SUMMIT FINANCIAL GROUP INC
Form 10-Q
August 09, 2006

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 **June 30, 2006**.
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 þ   No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o   Accelerated filerþ Non-accelerated filer 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 þ

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
7,135,120 shares outstanding as of August 4, 2006

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Summit Financial Group, Inc. and Subsidiaries

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Summit Financial Group, Inc. and Subsidiaries
Consolidated Balance Sheets (unaudited)

	June 30, 2006 (unaudited)	December 31, 2005 (*)	June 30, 2005 (unaudited)
ASSETS			
Cash and due from banks	$ 12,529,955	$ 22,535,761	$ 16,944,283
Interest bearing deposits with other banks	123,007	1,536,506	2,341,860
Federal funds sold	1,590,000	3,650,000	-
Securities available for sale	238,381,668	223,772,298	209,561,053
Loans held for sale	9,702,114	16,584,990	17,073,628
Loans, net	866,680,077	793,766,837	659,792,179
Property held for sale	358,287	378,287	906,334
Premises and equipment, net	23,553,482	23,089,412	20,514,791
Accrued interest receivable	5,024,931	4,835,763	3,940,495
Intangible assets	3,272,097	3,347,672	3,423,248
Other assets	18,432,692	16,034,499	11,989,316
Total assets	$ 1,179,648,310	$ 1,109,532,025	$ 946,487,187
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits			
Non interest bearing	$ 66,070,752	$ 62,631,410	$ 63,207,232
Interest bearing	695,491,425	611,269,308	501,960,173
Total deposits	761,562,177	673,900,718	565,167,405
Short-term borrowings	164,185,071	182,028,113	127,973,843
Long-term borrowings	147,578,964	150,911,835	165,455,406
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589,000	19,589,000	11,341,000
Other liabilities	10,174,068	9,299,134	6,711,767
Total liabilities	1,103,089,280	1,035,728,800	876,649,421
Commitments and Contingencies			
Shareholders' Equity			
Common stock and related surplus, $2.50 par value; authorized 20,000,000 shares, issued and outstanding 2005 - 7,135,120 shares; issued December 2005 - 7,126,220 shares; issued June 2005 - 7,123,820 shares	18,913,551	18,856,774	18,724,826
Retained earnings	60,678,420	56,214,807	51,639,709
Accumulated other comprehensive income	(3,032,941)	(1,268,356)	(526,769)
Total shareholders' equity	76,559,030	73,803,225	69,837,766
Total liabilities and shareholders' equity	$ 1,179,648,310	$ 1,109,532,025	$ 946,487,187

(*) - December 31, 2005 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		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Interest income				
Interest and fees on loans				
Taxable	$ 16,685,053	$ 11,097,070	$ 32,077,234	$ 20,998,414
Tax-exempt	101,903	108,117	201,648	216,513
Interest and dividends on securities				
Taxable	2,249,793	1,748,650	4,384,670	3,478,365
Tax-exempt	537,145	542,397	1,048,910	1,070,999
Interest on interest bearing deposits with other banks	4,080	22,970	20,537	45,538
Interest on Federal funds sold	8,467	4,843	16,235	7,276
Total interest income	19,586,441	13,524,047	37,749,234	25,817,105
Interest expense				
Interest on deposits	6,407,742	2,926,400	11,560,934	5,443,073
Interest on short-term borrowings	1,830,754	1,055,296	3,794,743	1,809,323
Interest on long-term borrowings and subordinated debentures	2,517,516	1,938,679	4,931,985	3,806,009
Total interest expense	10,756,012	5,920,375	20,287,662	11,058,405
Net interest income	8,830,429	7,603,672	17,461,572	14,758,700
Provision for loan losses	480,000	425,000	875,000	755,000
Net interest income after provision for loan losses	8,350,429	7,178,672	16,586,572	14,003,700
Other income				
Insurance commissions	246,897	235,126	476,963	383,165
Service fees	725,443	651,148	1,356,333	1,197,707
Mortgage origination revenue	5,945,390	7,112,749	12,529,303	12,968,898
Securities gains (losses)	-	5,351	-	5,351
Gain (loss) on sale of assets	-	1,250	(3,875)	(1,075)
Other	136,252	209,645	282,531	328,677
Total other income	7,053,982	8,215,269	14,641,255	14,882,723
Other expense				
Salaries and employee benefits	4,854,615	5,394,241	10,012,647	9,936,451
Net occupancy expense	570,389	462,805	1,141,116	891,958
Equipment expense	575,507	483,172	1,095,366	976,194
Supplies	254,631	181,410	459,781	339,135
Professional fees	489,312	241,757	774,353	468,683
Postage	1,749,576	1,458,091	3,541,050	3,025,215
Advertising	1,313,834	1,221,812	2,653,149	2,546,852
Amortization of intangibles	37,788	37,788	75,576	75,576
Other	1,725,226	1,393,999	3,335,807	2,670,108
Total other expense	11,570,878	10,875,075	23,088,845	20,930,172
Income before income taxes	3,833,533	4,518,866	8,138,982	7,956,251
Income tax expense	1,199,900	1,402,627	2,533,750	2,429,107

Net income	$	2,633,633	$	3,116,239	$	5,605,232	$	5,527,144
Basic earnings per common share	$	0.37	$	0.44	$	0.79	$	0.78
Diluted earnings per common share	$	0.37	$	0.43	$	0.78	$	0.77
Average common shares outstanding								
Basic		7,135,107		7,081,044		7,131,611		7,060,529
Diluted		7,193,407		7,205,377		7,193,199		7,206,181
Dividends per common share	$	0.16	$	0.14	$	0.16	$	0.14

See Notes to Consolidated Financial Statements

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Summit Financial Group, Inc. and Subsidiaries

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, 2005	$ -	$ 18,856,774	$ 56,214,807	$ -	$ (1,268,356)	$ 73,803,225
Six Months Ended June 30, 2006						
Comprehensive income:						
Net income	-	-	5,605,232	-	-	5,605,232
Other comprehensive income, net of deferred tax benefit of ($909,029):						
Net unrealized (loss) on securities of ($1,764,585), net of reclassification adjustment for gains included in net income of $0	-	-	-	-	(1,764,585)	(1,764,585)
Total comprehensive income						3,840,647
Exercise of stock options	-	56,777	-	-	-	56,777
Cash dividends declared ($.16 per share)	-	-	(1,141,619)	-	-	(1,141,619)
Balance, June 30, 2006	$ -	$ 18,913,551	$ 60,678,420	$ -	$ (3,032,941)	$ 76,559,030
Balance, December 31, 2004	$ 1,158,471	$ 18,123,492	$ 47,108,898	$ (627,659)	$ (55,181)	$ 65,708,021
Six Months Ended June 30, 2005						
Comprehensive income:						
Net income	-	-	5,527,144	-	-	5,527,144
Other comprehensive income, net of deferred tax benefit of ($289,038):						
Net unrealized (loss) on						

securities of ($474,906), net of reclassification adjustment for gains included in net income of $3,318	-	-	-	-	(471,588)	(471,588)
Total comprehensive income						5,055,556
Exercise of stock options	-	70,522	-	-	-	70,522
Conversion of preferred shares	(1,158,471)	1,158,471	-	-	-	-
Retirement of treasury shares		(627,659)		627,659		-
Cash dividends declared ($.14 per share)	-	-	(996,333)	-	-	(996,333)
Balance, June 30, 2005	$ -	$ 18,724,826	$ 51,639,709	$ -	$ (526,769)	$ 69,837,766

See Notes to Consolidated Financial Statements

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Summit Financial Group, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (unaudited)

	Six Months Ended	
	June 30, 2006	June 30, 2005
Cash Flows from Operating Activities		
Net income	$ 5,605,232	$ 5,527,144
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	852,664	836,948
Provision for loan losses	875,000	755,000
Stock compensation expense	13,234	-
Deferred income tax (benefit)	(191,900)	(204,943)
Loans originated for sale	(140,305,196)	(152,552,850)
Proceeds from loans sold	152,289,872	155,121,968
(Gain) on sales of loans held for sale	(5,101,800)	(5,368,830)
Securities (gains)	-	(5,351)
Loss on disposal of premises, equipment and other assets	3,875	1,075
Amortization of securities premiums, net	101,307	367,041
Amortization of goodwill and purchase accounting adjustments, net	81,341	81,342
Increase (decrease) in accrued interest receivable	(189,168)	(288,589)
(Increase) in other assets	(271,306)	(830,844)
Increase in other liabilities	130,771	451,055
Net cash provided by (used in) operating activities	13,893,926	3,890,166
Cash Flows from Investing Activities		
Net (increase)decrease in interest bearing deposits with other banks	1,413,499	(3,162)
Proceeds from maturities and calls of securities available for sale	3,500,308	6,612,889
Proceeds from sales of securities available for sale	8,622,800	6,150,328
Principal payments received on securities available for sale	11,953,673	16,928,228
Purchases of securities available for sale	(41,578,640)	(28,991,673)
Net decrease in Federal funds sold	2,060,000	48,000
Net loans made to customers	(73,831,916)	(58,165,343)
Purchases of premises and equipment	(1,316,734)	(575,734)
Proceeds from sales of premises, equipment and other assets	25,645	62,950
Purchase of life insurance contracts	(880,000)	-
Net cash provided by (used in) investing activities	(90,031,365)	(57,933,517)
Cash Flows from Financing Activities		
Net increase in demand deposit, NOW and savings accounts	11,137,632	28,055,605

Net increase in time deposits		76,599,152		12,405,833
Net increase(decrease) in short-term borrowings		(17,843,042)		7,344,629
Proceeds from long-term borrowings		17,801,000		26,718,000
Repayment of long-term borrowings		(20,465,034)		(22,026,841)
Exercise of stock options		43,544		70,522
Dividends paid		(1,141,619)		(996,333)
Net cash provided by financing activities		66,131,633		51,571,415
Increase (decrease) in cash and due from banks		(10,005,806)		(2,471,936)
Cash and due from banks:				
Beginning		22,535,761		19,416,219
Ending	$	12,529,955	$	16,944,283

(Continued)

See Notes to Consolidated Financial Statements

Summit Financial Group, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (unaudited)

	Six Months Ended			
	June 30, 2006		June 30, 2005	
Supplemental Disclosures of Cash Flow Information				
Cash payments for:				
Interest	$	19,832,325	$	10,447,430
Income taxes	$	2,641,000	$	1,600,000
Supplemental Schedule of Noncash Investing and Financing Activities				
Other assets acquired in settlement of loans	$	43,676	$	346,139

See Notes to Consolidated Financial Statements

Summit Financial Group, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (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 six months ended June 30, 2006 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 2005 audited financial statements and Annual Report on Form 10-K. Certain accounts in the consolidated financial statements for December 31, 2005 and June 30, 2005, as previously presented, have been reclassified to conform to current year classifications.

Note 2. Earnings per Share
The computations of basic and diluted earnings per share follow:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	**2005**	**2006**	**2005**
Numerator:				
Net Income	$ 2,633,633	$ 3,116,239	$ 5,605,232	$ 5,527,144
Denominator:				
Denominator for basic earnings per share - weighted average common shares outstanding	7,135,107	7,081,044	7,131,611	7,060,529
Effect of dilutive securities:				
Convertible preferred stock	-	37,144	-	56,872
Stock options	58,300	87,189	61,588	88,780
	58,300	124,333	61,588	145,652

Denominator for diluted earnings per share - weighted average common shares outstanding and assumed conversions		7,193,407		7,205,377		7,193,199		7,206,181
Basic earnings per share	$	0.37	$	0.44	$	0.79	$	0.78
Diluted earnings per share	$	0.37	$	0.43	$	0.78	$	0.77

Summit Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)

Note 3. Securities

The amortized cost, unrealized gains, unrealized losses and estimated fair values of securities at June 30, 2006 and December 31, 2005, and June 30, 2005 are summarized as follows:

	June 30, 2006			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Available for Sale				
Taxable:				
U. S. Government agencies and corporations	$ 40,447,891	$ 2,357	$ 829,676	$ 39,620,572
Mortgage-backed securities	131,993,225	35,295	4,693,034	127,335,486
State and political subdivisions	3,758,832	-	37,100	3,721,732
Corporate debt securities	2,537,384	14,637	4,840	2,547,181
Federal Reserve Bank stock	639,000	-	-	639,000
Federal Home Loan Bank stock	15,769,300	-	-	15,769,300
Other equity securities	150,410	-	-	150,410
Total taxable	195,296,042	52,289	5,564,650	189,783,681
Tax-exempt:				
State and political subdivisions	41,911,326	644,454	334,506	42,221,274
Other equity securities	5,976,665	429,969	29,921	6,376,713
Total tax-exempt	47,887,991	1,074,423	364,427	48,597,987
Total	$ 243,184,033	$ 1,126,712	$ 5,929,077	$ 238,381,668

	December 31, 2005			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Available for Sale				
Taxable:				
U. S. Government agencies and corporations	$ 40,227,124	$ 33,754	$ 426,554	$ 39,834,324
Mortgage-backed securities	117,530,036	150,766	2,884,861	114,795,941
State and political subdivisions	3,741,271	219	-	3,741,490
Corporate debt securities	3,294,123	37,063	2,206	3,328,980
Federal Reserve Bank stock	571,500	-	-	571,500
Federal Home Loan Bank stock	15,761,400	-	-	15,761,400

Other equity securities	150,410	-	-	150,410
Total taxable	181,275,864	221,802	3,313,621	178,184,045
Tax-exempt:				
State and political subdivisions	38,529,013	1,191,186	74,709	39,645,490
Other equity securities	5,978,611	-	35,848	5,942,763
Total tax-exempt	44,507,624	1,191,186	110,557	45,588,253
Total	$ 225,783,488	$ 1,412,988	$ 3,424,178	$ 223,772,298

Summit Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)

	June 30, 2005			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Available for Sale				
Taxable:				
U. S. Government agencies and corporations	$ 23,671,763	$ 103,167	$ 79,949	$ 23,694,981
Mortgage-backed securities	115,010,307	329,697	1,128,262	114,211,742
State and political subdivisions	3,743,273	3,507	-	3,746,780
Corporate debt securities	4,048,118	89,976	-	4,138,094
Federal Reserve Bank stock	451,500	-	-	451,500
Federal Home Loan Bank stock	15,551,400	-	-	15,551,400
Other equity securities	175,535	-	-	175,535
Total taxable	162,651,896	526,347	1,208,211	161,970,032
Tax-exempt:				
State and political subdivisions	40,266,955	1,559,877	15,344	41,811,488
Other equity securities	7,480,557	-	1,701,024	5,779,533
Total tax-exempt	47,747,512	1,559,877	1,716,368	47,591,021
Total	$ 210,399,408	$ 2,086,224	$ 2,924,579	$ 209,561,053

The maturities, amortized cost and estimated fair values of securities at June 30, 2006, are summarized as follows:

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 48,330,932	$ 47,151,587
Due from one to five years	109,068,697	105,447,399
Due from five to ten years	34,096,433	33,572,390
Due after ten years	29,152,596	29,274,869
Equity securities	22,535,375	22,935,423
	$ 243,184,033	$ 238,381,668

Summit Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)

Note 4. Loans

Loans are summarized as follows:

	June 30, 2006	December 31, 2005
Commercial	$ **64,341,549**	$ 63,205,991
Commercial real estate	**296,680,636**	266,228,999
Construction and development	**181,999,992**	141,206,211
Residential real estate	**288,990,666**	285,596,743
Consumer	**37,040,264**	36,863,170
Other	**6,187,640**	8,597,768
Total loans	**875,240,747**	801,698,882
Less unearned income	**1,766,864**	1,780,315
Total loans net of unearned income	**873,473,883**	799,918,567
Less allowance for loan losses	**6,793,806**	6,151,730
Loans, net	$ **866,680,077**	$ 793,766,837

Due to the reclassification of real estate loans to include the construction and development category, real estate loan balances prior to December 31, 2005 conforming to the new classifications are not available.

Note 5. Allowance for Loan Losses

An analysis of the allowance for loan losses for the six month periods ended June 30, 2006 and 2005, and for the year ended December 31, 2005 is as follows:

	Six Months Ended June 30,		Year Ended December 31,
	2006	**2005**	**2005**
Balance, beginning of period	$ 6,151,730	$ 5,073,286	$ 5,073,286
Losses:			
Commercial	31,744	19,759	35,809
Commercial real estate	18,891	-	-
Real estate - mortgage	95,586	50,200	204,926
Consumer	81,036	89,123	173,020
Other	201,981	123,350	364,311
Total	429,238	282,432	778,066
Recoveries:			

Commercial	1,025	-	6,495
Commercial real estate	36,910	12,577	41,228
Real estate - mortgage	6,518	-	42
Consumer	25,625	32,793	55,700
Other	126,236	106,068	273,645
Total	196,314	151,438	377,110
Net losses	232,924	130,994	400,956
Provision for loan losses	875,000	755,000	1,479,400
Balance, end of period	$ 6,793,806	$ 5,697,292	$ 6,151,730

Summit Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)

Note 6. Goodwill and Other Intangible Assets

The following tables present our goodwill at June 30, 2006 and other intangible assets at June 30, 2006, December 31, 2005, and June 30, 2005.

	Goodwill Activity by Operating Segment			
	Community Banking	Mortgage Banking	Parent and Other	Total
Balance, January 1, 2006	$ 1,488,030	$ -	$ 600,000	$ 2,088,030
Acquired goodwill, net	-	-	-	-
Balance, June 30, 2006	$ 1,488,030	$ -	$ 600,000	$ 2,088,030

	Unidentifiable Intangible Assets		
	June 30, 2006	December 31, 2005	June 30, 2005
Unidentifiable intangible assets			
Gross carrying amount	$ 2,267,323	$ 2,267,323	$ 2,267,323
Less: accumulated amortization	1,083,256	1,007,681	932,105
Net carrying amount	$ 1,184,067	$ 1,259,642	$ 1,335,218

We recorded amortization expense of approximately $76,000 for the six months ended June 30, 2006 relative to our unidentifiable intangible assets. Annual amortization is expected to be approximately $151,000 for each of the years ending 2006 through 2010.

Note 7. Deposits

The following is a summary of interest bearing deposits by type as of June 30, 2006 and 2005 and December 31, 2005:

	June 30, 2006	December 31, 2005	June 30, 2005
Interest bearing demand deposits	$ 214,279,129	$ 200,637,520	$ 145,625,507
Savings deposits	38,737,221	44,680,540	47,407,305

Retail time deposits		251,643,514		237,262,760		231,775,092
Brokered time deposits		190,831,561		128,688,488		77,152,269
Total	$	695,491,425	$	611,269,308	$	501,960,173

Summit Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)

Brokered deposits represent certificates of deposit acquired through a third party. The following is a summary of the maturity distribution of certificates of deposit in denominations of $100,000 or more as of June 30, 2006:

		Amount	Percent
Three months or less	$	32,455,607	12.6%
Three through six months		27,795,236	10.8%
Six through twelve months		79,850,643	31.0%
Over twelve months		117,079,576	45.5%
Total	$	257,181,062	100.0%

A summary of the scheduled maturities for all time deposits as of June 30, 2006 is as follows:

Six month period ending December 31, 2006	$ 131,296,676
Year Ending December 31, 2007	194,552,711
Year Ending December 31, 2008	63,042,550
Year Ending December 31, 2009	28,257,149
Year Ending December 31, 2010	22,831,646
Thereafter	2,494,343
	$ 442,475,075

Note 8. Borrowed Funds

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

	Six Months Ended June 30, 2006		
	Short-term FHLB Advances	**Repurchase Agreements**	**Federal Funds Purchased and Lines of Credit**
Balance at June 30	$ 157,796,000	$ 5,749,071	$ 640,000
Average balance outstanding for the period	151,198,679	6,333,903	832,271
Maximum balance outstanding at any month end during period	175,407,800	7,036,562	1,164,122
Weighted average interest rate for the period	4.82%	3.92%	7.03%
Weighted average interest rate for balances outstanding at June 30	5.36%	4.17%	7.75%

Summit Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)

	Year Ended December 31, 2005		
	Short-term FHLB Advances	Repurchase Agreements	Federal Funds Purchased and Lines of Credit
Balance at December 31	$ 175,510,100	$ 6,518,013	$ -
Average balance outstanding for the period	130,023,493	8,060,676	888,214
Maximum balance outstanding at any month end during period	175,510,100	10,881,188	3,395,500
Weighted average interest rate for the period	3.54%	2.27%	4.77%
Weighted average interest rate for balances outstanding at December 31	4.27%	3.65%	-

	Six Months Ended June 30, 2005		
	Short-term FHLB Advances	Repurchase Agreements	Federal Funds Purchased and Lines of Credit
Balance at June 30	$ 115,906,600	$ 8,671,743	$ 3,395,500
Average balance outstanding for the period	114,955,701	10,248,299	802,124
Maximum balance outstanding at any month end during period	126,336,000	10,881,188	3,395,500
Weighted average interest rate for the period	2.93%	2.07%	4.50%
Weighted average interest rate for balances outstanding at June 30	3.52%	2.42%	4.08%

Long-term borrowings: Our long-term borrowings of $147,578,964, $150,911,835 and $165,455,406 at June 30, 2006, December 31, 2005, and June 30, 2005 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 six month period ended June 30, 2006 was 5.19% compared to 4.41% for the first six months of 2005.

Subordinated Debentures: We have three 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 $19,589,000 at June 30, 2006 and December 31, 2005, and $11,341,000 June 30, 2005.

In October 2002, we sponsored SFG Capital Trust I, in March 2004, we sponsored SFG Capital Trust II, and in December 2005, we sponsored SFG Capital Trust III, of which 100% of the common equity of each trust 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. SFG Capital Trust III issued $8,000,000 in capital securities and $248,000 in common securities and invested the proceeds in $8,248,000 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, 3 month LIBOR plus 280 basis points for SFG Capital Trust II, and 3 month LIBOR plus 145 basis points for SFG Capital Trust III, 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, SFG Capital Trust II, and SFG Capital Trust III are first redeemable by us in November 2007, March 2009, and March 2011, respectively.

Summit Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)

The capital securities held by SFG Capital Trust I, SFG Capital Trust II, and SFG Capital Trust III qualify as Tier 1 capital under Federal Reserve Board guidelines. In accordance with these Guidelines, trust preferred securities generally are limited to 25% of Tier 1 capital elements, net of goodwill. The amount of trust preferred securities and certain other elements in excess of the limit can be included in Tier 2 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
2006	$	19,494,542
2007		23,318,204
2008		24,585,851
2009		3,911,094
2010		52,050,871
Thereafter		43,807,402
	$	167,167,964

Note 9. Stock Option Plan

On January 1, 2006, we adopted SFAS No. 123R, *Share-Based Payment (Revised 2004)*, which is a revision of SFAS No. 123, *Accounting for Stock Issued for Employees*. SFAS No. 123R establishes accounting requirements for share-based compensation to employees and carries forward prior guidance on accounting for awards to non-employees. Prior to the adoption of SFAS No. 123R, we reported employee compensation expense under stock option plans only if options were granted below market prices at grant date in accordance with the intrinsic value method of Accounting Principles Board Opinion (“APB”) No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. In accordance with APB No. 25, we reported no compensation expense on options granted as the exercise price of the options granted always equaled the market price of the underlying stock on the date of grant. SFAS No. 123R eliminated the ability to account for stock-based compensation using APB No. 25 and requires that such transactions be recognized as compensation cost in the income statement based on their fair values on the measurement date, which is generally the date of the grant.

We transitioned to SFAS No. 123R using the modified prospective application method ("modified prospective application"). As permitted under modified prospective application, SFAS No. 123R applies to new awards and to awards modified, repurchased, or cancelled after January 1, 2006. Additionally, compensation cost for non-vested awards that were outstanding as of January 1, 2006 will be recognized as the remaining requisite service is rendered during the period of and/or the periods after the adoption of SFAS No. 123R, adjusted for estimated forfeitures. The recognition of compensation cost for those earlier awards is based on the same method and on the same grant-date fair values previously determined for the pro forma disclosures reported by us for periods prior to January 1, 2006.

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.

Summit Financial Group, Inc. and Subsidiaries
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The fair value of our employee stock options granted is estimated at the date of grant using the Black-Scholes option-pricing model. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. Additionally, there may be other factors that would otherwise have a significant effect on the value of employee stock options granted but are not considered by the model. Because our employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options at the time of grant. The assumptions used in the Black-Scholes option-pricing model are as follows:

	For the Six Months Ended June 30,	
	2006	2005
Risk-free interest rate	4.40%	3.60%
Expected dividend yield	1.25%	1.04%
Volatility factor	25	20
Expected life of option	8	8

There were no option grants during the first six months of 2006 or 2005. Therefore, the factors for June 30, 2006 and June 30, 2005 are consistent with amounts reported in our 2005 Annual Report and 2004 Annual Report, respectively.

During first six months of 2006, we recognized $13,234 of compensation expense for share-based payment arrangements in our income statement, with a deferred tax asset of $5,000. At June 30, 2006, we had approximately $31,000 total compensation cost related to nonvested awards not yet recognized and we expect to recognize it over the next three years.

The following pro forma disclosures present for the quarter and six months ended June 30, 2005, 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). For purposes of computing the pro forma amounts, we estimated the fair value of the options at the date of grant using a Black-Scholes option pricing model. For purposes of the pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

Summit Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)

(in thousands, except per share data)		Quarter Ended		Six MonthsEnded
		June 30, 2005		
Net income:				
As reported	$	3,116	$	5,527
Deduct total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(36)		(76)
Pro forma	$	3,080	$	5,451
Basic earnings per share:				
As reported	$	0.44	$	0.78
Pro forma	$	0.43	$	0.77
Diluted earnings per share:				
As reported	$	0.43	$	0.77
Pro forma	$	0.43	$	0.76

A summary of activity in our Officer Stock Option Plan during the first six months of 2006 and 2005 is as follows:

	For the Six Months Ended					
	June 30, 2006			June 30, 2005		
	Options		Weighted-Average Exercise Price	Options		Weighted-Average Exercise Price
Outstanding, January 1	361,740	$	17.41	284,100	$	15.09
Granted	-		-	-		-
Exercised	(8,900)		4.89	(7,460)		9.45
Forfeited	-		-	-		-
Outstanding, June 30	352,840	$	17.73	276,640	$	15.24

Other information regarding options outstanding and exercisable at June 30, 2006 is as follows:

	Options Outstanding				Options Exercisable		
Range of exercise price	# of shares	WAEP	Wted. Avg. Remaining Contractual Life (yrs)	Aggregate Intrinsic Value (in thousands)	# of shares	WAEP	Aggregate Intrinsic Value (in thousands)
$4.63 - $6.00	85,400	$ 5.35	6.42	1,588	78,600	$ 5.30	1,465
6.01 - 10.00	33,640	9.49	9.54	484	19,240	9.49	278
10.01 - 17.50	3,500	17.43	7.67	57	3,500	17.43	23
17.51 - 20.00	51,800	17.79	10.47	698	20,600	17.79	127
20.01 - 25.93	178,500	25.19	9.07	-	178,500	25.19	-
	352,840	17.73		2,827	300,440	18.38	1,893

Summit Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)

Note 10. 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:

		June 30, 2006
Commitments to extend credit:		
Revolving home equity and credit card lines	$	32,410,329
Construction loans		91,704,660
Other loans		37,552,776
Standby letters of credit		10,688,250
Total	$	172,356,015

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.

Note 11. 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 June 30, 2006, that we and each of our subsidiaries met all capital adequacy requirements to which they were subject.

Summit Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)

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 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 June 30, 2006						
Total Capital (to risk weighted assets)						
Summit	$ 102,289	11.3%	$ 72,328	8.0%	$ 90,409	10.0%
Summit Community	57,432	10.8%	42,621	8.0%	53,276	10.0%
Shenandoah	39,553	10.9%	29,021	8.0%	36,277	10.0%
Tier I Capital (to risk weighted assets)						
Summit	95,317	10.5%	36,164	4.0%	54,246	6.0%
Summit Community	53,056	10.0%	21,310	4.0%	31,966	6.0%
Shenandoah	36,957	10.2%	14,511	4.0%	21,766	6.0%
Tier I Capital (to average assets)						
Summit	95,317	8.2%	34,754	3.0%	57,924	5.0%
Summit Community	53,056	7.4%	21,628	3.0%	36,046	5.0%
Shenandoah	36,957	8.7%	12,792	3.0%	21,320	5.0%
As of December 31, 2005						
Total Capital (to risk weighted assets)						
Summit	$ 96,837	11.4%	68,010	8.0%	85,013	10.0%
Summit Community	54,550	10.4%	41,792	8.0%	52,240	10.0%
Shenandoah	35,834	11.2%	25,589	8.0%	31,986	10.0%
Tier I Capital (to risk weighted assets)						
Summit	90,686	10.7%	34,005	4.0%	38,897	6.0%
Summit Community	50,490	9.7%	20,896	4.0%	25,363	6.0%
Shenandoah	33,743	10.5%	12,794	4.0%	13,080	6.0%
Tier I Capital (to average assets)						
Summit	90,686	8.6%	31,764	3.0%	52,940	5.0%

Summit Community	50,490	7.5%	20,251	3.0%	33,752	5.0%
Shenandoah	33,743	9.0%	11,199	3.0%	18,664	5.0%

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Summit Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)

Note 12. Segment Information

We operate two 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:

	For the Quarter Ended June 30, 2006					
Dollars in thousands	**Community Banking**	**Mortgage Banking**	**Insurance Services**	**Parent and Other**	**Eliminations**	**Total**
Condensed Statements of Income						
Interest income	$ 19,399	$ 412	$ -	$ 11	$ (235)	$ 19,587
Interest expense	10,347	234	-	410	(235)	10,756
Net interest income	9,052	178	-	(399)	-	8,831
Provision for loan losses	330	150	-	-	-	480
Net interest income after provision for loan losses	8,722	28	-	(399)	-	8,351
Noninterest income	923	5,945	186	1,465	(1,465)	7,054
Noninterest expense	5,153	5,974	179	1,730	(1,465)	11,571
Income before income taxes	4,492	(1)	7	(664)	-	3,834
Income taxes	1,462	7	-	(269)	-	1,200
Net income	$ 3,030	$ (8)	$ 7	$ (395)	$ -	$ 2,634
Intersegment revenue (expense)	$ (1,148)	$ (309)	$ (8)	$ 1,465	$ -	$ -
Average assets	$ 1,150,170	$ 17,998	$ 1,041	$ 99,375	$ (106,829)	$ 1,161,755

	For the Quarter Ended June 30, 2005					
Dollars in thousands	**Community Banking**	**Mortgage Banking**	**Insurance Services**	**Parent and Other**	**Eliminations**	**Total**
Condensed Statements of Income						
Interest income	$ 13,328	$ 485	$ -	$ 6	$ (295)	$ 13,524
Interest expense	5,725	294	-	196	(295)	5,920
Net interest income	7,603	191	-	(190)	-	7,604
Provision for loan losses	345	80	-	-	-	425

Net interest income after provision for loan losses	7,258	111	-	(190)	-	7,179
Noninterest income	905	7,113	197	1,183	(1,183)	8,215
Noninterest expense	4,374	6,055	135	1,494	(1,183)	10,875
Income before income taxes	3,789	1,169	62	(501)	-	4,519
Income taxes	1,221	414	26	(258)	-	1,403
Net income	$ 2,568	$ 755	$ 36	$ (243)	$ -	$ 3,116
Intersegment revenue (expense)	$ (820)	$ (355)	$ (8)	$ 1,183	$ -	$ -
Average assets	$ 921,770	$ 23,838	$ 1,008	$ 81,095	$ (95,937)	$ 931,774

Summit Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)

	For the Six Months Ended June 30, 2006					
Dollars in thousands	**Community Banking**	**Mortgage Banking**	**Insurance Services**	**Parent and Other**	**Eliminations**	**Total**
Condensed Statements of Income						
Interest income	$ 37,298	$ 974	$ -	$ 23	$ (546)	$ 37,749
Interest expense	19,509	545	-	779	(546)	20,287
Net interest income	17,789	429	-	(756)	-	17,462
Provision for loan losses	655	220	-	-	-	875
Net interest income after provision for loan losses	17,134	209	-	(756)	-	16,587
Noninterest income	1,733	12,529	379	2,963	(2,963)	14,641
Noninterest expense	10,145	12,206	354	3,347	(2,963)	23,089
Income before income taxes	8,722	532	25	(1,140)	-	8,139
Income taxes	2,776	208	8	(458)	-	2,534
Net income	$ 5,946	$ 324	$ 17	$ (682)	$ -	$ 5,605
Intersegment revenue (expense)	$ (2,251)	$ (695)	$ (17)	$ 2,963	$ -	$ -
Average assets	$ 1,133,212	$ 20,286	$ 1,019	$ 98,270	$ (108,322)	$ 1,144,465

	For the Six Months Ended June 30, 2005					
Dollars in thousands	**Community Banking**	**Mortgage Banking**	**Insurance Services**	**Parent and Other**	**Eliminations**	**Total**
Condensed Statements of Income						
Interest income	$ 25,532	$ 788	$ -	$ 12	$ (515)	$ 25,817
Interest expense	10,695	513	-	365	(515)	11,058
Net interest income	14,837	275	-	(353)	-	14,759
Provision for loan losses	675	80	-	-	-	755
Net interest income after provision for loan losses	14,162	195	-	(353)	-	14,004
Noninterest income	1,593	12,969	319	2,360	(2,359)	14,882
Noninterest expense	8,571	11,652	269	2,797	(2,359)	20,930
	7,184	1,512	50	(790)	-	7,956

Income before income taxes												
Income taxes		2,250		530		21		(372)		-		2,429
Net income	$	4,934	$	982	$	29	$	(418)	$	-	$	5,527
Intersegment revenue (expense)	$	(1,726)	$	(618)	$	(15)	$	2,359	$	-	$	-
Average assets	$	902,753	$	21,625	$	996	$	79,703	$	(92,887)	$	912,190

Summit Financial Group, Inc. and Subsidiaries
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 wholly owned subsidiaries, 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 2005 audited financial statements and Annual Report on Form 10-K.

This quarterly report contains comments or information that constitute forward-looking statements (within the meaning of the Private Securities Litigation Act of 1995) that are based on current expectations that involve a number of risks and uncertainties. Words such as "expects", "anticipates", "believes", "estimates" and other similar expressions or future or conditional verbs such as "will", "should", "would" and "could" are intended to identify such forward-looking statements.

Although we believe the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially. Factors that might cause such a difference include changes in interest rates and interest rate relationships; demand for products and services; the degree of competition by traditional and non-traditional competitors; changes in banking laws and regulations; changes in tax laws; the impact of technological advances; the outcomes of contingencies; trends in customer behavior as well as their ability to repay loans; and changes in the national and local economy.

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 17.41%, or $2,681,000, in our net interest earnings on a tax equivalent basis for the first six months in 2006 compared to the same period of 2005. Our mortgage banking segment contributed $324,000 to our first six months 2006 earnings compared to $982,000 for the comparable period of 2005, as we experienced a sharp decline in mortgage loan originations during second quarter 2006.

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 2005 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.

Summit Financial Group, Inc. and Subsidiaries
Management's Discussion and Analysis of Financial Condition and Results of Operations

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 2005 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 2005 Annual Report on Form 10-K.

Goodwill is 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 will complete the required annual impairment test for 2006. We cannot assure you that future goodwill impairment tests will not result in a charge to earnings. See Notes 1 and 8 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 12 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 June 30,		For the Six Months Ended June 30,	
in thousands	**2006**	**2005**	**2006**	**2005**
Community Banking	$ 3,030	$ 2,568	$ 5,946	$ 4,934
Mortgage Banking	(8)	755	324	982
Parent and Other	(388)	(207)	(665)	(389)
Consolidated net income	$ 2,634	$ 3,116	$ 5,605	$ 5,527

RESULTS OF OPERATIONS

Earnings Summary

Net income for the six months ended June 30, 2006 grew 1.41% to $5,605,000, or $0.78 per diluted share as compared to $5,527,000, or $0.77 per diluted share for the six months ended June 30, 2005. For the quarter ended June 30, 2006, net income declined 15.47% to $2,634,000 from the $3,116,000 net income for the second quarter 2005. Returns on average equity and assets for the first six months of 2005 were 14.53% and 0.98%, respectively, compared with 16.41% and 1.21% for the same period of 2005.

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 $18,084,000 for the six months period ended June 30, 2006 compared to $15,403,000 for the same period of 2005, representing an increase of $2,681,000 or 17.41%. This increase resulted from growth in interest earning assets, primarily loans, which served to more than offset the 126 basis points increase in the cost of interest bearing liabilities during the same period. Average interest earning assets grew 25.91% from $863,634,000 during the first six months of 2005 to $1,087,366,000 for the first six months of 2006. Average interest bearing liabilities grew 27.12% from $780,807,000 at June 30, 2005 to $992,532,000 at June 30, 2006 at an average yield for the first six months of 2006 of 4.12% compared to 2.86% for the same period of 2005.

Our net yield on interest earning assets decreased to 3.35% for the six month period ended June 30, 2006, compared to 3.60% for the same period in 2005. On a quarterly basis, our net interest margin declined to 3.32% at June 30, 2006, from 3.39% for the quarter ended March 31, 2006. 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 94 basis points, while the cost of our interest bearing funds increased by 126 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 and II below.

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

	For the Six Months Ended					
	June 30, 2006			June 30, 2005		
	Average Balance	Earnings/ Expense	Yield/ Rate	Average Balance	Earnings/ Expense	Yield/ Rate
Interest earning assets						
Loans, net of unearned income						
Taxable	$ 844,093	$ 32,077	7.66%	$ 641,631	$ 20,998	6.60%
Tax-exempt (1)	8,242	305	7.46%	9,041	328	7.32%
Securities						
Taxable	188,414	4,385	4.69%	162,072	3,478	4.33%
Tax-exempt (1)	44,988	1,568	7.03%	48,102	1,604	6.72%
Federal funds sold and interest bearing deposits with other banks	1,629	37	4.58%	2,788	53	3.83%
Total interest earning assets	1,087,366	38,372	7.12%	863,634	26,461	6.18%
Noninterest earning assets						
Cash & due from banks	14,259			15,294		
Premises and equipment	23,475			20,714		
Other assets	25,890			17,883		
Allowance for loan losses	(6,525)			(5,335)		
Total assets	$ 1,144,465			$ 912,190		
Interest bearing liabilities						
Interest bearing demand deposits	$ 209,565	$ 3,366	3.24%	$ 134,987	$ 1,025	1.53%
Savings deposits	40,209	147	0.74%	49,954	158	0.64%
Time deposits	402,422	8,048	4.03%	302,046	4,260	2.84%
Short-term borrowings	158,365	3,795	4.83%	126,006	1,809	2.90%
Long-term borrowings and capital trust securities	181,971	4,932	5.47%	167,814	3,806	4.57%
Total interest bearing liabilities	992,532	20,288	4.12%	780,807	11,058	2.86%

Noninterest bearing liabilities							
and shareholders' equity							
Demand deposits	64,906			57,610			
Other liabilities	9,850			6,393			
Shareholders' equity	77,177			67,380			
Total liabilities and							
shareholders' equity	$ 1,144,465			$ 912,190			
Net interest earnings		$ 18,084			$ 15,403		
Net yield on interest earning assets			3.35%				3.60%

(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 $622,000 and $644,000 for the periods ended
June 30, 2006 and 2005, respectively.
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Table II - Changes in Interest Margin Attributable to Rate and Volume
(Dollars in thousands)

	For the Six Months Ended June 30, 2006 versus June 30, 2005 Increase (Decrease) Due to Change in:		
	Volume	**Rate**	**Net**
Interest earned on:			
Loans			
Taxable	$ 7,333	$ 3,746	$ 11,079
Tax-exempt	(29)	6	(23)
Securities			
Taxable	596	311	907
Tax-exempt	(107)	71	(36)
Federal funds sold and interest bearing deposits with other banks	(25)	9	(16)
Total interest earned on interest earning assets	7,768	4,143	11,911
Interest paid on:			
Interest bearing demand deposits	775	1,566	2,341
Savings deposits	(34)	23	(11)
Time deposits	1,678	2,110	3,788
Short-term borrowings	551	1,435	1,986
Long-term borrowings and capital trust securities	340	786	1,126
Total interest paid on interest bearing liabilities	3,310	5,920	9,230
Net interest income	$ 4,458	$ (1,777)	$ 2,681

Noninterest Income

Total noninterest income decreased to $7,054,000 for the second quarter of 2006, compared to $8,215,000 for the same period of 2005 due to a sharp decline in mortgage origination revenue. Mortgage origination revenue declined to $5,945,000 for the second quarter of 2006, compared to $7,113,000 for the same period of 2005. This revenue includes mortgage loan origination and sales activity conducted through Summit Mortgage. Further detail regarding noninterest income is reflected in the following table. Also, refer to Note 12 of the accompanying consolidated financial statements for our segment information.

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Noninterest Income

Dollars in thousands	For the Quarter Ended June 30, 2006	For the Quarter Ended June 30, 2005	For the Six Months Ended June 30, 2006	For the Six Months Ended June 30, 2005
Insurance commissions	$ 247	$ 235	$ 477	$ 383
Service fees	726	651	1,356	1,198
Mortgage origination revenue	5,945	7,113	12,529	12,969
Securities gains (losses)	-	5	-	5
Other	136	211	279	327
Total	$ 7,054	$ 8,215	$ 14,641	$ 14,882

Insurance commissions: These commissions increased 5.1% for second quarter 2006 over second quarter 2005 and 24.5% for the six months ended June 30, 2006 compared to the same period of 2005 primarily due to Summit Insurance Services, LLC, which offers both commercial and personal lines of insurance.

Service fees: Total service fees increased 11.5% for the second quarter of 2006 compared to the same period of 2005 and 13.2% for the first six months of 2006 compared to the same period of 2005. 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 June 30, 2006	For the Quarter Ended June 30, 2005	For the Six Months Ended June 30, 2006	For the Six Months Ended June 30, 2005
Loans originated				
1st mortgage				
Amount	$ 13,665	$ 10,484	$ 24,764	$ 24,794
Number	68	57	132	136
2nd mortgage				
Amount	$ 53,465	$ 73,132	$ 115,333	$ 127,751
Number	1,154	1,521	2,476	2,750
Total				
Amount	$ 67,130	$ 83,616	$ 140,097	$ 152,545
Number	1,222	1,578	2,608	2,886
Loans sold				
Amount	$ 69,315	$ 81,422	$ 145,690	$ 148,183
Number	1,304	1,549	2,725	2,844

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:

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Mortgage Origination Revenue

Dollars in thousands	For the Quarter Ended June 30, 2006	For the Quarter Ended June 30, 2005	For the Six Months Ended June 30, 2006	For the Six Months Ended June 30, 2005
Origination fees, net	$ 3,580	$ 4,050	$ 7,427	$ 7,600
Gains	2,365	3,063	5,102	5,369
Total	$ 5,945	$ 7,113	$ 12,529	$ 12,969

Loan originations in the second quarter of 2006 were $67.1 million, a decline of 8.0 percent from the linked quarter and 19.7 percent from the prior-year second quarter. We believe that several factors have contributed to this business segment's slowdown, including changes in the legal environment within the industry, increased competition in the overall market for the types of mortgage products offered by Summit Mortgage, and the payment of legal expenses arising from legal compliance reviews and litigation defense.

In addition, Summit Mortgage suspended its direct mailings during the second quarter of 2006, to residents of Indiana, Illinois and Wisconsin, one of its strongest performing markets. Mailings were also briefly suspended in all other states, from late May until early June, 2006. Suspension of these mailings enabled Summit Mortgage to assess several recent federal court decisions concerning the Fair Credit Reporting Act (FCRA), a federal law which prescribes the legal requirements its prescreened offers of credit must meet, and two lawsuits which were filed against the company. Management believes, based on advice from legal counsel, that its mailings fully complied with all applicable legal requirements, including those of the FCRA. Summit Mortgage has also developed a new uniform mailer that it believes complies with the evolving standards in all jurisdictions where it does business. While initial response to the revised mailer was poor, recent indications are that its response rate has improved significantly following further modification. However, even with improving response rates, due to the length of this business segment's production-sales cycle, management reasonably expects this business segment's third quarter 2006 results to be equally as or more unprofitable than second quarter 2006.

Other: Other income decreased 35.5% for the second quarter of 2006 and 14.7% for the six months ended June 30, 2006 compared to the same respective periods of 2005. Our increase in debit card and ATM income due to increased card usage by customers was more than offset by decreases in both financial services revenue and derivative income.

Noninterest Expense

Total noninterest expense increased approximately $2,159,000, or 10.3% to $23,089,000 during the first six months of 2006 as compared to the same period in 2005 and $696,000 or 6.4% for second quarter 2006 compared to second quarter 2005. The primary factors contributing to growth in noninterest expense were 1) an increase in postage expense due to the postal service rate increase and 2) an increase in professional fees, as a result of increased legal expenses arising from legal compliance reviews and litigation defense. Table III below shows the breakdown of these increases by segment. Also, refer to Note 12 of the accompanying consolidated financial statements for our segment information.

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Table III - Noninterest Expense
Dollars in thousands

	For the Quarter Ended June 30,				For the Six Months Ended June 30,			
		Change				Change		
Community Banking and Other	**2006**	$	%	**2005**	**2006**	$	%	**2005**
Salaries and employee benefits	$ 3,049	$ 319	11.7%	$ 2,730	$ 6,104	$ 860	16.4%	$ 5,244
Net occupancy expense	390	49	14.4%	341	791	137	20.9%	654
Equipment expense	496	59	13.5%	437	946	62	7.0%	884
Supplies	222	41	22.7%	181	388	49	14.5%	339
Professional fees	245	82	50.3%	163	452	112	32.9%	340
Postage	60	19	46.3%	41	115	10	9.5%	105
Advertising	151	18	13.5%	133	200	(5)	-2.4%	205
Amortization of intangibles	38	-	0.0%	38	76	-	0.0%	76
Other	946	190	25.1%	756	1,811	380	26.6%	1,431
Total	$ 5,597	$ 777	16.1%	$ 4,820	$ 10,883	$ 1,605	17.3%	$ 9,278

		Change				Change		
Mortgage Banking	**2006**	$	%	**2005**	**2006**	$	%	**2005**
Salaries and employee benefits	$ 1,806	$ (858)	-32.2%	$ 2,664	$ 3,908	$ (784)	-16.7%	$ 4,692
Net occupancy expense	180	58	47.5%	122	350	112	47.1%	238
Equipment expense	79	33	71.7%	46	150	58	63.0%	92
Supplies	33	1	3.1%	32	72	21	41.2%	51
Professional fees	244	165	208.9%	79	322	193	149.6%	129
Postage	1,690	273	19.3%	1,417	3,426	506	17.3%	2,920
Advertising	1,163	74	6.8%	1,089	2,453	111	4.7%	2,342
Other	779	173	28.5%	606	1,525	337	28.4%	1,188
Total	$ 5,974	$ (81)	-1.3%	$ 6,055	$ 12,206	$ 554	4.8%	$ 11,652

		Change				Change		
Consolidated	**2006**		$%	**2005**	**2006**		$%	**2005**
Salaries and employee benefits	$ 4,855	$ (539)	-10.0%	$ 5,394	$ 10,012	$ 76	0.8%	$ 9,936
Net occupancy expense	570	107	23.1%	463	1,141	249	27.9%	892
Equipment expense	575	92	19.0%	483	1,096	120	12.3%	976
Supplies	255	42	19.7%	213	460	70	17.9%	390
Professional fees	489	247	102.1%	242	774	305	65.0%	469

Postage	**1,750**	**292**	**20.0%**	**1,458**	**3,541**	**516**	**17.1%**	**3,025**
Advertising	**1,314**	**92**	**7.5%**	**1,222**	**2,653**	**106**	**4.2%**	**2,547**
Amortization of intangibles	**38**	**-**	**0.0%**	**38**	**76**	**-**	**0.0%**	**76**
Other	**1,725**	**363**	**26.7%**	**1,362**	**3,336**	**717**	**27.4%**	**2,619**
Total	**$ 11,571**	**$ 696**	**6.4%**	**$ 10,875**	**$ 23,089**	**$ 2,159**	**10.3%**	**$ 20,930**

Community Banking, Parent and Other Segments

Total noninterest expense for our community banking segment, parent, and other increased $777,000, or 16.1% for the second quarter of 2006, compared to the same period of 2005 and $1,605,000, or 17.3% for the six months ended June 30, 2006 versus the same period of 2005. The major factors contributing to these increases follow.

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Salaries and employee benefits: Salaries and employee benefits expense increased 11.7% and 16.4% for the quarter ended June 30, 2006 and the six months ended June 30, 2006, respectively, due to additional staffing requirements needed as a result of our growth, including opening a new community banking office in Warrenton, Virginia in mid-2005 and one in Martinsburg, West Virginia during second quarter 2006. Also included in this increase are general merit raises.

Other: Other expenses increased 25.1% for second quarter 2006 compared to second quarter 2005, and 26.6% for the six months ended June 30, 2006 compared to the same period of 2005. These increases include $60,000 of losses in fraudulent checks.

Mortgage Banking Segment

Total noninterest expense for our mortgage banking segment decreased 1.3% for the second quarter of 2006 over the same period of 2005. These expenses increased $554,000 or 4.8% for the six months ended June 30, 2006 compared to the same period of 2005.

Salaries and employee benefits: The decrease of $858,000 in salaries and employee benefits for the quarter ended June 30, 2006 and $784,000 for the six months ended June 30, 2006 is comprised primarily of 1) lower loan officer commissions paid due to decreased loan production and 2) a decrease in profitability based incentive compensation paid to Summit Mortgage management.

Net occupancy expense: Net occupancy expense increased 47.5% for the second quarter 2006 compared to the same period of 2005 and 47.1% for the first six months of 2006 compared to comparable period of 2005 due to the relocation of our Summit Mortgage headquarters to Chesapeake, Virginia in late 2005.

Professional fees: Professional fees increased 208.9% for the second quarter 2006, compared to the second quarter 2005, and 149.6% for the six months ended June 30, 2006 compared to the same period of 2005. This increase is primarily attributable to increased legal expenses arising from legal compliance reviews and litigation defense.

Postage: The increase in postage expense of $273,000 and $506,000 for the quarter and six months ended June 30, 2006, respectively, was the result of 1) a 10% increase in the number of direct mail pieces mailed and 2) a rate increase by the US Postal Service.

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 an $875,000 provision for loan losses for the first six months of 2006, compared to $755,000 for the same period in 2005. Net loan charge offs for the first six months of 2006 were $233,000, as compared to $131,000 over the same period of 2005. At June 30, 2006, the allowance for loan losses totaled $6,794,000 or 0.77% of loans, both portfolio and held for sale, net of unearned income, compared to $6,152,000 or 0.75% at December 31, 2005.

Our asset quality remains sound. As illustrated in Table IV 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.

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

	June 30, 2006	June 30, 2005	December 31, 2005
Accruing loans past due 90 days or more	$ 290	$ 536	$ 799
Nonperforming assets:			
Nonaccrual loans	1,303	375	750
Nonaccrual securities	-	326	-
Foreclosed properties	358	906	378
Repossessed assets	15	43	17
Total	$ 1,966	$ 2,186	$ 1,944
Total nonperforming loans as a percentage of total loans	0.18%	0.13%	0.19%
Total nonperforming assets as a percentage of total assets	0.17%	0.23%	0.18%

FINANCIAL CONDITION

Our total assets were $1,179,648,000 at June 30, 2006, compared to $1,109,532,000 at December 31, 2005, representing a 6.3% increase. Table V below serves to illustrate significant changes in our financial position between December 31, 2005 and June 30, 2006.

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

	Balance December 31, 2005	Increase (Decrease) Amount	Increase (Decrease) Percentage	Balance June 30, 2006
Assets				
Securities available for sale	$ 223,772	14,610	6.5%	$ 238,382
Loans, net of unearned income	799,919	73,555	9.2%	873,474

Liabilities				
Deposits	$ 673,901	$ 87,661	13.0%	$ 761,562
Short-term borrowings	182,028	(17,843)	-9.8%	164,185
Long-term borrowings and subordinated debentures	170,501	(3,333)	-2.0%	167,168

Loan growth during the first six months of 2006, 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 3, 4, 7, and 8 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 June 30, 2006 and December 31, 2005.

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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 $184 million, or 15.6% of total assets at June 30, 2006 versus $125 million, or 11.3% of total assets at December 31, 2005.

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 June 30, 2006 totaled $76,559,000 compared to $73,803,000 at December 31, 2005.

During second quarter 2006, our Board of Directors declared and paid the first half 2006 cash dividend of $0.16 per share compared to $0.14 paid for the first half of 2005. The first half 2006 dividend totaled $1,141,619, representing a 14.58% increase over the $996,333 paid during the first half 2005.

Refer to Note 11 of the notes to the accompanying consolidated financial statements for information regarding regulatory restrictions on our capital as well as our subsidiaries' capital.

On August 8, 2006, theBoard of Directors authorized the open market repurchase of up to 225,000 shares (approximately 3%) of the issued and outstanding shares of Summit's common stock. The timing and quantity of purchases under this stock repurchase plan will be at the discretion of management, and the plan may be discontinued, or suspended and reinitiated, at any time. All shares acquired under the plan will be retired. Management believes, depending on market and business conditions, the stock repurchase plan should enhance the value of its common stock for the benefit of the Company's shareholders and have no material adverse impact on our capital resources.

CONTRACTUAL CASH OBLIGATIONS

During our normal course of business, we incur contractual cash obligations. The following table summarizes our contractual cash obligations at June 30, 2006.

	Long Term Debt	Capital Trust Securities	Operating Leases
2006	$ 19,494,542	$ -	$ 542,192
2007	23,318,204	-	1,030,983
2008	24,585,851	-	982,772

2009	3,911,094	-	431,349
2010	52,050,871	-	116,263
Thereafter	24,218,402	19,589,000	257,140
Total	$ 147,578,964	$ 19,589,000	$ 3,360,699

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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 June 30, 2006 are presented in the following table.

		June 30, 2006
Commitments to extend credit:		
Revolving home equity and credit card lines	$	32,410,329
Construction loans		91,704,660
Other loans		37,552,776
Standby letters of credit		10,688,250
Total	$	172,356,015

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 slightly liability sensitive in year one, with asset sensitivity over the longer period. That is, in the first year, liabilities are likely to reprice faster than assets, resulting in a decrease in net income in a rising rate and environment, and beyond the first year, assets are likely to reprice faster than liabilities, resulting in an increase in net income in a rising rate environment. Our net income would increase modestly 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 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.

The following table shows our projected earnings sensitivity as of June 30, 2006 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)	1.50%	2.50%
Down 200, steepening yield curve (2)	2.46%	8.20%
Up 100 (1)	-0.88%	1.56%
Up 200 (1)	-2.80%	-4.20%

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 June 30, 2006, 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 June 30, 2006 were effective. There were no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II. Other Information

Item 1. Legal Proceedings

We are involved in various legal actions arising in the ordinary course of business. In the opinion of counsel, the outcome of these matters will not have a significant adverse effect on the consolidated financial statements.

On December 26, 2003, two of our subsidiaries, Summit Financial, LLC 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 employment with Summit Financial, LLC. Summit Financial, LLC now operates as Summit Mortgage, a division of Shenandoah Valley National Bank.

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, aAfter consultation with legal counsel, we 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.

On January 4, 2006, Mary Forrest, an individual, filed suit in the United States District Court for the Eastern District of Wisconsin, Milwaukee Division, against our subsidiary, Shenandoah Valley National Bank ("Shenandoah"). Further, on May 19, 2006, Marti L. Klutho, an individual, filed suit in the United States District Court for the Eastern District of Missouri, Eastern Division, also against Shenandoah. The plaintiffs in each case claims that Shenandoah violated the Federal Fair Credit Reporting Act ("FCRA") alleging that Shenandoah used information contained in their consumer reports, without extending a "firm offer of credit" within the meaning of the FCRA. Plaintiffs requests statutory damages. Theseis cases areis a purported class actions. Presently, we do not have final information as to the size of the alleged classes. Responsive pleadings have been filed, and discovery is in the initial stageswill be initiated shortly. We will continue to evaluate the claims in these lawsuits and intend to vigorously defend against it them. 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.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2005, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form

10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Summit Financial Group, Inc. and Subsidiaries
Part II. Other Information

Item 4. Submission of Matters to a Vote of Security Holders

On May 18, 2006, we held our Annual Meeting of Shareholders, and the shareholders took the following actions:

1. Elected as directors the following individuals to three year terms:

	For	Withheld
James M. Cookman	5,671,413	62,809
Thomas J. Hawse, III	5,693,296	40,926
Gary L. Hinkle	5,693,765	40,457
Gerald W. Huffman	5,693,765	40,457
H. Charles Maddy, III	5,662,127	72,095

The following directors' terms of office continued after the 2006 annual shareholders' meeting: Frank A. Baer, III, Oscar M. Bean, Dewey F. Bensenhaver, John W. Crites, Patrick N. Frye, James Paul Geary, Phoebe F. Heishman, Duke A. McDaniel, Ronald F. Miller, G. R. Ours, Jr., and Charles S. Piccirillo.

2. Ratified Arnett & Foster, PLLC, to serve as our independent registered public accounting firm for the year ending December 31, 2006.

For	Against	Abstentions
5,699,418	12,680	22,124

Item 5. Other Information

On August 9, 2006, the Board of Directors of Summit Financial Group, Inc. (the "Company") adopted amendments to the Company's Bylaws to bring the Company's Bylaws into compliance with the West Virginia Business Corporation Act, which was amended in 2002. A description of the provisions that were adopted or changed by amendment is set forth below. In addition, a complete copy of the Company's Amended and Restated Bylaws is filed as Exhibit 3.2 and incorporated herein by reference.

Article / Section	**Revisions**

Article II Section 1	Changed the date of the annual meeting of shareholders from the third Tuesday of April at noon to the third Thursday of May at 1:00 p.m.
Article II Section 2	This section previously required the president to call a special meeting of the shareholders at the request of the holders of not less than 10% of all of the outstanding shares of the corporation entitled to vote at the meeting. The method for determining the minimum number of shareholders that could request a special meeting and the method for making the request were revised. This section now requires the president to call a special meeting if the holders of at least 10% of all of the votes entitled to be cast on an issue to be considered at the proposed special meeting sign, date and deliver to the corporation one or more written demands for the meeting describing the purpose or purposes for which it shall be held.

Summit Financial Group, Inc. and Subsidiaries
Part II. Other Information

Article / Section	Revisions
Article II Section 5	The ability of the corporation to close the stock transfer books for purposes of determining shareholders entitled to notice of or to vote at a meeting or to receive dividends was deleted. The ability of the Board of Directors to fix a record date was retained and the language relating to the fixing of a record date was changed to (i) increase the period of time that the record date may be set in advance of the meeting from not more than 50 days before the meeting to not more than 70 days before the meeting and (ii) provide that a record date is effective for any adjournment of a meeting unless the Board of Directors fixes a new record date, which is required if the meeting is adjourned to a date more than 120 days after the date of the original meeting.
Article II Section 6	Added the requirement that the list of shareholders be available for inspection by shareholders during the meeting for which the list was prepared.
Article II Section 7	The method for determining a quorum was changed from the majority of outstanding shares of the corporation entitled to vote to a majority of the votes entitled to be cast on a matter. In addition, a provision was added to clarify that any business may be transacted at an adjourned meeting at which a quorum is present unless a new record date is set or must be set for the adjourned meeting.
Article II Section 10	This section was revised to incorporate the provisions in the West Virginia Code dealing with the corporation's acceptance of votes where the name signed on the vote does not correspond to the name of the shareholder. This section now reads as follows: "If the name signed on a vote, consent, waiver or proxy does not correspond to the name of a shareholder, the corporation is entitled to accept such vote, consent, waiver or proxy and give it effect as the act of the shareholder if: (a) the shareholder is an entity and the name signed purports to be that of an officer or agent of the entity; (b) the name signed purports to be that of an administrator, executor, guardian or conservator representing the shareholder and, if the corporation requests, evidence of this status acceptable to the corporation has been presented; (c) the

	name signed purports to be that of a receiver or trustee in bankruptcy of the shareholder and, if the corporation requests, evidence of this status acceptable to the corporation has been presented; (d) the name signed purports to be that of a pledgee, beneficial owner or attorney-in-fact of the shareholder and, if the corporation requests, evidence acceptable to the corporation of the signatory's authority to sign for the shareholder has been presented; and (e) two or more persons are shareholders as co-tenants or fiduciaries and the name signed purports to be the name of at least one of the co-tenants or fiduciaries and the person signing appears to be acting on behalf of all co-tenants or fiduciaries. The corporation may reject a vote, consent, waiver or proxy if the secretary or other officer authorized to tabulate votes, acting in good faith, has reasonable basis for doubt as to the validity of the signature or the signatory's authority to sign for the shareholder."
Article III Section 3	The requirement that a regular meeting of the Board of Directors be held immediately after and at the same place as the annual meeting of shareholders was deleted. Language was added to permit the Board of Directors to set the date of regular meetings by resolution.
Article III Section 4	The number of directors required to call a special meeting of the Board of Directors was changed from 4 directors to fifty percent of the directors.

Summit Financial Group, Inc. and Subsidiaries
Part II. Other Information

Article / Section	Revisions
Article III Section 5	The references to notice of a special meeting of the Board of Directors by telegram was deleted and replaced with notice by electronic transmission. The requirement that the notice set forth the nature of the business intended to be transacted in the case of amending the bylaws or authorizing the sale of all or substantially all of the assets of the corporation was deleted.
Article III Section 7	The required vote of the directors to authorize (i) mergers and closures of banks and branches, (ii) amendments to the Articles of Incorporation or Bylaws of the corporation, or (iii) the adoption of any agreement or plan to merge, consolidate, liquidate, dissolve or sell shares of stock or the sale, lease or exchange of all or substantially all of the assets of the corporation was changed from three-fourths of the directors to two-thirds of the directors. In addition, the three-fourths required vote to change Potomac Valley Bank’s name was deleted.
Article III Section 7	The following provision was added delegating the authority of the Board of Directors to the Executive Committee: “The Executive Committee shall have the authority to act on behalf of the Board of Directors and in the name of and on behalf of the corporation, to the fullest extent permitted by law and the corporation’s Articles of Incorporation and these Bylaws.”
Article III Section 8	Language was added to clarify that vacancies in the Board of Directors are not required to be filled but may be filled by the Board of Directors and that the purpose of the meeting need not be specified if the purpose of the meeting is to fill a vacancy.
Article III Section 10	Deleted the ability of a director to dissent to action taken at the meeting by forwarding his dissent by registered mail to the secretary of the corporation after the adjournment of the meeting.
Article IV Section 1	Deleted the prohibition against an individual serving as both the president and the secretary of the corporation.
Article IV Section 9	Added the phrase “as permitted by law” to limit the power of committees created by the Board of Directors.

Article V Section 1	Deleted the requirement that a construction contract had to be approved by the unanimous vote of the directors and added the requirement that a construction contract involving an amount greater than the amount authorized by the corporation's Capital Expenditure and Purchasing Policy has to be approved by the directors. This revision conformed the bylaw provision to the corporation's Capital Expenditure and Purchasing Policy.

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: August 8, 2006