net income	-	-	8,800,087	-	-	8,800,087
Other comprehensive income, net of deferred tax benefit of ($738,763):						
Net unrealized (loss) on securities of ($1,232,741), net of reclassification adjustment for gains included in net income of $27,391	-	-	-	-	(1,205,350)	(1,205,350)
Total comprehensive income						7,594,737
Exercise of stock options	-	122,382	-	-	-	122,382
Conversion of preferred shares	(1,158,471)	1,158,471	-	-	-	-
Retirement of treasury shares	-	(627,659)	-	627,659	-	-
Cash dividends declared ($.14 per share)	-	-	(996,333)	-	-	(996,333)
Balance, September 30, 2005	$ -	$ 18,776,686	$ 54,912,652	$ -	$ (1,260,531)	$ 72,428,807
Balance, December 31, 2003	$ -	$ 17,862,255	$ 38,328,051	$ (627,659)	$ 1,624,896	$ 57,187,543
Nine Months Ended September 30, 2004						
Comprehensive income:						
Net income	-	-	8,251,262	-	-	8,251,262
Other comprehensive income, net of deferred tax benefit of ($303,491):						
Net unrealized (loss) on securities of ($496,040), net of reclassification adjustment for gains included in net income of $870	-	-	-	-	(495,170)	(495,170)
Total comprehensive income						7,756,092
Exercise of stock options	-	65,049	-	-	-	65,049
Issuance of preferred shares	1,158,471	-	-	-	-	1,158,471
Cash dividends declared ($.125 per share)	-	-	(877,754)	-	-	(877,754)
Balance, September 30, 2004	$ 1,158,471	$ 17,927,304	$ 45,701,559	$ (627,659)	$ 1,129,726	$ 65,289,401

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows (unaudited)

	Nine Months Ended	
	September 30, 2005	September 30, 2004
Cash Flows from Operating Activities		
Net income	$ 8,800,087	$ 8,251,262
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	1,260,195	1,101,384
Provision for loan losses	1,179,400	757,500
Deferred income tax (benefit)	(229,618)	(435,650)
Loans originated for sale	(236,456,985)	(195,059,386)
Proceeds from loans sold	246,429,843	196,463,367
(Gain) on sales of loans held for sale	(8,393,992)	(7,147,794)
Securities (gains)	(44,179)	(1,403)
Loss on disposal of other assets	3,050	30,739
Amortization of securities premiums, net	526,624	636,999
Amortization of goodwill and purchase accounting adjustments, net	122,013	134,253
Increase (decrease) in accrued interest receivable	(740,097)	15,730
(Increase) in other assets	(748,674)	(805,846)
Increase in other liabilities	1,725,328	551,543
Net cash provided by (used in) operating activities	13,432,995	4,492,698
Cash Flows from Investing Activities		
Net (increase) decrease in interest bearing deposits with other banks	141,953	(22,623)
Proceeds from maturities and calls of securities available for sale	7,077,028	21,021,403
Proceeds from sales of securities available for sale	11,307,578	46,731,835
Principal payments received on securities available for sale	24,827,642	28,521,445
Purchases of securities available for sale	(49,995,187)	(71,980,456)
Net (increase) decrease in Federal funds sold	(3,525,000)	243,000
Net loans made to customers	(128,177,978)	(88,980,707)
Purchases of premises and equipment	(1,647,978)	(3,720,962)
Proceeds from sales of other assets	99,500	283,250
Purchase of life insurance contracts	(2,500,000)	-
Net cash paid in acquisition of Sager Insurance Agency	-	(850,000)
Net cash provided by (used in) investing activities	(142,392,442)	(68,753,815)
Cash Flows from Financing Activities		
Net increase in demand deposit, NOW and savings accounts	56,922,876	15,115,420
Net increase in time deposits	47,426,912	8,904,869
Net increase in short-term borrowings	19,051,438	27,804,177
Proceeds from long-term borrowings	32,764,000	21,585,000
Repayment of long-term borrowings	(24,917,367)	(18,940,033)
Exercise of stock options	122,382	65,049
Dividends paid	(996,333)	(877,754)
Net proceeds from issuance of trust preferred securities	-	7,406,250
Net proceeds from issuance of preferred stock	-	1,158,471
Net cash provided by financing activities	130,373,908	62,221,449
Increase (decrease) in cash and due from banks	1,414,461	(2,039,668)
Cash and due from banks:		
Beginning	19,416,219	14,412,120
Ending	$ 20,830,680	$ 12,372,452

(Continued)

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows (unaudited)

	Nine Months Ended	
	September 30, 2005	September 30, 2004
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	$ 17,099,549	$ 13,221,052
Income taxes	$ 3,735,000	$ 4,065,534
Supplemental Schedule of Noncash Investing and Financing Activities		
Other assets acquired in settlement of loans	$ 295,244	$ 354,756
Acquisition of Sager Insurance Agency:		
Net cash and cash equivalents paid in acquisition of Sager Insurance Agency	$ -	$ 850,000
Fair value of assets acquired (principally building and land)	$ -	$ 250,000
Goodwill	-	600,000
	$ -	$ 850,000
Noncash investment in unconsolidated subsidiary trust	$ -	$ 232,000

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements (unaudited)

Note 1. Basis of Presentation

We, Summit Financial Group, Inc. and subsidiaries, prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America for annual year end financial statements. In our opinion, 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 accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect 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 nine months ended September 30, 2005 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 our 2004 audited financial statements and Annual Report on Form 10-K. Certain accounts in the consolidated financial statements for December 31, 2004 and September 30, 2004, as previously presented, have been reclassified to conform to current year classifications.

Note 2. Significant New Accounting Pronouncements

Stock-based compensation: In December 2004, the Financial Accounting Standards Board (FASB) issued revised statement 123, *Share-Based Payment (Revised 2004).* SFAS 123R establishes accounting requirements for share-based compensation to employees. SFAS 123R eliminates our ability to account for stock-based compensation using APB 25 effective July 1, 2005 for all equity awards granted after the effective date. SFAS 123R requires us to recognize compensation expense based on the estimated number of stock awards expected to actually vest, exclusive of the awards expected to be forfeited. On April 14, 2005, the SEC announced an amendment to the compliance dates of SFAS 123R, delaying our required implementation until January 1, 2006. The adoption of this standard is not expected to have a material impact on our financial condition, results of operations, or liquidity.

Other than temporary impairment: In March 2004, the Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) released Issue 03-01, *Meaning of Other Than Temporary Impairment*, which addressed other-than-temporary impairment for certain debt and equity investments. The recognition and measurement requirements of Issue 03-01, and other disclosure requirements not already implemented, were effective for periods beginning after June 15, 2004. In September 2004, the FASB staff issued FASB Staff Position (FSP) EITF 03-1-1, which delayed the effective date for certain measurement and recognition guidance contained in Issue 03-01. The FSP requires the application of pre-existing other-than-temporary guidance during the period of delay until a final consensus is reached. In June 2005, FASB decided not to provide additional guidance on the meaning of other-than-temporary impairment, but directed the staff to issue proposed FSP EITF 03-1-a, “Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1,” as final. The final FSP, retitled FSP FAS 115-1, supersedes EITF Issue No. 03-1, and will become effective for other-than-temporary impairment analysis conducted in periods beginning after December 15, 2005.

Note 3. Earnings per Share

The computations of basic and diluted earnings per share follow:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
Numerator:				
Net Income	$ 3,272,941	$ 3,126,018	$ 8,800,087	$ 8,251,262
Denominator:				
Denominator for basic earnings per share - weighted average common shares outstanding	7,125,483	7,026,173	7,082,418	7,022,635
Effect of dilutive securities:				
Convertible preferred stock	-	75,460	37,707	37,730
Stock options	85,848	73,226	87,811	69,051
	85,848	148,686	125,518	106,781
Denominator for diluted earnings per share - weighted average common shares outstanding and assumed conversions	7,211,331	7,174,859	7,207,936	7,129,416
Basic earnings per share	$ 0.46	$ 0.44	$ 1.24	$ 1.17
Diluted earnings per share	$ 0.45	$ 0.44	$ 1.22	$ 1.16

Note 4. Securities

The amortized cost, unrealized gains, unrealized losses and estimated fair values of securities at September 30, 2005 and December 31, 2004, and September 30, 2004 are summarized as follows:

	September 30, 2005			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Available for Sale				
Taxable:				
U. S. Government agencies and corporations	$ 33,407,618	$ 59,573	$ 176,736	$ 33,290,455
Mortgage-backed securities	112,014,499	174,111	1,722,431	110,466,179
State and political subdivisions	3,742,307	1,378	-	3,743,685
Corporate debt securities	4,046,404	61,573	-	4,107,977
Federal Reserve Bank stock	481,500	-	-	481,500
Federal Home Loan Bank stock	16,054,700	-	-	16,054,700
Other equity securities	175,535	-	-	175,535
Total taxable	169,922,563	296,635	1,899,167	168,320,031
Tax-exempt:				
State and political subdivisions	40,359,216	1,336,740	53,751	41,642,205
Other equity securities	7,479,584	-	1,684,625	5,794,959
Total tax-exempt	47,838,800	1,336,740	1,738,376	47,437,164
Total	$ 217,761,363	$ 1,633,375	$ 3,637,543	$ 215,757,195

Notes to Consolidated Financial Statements (unaudited)

	December 31, 2004			
	Amortized	Unrealized		Estimated
	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable:				
U. S. Government agencies and corporations	$ 21,429,728	$ 154,012	$ 37,242	$ 21,546,498
Mortgage-backed securities	118,872,576	513,765	1,029,288	118,357,053
State and political subdivisions	3,745,196	8,954	-	3,754,150
Corporate debt securities	5,000,328	180,939	-	5,181,267
Federal Reserve Bank stock	436,500	-	-	436,500
Federal Home Loan Bank stock	13,843,100	-	-	13,843,100
Other equity securities	175,535	-	-	175,535
Total taxable	163,502,963	857,670	1,066,530	163,294,103
Tax-exempt:				
State and political subdivisions	40,475,405	1,508,540	24,043	41,959,902
Other equity securities	7,482,503	-	1,375,004	6,107,499
Total tax-exempt	47,957,908	1,508,540	1,399,047	48,067,401
Total	$ 211,460,871	$ 2,366,210	$ 2,465,577	$ 211,361,504

	September 30, 2004			
	Amortized	Unrealized		Estimated
	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable:				
U. S. Government agencies and corporations	$ 17,742,890	$ 269,508	$ 22,231	$ 17,990,167
Mortgage-backed securities	119,555,229	820,559	510,271	119,865,517
State and political subdivisions	3,746,155	15,130	-	3,761,285
Corporate debt securities	5,000,672	256,419	-	5,257,091
Federal Reserve Bank stock	526,000	-	-	526,000
Federal Home Loan Bank stock	12,453,200	-	-	12,453,200
Other equity	175,535	-	-	175,535

securities				
Total taxable	159,199,681	1,361,616	532,502	160,028,795
Tax-exempt:				
State and political subdivisions	41,219,731	1,691,544	7,788	42,903,487
Federal Reserve Bank stock	8,400	-	-	8,400
Other equity securities	7,490,763	-	729,186	6,761,577
Total tax-exempt	48,718,894	1,691,544	736,974	49,673,464
Total	$ 207,918,575	$ 3,053,160	$ 1,269,476	$ 209,702,259

Notes to Consolidated Financial Statements (unaudited)

The maturities, amortized cost and estimated fair values of securities at September 30, 2005, are summarized as follows:

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 43,991,580	$ 43,744,180
Due from one to five years	94,871,513	93,656,908
Due from five to ten years	30,009,879	30,264,899
Due after ten years	24,697,070	25,584,514
Equity securities	24,191,319	22,506,694
	$ 217,761,361	$ 215,757,195

Note 5. Loans

Loans are summarized as follows:

	September 30, 2005	December 31, 2004	September 30, 2004
Commerical	$ 60,723,236	$ 53,225,840	$ 49,630,140
Commercial real estate	376,506,511	279,631,237	271,096,757
Real estate - construction	4,124,728	3,916,361	3,351,168
Real estate - mortgage	249,383,215	223,689,617	218,117,609
Consumer	37,430,601	38,947,775	40,558,484
Other	8,824,597	9,604,693	9,784,308
Total loans	736,992,888	609,015,523	592,538,466
Less unearned fees and interest	1,640,249	1,214,262	1,199,675
Total loans net of unearned fees and interest	735,352,639	607,801,261	591,338,791
Less allowance for loan losses	5,921,330	5,073,286	5,138,121
Loans, net	$ 729,431,309	$ 602,727,975	$ 586,200,670

Note 6. Allowance for Loan Losses

An analysis of the allowance for loan losses for the nine month periods ended September 30, 2005 and 2004, and for the year ended December 31, 2004 is as follows:

	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004	Year Ended December 31, 2004
Balance, beginning of period	$ 5,073,286	$ 4,680,625	$ 4,680,625
Losses:			
Commercial	19,759	118,635	141,815
Commercial real estate	-	6,862	335,777
Real estate - mortgage	194,583	5,199	5,199
Consumer	142,557	163,304	208,391
Other	230,172	235,373	285,671
Total	587,071	529,373	976,853
Recoveries:			
Commercial	6,495	184	18,702
Commercial real estate	24,255	21,301	27,302
Real estate - mortgage	42	9,413	9,413
Consumer	41,887	77,683	109,211
Other	183,036	120,788	154,886
Total	255,715	229,369	319,514
Net losses	331,356	300,004	657,339
Provision for loan losses	1,179,400	757,500	1,050,000
Balance, end of period	$ 5,921,330	$ 5,138,121	$ 5,073,286

Note 7. Goodwill and Other Intangible Assets

The following tables present our goodwill at September 30, 2005 and other intangible assets at September 30, 2005, December 31, 2004, and September 30, 2004.

Goodwill Activity by Operating Segment

	Community Banking	Mortgage Banking	Parent and Other	Total
Balance, January 1, 2005	$ 1,488,030	$ -	$ 600,000	$ 2,088,030
Acquired goodwill, net	-	-	-	-
Balance, September 30, 2005	$ 1,488,030	$ -	$ 600,000	$ 2,088,030

	Unidentifiable Intangible Assets		
	September 30, 2005	**December 31, 2004**	**September 30, 2004**
Unidentifiable intangible assets			
Gross carrying amount	$ 2,267,323	$ 2,267,323	$ 2,267,323
Less: accumulated amortization	969,893	856,529	818,740
Net carrying amount	$ 1,297,430	$ 1,410,794	$ 1,448,583

We recorded amortization expense of approximately $113,000 for the nine months ended September 30, 2005 relative to our unidentifiable intangible assets. Annual amortization is expected to be approximately $151,000 for each of the years ending 2005 through 2009.

Note 8. Deposits

The following is a summary of interest bearing deposits by type as of September 30, 2005 and 2004 and December 31, 2004:

	September 30, 2005	December 31, 2004	September 30, 2004
Interest bearing demand deposits	$ 169,893,431	$ 122,355,331	$ 123,686,663
Savings deposits	45,867,540	50,427,556	51,616,243
Certificates of deposit	317,579,019	271,130,829	283,649,197
Individual retirement accounts	26,232,592	25,298,430	25,984,840
Total	$ 559,572,582	$ 469,212,146	$ 484,936,943

Included in certificates of deposit are brokered certificates of deposit, which totaled $107,416,000, $53,268,000, and $51,450,000 at September 30, 2005, December 31, 2004, and September 30, 2004, respectively. Brokered deposits represent certificates of deposit acquired through a third party. The following is a summary of the maturity distribution of certificates of deposit and Individual Retirement Accounts in denominations of $100,000 or more as of September 30, 2005:

	Amount	Percent
Three months or less	$24,418,583	13.8%
Three through six months	20,012,341	11.3%
Six through twelve months	46,423,257	26.2%
Over twelve months	86,213,644	48.6%
Total	$ 177,067,825	100.0%

Notes to Consolidated Financial Statements (unaudited)

A summary of the scheduled maturities for all time deposits as of September 30, 2005 is as follows:

Three month period ending December 31, 2005	$ 47,720,078
Year Ending December 31, 2006	162,988,694
Year Ending December 31, 2007	88,853,120
Year Ending December 31, 2008	21,892,322
Year Ending December 31, 2009	14,572,023
Thereafter	7,785,374
	$ 343,811,611

Note 9. Borrowed Funds

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

	Nine Months Ended September 30, 2005		
	Short-term FHLB Advances	Repurchase Agreements	Federal Funds Purchased and Lines of Credit
Balance at September 30	$ 134,540,600	$ 5,140,052	$ -
Average balance outstanding for the period	121,567,880	9,002,881	896,127
Maximum balance outstanding at any month end during period	134,540,600	10,881,188	3,395,500
Weighted average interest rate for the period	3.23%	2.22%	4.49%
Weighted average interest rate for balances outstanding at September 30	3.97%	2.94%	-

	Year Ended December 31, 2004		
	Short-term FHLB Advances	Repurchase Agreements	Federal Funds Purchased and Lines of Credit
Balance at September 30	$ 109,798,900	$ 10,830,314	$ -
Average balance outstanding for the period	59,498,008	9,739,367	1,076,402
Maximum balance outstanding at any month end during period	109,798,900	11,098,557	1,173,000
Weighted average interest rate for the period	1.72%	1.59%	2.11%
Weighted average interest rate for balances outstanding at September 30	2.31%	1.85%	-

	Nine Months Ended September 30, 2004		
	Short-term FHLB Advances	**Repurchase Agreements**	**Federal Funds Purchased and Lines of Credit**
Balance at September 30	$ 67,101,600	$ 10,289,823	$ 127,000
Average balance outstanding for the period	52,308,195	9,651,655	1,166,283
Maximum balance outstanding at any month end during period	67,101,600	10,524,126	1,173,000
Weighted average interest rate for the period	1.44%	1.52%	1.99%
Weighted average interest rate for balances outstanding at September 30	2.03%	1.64%	2.29%

Long-term borrowings: Our long-term borrowings of $168,041,711, $160,860,182 and $166,992,593 at September 30, 2005, December 31, 2004, and September 30, 2004 respectively, consisted primarily 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 2016.

The average interest rate paid on long-term borrowings for the nine month period ended September 30, 2005 was 4.56% compared to 4.02% for the first nine months of 2004.

Subordinated Debentures: We have two statutory business trusts that were formed for the purpose of issuing mandatorily redeemable securities (the “capital securities”) for which we are obligated to third party investors and investing the proceeds from the sale of the capital securities in our junior subordinated debentures (the “debentures”). The debentures held by the trusts are their sole assets. Our subordinated debentures totaled $11,341,000 at September 30, 2005, December 31, 2004 and September 30, 2004.

In October 2002, we sponsored SFG Capital Trust I, and in March 2004, we sponsored SFG Capital Trust II, of which 100% of the common equity of both trusts is owned by us. SFG Capital Trust I issued $3,500,000 in capital securities and $109,000 in common securities and invested the proceeds in $3,609,000 of debentures. SFG Capital Trust II issued $7,500,000 in capital securities and $232,000 in common securities and invested the proceeds in $7,732,000 of debentures. Distributions on the capital securities issued by the trusts are payable quarterly at a variable interest rate equal to 3 month LIBOR plus 345 basis points for SFG Capital Trust I and 3 month LIBOR plus 280 basis points for SFG Capital Trust II, and equals the interest rate earned on the debentures held by the trusts, and is recorded as interest expense by us. The capital securities are subject to mandatory redemption in whole or in part, upon repayment of the debentures. We have entered into agreements which, taken collectively, fully and unconditionally guarantee the capital securities subject to the terms of the guarantee. The debentures of SFG Capital Trust I and SFG Capital Trust II are first redeemable by us in November 2007 and March 2009, respectively.

In fourth quarter 2003, as a result of applying the provisions of FIN 46-R, which governs when an equity interest should be consolidated, we were required to deconsolidate SFG Capital Trust I from our financial statements. The deconsolidation of the net assets and results of operations of the trust had virtually no impact on our financial statements or liquidity position, since we continue to be obligated to repay the debentures held by the trust and guarantee repayment of the capital securities issued by the trust. The consolidated debt obligation related to the trust increased from $3,500,000 to $3,609,000 upon deconsolidation with the difference representing our common ownership interest in the trust. The accompanying financial statements reflect the deconsolidation for all periods presented.

The capital securities held by SFG Capital Trust I and SFG Capital Trust II qualify as Tier 1 capital under Federal Reserve Board guidelines. As a result of the issuance of FIN 46-R, the Federal Reserve Board is currently evaluating whether deconsolidation of the trust will affect the qualification of the capital securities as Tier 1 capital.

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

Year Ending December 31,	Amount
2005	$ 13,847,350
2006	21,947,823
2007	18,318,204
2008	16,085,851
2009	2,110,094
Thereafter	107,073,389
	$ 179,382,711

Note 10. Stock Option Plan

In accordance with Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, we have elected to follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees,* and related interpretations in accounting for our employee stock options.

The Officer Stock Option Plan, which provides for the granting of stock options for up to 960,000 shares of common stock to our key officers, was adopted in 1998 and expires in 2008. Each option granted under the plan vests according to a schedule designated at the grant date and shall have a term of no more than 10 years following the vesting date. Also, the option price per share shall not be less than the fair market value of our common stock on the date of grant. Accordingly, no compensation expense is recognized for options granted under the Plan.

The following pro forma disclosures present for the quarters ended and nine months ended September 30, 2005 and 2004, our reported net income and basic and diluted earnings per share had we recognized compensation expense for our Officer Stock Option Plan based on the grant date fair values of the options (the fair value method described in Statement of Financial Accounting Standards No. 123).

(in thousands, except per share data)	Quarter Ended September 30,		NIne Months Ended September 30,	
	2005	2004	2005	2004
Net income:				
As reported	$ 3,273	$ 3,126	$ 8,800	$ 8,251
Deduct total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(37)	(12)	(111)	(42)
Pro forma	$ 3,236	$ 3,114	$ 8,689	$ 8,209
Basic earnings per share:				
As reported	$ 0.46	$ 0.44	$ 1.24	$ 1.17
Pro forma	$ 0.45	$ 0.44	$ 1.22	$ 1.16
Diluted earnings per share:				
As reported	$ 0.45	$ 0.44	$ 1.22	$ 1.16
Pro forma	$ 0.44	$ 0.44	$ 1.20	$ 1.15

For purposes of computing the above pro forma amounts, we estimated the fair value of the options at the date of grant using a Black-Scholes option pricing model. There were no option grants during the first nine months of 2005 or 2004. For purposes of the pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

Note 11. Commitments and Contingencies

Off-Balance Sheet Arrangements

We are a party to certain financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of our customers. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statement of financial position. The contract amounts of these instruments reflect the extent of involvement that we have in this class of financial instruments.

Many of our lending relationships contain both funded and unfunded elements. The funded portion is reflected on our balance sheet. The unfunded portion of these commitments is not recorded on our balance sheet until a draw is made under the loan facility. Since many of the commitments to extend credit may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash flow requirements.

A summary of the total unfunded, or off-balance sheet, credit extension commitments follows:

	September 30, 2005
Commitments to extend credit:	
Revolving home equity and credit card lines	$ 27,765,167
Construction loans	118,901,117
Other loans	39,153,168
Standby letters of credit	10,503,804
Total	$ 196,323,256

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. We evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if we deem necessary upon extension of credit, is based on our credit evaluation. Collateral held varies but may include accounts receivable, inventory, equipment or real estate.

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party.

Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance sheet instruments.

Hurricanes Katrina and Rita Loss Contingency

In August 2005, Hurricanes Katrina and Rita struck the Gulf Coast of Mississippi and Louisiana resulting in catastrophic wind and flood damage to many homes and businesses throughout the region. Further, the effects of the Hurricanes have severely hampered the region’s economy. Summit Mortgage, our mortgage banking unit, has in the past originated in the normal course of business residential mortgage loans throughout the impacted area which were subsequently sold on the secondary market. Our contracts with the purchasers of such loans generally contain provisions whereby we can be required to repurchase those loans which become delinquent within various periods not exceeding 12 months following their purchase. We are unable at present to estimate the amount of loss, if any, we ultimately may incur as a result of the effects of Hurricanes Katrina and Rita.

Note 12. Issuance and Conversion of Preferred Stock

On April 23, 2004, the Board of Directors approved an amendment to our Articles of Incorporation establishing the Rockingham National Bank Series Convertible Preferred Stock (“Preferred Stock”) and authorizing up to 40,000 shares of its issuance. On May 17, 2004, we completed the sale of 33,400 shares of Preferred Stock in a private placement. The Preferred Stock was sold to potential investors that we believed would be beneficial to the development and support of the Rockingham National Bank, a division of Summit’s subsidiary, Shenandoah Valley National Bank, and to the outside directors of Shenandoah Valley National Bank. The offering price for each share of the Preferred Stock was the mean of the closing prices of Summit’s common stock reported on the last five (5) business days on which the stock traded prior to and inclusive of May 10, 2004, which was $35.28 per share, and aggregate offering proceeds were $1,158,471, net of related issuance costs. The shares of Preferred Stock converted automatically into 76,820 shares of our common stock on May 15, 2005. The conversion was effected for the December 2004 two-for-one stock split, and was based on the total loans and deposits of the Rockingham National Bank division of Shenandoah Valley National Bank on May 15, 2005.

Note 13. Restrictions on Capital

We and our subsidiaries are subject to various regulatory capital requirements administered by the banking regulatory agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we and each of our subsidiaries must meet specific capital guidelines that involve quantitative measures of our and our subsidiaries' assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. We and each of our subsidiaries' capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require us and each of our subsidiaries to maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). We believe, as of September 30, 2005, that we and each of our subsidiaries met all capital adequacy requirements to which they were subject.

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

Our actual capital amounts and ratios as well as our subsidiaries', Summit Community Bank's ("Summit Community"), and Shenandoah Valley National Bank's ("Shenandoah") are presented in the following

	Actual		Minimum Required Regulatory Capital		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2005						
Total Capital (to risk weighted assets)						
Summit	$ 85,541	10.8%	$ 63,236	8.0%	$ 79,045	10.0%
Summit Community	50,429	10.4%	38,734	8.0%	48,417	10.0%
Shenandoah	31,923	10.7%	23,884	8.0%	29,855	10.0%
Tier I Capital (to risk weighted assets)						
Summit	79,620	10.1%	31,618	4.0%	47,427	6.0%
Summit Community	46,468	9.6%	19,367	4.0%	29,050	6.0%
Shenandoah	29,963	10.0%	11,942	4.0%	17,913	6.0%
Tier I Capital (to average assets)						
Summit	79,620	8.1%	29,556	3.0%	49,260	5.0%
Summit Community	46,468	7.3%	19,114	3.0%	31,856	5.0%
Shenandoah	29,963	8.9%	10,046	3.0%	16,744	5.0%
As of December 31, 2004						
Total Capital (to risk weighted assets)						
Summit	$ 77,301	11.9%	51,863	8.0%	64,829	10.0%
Summit Community	45,672	10.8%	33,817	8.0%	42,271	10.0%
Shenandoah	23,253	10.7%	17,440	8.0%	21,800	10.0%
Tier I Capital (to risk weighted assets)						
Summit	72,228	11.1%	25,932	4.0%	38,897	6.0%
Summit Community	42,165	10.0%	16,908	4.0%	25,363	6.0%
Shenandoah	21,687	9.9%	8,720	4.0%	13,080	6.0%
Tier I Capital (to average assets)						
Summit	72,228	8.3%	26,256	3.0%	43,761	5.0%
Summit Community	42,165	7.1%	17,739	3.0%	29,565	5.0%
Shenandoah	21,687	8.0%	8,128	3.0%	13,546	5.0%

Note 14. Segment Information

We operate two significant business segments: community banking and mortgage banking. These segments are primarily identified by the products or services offered and the channels through which they are offered. The community banking segment consists of our full service banks which offer customers traditional banking products and services through various delivery channels. The mortgage banking segment consists of our mortgage origination facilities that originate and sell mortgage products. Information for each of our segments is included below:

Dollars in thousands	For the Quarter Ended September 30, 2005 Community Banking	Mortgage Banking	Insurance Services	Parent and Other	Eliminations	Total
Condensed Statements of Income						
Interest income	$ 14,619	$ 516	$ -	$ 7	$ (305)	$ 14,837
Interest expense	6,805	304	-	223	(305)	7,027
Net interest income	7,814	212	-	(216)	-	7,810
Provision for loan losses	360	64	-	-	-	424
Net interest income after provision for loan losses	7,454	148	-	(216)	-	7,386
Noninterest income	1,012	7,304	149	1,213	(1,213)	8,465
Noninterest expense	4,437	5,969	149	1,536	(1,213)	10,878
Income before income taxes	4,029	1,483	-	(539)	-	4,973
Income taxes	1,277	578	-	(155)	-	1,700
Net income	$ 2,752	$ 905	$ -	$ (384)	$ -	$ 3,273
Intersegment revenue (expense)	$ (841)	$ (364)	$ (8)	$ 1,213	$ -	$ -
Average assets	$ 974,653	$ 24,144	$ 926	$ 84,086	$ (98,603)	$ 985,206

Dollars in thousands	For the Quarter Ended September 30, 2004 Community Banking	Mortgage Banking	Insurance Services	Parent and Other	Eliminations	Total
Condensed Statements of Income						
Interest income	$ 11,399	$ 421	$ -	$ 5	$ (191)	$ 11,634
Interest expense	4,436	189	-	139	(191)	4,573
Net interest income	6,963	232	-	(134)	-	7,061
Provision for loan losses	293	-	-	-	-	293
Net interest income after provision for loan losses	6,670	232	-	(134)	-	6,768
Noninterest income	700	7,732	113	1,034	(1,034)	8,545
Noninterest expense	3,880	6,585	99	1,237	(1,034)	10,767
Income before income taxes	3,490	1,379	14	(337)	-	4,546
Income taxes	1,064	479	7	(130)	-	1,420
Net income	$ 2,426	$ 900	$ 7	$ (207)	$ -	$ 3,126
Intersegment revenue (expense)	$ (792)	$ (234)	$ (8)	$ 1,034	$ -	$ -
Average assets	$ 846,824	$ 20,185	$ 990	$ 74,321	$ (84,817)	$ 857,503

	For the Nine Months Ended September 30, 2005					
Dollars in thousands	**Community Banking**	**Mortgage Banking**	**Insurance Services**	**Parent and Other**	**Eliminations**	**Total**
Condensed Statements of Income						
Interest income	$ 40,151	$ 1,303	$ -	$ 19	$ (820)	$ 40,653
Interest expense	17,501	816	-	588	(820)	18,085
Net interest income	22,650	487	-	(569)	-	22,568
Provision for loan losses	1,035	144	-	-	-	1,179
Net interest income after provision for loan losses	21,615	343	-	(569)	-	21,389
Noninterest income	2,606	20,273	469	3,572	(3,572)	23,348
Noninterest expense	13,007	17,622	418	4,333	(3,572)	31,808
Income before income taxes	11,214	2,994	51	(1,330)	-	12,929
Income taxes	3,527	1,108	21	(527)	-	4,129
Net income	$ 7,687	$ 1,886	$ 30	$ (803)	$ -	$ 8,800
Intersegment revenue (expense)	$ (2,568)	$ (981)	$ (23)	$ 3,572	$ -	$ -
Average assets	$ 926,954	$ 22,471	$ 973	$ 81,184	$ (94,014)	$ 937,568

	For the Nine Months Ended September 30, 2004					
Dollars in thousands	**Community Banking**	**Mortgage Banking**	**Insurance Services**	**Parent and Other**	**Eliminations**	**Total**
Condensed Statements of Income						
Interest income	$ 33,095	$ 930	$ -	$ 11	$ (437)	$ 33,599
Interest expense	12,790	432	-	353	(437)	13,138
Net interest income	20,305	498	-	(342)	-	20,461
Provision for loan losses	758	-	-	-	-	758
Net interest income after provision for loan losses	19,547	498	-	(342)	-	19,703
Noninterest income	2,065	18,664	199	2,833	(2,842)	20,919
Noninterest expense	11,299	16,600	202	3,516	(2,842)	28,775
Income before income taxes	10,313	2,562	(3)	(1,025)	-	11,847
Income taxes	3,114	885	-	(403)	-	3,596
Net income	$ 7,199	$ 1,677	$ (3)	$ (622)	$ -	$ 8,251
Intersegment revenue (expense)	$ (2,266)	$ (562)	$ (15)	$ 2,843	$ -	$ -
Average assets	$ 805,533	$ 15,376	$ 743	$ 71,609	$ (64,724)	$ 828,537

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

INTRODUCTION

The following discussion and analysis focuses on significant changes in our financial condition and results of operations of Summit Financial Group, Inc. ("Company" or "Summit") and our operating units, Summit Community Bank ("Summit Community"), Shenandoah Valley National Bank ("Shenandoah"), Summit Mortgage, and Summit Insurance Services, LLC for the periods indicated. This discussion and analysis should be read in conjunction with our 2004 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 us. Our following 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, we note that a variety of factors could cause our actual results and experience to differ materially from the anticipated results or other expectations expressed in those forward-looking statements.

OVERVIEW

Our primary source of income is net interest income from loans and deposits. Business volumes tend to be influenced by the overall economic factors including market interest rates, business spending, and consumer confidence, as well as competitive conditions within the marketplace.

Strong growth in our interest earning assets resulted in an increase of 9.74%, or $2,088,000, in our net interest earnings on a tax equivalent basis for the first nine months in 2005 compared to the same period of 2004. Further, our mortgage banking segment contributed $1,886,000 to our first nine months 2005 earnings. During the first quarter of 2004, we acquired an insurance agency located in Moorefield, West Virginia. This acquisition had no material impact on our results of operations, financial condition, or liquidity.

CRITICAL ACCOUNTING POLICIES

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

Our most significant accounting policies are presented in Note 1 to the consolidated financial statements of our 2004 Annual Report on Form 10-K. These policies, along with the disclosures presented in the other financial statement notes and in this financial review, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined.

Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, we have identified the determination of the allowance for loan losses and the valuation of goodwill to be the accounting areas that require the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available.

The allowance for loan losses represents our estimate of probable credit losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset type on our consolidated balance sheet. To the extent actual outcomes differ from our estimates, additional provisions for loan losses may be required that would negatively impact earnings in future periods. Note 1 to the consolidated financial statements of our 2004 Annual Report on Form 10-K describes the methodology used to determine the allowance for loan losses and a discussion of the factors driving changes in the amount of the allowance for loan losses is included in the Asset Quality section of the financial review of the 2004 Annual Report on Form 10-K.

With the adoption of SFAS No. 142 on January 1, 2002, we discontinued the amortization of goodwill resulting from acquisitions. Goodwill is now subject to impairment testing at least annually to determine whether write-downs of the recorded balances are necessary. A fair value is determined based on at least one of three various market valuation methodologies. If the fair value equals or exceeds the book value, no write-down of recorded goodwill is necessary. If the fair value is less than the book value, an expense may be required on our books to write down the goodwill to the proper carrying value. During the third quarter, we completed the required annual impairment test for 2005 and determined that no impairment write-offs were necessary. We cannot assure you that future goodwill impairment tests will not result in a charge to earnings. See Notes 1 and 9 of the consolidated financial statements of our Annual Report on Form 10-K for further discussion of our intangible assets, which include goodwill.

BUSINESS SEGMENT RESULTS

We are organized and managed along two major business segments, as described in Note 14 of the accompanying consolidated financial statements. The results of each business segment are intended to reflect each segment as if it were a stand alone business. Net income by segment follows:

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,	
in thousands	**2005**	**2004**	**2005**	**2004**
Community Banking	$ 2,752	$ 2,426	$ 7,687	$ 7,199
Mortgage Banking	905	900	1,886	1,677
Parent and Other	(384)	(200)	(773)	(625)
Consolidated net income	$ 3,273	$ 3,126	$ 8,800	$ 8,251

RESULTS OF OPERATIONS

Earnings Summary

Net income for the quarter ended September 30, 2005 grew 4.70% to $3,273,000, or $0.45 per diluted share as compared to $3,126,000, or $0.44 per diluted share for the quarter ended September 30, 2004. Returns on average equity and assets for the first nine months of 2005 were 16.85% and 1.25%, respectively, compared with 18.31% and 1.33% for the same period of 2004.

Net Interest Income

Net interest income is the principal component of our earnings and represents the difference between interest and fee income generated from earning assets and the interest expense paid on deposits and borrowed funds. Fluctuations in interest rates as well as changes in the volume and mix of earning assets and interest bearing liabilities can materially impact net interest income.

Our net interest income on a fully tax-equivalent basis totaled $23,531,000 for the nine month period ended September 30, 2005 compared to $21,443,000 for the same period of 2004, representing an increase of $2,088,000 or 9.74%. This increase resulted from growth in interest earning assets, primarily loans, which served to more than offset the 55 basis points increase in the cost of interest bearing liabilities during the same period. Average interest earning assets grew 13.16% from $782,780,000 during the first nine months of 2004 to $885,773,000 for the first nine months of 2005. Average interest bearing liabilities grew 12.74% from $710,441,000 at September 30, 2004 to $800,960,000 at September 30, 2005, at an average yield for the first nine months of 2005 of 3.02% compared to 2.47% for the same period of 2004.

Our net yield on interest earning assets decreased to 3.55% for the nine month period ended September 30, 2005, compared to 3.65% for the same period in 2004. On a quarterly basis, our net interest margin was 3.47% for third quarter 2005, representing a decrease of 18 basis points from the 3.65% net yield for the quarter ended September 30, 2004 and 13 basis points from the 3.60% net yield for the second quarter 2005. The positive impact to net interest income of our growth in interest earning assets was somewhat offset by lower net interest margin due to increased cost of interest bearing liabilities, which tend to move more proportionately with rate increases by the Fed. The yields on earning assets increased only 39 basis points, while the cost of our interest bearing funds increased by 55 basis points.

We anticipate modest growth in our net interest income to continue over the near term as the growth in the volume of interest earning assets will more than offset the expected continued decline in our net interest margin. However, if market interest rates remain significantly unchanged, or go lower over the next 12 to 18 months, the spread between interest earning assets and interest bearing liabilities could narrow such that its impact could not be offset by growth in earning assets. See the “Market Risk Management” section for further discussion of the impact changes in market interest rates could have on us. Further analysis of our yields on interest earning assets and interest bearing liabilities are presented in Tables I, II, and III below.

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

	For the Nine Months Ended					
	September 30, 2005			September 30, 2004		
	Average Balance	Earnings/ Expense	Yield/ Rate	Average Balance	Earnings/ Expense	Yield/ Rate
Interest earning assets						
Loans, net of unearned income						
Taxable	$ 663,287	$ 33,421	6.74%	$ 554,819	$ 26,069	6.26%
Tax-exempt (1)	8,884	485	7.30%	8,628	489	7.56%
Securities						
Taxable	162,852	5,229	4.29%	167,446	5,459	4.35%
Tax-exempt (1)	47,984	2,402	6.69%	48,344	2,468	6.81%
Federal funds sold and interest bearing deposits with other banks	2,766	79	3.82%	3,543	97	3.65%
Total interest earning assets	885,773	41,616	6.28%	782,780	34,582	5.89%
Noninterest earning assets						
Cash & due from banks	16,567			13,269		
Premises and equipment	20,730			19,803		
Other assets	20,008			17,577		
Allowance for loan losses	(5,510)			(4,892)		
Total assets	$ 937,568			$ 828,537		
Interest bearing liabilities						
Interest bearing demand deposits	$ 141,168	$ 1,868	1.77%	$ 119,403	$ 841	0.94%
Savings deposits	48,699	235	0.65%	49,234	174	0.47%
Time deposits	308,334	6,849	2.97%	307,334	6,240	2.71%
Short-term borrowings	131,459	3,124	3.18%	63,120	692	1.46%
Long-term borrowings and capital trust securities	171,300	6,009	4.69%	171,350	5,192	4.04%
Total interest bearing liabilities	800,960	18,085	3.02%	710,441	13,139	2.47%
Noninterest bearing liabilities and shareholders' equity						
Demand deposits	60,252			52,631		
Other liabilities	6,707			5,372		
Shareholders' equity	69,649			60,093		
Total liabilities and shareholders' equity	$ 937,568			$ 828,537		
Net interest earnings		$ 23,531			$ 21,443	
Net yield on interest earning assets			3.55%			3.65%

(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 $963,000 and $983,000 for the periods ended September 30, 2005 and 2004, respectively.

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

	For the Quarter Ended								
	September 30, 2005			June 30, 2005			September 30, 2004		
	Average Balance	Earnings/ Expense	Yield/ Rate	Average Balance	Earnings/ Expense	Yield/ Rate	Average Balance	Earnings/ Expense	Yield/ Rate
Interest earning assets									
Loans, net of unearned income									
Taxable	$705,853	$ 12,423	6.98%	$659,150	$ 11,096	6.75%	$585,400	$ 9,217	6.30%
Tax-exempt (1)	8,574	157	7.26%	8,976	164	7.33%	9,472	176	7.43%
Securities									
Taxable	164,390	1,750	4.22%	161,831	1,749	4.33%	163,866	1,721	4.20%
Tax-exempt (1)	47,750	798	6.63%	48,326	811	6.73%	48,131	817	6.79%
Federal funds sold and interest bearing deposits with other banks	2,726	28	4.08%	2,846	27	3.81%	3,718	33	3.55%
Total interest earning assets	929,293	15,156	6.47%	881,129	13,847	6.30%	810,587	11,964	5.90%
Noninterest earning assets									
Cash & due from banks	19,124			16,058			15,675		
Premises and equipment	20,759			20,686			20,539		
Other assets	21,842			19,412			15,756		
Allowance for loan losses	(5,812)			(5,511)			(5,054)		
Total assets	$985,206			$931,774			$857,503		
Interest bearing liabilities									
Interest bearing demand deposits	$153,329	$ 843	2.18%	$141,902	$ 600	1.70%	$123,092	$ 309	1.00%
Savings deposits	46,226	77	0.66%	49,191	79	0.64%	50,904	63	0.50%
Time deposits	320,708	2,589	3.20%	305,538	2,247	2.95%	310,398	2,079	2.68%
Short-term borrowings	142,240	1,315	3.67%	135,016	1,055	3.13%	72,666	317	1.74%
Long-term borrowings and capital trust securities	178,145	2,203	4.91%	165,157	1,939	4.71%	177,188	1,805	4.07%
Total interest bearing liabilities	840,648	7,027	3.32%	796,804	5,920	2.98%	734,248	4,573	2.49%
Noninterest bearing liabilities and shareholders' equity									
Demand deposits	65,449			59,073			55,737		
Other liabilities	7,338			7,451			5,189		
Shareholders' equity	71,771			68,446			62,329		
Total liabilities and shareholders' equity	$985,206			$931,774			$857,503		
Net interest earnings		$ 8,129			$ 7,927			$ 7,391	
Net yield on interest earning assets			3.47%			3.61%			3.65%

(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 $319,000 , $330,000 and $323,000 for the quarters ended September 30, 2005 and 2004, and June 30, 2005, respectively.

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

	For the Nine Months Ended September 30, 2005 versus September 30, 2004			For the Quarter Ended September 30, 2005 versus June 30, 2005		
	Increase (Decrease) Due to Change in:			Increase (Decrease) Due to Change in:		
	Volume	Rate	Net	Volume	Rate	Net
Interest earned on:						
Loans						
Taxable	$ 5,308	$ 2,044	$ 7,352	$ 896	$ 431	$ 1,327
Tax-exempt	13	(17)	(4)	(5)	(2)	(7)
Securities						
Taxable	(158)	(72)	(230)	35	(34)	1
Tax-exempt	(20)	(46)	(66)	(6)	(7)	(13)
Federal funds sold and interest bearing deposits with other banks	(22)	4	(18)	(1)	2	1
Total interest earned on interest earning assets	5,121	1,913	7,034	919	390	1,309
Interest paid on:						
Interest bearing demand deposits	176	851	1,027	54	189	243
Savings deposits	(2)	63	61	(4)	2	(2)
Time deposits	20	589	609	126	216	342
Short-term borrowings	1,167	1,265	2,432	62	198	260
Long-term borrowings and capital trust securities	(2)	819	817	172	92	264
Total interest paid on interest bearing liabilities	1,359	3,587	4,946	410	697	1,107
Net interest income	$ 3,762	$ (1,674)	$ 2,088	$ 509	$ (307)	$ 202

Noninterest Income

Total noninterest income remained nearly unchanged at $8,465,000 for the third quarter of 2005, compared to $8,545,000 for the same period of 2004. Service fee income and other income combined increased $236,000 for the third quarter 2005 while mortgage origination revenue declined $428,000 for the third quarter of 2005. Further detail regarding noninterest income is reflected in the following table. Also, refer to Note 14 of the accompanying consolidated financial statements for our segment information.

Noninterest Income

Dollars in thousands	For the Quarter Ended September 30, 2005	For the Quarter Ended September 30, 2004	For the Nine Months Ended September 30, 2005	For the Nine Months Ended September 30, 2004
Insurance commissions	$ 222	$ 184	$ 605	$ 345
Service fees	711	575	1,909	1,647
Mortgage origination revenue	7,304	7,732	20,273	18,666
Securities gains (losses)	39	(35)	44	1
Other	189	89	517	260
Total	$ 8,465	$ 8,545	$ 23,348	$ 20,919

Insurance commissions: These commissions increased 20.7% for third quarter 2005 over third quarter 2004 and 75.4% for the nine months ended September 30, 2005 compared to the same period of 2004 primarily due to Summit Insurance Services, LLC, which offers both commercial and personal lines of insurance.

Service fees: Total service fees increased 23.7% for the third quarter of 2005 compared to the same period of 2004 and 15.9% for the first nine months of 2005 compared to the same period of 2004. These increases were primarily attributable to an increase in overdraft and nonsufficient funds (NSF) fees due to increased overdrafts by customers.

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

Dollars in thousands	For the Quarter Ended September 30, 2005	For the Quarter Ended September 30, 2004	For the Nine Months Ended September 30, 2005	For the Nine Months Ended September 30, 2004
Loans originated				
Amount	$ 83,860	$ 83,616	$ 236,405	$ 195,059
Number	1,567	1,578	4,453	3,924
Loans sold				
Amount	$ 87,071	$ 81,422	$ 235,254	$ 189,316
Number	1,566	1,549	4,410	3,835

Summit Mortgage originates loans solely for the purpose of selling them. We do not service these loans, therefore there is no servicing intangible associated with this segment. Our mortgage banking revenue consists entirely of two components: 1) fees collected at the time of origination and 2) the gains we receive when selling the loans. The breakout of these fees and gains follows:

Mortgage origination revenue

Dollars in thousands	For the Quarter Ended September 30, 2005	For the Quarter Ended September 30, 2004	For the Nine Months Ended September 30, 2005	For the Nine Months Ended September 30, 2004
Origination fees, net	**$ 4,279**	$ 4,781	**$ 11,879**	$ 11,518
Gains	**3,025**	2,951	**8,394**	7,148
Total	**$ 7,304**	$ 7,732	**$ 20,273**	$ 18,666

Although mortgage origination revenue increased for the first nine months of 2005, profitability was impacted by the continued change in mix of loans originated. During the first nine months of 2005, 17.1% of the total dollar amount of loan originations were first mortgage loans as compared to 10.9% during the first nine months of 2004. During third quarter 2005, 22.4% of the total dollar amount of loan originations were first mortgage loans as compared to 11.6% during the third quarter of 2004. Sales of first mortgage loans typically result in smaller margins than sales of second mortgage loans.

Other: Other income increased 112.4% for the third quarter of 2005 and 98.8% for the nine months ended September 30, 2005 compared to the same respective periods of 2004. The two major components of these increases were 1) an increase in financial services revenue, 2) increases in debit card and ATM income due to increased card usage by customers, and 3) fee income earned on interest rate swaps between us and loan customers to hedge the interest rate risk of their loans.

Noninterest Expense

Total noninterest expense increased approximately $3,033,000, or 10.5% to $31,808,000 during the first nine months of 2005 as compared to the same period in 2004 and $111,000 or 1.0% for third quarter 2005 compared to third quarter 2004. Salaries and employee benefits expense represented the largest category of expense growth, both for the quarter ended and nine months ended September 30, 2005. This growth was due to the staffing requirements as a result of our growth. Another major contributor to the increase in total noninterest expense for the nine months ended September 30, 2005 was net occupancy expense. This increase was due to expenses related to our new Virginia market offices and the relocation of Summit Mortgage. Table IV below shows the breakdown of these increases by segment. Also, refer to Note 14 of the accompanying consolidated financial statements for our segment information.

Table IV - Noninterest Expense
Dollars in thousands

	For the Quarter Ended September 30,				For the Nine Months Ended September 30,			
		Change				Change		
Community Banking and Other	**2005**	$	%	**2004**	**2005**	$	%	**2004**
Salaries and employee benefits	**$ 2,797**	**$ 445**	**18.9%**	$ 2,352	**$ 8,040**	**$1,174**	**17.1%**	$ 6,866
Net occupancy expense	**360**	**50**	**16.1%**	310	**1,014**	**130**	**14.7%**	884
Equipment expense	**421**	**38**	**9.9%**	383	**1,305**	**140**	**12.0%**	1,165
Supplies	**70**	**(59)**	**-45.7%**	129	**227**	**(153)**	**-40.3%**	380
Professional fees	**201**	**65**	**47.8%**	136	**541**	**162**	**42.7%**	379
Postage	**68**	**6**	**9.7%**	62	**173**	**(3)**	**-1.7%**	176
Advertising	**109**	**48**	**78.7%**	61	**314**	**107**	**51.7%**	207
Amortization of intangibles	**38**	**-**	**0.0%**	38	**113**	**-**	**0.0%**	113
Other	**845**	**134**	**18.8%**	711	**2,460**	**456**	**22.8%**	2,004
Total	**$ 4,909**	**$ 727**	**17.4%**	$ 4,182	**$14,187**	**$2,013**	**16.5%**	$ 12,174

		Change				Change		
Mortgage Banking	**2005**	$	%	2004	**2005**	$	%	**2004**
Salaries and employee benefits	**$ 2,638**	**$ (65)**	**-2.4%**	$ 2,703	**$ 7,331**	**$ 716**	**10.8%**	$ 6,615
Net occupancy expense	**119**	**21**	**21.4%**	98	**357**	**143**	**66.8%**	214
Equipment expense	**44**	**(6)**	**-12.0%**	50	**136**	**(2)**	**-1.4%**	138
Supplies	**28**	**(20)**	**-41.7%**	48	**78**	**(15)**	**-16.1%**	93
Professional fees	**29**	**(23)**	**-44.2%**	52	**158**	**(32)**	**-16.8%**	190
Postage	**1,383**	**(258)**	**-15.7%**	1,641	**4,303**	**(12)**	**-0.3%**	4,315
Advertising	**1,055**	**(112)**	**-9.6%**	1,167	**3,397**	**109**	**3.3%**	3,288
Other	**673**	**(153)**	**-18.5%**	826	**1,861**	**113**	**6.5%**	1,748
Total	**$ 5,969**	**$ (616)**	**-9.4%**	$ 6,585	**$17,621**	**$1,020**	**6.1%**	$ 16,601

		Change				Change		
Consolidated	**2005**	$	%	**2004**	**2005**	$	%	**2004**
Salaries and employee benefits	**$ 5,435**	**$ 380**	**7.5%**	$ 5,055	**$15,371**	**$1,890**	**14.0%**	$ 13,481
Net occupancy expense	**479**	**71**	**17.4%**	408	**1,371**	**273**	**24.9%**	1,098
Equipment expense	**465**	**32**	**7.4%**	433	**1,441**	**138**	**10.6%**	1,303
Supplies	**98**	**(79)**	**-44.6%**	177	**305**	**(168)**	**-35.5%**	473
Professional fees	**230**	**42**	**22.3%**	188	**699**	**130**	**22.8%**	569
Postage	**1,451**	**(252)**	**-14.8%**	1,703	**4,476**	**(15)**	**-0.3%**	4,491
Advertising	**1,164**	**(64)**	**-5.2%**	1,228	**3,711**	**216**	**6.2%**	3,495
Amortization of intangibles	**38**	**-**	**0.0%**	38	**113**	**-**	**0.0%**	113
Other	**1,518**	**(19)**	**-1.2%**	1,537	**4,321**	**569**	**15.2%**	3,752
Total	**$ 10,878**	**$ 111**	**1.0%**	$ 10,767	**$31,808**	**$3,033**	**10.5%**	$ 28,775

Community Banking, Parent and Other Segments

Total noninterest expense for our community banking, parent, and other segment increased $727,000, or 17.4% for the third quarter of 2005, compared to the same period of 2004 and $2,013,000, or 16.5% for the nine months ended September 30, 2005 versus the same period of 2004. The major factors contributing to these increases follow.

Salaries and employee benefits: Salaries and employee benefits expense increased 18.9% and 17.1% for the quarter ended September 30, 2005 and the nine months ended September 30, 2005, respectively, due to additional staffing requirements needed as a result of our growth, including opening a new community banking office in Harrisonburg, Virginia in late 2004 and another one in Warrenton, Virginia, in July of 2005, and staffing Summit Insurance Services, LLC. In the December-January timeframe, we added three seasoned lenders who will become increasingly productive over the remainder of the year. Also included in this increase are general merit raises.

Advertising: Both the quarterly increase and nine month period increase in advertising is attributed to more aggressive advertising of our recently opened branches in the Virginia markets.

Other: Other expenses increased 18.8% for third quarter 2005 compared to third quarter 2004, and 22.8% for the nine months ended September 30, 2005 compared to the same period of 2004. These increases include the initial listing fee for NASDAQ.

Mortgage Banking Segment

Total noninterest expense for our mortgage banking segment decreased 9.4% for the third quarter of 2005 compared to the same period of 2004. These expenses increased $1,020,000 or 6.1% for the nine months ended September 30, 2005 compared to the same period of 2004.

Salaries and employee benefits: The decrease of $65,000 in salaries and employee benefits for the quarter ended September 30, 2005 compared to third quarter 2004 reflects lower loan officer commissions paid in the third quarter 2005 due to the change in mix of loans originated, as the commissions paid on first mortgage originations are lower than that paid on second mortgage originations. Further, we lowered the commission structure relative to second mortgage originations. For the nine months ended September 30, 2005, salaries and employee benefits increased $716,000 compared to the same period in 2004 as a result of: 1) increases in employee health insurance premiums and increased pension expense due to employees reaching eligibility status and 2) an increase in profitability based incentive compensation paid to Summit Mortgage management.

Net occupancy expense: Net occupancy expense increased $143,000 or 66.8% for the first nine months of 2005 compared to the same period of 2004 due to the relocation of our Summit Mortgage headquarters in mid-2004, to support our growth in staffing needs.

Advertising and Postage: The decrease in advertising and postage expense of $370,000 for the third quarter 2005, compared to third quarter 2004, is attributable to fewer mailings being mailed in third quarter 2005 versus third quarter 2004.

Credit Experience

The provision for loan losses represents charges to earnings necessary to maintain an adequate allowance for potential future loan losses. Our 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.

We recorded a $1,179,000 provision for loan losses for the first nine months of 2005, compared to $758,000 for the same period in 2004. Net loan charge offs for the first nine months of 2005 were $331,000, as compared to $300,000 over the same period of 2004. At September 30, 2005, the allowance for loan losses totaled $5,921,000 or 0.79% of loans, net of unearned income, compared to $5,073,000 or 0.82% of loans, net of unearned income at December 31, 2004.

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

Our asset quality remains sound. As illustrated in Table V below, our non-performing assets and loans past due 90 days or more and still accruing interest have decreased during the past 12 months, and still remain at a historically moderate level.

Table V - Summary of Past Due Loans and Non-Performing Assets
(Dollars in thousands)

	September 30, 2005	September 30, 2004	December 31, 2004
Accruing loans past due 90 days or more	$ 371	$ 457	$ 140
Nonperforming assets:			
Nonaccrual loans	646	1,008	532
Nonaccrual securities	-	363	349
Foreclosed properties	830	756	593
Repossessed assets	32	53	53
Total	$ 1,879	$ 2,637	$ 1,667
Total nonperforming loans as a percentage of total loans	0.14%	0.24%	0.11%
Total nonperforming assets as a percentage of total assets	0.18%	0.31%	0.19%

FINANCIAL CONDITION

Our total assets were $1,029,103,000 at September 30, 2005, compared to $889,489,000 at December 31, 2004, representing a 15.7% increase. Table VI below serves to illustrate significant changes in our financial position between December 31, 2004 and September 30, 2005.

Table VI - Summary of Significant Changes in Financial Position
(Dollars in thousands)

	Balance December 31, 2004	Increase (Decrease) Amount	Increase (Decrease) Percentage	Balance September 30, 2005
Assets				
Securities available for sale	$ 211,362	4,395	2.1%	$ 215,757
Loans, net of unearned income	607,801	127,551	21.0%	735,352
Liabilities				
Interest bearing deposits	$ 469,212	$ 90,361	19.3%	$ 559,573
Short-term borrowings	120,629	19,052	15.8%	139,681
Long-term borrowings and subordinated debentures	172,201	7,182	4.2%	179,383

Loan growth during the first nine months of 2005, occurring principally in the commercial and real estate portfolios, was funded both by borrowings from the FHLB and deposits, including brokered certificates of deposit.

Refer to Notes 4, 5, 8, and 9 of the notes to the accompanying consolidated financial statements for additional information with regard to changes in the composition of our securities, loans, deposits and borrowings between September 30, 2005 and December 31, 2004.

LIQUIDITY

Liquidity reflects our ability to ensure the availability of adequate funds to meet loan commitments and deposit withdrawals, as well as provide for other transactional requirements. Liquidity is provided primarily by funds invested in cash and due from banks, Federal funds sold, non-pledged securities, and available lines of credit with the FHLB, the total of which approximated $115 million, or 11.2% of total assets at September 30, 2005 versus $88 million, or 9.9% of total assets at December 31, 2004.

Our liquidity position is monitored continuously to ensure that day-to-day as well as anticipated funding needs are met. We are not aware of any trends, commitments, events or uncertainties that have resulted in or are reasonably likely to result in a material change to our liquidity.

CAPITAL RESOURCES

One of our continuous goals is maintenance of a strong capital position. Through management of our capital resources, we seek to provide an attractive financial return to our shareholders while retaining sufficient capital to support future growth. Shareholders' equity at September 30, 2005 totaled $72,429,000 compared to $65,708,000 at December 31, 2004.

Refer to Note 13 of the notes to the accompanying consolidated financial statements for information regarding regulatory restrictions on our capital as well as our subsidiaries' capital.

CONTRACTUAL CASH OBLIGATIONS

During our normal course of business, we incur contractual cash obligations. The following table summarizes our contractual cash obligations at September 30, 2005.

	Long Term Debt	Capital Trust Securities	Operating Leases
2005	$ 13,847,350	$ -	$ 228,465
2006	21,947,823	-	917,999
2007	18,318,204	-	877,659
2008	16,085,851	-	851,534
2009	2,110,094	-	428,100
Thereafter	95,732,389	11,341,000	384,340
Total	$ 168,041,711	$ 11,341,000	$ 3,688,097

OFF-BALANCE SHEET ARRANGEMENTS

We are involved with some off-balance sheet arrangements that have or are reasonably likely to have an effect on our financial condition, liquidity, or capital. These arrangements at September 30, 2005 are presented in the following table.

	September 30, 2005
Commitments to extend credit:	
Revolving home equity and	
credit card lines	$ 27,765,167
Construction loans	118,901,117
Other loans	39,153,168
Standby letters of credit	10,503,804
Total	$ 196,323,256

MARKET RISK MANAGEMENT

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, exchange rates and equity prices. Interest rate risk is our primary market risk and results from timing differences in the repricing of assets, liabilities and off-balance sheet instruments, changes in relationships between rate indices and the potential exercise of imbedded options. The principal objective of asset/liability management is to minimize interest rate risk and our actions in this regard are taken under the guidance of our Asset/Liability Management Committee (“ALCO”), which is comprised of members of senior management and members of the Board of Directors. The ALCO actively formulates the economic assumptions that we use in our financial planning and budgeting process and establishes policies which control and monitor our sources, uses and prices of funds.

Some amount of interest rate risk is inherent and appropriate to the banking business. Our net income is affected by changes in the absolute level of interest rates. Our interest rate risk position is moderately liability sensitive in the short term, and asset sensitive beyond two years. That is, in the short term, liabilities are likely to reprice faster than assets, resulting in a decrease in net income in a rising rate environment. Our net income would increase modestly in a falling interest rate environment. Over the long term, assets are likely to reprice faster than liabilities, resulting in an increase in net income in a rising rate environment while a falling interest rate environment would produce a decrease in net income. Net income is also subject to changes in the shape of the yield curve. In general, a flattening yield curve would result in a decline in our earnings due to the compression of earning asset yields and funding rates, while a steepening would result in increased earnings as margins widen.

Several techniques are available to monitor and control the level of interest rate risk. We primarily use earnings simulations modeling to monitor interest rate risk. The earnings simulation model forecasts the effects on net interest income under a variety of interest rate scenarios that incorporate changes in the absolute level of interest rates and changes in the shape of the yield curve. Each increase or decrease in interest rates is assumed to take place over the next 12 months, and then remain stable. Assumptions used to project yields and rates for new loans and deposits are derived from historical analysis. Securities portfolio maturities and prepayments are reinvested in like instruments. Mortgage loan prepayment assumptions are developed from industry estimates of prepayment speeds. Noncontractual deposit repricings are modeled on historical patterns.

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

The following table shows our projected earnings sensitivity as of September 30, 2005 which is well within our ALCO policy limit of +/- 10%:

Change in Interest Rates (basis points)	Estimated % Change in Net Interest Income Over: 12 Months	24 Months
Down 200 (1)	-0.50%	-2.68%
Down 200, steepening yield curve (2)	-0.04%	-1.18%
Up 100 (1)	-0.29%	1.65%
Up 200 (1)	-1.35%	-2.29%

(1) assumes a parallel shift in the yield curve
(2) assumes steepening curve whereby short term rates decline by 200 basis points while long term rates decline by 50 basis points

CONTROLS AND PROCEDURES

Our management, including the Chief Executive Officer and Chief Financial Officer, have conducted as of September 30, 2005, an evaluation of the effectiveness of disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures as of September 30, 2005 were effective. There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2005 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

We are involved in various pending legal actions, all of which are regarded as litigation arising in the ordinary course of business and are not expected to have a materially adverse effect on our business or financial condition.

On December 26, 2003, two of our subsidiaries, Summit Financial, LLC, now known as Summit Mortgage, and Shenandoah Valley National Bank, and various employees of Summit Financial, LLC were served with a Petition for Temporary Injunction and a Bill of Complaint filed in the Circuit Court of Fairfax County, Virginia by Corinthian Mortgage Corporation. The filings allege various claims against Summit Financial, LLC and Shenandoah Valley National Bank arising out of the hiring of former employees of Corinthian Mortgage Corporation and the alleged use of trade secrets. The individual defendants have also been sued based on allegations arising out of their former employment relationship with Corinthian Mortgage and their current employment with Summit Financial, LLC.

The plaintiff seeks damages in the amount proven at trial on each claim and punitive damages in the amount of $350,000 on each claim. Plaintiff also seeks permanent and temporary injunctive relief prohibiting the alleged use of trade secrets by Summit Financial and the alleged solicitation of Corinthian's employees.

On January 22, 2004, we successfully defeated the Petition for Temporary Injunction brought against us by Corinthian Mortgage Corporation. The Circuit Court of Fairfax County, Virginia denied Corinthian's petition.

We, after consultation with legal counsel, believe that Corinthian's claims made in its lawsuit arising out of the hiring of former employees of Corinthian Mortgage Corporation and the alleged use of trade secrets are without foundation and that meritorious defenses exist as to all the claims. We will continue to evaluate the claims in the Corinthian lawsuit and intend to vigorously defend against them. We believe that the lawsuit is without merit and will have no material adverse effect on us. Management, at the present time, is unable to estimate the impact, if any, an adverse decision may have on our results of operations or financial condition.

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,
Senior Vice President and Chief Financial Officer

By: /s/ Julie R. Cook
Julie R. Cook,
Vice President and Chief Accounting Officer

Date: November 7, 2005

Exhibit 31.1

SARBANES-OXLEY ACT SECTION 302
CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

1. I have reviewed this quarterly report on Form 10-Q of Summit Financial Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in registrant's internal control over financial reporting.

Date: November 7, 2005

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

Exhibit 31.2

SARBANES-OXLEY ACT SECTION 302
CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Robert S. Tissue, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Summit Financial Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report)that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in registrant's internal control over financial reporting.

Date: November 7, 2005

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

Exhibit 32.1

Form 10Q

SARBANES-OXLEY ACT SECTION 906
CERTIFICATION OF CHIEF EXECUTIVE OFFICER

In connection with the Quarterly Report of Summit Financial Group, Inc. ("Summit “) on Form 10-Q for the period ending September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, H. Charles Maddy, III, President and Chief Executive Officer of Summit, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of Summit.

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

Date: November 7, 2005

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

60;

Exhibit 32.2

SARBANES-OXLEY ACT SECTION 906
CERTIFICATION OF CHIEF FINANCIAL OFFICER

In connection with the Quarterly Report of Summit Financial Group, Inc. ("Summit “) on Form 10-Q for the period ending September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert S. Tissue, Senior Vice President and Chief Financial Officer of Summit, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of Summit.

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

Date: November 7, 2005

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