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 September 30, 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
1,754,310 shares outstanding as of November 9, 2001

Summit Financial Group, Inc. and Subsidiaries

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Summit Financial Group, Inc. and Subsidiaries

Consolidated Balance Sheets

	September 30, 2001 (unaudited)	December 31, 2000 (*)
ASSETS		
Cash and due from banks	$ 8,384,827	$ 7,091,871
Interest bearing deposits with other banks	116,122	473,000
Federal funds sold	8,382,000	1,811,000
Securities available for sale	184,946,145	176,340,410
Securities held to maturity	150,425	400,835
Loans, net	320,713,286	271,582,652
Premises and equipment, net	12,738,232	12,246,821
Accrued interest receivable	3,972,518	3,760,701
Intangible assets	3,422,828	3,634,472
Other assets	4,054,683	3,897,339
Total assets	$ 546,881,066	$ 481,239,101
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Non interest bearing	$ 32,685,444	$ 30,031,409
Interest bearing	354,121,921	315,930,441
Total deposits	386,807,365	345,961,850
Short-term borrowings	12,988,575	9,390,814
Long-term borrowings	98,304,452	81,085,929
Other liabilities	4,031,276	5,027,307
Total liabilities	502,131,668	441,465,900
Commitments and Contingencies		
Shareholders' Equity		
Common stock, $2.50 par value; authorized 5,000,000 shares; issued 1,780,780	4,451,950	4,451,950
Capital surplus	8,256,901	8,256,901
Retained earnings	29,797,041	26,765,097
Less cost of shares acquired for the treasury 2001 - 26,470 shares; 2000 - 25,670 shares	(532,479)	(517,725)
Accumulated other comprehensive income	2,775,985	816,978
Total shareholders' equity	44,749,398	39,773,201
Total liabilities and shareholders' equity	$ 546,881,066	$ 481,239,101

(*) - December 31, 2000 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, 2001	September 30, 2000	September 30, 2001	September 30, 2000
Interest income				
Interest and fees on loans				
Taxable	$ 6,589,313	$ 5,518,193	$18,858,904	$15,832,106
Tax-exempt	48,826	45,885	131,167	124,042
Interest and dividends on securities				
Taxable	2,675,642	2,558,012	8,251,351	6,783,375
Tax-exempt	241,125	165,040	689,344	507,128
Interest on interest bearing deposits with other banks	3,548	3,384	12,623	59,732
Interest on Federal funds sold	77,415	44,179	199,296	119,728
Total interest income	9,635,869	8,334,693	28,142,685	23,426,111
Interest expense				
Interest on deposits	3,698,379	3,485,686	11,512,517	9,658,077
Interest on short-term borrowings	90,627	1,263,288	370,910	2,749,709
Interest on long-term borrowings	1,326,016	163,041	3,735,205	582,315
Total interest expense	5,115,022	4,912,015	15,618,632	12,990,101
Net interest income	4,520,847	3,422,678	12,524,053	10,436,010
Provision for loan losses	227,500	139,962	552,500	394,963
Net interest income after provision for loan losses	4,293,347	3,282,716	11,971,553	10,041,047
Other income				
Insurance commissions	26,322	29,532	67,632	82,197
Service fees	271,852	208,596	738,946	641,126
Securities gains (losses)	204,405	-	381,672	-
Gain on sale of branch	-	-	-	224,629
Other	57,545	51,201	134,337	100,228
Total other income	560,124	289,329	1,322,587	1,048,180
Other expense				
Salaries and employee benefits	1,441,475	1,241,789	4,133,228	3,689,959
Net occupancy expense	186,382	168,819	564,610	486,791
Equipment expense	298,125	228,428	866,092	667,323
Supplies	74,534	68,225	209,748	167,001
Amortization of intangibles	70,548	73,230	211,644	229,817
Other	671,148	695,397	2,042,531	2,066,560
Total other expense	2,742,212	2,475,888	8,027,853	7,307,451
Income before income taxes	2,111,259	1,096,157	5,266,287	3,781,776
Income tax expense	673,680	352,805	1,620,335	1,175,525
Net income	$ 1,437,579	$ 743,352	$ 3,645,952	$ 2,606,251
Basic earnings per common share	$ 0.82	$ 0.42	$ 2.08	$ 1.48
Diluted earnings per common share	$ 0.82	$ 0.42	$ 2.08	$ 1.48
Average common shares outstanding				
Basic	1,754,310	1,761,595	1,754,495	1,762,229
Diluted	1,757,102	1,761,595	1,754,495	1,762,229
Dividends per common share	$ -	$ -	$ 0.70	$ 0.50

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	$ 4,451,950	$ 8,256,901	$ 26,765,097	$ (517,725)	$ 816,978	$ 39,773,201
Nine Months Ended September 30, 2001						
Comprehensive income:						
Net income	-	-	3,645,952	-	-	3,645,952
Other comprehensive income, net of deferred taxes of $1,054,874:						
Net unrealized gain on securities of $1,577,335, net of reclassification adjustment for gains included in net income of $381,672	-	-	-	-	1,959,007	1,959,007
Total comprehensive income	-	-	-	-	-	5,604,959
Cash dividends declared ($.70 per share)	-	-	(614,008)	-	-	(614,008)
Purchase of treasury shares	-	-	-	(14,754)	-	(14,754)
Balance, September 30, 2001	$ 4,451,950	$ 8,256,901	$ 29,797,041	$ (532,479)	$ 2,775,985	$ 44,749,398
Balance, December 31, 1999	$ 4,452,265	$ 8,307,702	$ 24,570,174	$ (384,724)	$ (1,862,797)	$ 35,082,620
Nine Months Ended September 30, 2000						
Comprehensive income:						
Net income	-	-	2,606,251	-	-	2,606,251
Other comprehensive income, net of deferred taxes of $471,629:						
Net unrealized (loss) on securities of $727,397, net of reclassification adjustment for gains (losses) included in net income of $	-	-	-	-	727,397	727,397
Total comprehensive income						3,333,648
Cash dividends declared($.50 per share)	-	-	(440,637)	-	-	(440,637)
Purchase of treasury shares				(63,904)		(63,904)
Purchase of fractional shares	(315)	(4,531)	-	-	-	(4,884)
Balance, September 30, 2000	$ 4,451,950	$ 8,303,171	$ 26,735,788	$ (448,628)	$ (1,135,400)	$ 37,906,843

See Notes to Consolidated Financial Statements

Summit Financial Group, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (unaudited)

	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Cash Flows from Operating Activities		
Net income	$ 3,645,952	$ 2,606,251
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	682,527	508,547
Provision for loan losses	552,500	394,963
Deferred income tax (benefit) expense	(137,340)	(56,875)
Securities (gains) losses	(381,670)	-
(Gain) loss on disposal of bank premises, equipment and other assets	100,159	12,598
(Gain) on branch divestiture	-	(224,629)
Amortization of securities premiums (accretion of discounts), net	(293,616)	(70,086)
Amortization of intangibles and purchase accounting adjustments, net	209,593	141,909
(Increase) decrease in accrued interest receivable	(211,817)	(1,322,877)
(Increase) decrease in other assets	(174,691)	(376,569)
Increase (decrease) in other liabilities	218,773	522,110
Net cash provided by operating activities	4,210,370	2,135,342
Cash Flows from Investing Activities		
Net (increase) decrease in interest bearing deposits with other banks	356,878	5,598,568
Proceeds from maturities and calls of securities available for sale	43,959,529	2,797,633
Proceeds from maturities and calls of securities held to maturity	250,000	140,000
Proceeds from sales of securities available for sale	24,150,733	9,355,259
Principal payments received on securities available for sale	19,168,665	3,248,100
Principal payments received on securities held to maturity	-	254,930
Purchases of securities available for sale	(94,070,010)	(63,630,072)
Net (increase) decrease in Federal funds sold	(6,571,000)	603,216
Net loans made to customers	(49,800,232)	(27,093,155)
Purchases of premises and equipment	(1,298,894)	(3,507,793)
Proceeds from disposal of assets	88,278	47,546
Purchases of life insurance contracts	(74,200)	(1,000,000)
Net cash and cash equivalents paid in branch bank divestiture	-	(820,879)
Net cash provided by (used in) investing activities	(63,840,253)	(74,006,647)
Cash Flows from Financing Activities		
Net increase (decrease) in demand deposit, NOW and savings accounts	18,440,513	(2,394,382)
Net increase (decrease) in time deposits	22,294,803	35,046,460
Net increase (decrease) in short-term borrowings	3,597,762	46,909,927
Proceeds from long-term borrowings	17,500,000	-
Repayment of long-term borrowings	(281,477)	(6,765,495)
Dividends paid	(614,008)	(440,637)
Purchase of treasury shares	(14,754)	(63,904)
Purchase of fractional shares	-	(4,884)
Net cash provided by financing activities	60,922,839	72,287,085
Increase (decrease) in cash and due from banks	1,292,956	415,780
Cash and due from banks:		
Beginning	7,091,871	7,010,196
Ending	$ 8,384,827	$ 7,425,976

(Continued)

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows - continued (unaudited)

	Nine Months Ended	
	September 30, 2001	September 30, 2000
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	$15,846,167	$12,546,692
Income taxes	$ 1,712,000	$ 1,388,561
Supplemental Schedule of Noncash Investingand Financing Activities		
Other assets acquired in settlement of loans	$ 126,098	$ 76,250

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 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 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 accounting principles generally accepted in the United States of America 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 nine months ended September 30, 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 September 30, 2001, as previously presented, have been reclassified to conform to current year classifications.

Note 2. New Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations ("SFAS 141") and No. 142, Goodwill and Other Intangible Assets ("SFAS 142"). SFAS 141 requires all business combinations initiated after June 30, 2001, to be accounted for using the purchase method. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives. The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company is required to adopt SFAS 142 effective January 1, 2002. Summit currently incurs pre-tax annual goodwill amortization of $282,000 that will cease upon adoption of this standard. The Company is currently evaluating the effect that adoption of the provisions of SFAS 142 that are effective January 1, 2002, will have on its results of operations and financial position.

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,	
	2001	2000	2001	2000
Numerator:				
Net Income	$1,437,579	$ 743,355	$3,645,952	$2,606,251
Denominator:				
Denominator for basic earnings per share - weighted average common shares outstanding	1,754,310	1,761,594	1,754,495	1,762,230
Effect of dilutive securities:				
Stock options	2,792	-	-	-
Denominator for diluted earnings per share - weighted average common shares outstanding and assumed conversions	1,757,102	1,761,594	1,754,495	1,762,230
Basic earnings per share	$ 0.82	$ 0.42	$ 2.08	$ 1.48
Diluted earnings per share	$ 0.82	$ 0.42	$ 2.08	$ 1.48

Note 4. Securities

The amortized cost, unrealized gains, unrealized losses and estimated fair values of securities at September 30, 2001 and December 31, 2000 are summarized as follows:

	September 30, 2001			
	Amortized	Unrealized		Estimated
	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable:				
U. S. Government agencies and corporations	$ 46,347,609	$ 1,575,298	$ 5,106	$ 47,917,801
Mortgage-backed securities - U. S. Government agencies and corporations	78,430,406	1,589,294	60,081	79,959,619
State and political subdivisions	5,329,922	22,807	1,375	5,351,354
Corporate debt securities	25,411,147	1,148,484	11,084	26,548,547
Federal Reserve Bank stock	341,300	-	-	341,300
Federal Home Loan Bank stock	5,377,900	-	-	5,377,900
Other equity securities	306,625	-	87,000	219,625
Total taxable	161,544,909	4,335,883	164,646	165,716,146
Tax-exempt:				
State and political subdivisions	14,094,706	421,195	292	14,515,609
Federal Reserve Bank stock	4,100	-	-	4,100
Other equity securities	4,825,068	-	114,778	4,710,290
Total tax-exempt	18,923,874	421,195	115,070	19,229,999
Total	$180,468,783	$ 4,757,078	$ 279,716	$184,946,145

	September 30, 2001			
	Amortized	Unrealized		Estimated
	Cost	Gains	Losses	Fair Value
Held to Maturity				
Tax-exempt:				
State and political subdivisions	$ 150,425	$ 2,350	$ 157	$ 152,618

	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 maturities, amortized cost and estimated fair values of securities at September 30, 2001, are summarized as follows:

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 34,433,209	$ 35,174,343
Due from one to five years	93,894,684	96,708,882
Due from five to ten years	27,618,376	28,576,756
Due after ten years	13,667,521	13,832,949
Equity securities	10,854,993	10,653,215
	$ 180,468,783	$ 184,946,145

	Held to Maturity	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 150,425	$ 152,618
Due from one to five years	-	-
Due from five to ten years	-	-
Due after ten years	-	-
Equity securities	-	-
	$ 150,425	$ 152,618

Note 5. Loans

Loans are summarized as follows:

	September 30, 2001	December 31, 2000
Commerical	$ 26,480,269	$ 26,304,675
Commercial real estate	106,837,585	81,809,039
Real estate - construction	2,700,827	2,729,408
Real estate - mortgage	141,958,535	124,326,161
Consumer	39,872,354	37,586,562
Other	6,415,024	2,000,900
Total loans	324,264,594	274,756,745
Less unearned income	697,094	603,317
Total loans net of unearned income	323,567,500	274,153,428
Less allowance for loan losses	2,854,214	2,570,776
Loans, net	$320,713,286	$271,582,652

Note 6. Allowance for Loan Losses

An analysis of the allowance for loan losses for the nine month periods ended September 30, 2001 and 2000, and for the year ended December 31, 2000 is as follows:

	Nine Months Ended September 30,		Year Ended December 31,
	2001	2000	2000
Balance, beginning of period	$2,570,776	$2,231,555	$2,231,555
Losses:			
Commercial	91,179	-	-
Real estate - mortgage	46,977	12,839	62,839
Consumer	151,438	93,078	174,719
Other	60,773	34,244	48,521
Total	350,367	140,161	286,079
Recoveries:			
Commercial	1,635	1,177	2,031
Real estate - mortgage	728	1,603	1,603
Consumer	65,571	37,951	53,165
Other	13,371	10,102	11,001
Total	81,305	50,833	67,800
Net losses	269,062	89,328	218,279
Provision for loan losses	552,500	394,963	557,500
Balance, end of period	$2,854,214	$2,537,190	$2,570,776

Note 7. Deposits

The following is a summary of interest bearing deposits by type as of September 30, 2001 and December 31, 2000:

	September 30, 2001	December 31, 2000
Interest bearing demand deposits	$ 80,787,458	$ 69,038,854
Savings deposits	41,767,671	37,729,798
Certificates of deposit	210,666,505	190,986,834
Individual retirement accounts	20,900,287	18,174,955
Total	$354,121,921	$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 September 30, 2001:

	Amount	Percent
Three months or less	$13,978,960	25.0%
Three through six months	13,583,740	24.3%
Six through twelve months	12,052,116	21.7%
Over twelve months	16,190,855	29.0%
Total	$55,805,671	100.0%

A summary of the scheduled maturities for all time deposits as of September 30, 2001 is as follows:

Three Month Period Ending December 31, 2001	$ 57,270,583
Year Ending December 31, 2002	119,126,154
Year Ending December 31, 2003	32,305,300
Year Ending December 31, 2004	18,380,718
Year Ending December 31, 2005	1,525,468
Thereafter	2,958,569
	$ 231,566,792

Note 8. Borrowed Funds

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

	Nine Months Ended September 30, 2001		
	Federal Funds Purchased and Other Short-term Advances	Repurchase Agreements	Federal Home Loan Bank Short-term Advances
Balance at September 30	$1,000,000	$8,158,575	$3,830,000
Average balance outstanding for the period	1,252,655	7,000,111	3,017,362
Maximum balance outstanding at any month end during period	4,298,000	8,158,575	7,467,100
Weighted average interest rate for the period	6.09%	3.76%	5.13%
Weighted average interest rate for balances outstanding at September 30	5.50%	2.77%	3.55%

	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 $98,304,452 and $81,085,929 at September 30, 2001 and December 31, 2000, 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 2011.

The average interest rate paid on long-term borrowings for the nine month period ended September 30, 2001 was 5.64% compared to 5.53% for the first nine 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	$ 121,793
2002	1,150,841
2003	1,424,973
2004	9,360,592
2005	17,323,714
Thereafter	68,922,539
	$ 98,304,452

Note 9. Stock Split

On July 27, 2001, Summit's Board of Directors authorized a 2-for-1 split of the Company's common stock to be effected in the form of a 100% stock dividend that was distributed on August 20, 2001, to shareholders of record as of August 10, 2001. All share and per share amounts included in the consolidated financial statements have been restated to give effect to the stock split.

Note 10. 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 September 30, 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 September 30, 2001						
Total Capital (to risk weighted assets)						
Summit	$41,183	11.7%	$28,082	8.0%	$35,103	10.0%
South Branch	13,758	10.6%	10,337	8.0%	12,922	10.0%
Capital State	9,026	10.7%	6,742	8.0%	8,427	10.0%
Shenandoah	9,233	14.6%	5,072	8.0%	6,341	10.0%
Potomac	9,284	12.6%	5,889	8.0%	7,361	10.0%
Tier I Capital (to risk weighted assets)						
Summit	38,329	10.9%	14,041	4.0%	21,062	6.0%
South Branch	12,371	9.6%	5,169	4.0%	7,753	6.0%
Capital State	8,425	10.0%	3,371	4.0%	5,056	6.0%
Shenandoah	8,959	14.1%	2,536	4.0%	3,804	6.0%
Potomac	8,692	11.8%	2,945	4.0%	4,417	6.0%
Tier I Capital (to average assets)						
Summit	38,329	7.3%	15,818	3.0%	26,364	5.0%
South Branch	12,371	7.3%	5,097	3.0%	8,494	5.0%
Capital State	8,425	6.8%	3,727	3.0%	6,211	5.0%
Shenandoah	8,959	8.1%	3,334	3.0%	5,556	5.0%
Potomac	8,692	7.3%	3,589	3.0%	5,981	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

Summit reported net income of $1,438,000, or $.82 per diluted share for the third quarter of 2001, as compared to $743,000, or $.42 per diluted share for the third quarter of 2000. Net income for the nine months ended September 30, 2001 grew 39.9% to $3,646,000, or $2.08 per diluted share as compared to $2,606,000, or $1.48 per diluted share for the nine months ended September 30, 2000. Returns on average equity and assets for the first nine months of 2001 were 11.65% and 0.95%, respectively, compared with 9.65% and 0.83% for the same period of 2000. Improved financial performance for the first nine months of 2001 resulted primarily from growth in net interest income.

Net Interest Income

The Company's net interest income on a fully tax-equivalent basis totaled $12,905,000 for the nine month period ended September 30, 2001 compared to $10,761,000 for the same period of 2000, representing an increase of $2,144,000 or 19.9%. This increase resulted from growth in interest earning assets. Average interest earning assets grew 20.7% from $396,597,000 during the first nine months of 2000 to $478,856,000 for the first nine months of 2001, which resulted primarily from the growth of Shenandoah.

Summit's net yield on interest earning assets remained stable at 3.6%, for the nine month periods ended September 30, 2001and 2000. 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. The Company's net interest margin is anticipated to remain stable or increase slightly over the remainder of 2001 due to the continued dramatic reduction of market interest rates which has positively influenced the Company's cost of funds.

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 Nine Months Ended September 30,					
	2001			2000		
	Average Balance	Earnings/ Expense	Yield/ Rate	Average Balance	Earnings/ Expense	Yield/ Rate
Interest earning assets						
Loans, net of unearned income						
Taxable	$ 292,311	$ 18,859	8.6%	$ 244,347	$ 15,832	8.6%
Tax-exempt (1)	2,440	198	10.8%	2,044	188	12.3%
Securities						
Taxable	159,681	8,251	6.9%	133,966	6,783	6.8%
Tax-exempt (1)	17,559	1,004	7.6%	12,570	768	8.1%
Federal funds sold and interest bearing deposits with other bank	6,865	212	4.1%	3,670	180	6.5%
Total interest earning assets	478,856	28,524	7.9%	396,597	23,751	8.0%
Noninterest earning assets						
Cash & due from banks	8,562			7,746		
Premises and equipment	12,442			10,657		
Other assets	14,066			7,925		
Allowance for loan losses	(2,714)			(2,394)		
Total assets	$ 511,212			$ 420,531		
Interest bearing liabilities						
Interest bearing demand deposits	$ 71,912	$ 1,529	2.8%	$ 59,104	$ 1,446	3.3%
Savings deposits	39,411	736	2.5%	40,393	829	2.7%
Time deposits	221,315	9,248	5.6%	181,919	7,383	5.4%
Short-term borrowings	11,270	371	4.4%	58,219	2,750	6.3%
Long-term borrowings	88,322	3,735	5.6%	14,029	582	5.5%
Total interest bearing liabilities	432,230	15,619	4.8%	353,664	12,990	4.9%
Noninterest bearing liabilities and shareholders' equity						
Demand deposits	33,040			27,192		
Other liabilities	4,197			3,670		
Shareholders' equity	41,745			36,005		
Total liabilities and shareholders' equity	$ 511,212			$ 420,531		
Net interest earnings		$ 12,905			$ 10,761	
Net yield on interest earning assets			3.6%			3.6%

(1) - Interest income on tax-exempt securities and loans 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 $381,000 and $325,000 for the periods ended September 30, 2001 and 2000, respectively.

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

	For the Nine Months Ended September 30, 2001 versus September 30, 2000		
	Increase (Decrease) Due to Change in:		
	Volume	Rate	Net
Interest earned on:			
Loans	$ 3,128	$ (91)	$ 3,037
Securities			
Taxable	1,326	142	1,468
Tax-exempt	288	(52)	236
Federal funds sold and interest bearing deposits with other banks	116	(84)	32
Total interest earned on interest earning assets	4,858	(85)	4,773
Interest paid on:			
Interest bearing demand deposits	287	(204)	83
Savings deposits	(20)	(73)	(93)
Time deposits	1,641	224	1,865
Short-term borrowings	(1,729)	(650)	(2,379)
Long-term borrowings	3,141	12	3,153
Total interest paid on interest bearing liabilities	3,320	(691)	2,629
Net interest income	$ 1,538	$ 606	$ 2,144

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 $553,000 provision for loan losses for the first nine months of 2001, compared to $395,000 for the same period in 2000, an increase of $158,000 or 40.0%. This increase represents higher net loan charge offs, greater levels of nonperforming assets and continued growth of the loan portfolio. Net loan charge offs for the first nine months of 2001 were $269,000, as compared to $89,000 over the same period of 2000. At September 30, 2001, the allowance for loan losses totaled $2,854,000 or 0.88% of loans, net of unearned income, compared to $2,571,000 or 0.94% of loans, net of unearned income at December 31, 2000.

As illustrated in Table III below, while the Company's non-performing assets and loans past due 90 days or more and still accruing interest have increased significantly during the past 12 months, such remain at a historically moderate levels and substantially below recent industry averages. Included in nonaccrual loans are three commercial credits totaling $894,000 at September 30, 2001, or approximately 95.8% of all such loans. Each of these credits is secured by real estate and other business assets.

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

	September 30, 2001	September 30, 2000	December 31, 2000
Accruing loans past due 90 days or more	$ 104	$ 323	$ 267
Nonperforming assets:			
Nonaccrual loans	933	77	568
Foreclosed properties	81	-	-
Repossessed assets	14	40	36
Total	$1,132	$ 440	$ 871
Percentage of total loans	0.3%	0.2%	0.3%

Noninterest Expense

Total noninterest expense increased approximately $721,000, or 9.9% to $8,028,000 during the first nine months of 2001 as compared to the same period in 2000. This increase was due primarily to an increase in salaries and employee expense associated with additional employees at Shenandoah and an 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 $546,881,000 at September 30, 2001, compared to $481,239,000 at December 31, 2000, representing a 13.6% increase. Table IV below serves to illustrate significant changes in the Company's financial position between December 31, 2000 and September 30, 2001.

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

	Balance December 31,	Increase (Decrease)		Balance September 30,
	2000	Amount	Percentage	2001
Assets				
Securities available for sale	$176,340	$ 8,606	4.9%	$184,946
Loans, net of unearned income	271,583	49,130	18.1%	320,713
Liabilities				
Interest bearing deposits	$315,930	$ 38,192	12.1%	$354,122
Short-term borrowings	9,391	3,598	38.3%	12,989
Long-term borrowings	81,086	17,218	21.2%	98,304

Loan growth during the first nine 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 of the increase in interest bearing deposits is attributable to the continued growth of Shenandoah's deposit base during first nine months of 2001.

Refer to Notes 4, 5, 6, 7 and 8 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 September 30, 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 $121 million or 22% of total assets at September 30, 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 September 30, 2001, Summit's earnings simulation model projects net interest income would decrease by approximately 1.8% if rates rise evenly by 200 basis points over the next 12 month period, as compared to a 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 0.7%, as compared to a 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 September 30, 2001 totaled $44,749,000 compared to $39,773,000 at December 31, 2000, representing an increase of 12.5% which resulted primarily from net retained earnings of the Company during the first nine months of 2001 and the appreciation of the Company's available for sale securities portfolio.

Refer to Note 10 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,
Sr. Vice President and Chief Financial Officer

Date: November 13, 2001