

SUMMIT FINANCIAL GROUP INC  
Form 10-Q  
August 11, 2008

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

FORM 10 – Q

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

For the quarterly period ended June 30, 2008.

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  
(State or other jurisdiction of  
incorporation or organization)

55-0672148  
(IRS Employer  
Identification No.)

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

(304) 530-1000  
(Registrant's telephone number, including area code)

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

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  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

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

Common Stock, \$2.50 par value  
7,410,791 shares outstanding as of August 8, 2008

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Summit Financial Group, Inc. and Subsidiaries  
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	Exhibits	
	Exhibit 11	Statement re: Computation of Earnings per Share – Information contained in Note 5 to the Consolidated Financial Statements on page 14 of this Quarterly Report is incorporated herein by reference.
	Exhibit 31.1	Sarbanes-Oxley Act Section 302 Certification of Chief Executive Officer
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	Exhibit 32.1	Sarbanes-Oxley Act Section 906 Certification of Chief Executive Officer
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Summit Financial Group, Inc. and Subsidiaries  
Consolidated Balance Sheets (unaudited)

Dollars in thousands	June 30, 2008 (unaudited)	December 31, 2007 (*)	June 30, 2007 (unaudited)
<b>ASSETS</b>			
Cash and due from banks	\$ 21,777	\$ 21,285	\$ 15,198
Interest bearing deposits with other banks	98	77	105
Federal funds sold	798	181	1,717
Securities available for sale	284,401	283,015	246,123
Other Investments	22,831	17,051	13,403
Loans held for sale, net	1,077	1,377	2,337
Loans, net	1,130,483	1,052,489	949,175
Property held for sale	2,537	2,058	850
Premises and equipment, net	21,967	22,130	22,133
Accrued interest receivable	7,614	7,191	6,812
Intangible assets	9,880	10,055	3,121
Other assets	22,515	18,413	19,118
Assets related to discontinued operations	-	214	336
Total assets	\$ 1,525,978	\$ 1,435,536	\$ 1,280,428
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Deposits			
Non interest bearing	\$ 68,912	\$ 65,727	\$ 64,373
Interest bearing	788,837	762,960	786,016
Total deposits	857,749	828,687	850,389
Short-term borrowings	147,900	172,055	100,901
Long-term borrowings	400,186	315,738	216,758
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589	19,589
Other liabilities	9,088	9,241	10,359
Liabilities related to discontinued operations	-	806	522
Total liabilities	1,434,512	1,346,116	1,198,518
<b>Commitments and Contingencies</b>			
<b>Shareholders' Equity</b>			
Common stock and related surplus, \$2.50 par value; authorized 20,000,000 shares, issued and outstanding			
2008 - 7,410,791; issued December 2007 - 7,408,941 shares;			
issued June 2007 - 7,084,980 shares			
	24,406	24,391	18,037
Retained earnings	70,161	65,077	65,479
Accumulated other comprehensive income	(3,101)	(48)	(1,606)
Total shareholders' equity	91,466	89,420	81,910
Total liabilities and shareholders' equity	\$ 1,525,978	\$ 1,435,536	\$ 1,280,428

(\*) - December 31, 2007 financial information has been extracted from audited consolidated financial statements

See Notes to Consolidated Financial Statements

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

Dollars in thousands, except per share amounts	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
<b>Interest income</b>				
<b>Interest and fees on loans</b>				
Taxable	\$ 19,461	\$ 18,958	\$ 39,410	\$ 37,555
Tax-exempt	115	121	235	237
<b>Interest and dividends on securities</b>				
Taxable	3,161	2,739	6,358	5,318
Tax-exempt	600	524	1,190	1,068
<b>Interest on interest bearing deposits with other banks</b>				
	2	6	3	9
Interest on Federal funds sold	1	21	3	24
<b>Total interest income</b>	<b>23,340</b>	<b>22,369</b>	<b>47,199</b>	<b>44,211</b>
<b>Interest expense</b>				
Interest on deposits	6,435	8,882	13,559	17,910
Interest on short-term borrowings	571	960	1,490	1,918
<b>Interest on long-term borrowings and subordinated debentures</b>				
	4,959	3,000	9,837	5,653
<b>Total interest expense</b>	<b>11,965</b>	<b>12,842</b>	<b>24,886</b>	<b>25,481</b>
<b>Net interest income</b>	<b>11,375</b>	<b>9,527</b>	<b>22,313</b>	<b>18,730</b>
Provision for loan losses	1,750	390	2,750	780
<b>Net interest income after provision for loan losses</b>	<b>9,625</b>	<b>9,137</b>	<b>19,563</b>	<b>17,950</b>
<b>Other income</b>				
Insurance commissions	1,275	209	2,602	415
Service fees	824	736	1,567	1,353
Unrealized securities (losses)	(1,541)	-	(1,541)	-
Net cash settlement on interest rate swaps	-	(179)	(171)	(363)
Change in fair value of interest rate swap	-	(273)	705	(47)
Gain (loss) on sale of assets	236	(33)	236	(32)
Other	334	236	578	426
<b>Total other income</b>	<b>1,128</b>	<b>696</b>	<b>3,976</b>	<b>1,752</b>
<b>Other expense</b>				
Salaries and employee benefits	4,187	3,238	8,581	6,463
Net occupancy expense	443	408	919	826
Equipment expense	533	493	1,068	940
Supplies	241	197	435	370
Professional fees	182	193	300	367
Amortization of intangibles	88	38	176	76
Other	1,475	1,151	2,758	2,326
<b>Total other expense</b>	<b>7,149</b>	<b>5,718</b>	<b>14,237</b>	<b>11,368</b>
<b>Income before income taxes</b>	<b>3,604</b>	<b>4,115</b>	<b>9,302</b>	<b>8,334</b>
<b>Income tax expense</b>	<b>1,010</b>	<b>1,135</b>	<b>2,884</b>	<b>2,421</b>
<b>Income from continuing operations</b>	<b>\$ 2,594</b>	<b>\$ 2,980</b>	<b>\$ 6,418</b>	<b>\$ 5,913</b>

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Discontinued Operations				
Exit costs	-	43	-	123
Operating income(loss)	-	(227)	-	(598)
Income from discontinued operations before income tax expense(benefit)	-	(184)	-	(475)
Income tax expense(benefit)	-	(66)	-	(163)
Income from discontinued operations	-	(118)	-	(312)
Net Income	\$ 2,594	\$ 2,862	\$ 6,418	\$ 5,601

Basic earnings from continuing operations per common share	\$ 0.35	\$ 0.42	\$ 0.87	\$ 0.83
Basic earnings per common share	\$ 0.35	\$ 0.40	\$ 0.87	\$ 0.79
Diluted earnings from continuing operations per common share	\$ 0.35	\$ 0.42	\$ 0.86	\$ 0.83
Diluted earnings per common share	\$ 0.35	\$ 0.40	\$ 0.86	\$ 0.78
Dividends per common share	\$ 0.18	\$ 0.17	\$ 0.18	\$ 0.17

See Notes to Consolidated Financial  
Statements



Summit Financial Group, Inc. and Subsidiaries  
Consolidated Statements of Shareholders' Equity (unaudited)

Dollars in thousands, except per share amounts	Common Stock and Related Surplus	Retained Earnings	Accumulated Other Compre- hensive Income	Total Share- holders' Equity
Balance, December 31, 2007	\$ 24,391	\$ 65,077	\$ (48)	\$ 89,420
Six Months Ended June 30, 2008				
Comprehensive income:				
Net income	-	6,418	-	6,418
Other comprehensive income, net of deferred tax benefit of (\$1,871):				
Net unrealized loss on securities of (\$3,053)	-	-	(3,053)	(3,053)
Total comprehensive income				3,365
Exercise of stock options	9			9
Stock compensation expense	6	-	-	6
Cash dividends declared (\$0.18 per share)	-	(1,334)	-	(1,334)
Balance, June 30, 2008	\$ 24,406	\$ 70,161	\$ (3,101)	\$ 91,466
Balance, December 31, 2006	\$ 18,021	\$ 61,083	\$ (352)	\$ 78,752
Six Months Ended June 30, 2007				
Comprehensive income:				
Net income	-	5,601	-	5,601
Other comprehensive income, net of deferred tax benefit of (\$769):				
Net unrealized (loss) on securities of (\$1,254)	-	-	(1,254)	(1,254)
Total comprehensive income				4,347
Exercise of stock options	-	-	-	-
Stock compensation expense	16			16
Cash dividends declared (\$0.17 per share)	-	(1,205)	-	(1,205)
Balance, June 30, 2007	\$ 18,037	\$ 65,479	\$ (1,606)	\$ 81,910

See Notes to Consolidated Financial Statements



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

Dollars in thousands	Six Months Ended	
	June 30, 2008	June 30, 2007
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 6,418	\$ 5,601
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	795	763
Provision for loan losses	2,750	1,030
Stock compensation expense	6	16
Deferred income tax (benefit)	(824)	210
Loans originated for sale	(3,718)	(12,695)
Proceeds from loans sold	4,055	19,348
(Gain) on sales of loans held for sale	(37)	(562)
Writedown of preferred stock	1,541	
Change in fair value of derivative instruments	(705)	47
Exit costs related to discontinued operations	-	(123)
Loss (gain) on disposal of other assets	(236)	32
Amortization of securities premiums, net	(220)	(37)
Amortization of goodwill and purchase accounting adjustments, net	182	81
(Decrease) in accrued interest receivable	(424)	(465)
(Increase) in other assets	(4,710)	(810)
Increase(decrease) in other liabilities	3,078	(947)
Net cash provided by (used in) operating activities	7,951	11,489
<b>Cash Flows from Investing Activities</b>		
Net (increase) decrease in interest bearing deposits with other banks	(21)	166
Proceeds from maturities and calls of securities available for sale	16,663	12,404
Principal payments received on securities available for sale	15,772	14,098
Purchases of securities available for sale	(43,055)	(39,484)
Purchases of other investments	(9,429)	(7,781)
Redemption of Federal Home Loan Bank Stock	6,638	7,141
Net (increase) in Federal funds sold	(617)	(1,200)
Net loans made to customers	(82,035)	(34,832)
Purchases of premises and equipment	(632)	(488)
Proceeds from sales of other assets	1,123	86
Proceeds from early termination of interest rate swap	212	-
Net cash provided by (used in) investing activities	(95,381)	(49,890)
<b>Cash Flows from Financing Activities</b>		
Net increase in demand deposit, NOW and savings accounts	(5,986)	6,047
Net increase(decrease) in time deposits	35,045	(44,395)

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Net increase(decrease) in short-term borrowings	(24,154)	40,473
Proceeds from long-term borrowings	109,894	50,000
Repayment of long-term borrowings	(25,552)	(9,352)
Exercise of stock options	9	-
Dividends paid	(1,334)	(1,205)
Net cash provided by financing activities	87,922	41,568
Increase (decrease) in cash and due from banks	492	3,167
Cash and due from banks:		
Beginning	21,285	12,031
Ending	\$ 21,777	\$ 15,198

(Continued)

See Notes to Consolidated Financial Statements

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

Dollars in thousands	Six Months Ended	
	June 30, 2008	June 30, 2007
<b>Supplemental Disclosures of Cash Flow Information</b>		
<b>Cash payments for:</b>		
Interest	\$ 24,928	\$ 25,414
Income taxes	\$ 3,690	\$ 2,190
<b>Supplemental Schedule of Noncash Investing and Financing Activities</b>		
Other assets acquired in settlement of loans	\$ 1,291	\$ 852

See Notes to Consolidated Financial Statements

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

Note 1. Basis of Presentation

We, Summit Financial Group, Inc. and subsidiaries, prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America for interim financial information and with instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for annual year end financial statements. In our opinion, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature.

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

The results of operations for the six months ended June 30, 2008 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 2007 audited financial statements and Annual Report on Form 10-K. Certain accounts in the consolidated financial statements for December 31, 2007 and June 30, 2007, as previously presented, have been reclassified to conform to current year classifications.

Note 2. Significant New Accounting Pronouncements

In September 2006, the FASB issued Statement 157, Fair Value Measurements (SFAS 157). SFAS 157 replaces various definitions of fair value in existing accounting literature with a single definition, establishes a framework for measuring fair value in generally accepted accounting principles, and requires additional disclosures about fair value measurements. SFAS 157 does not expand the use of fair value to any new circumstances. SFAS 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, "Effective Date of FASB Statement No. 157." This FSP delays the effective date of FAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. We adopted SFAS 157 on January 1, 2008 and the adoption of this statement did not have a material effect on our financial statements. See Note 3 for a discussion of our fair value measurements.

In February 2007, the FASB issued Statement of Financial Accounting Standard 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. The fair value option (i) is applicable on an instrument by instrument basis, with certain exceptions, (ii) is irrevocable (unless a new election date occurs), and (iii) is applied only to entire instruments and not to portions of instruments. We adopted SFAS 159 on January 1, 2008 and the adoption of this statement did not have a material effect on our financial statements.

In December 2007, the FASB issued Statement 141 (revised 2007) (SFAS 141R), Business Combinations. SFAS 141R will significantly change how the acquisition method will be applied to business combinations. SFAS 141R requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under SFAS 141 whereby the cost of an acquisition was allocated to the individual assets acquired

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

and liabilities assumed based on their estimated fair value. SFAS 141R requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under SFAS 141. Under SFAS 141R, the requirements of SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities, would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting and, instead, that contingency would be subject to the probable and estimable recognition criteria of SFAS 5, Accounting for Contingencies. Reversals of deferred income tax valuation allowances and income tax contingencies will be recognized in earnings subsequent to the measurement period. The allowance for loan losses of an acquiree will not be permitted to be recognized by the acquirer. Additionally, SFAS 141(R) will require new and modified disclosures surrounding subsequent changes to acquisition-related contingencies, contingent consideration, noncontrolling interests, acquisition-related transaction costs, fair values and cash flows not expected to be collected for acquired loans, and an enhanced goodwill rollforward. We will be required to prospectively apply SFAS 141(R) to all business combinations completed on or after January 1, 2009. Early adoption is not permitted. We are currently evaluating SFAS 141(R) and have not determined the impact it will have on our financial statements.

Note 3. Fair Value Measurements

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Accordingly, securities available-for-sale and derivatives are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record other assets at fair value on a nonrecurring basis, such as loans held for sale, and impaired loans held for investment. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Available-for-Sale Securities: Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange,



U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities.

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

**Loans Held for Sale:** Loans held for sale are carried at the lower of cost or market value. The fair value of loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, we classify loans subject to nonrecurring fair value adjustments as Level 2.

**Loans:** We do not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with SFAS 114, "Accounting by Creditors for Impairment of a Loan," (SFAS 114). The fair value of impaired loans is estimated using one of several methods, including collateral value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At June 30, 2008, substantially all of the total impaired loans were evaluated based on the fair value of the collateral. In accordance with SFAS 157, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, we record the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, we record the impaired loan as nonrecurring Level 3.

**Derivative Assets and Liabilities:** Substantially all derivative instruments held or issued by us for risk management or customer-initiated activities are traded in over-the-counter markets where quoted market prices are not readily available. For those derivatives, we measure fair value using models that use primarily market observable inputs, such as yield curves and option volatilities, and include the value associated with counterparty credit risk. We classify derivative instruments held or issued for risk management or customer-initiated activities as Level 2. Examples of Level 2 derivatives are interest rate swaps.

**Assets and Liabilities Recorded at Fair Value on a Recurring Basis**

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis.

Dollars in thousands	Total at June 30, 2008	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Available for sale securities	\$ 284,401	\$ -	\$ 284,401	\$ -
Derivatives	110	-	110	-
<b>Liabilities:</b>				
Derivatives	\$ 63	\$ -	\$ 63	\$ -

**Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis**

We may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below.

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

Dollars in thousands	Total at June 30, 2008	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Loans held for sale	\$ 1,077	\$ -	\$ 1,077	\$ -
Impaired loans	9,947	-	-	9,947

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral-dependent loans, had a carrying amount of \$11,542,000, with a valuation allowance of \$1,595,000, resulting in an additional provision for loan losses of \$1,060,000 for six months ended June 30, 2008.

Note 4. Discontinued Operations

As of January 1, 2008 we no longer have activity related to discontinued operations. The following table lists the assets and liabilities of Summit Mortgage included in the balance sheet as assets and liabilities related to discontinued operations.

Dollars in thousands	December 31, 2007	June 30, 2007
<b>Assets:</b>		
Loans held for sale, net	\$ -	\$ -
Loans, net	-	-
Premises and equipment, net	-	-
Property held for sale	-	-
Other assets	214	336
Total assets	\$ 214	\$ 336
<b>Liabilities:</b>		
Accrued expenses and other liabilities	\$ 806	\$ 522
Total liabilities	\$ 806	\$ 522

The results of Summit Mortgage are presented as discontinued operations in a separate category on the income statements following the results from continuing operations. The income (loss) from discontinued operations for the three and six months ended June 30, 2007 is presented below.



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

## Statements of Income from Discontinued Operations

Dollars in thousands	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
Interest income	\$ 22	\$ 134
Interest expense	-	45
Net interest income	22	89
Provision for loan losses	-	250
Net interest income after provision for loan losses	22	(161)
<b>Noninterest income</b>		
Mortgage origination revenue	13	816
(Loss) on sale of assets	-	(51)
Total noninterest income	13	765
<b>Noninterest expense</b>		
Salaries and employee benefits	100	542
Net occupancy expense	13	9
Equipment expense	1	23
Professional fees	100	197
Postage	-	-
Advertising	-	98
Impairment of long-lived assets	-	-
Exit costs	(43)	(123)
Other	48	334
Total noninterest expense	219	1,080
Income (loss) before income tax expense	(184)	(476)
Income tax expense (benefit)	(66)	(163)
Income (loss) from discontinued operations	\$ (118)	\$ (313)

Included in liabilities related to discontinued operations in the accompanying consolidated financial statements is an accrual for exit costs related to the discontinuance of the mortgage banking segment. During fourth quarter 2006, we accrued \$1,859,000 for exit costs, which was comprised of costs related to operating lease terminations, vendor contract terminations, and severance payments. The changes in that accrual are as follows:

Dollars in thousands	Operating Lease Terminations	Vendor Contract Terminations	Severance Payments	Total
Balance, December 31, 2007	\$ 586	\$ -	\$ -	\$ 586
Less:				
Payments from the accrual	(398)	-	-	(398)
Reversal of over accrual	-	-	-	-
Balance, June 30, 2008	\$ 188	\$ -	\$ -	\$ 188

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Note 5. Earnings per Share

The computations of basic and diluted earnings per share follow:

Dollars in thousands , except per share amounts	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Numerator for both basic and diluted earnings per share:				
Income from continuing operations	\$ 2,594	\$ 2,980	\$ 6,418	\$ 5,914
Income (loss) from discontinued operations	-	(118)	-	(313)
Net Income	\$ 2,594	\$ 2,862	\$ 6,418	\$ 5,601
Denominator				
Denominator for basic earnings per share - weighted average common shares outstanding				
	7,410,217	7,084,980	7,409,579	7,084,980
Effect of dilutive securities:				
Stock options	37,953	63,261	39,395	62,804
	37,953	63,261	39,395	62,804
Denominator for diluted earnings per share - weighted average common shares outstanding and assumed conversions				
	7,448,170	7,148,241	7,448,974	7,147,784
Basic earnings per share from continuing operations	\$ 0.35	\$ 0.42	\$ 0.87	\$ 0.83
Basic earnings per share from discontinued operations	-	(0.02)	-	(0.04)
Basic earnings per share	\$ 0.35	\$ 0.40	\$ 0.87	\$ 0.79
Diluted earnings per share from continuing operations	\$ 0.35	\$ 0.42	\$ 0.86	\$ 0.83
Diluted earnings per share from discontinued operations	-	(0.02)	-	(0.04)
Diluted earnings per share	\$ 0.35	\$ 0.40	\$ 0.86	\$ 0.78



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Note 6. Securities

The amortized cost, unrealized gains, unrealized losses and estimated fair values of securities at June 30, 2008, December 31, 2007, and June 30, 2007 are summarized as follows:

Dollars in thousands Available for Sale	Amortized Cost	June 30, 2008 Unrealized		Estimated Fair Value
		Gains	Losses	
Taxable:				
U. S. Government agencies				
and corporations	\$ 39,058	\$ 361	\$ 234	\$ 39,185
Mortgage-backed securities	194,136	1,070	6,303	188,903
State and political subdivisions	3,759	20	-	3,779
Corporate debt securities	1,349	14	15	1,348
Other equity securities	986	-	-	986
Total taxable	239,288	1,465	6,552	234,201
Tax-exempt:				
State and political subdivisions	45,185	608	520	45,273
Other equity securities	4,927	-	-	4,927
Total tax-exempt	50,112	608	520	50,200
Total	\$ 289,400	\$ 2,073	\$ 7,072	\$ 284,401

Dollars in thousands Available for Sale	Amortized Cost	December 31, 2007 Unrealized		Estimated Fair Value
		Gains	Losses	
Taxable:				
U. S. Government agencies				
and corporations	\$ 45,871	\$ 420	\$ 77	\$ 46,214
Mortgage-backed securities	180,838	1,294	1,351	180,781
State and political subdivisions	3,759	26	-	3,785
Corporate debt securities	1,348	18	30	1,336
Other equity securities	844	-	-	844
Total taxable	232,660	1,758	1,458	232,960

Tax-exempt:				
State and political subdivisions	43,960	880	335	44,505
Other equity securities	6,470	-	920	5,550
Total tax-exempt	50,430	880	1,255	50,055
Total	\$ 283,090	\$ 2,638	\$ 2,713	\$ 283,015

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Dollars in thousands	Amortized Cost	June 30, 2007		Estimated Fair Value
		Unrealized Gains	Losses	
Available for Sale				
Taxable:				
U. S. Government agencies				
and corporations	\$ 35,662	\$ 1	\$ 408	35,255
Mortgage-backed securities				
State and political subdivisions	161,547	191	3,381	158,357
Corporate debt securities	3,759	18	-	3,777
Other equity securities	1,677	12	16	1,673
	677	-	-	677
Total taxable	203,322	222	3,805	199,739
Tax-exempt:				
State and political subdivisions				
Other equity securities	40,900	685	256	41,329
	4,473	594	12	5,055
Total tax-exempt	45,373	1,279	268	46,384
Total	\$ 248,695	\$ 1,501	\$ 4,073	\$ 246,123

The maturities, amortized cost and estimated fair values of securities at June 30, 2008, are summarized as follows:

Dollars in thousands	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 55,163	\$ 54,315
Due from one to five years	115,110	113,456
Due from five to ten years	66,100	64,587
Due after ten years	47,114	46,130
Equity securities	5,913	5,913
	\$ 289,400	\$ 284,401

During second quarter 2008, we recognized an other-than-temporary non-cash impairment charge of \$1.5 million pre-tax, equivalent to \$971,000 after-tax related to certain preferred stock issuances of the Fannie Mae and Freddie Mac which we continue to own.



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Note 7. Loans

Loans are summarized as follows:

Dollars in thousands	June 30, 2008	December 31, 2007	June 30, 2007
Commercial	\$ 112,793	\$ 92,599	\$ 81,292
Commercial real estate	422,393	384,478	354,833
Construction and development	210,417	225,270	198,721
Residential real estate	361,009	322,640	283,821
Consumer	30,361	31,956	33,937
Other	6,206	6,641	7,111
Total loans	1,143,179	1,063,584	959,715
Less unearned income	2,347	1,903	1,772
Total loans net of unearned income	1,140,832	1,061,681	957,943
Less allowance for loan losses	10,349	9,192	8,768
Loans, net	\$ 1,130,483	\$ 1,052,489	\$ 949,175

Note 8. Allowance for Loan Losses

An analysis of the allowance for loan losses for the six month periods ended June 30, 2008 and 2007, and for the year ended December 31, 2007 is as follows:

Dollars in thousands	Six Months Ended		Year Ended
	June 30, 2008	June 30, 2007	December 31, 2007
Balance, beginning of period	\$ 9,192	\$ 7,511	\$ 7,511
Losses:			
Commercial	95	50	50
Commercial real estate	821	40	154
Construction and development	-	-	80
Real estate - mortgage	606	77	618
Consumer	112	82	216
Other	91	98	160
Total	1,725	347	1,278
Recoveries:			
Commercial	2	21	2
Commercial real estate	7	7	14
Construction and development	-	-	20

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Real estate - mortgage	22	5	15
Consumer	34	27	57
Other	67	72	104
Total	132	132	212
Net losses	1,593	215	1,066
Provision for loan losses	2,750	1,030	2,055
Reclassification of reserves related to loans previously reflected in discontinued operations	-	442	692
Balance, end of period	\$ 10,349	\$ 8,768	\$ 9,192

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Note 9. Goodwill and Other Intangible Assets

The following tables present our goodwill at June 30, 2008 and other intangible assets at June 30, 2008, December 31, 2007, and June 30, 2007.

Dollars in thousands	Goodwill Activity
Balance, January 1, 2008	\$ 6,198
Acquired goodwill, net	-
Balance, June 30, 2008	\$ 6,198

Dollars in thousands	Other Intangible Assets		
	June 30, 2008	December 31, 2007	June 30, 2007
<b>Unidentifiable intangible assets</b>			
Gross carrying amount	\$ 2,267	\$ 2,267	\$ 2,267
Less: accumulated amortization	1,385	1,310	1,234
Net carrying amount	\$ 882	\$ 957	\$ 1,033
<b>Identifiable intangible assets</b>			
Gross carrying amount	\$ 3,000	\$ 3,000	\$ -
Less: accumulated amortization	200	100	-
Net carrying amount	\$ 2,800	\$ 2,900	\$ -

We recorded amortization expense of approximately \$176,000 for the six months ended June 30, 2008 relative to our other intangible assets. Annual amortization is expected to be approximately \$351,000 for each of the years ending 2008 through 2011.

Note 10. Deposits

The following is a summary of interest bearing deposits by type as of June 30, 2008 and 2007 and December 31, 2007:

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Dollars in thousands	June 30, 2008	December 31, 2007	June 30, 2007
Interest bearing demand deposits	\$ 194,255	\$ 222,825	\$ 230,509
Savings deposits	60,244	40,845	41,910
Retail time deposits	310,596	322,899	289,826
Brokered time deposits	223,742	176,391	223,771
Total	\$ 788,837	\$ 762,960	\$ 786,016



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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, 2008:

Dollars in thousands	Amount	Percent
Three months or less	\$ 69,762	23.9%
Three through six months	38,923	13.3%
Six through twelve months	58,655	20.1%
Over twelve months	124,698	42.7%
Total	\$ 292,038	100.0%

A summary of the scheduled maturities for all time deposits as of June 30, 2008 is as follows:

Dollars in thousands	
Six month period ending December 31, 2008	\$ 265,315
Year ending December 31, 2009	166,888
Year ending December 31, 2010	63,180
Year ending December 31, 2011	28,900
Year ending December 31, 2012	6,494
Thereafter	3,561
	\$ 534,338

Note 11. Borrowed Funds

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

Dollars in thousands	Six Months Ended June 30, 2008		
	Short-term FHLB Advances	Repurchase Agreements	Federal Funds Purchased and Lines of Credit
Balance at June 30	\$ 146,821	\$ 708	\$ 371
Average balance outstanding for the period	98,597	5,952	856

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Maximum balance outstanding at any month end during period	146,821	11,458	1,562
Weighted average interest rate for the period	2.87%	1.84%	4.83%
Weighted average interest rate for balances outstanding at June 30	2.27%	0.46%	4.50%

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Dollars in thousands	Year Ended December 31, 2007		
	Short-term FHLB Advances	Repurchase Agreements	Federal Funds Purchased and Lines of Credit
Balance at December 31	\$ 159,168	\$ 10,370	\$ 2,517
Average balance outstanding for the period	86,127	7,005	2,305
Maximum balance outstanding at any month end during period	159,168	11,080	3,047
Weighted average interest rate for the period	4.03%	3.86%	7.45%
Weighted average interest rate for balances outstanding at December 31	3.80%	3.13%	6.75%

Dollars in thousands	Six Months Ended June 30, 2007		
	Short-term FHLB Advances	Repurchase Agreements	Federal Funds Purchased and Lines of Credit
Balance at June 30	\$ 93,659	\$ 5,654	\$ 1,588
Average balance outstanding for the period	63,636	6,409	1,886
Maximum balance outstanding at any month end during period	93,659	7,358	2,669
Weighted average interest rate for the period	5.39%	4.10%	7.66%
Weighted average interest rate for balances outstanding at June 30	5.30%	4.11%	7.75%

Long-term borrowings: Our long-term borrowings of \$400,186,000, \$315,738,000 and \$216,758,000 at June 30, 2008, December 31, 2007, and June 30, 2007 respectively, consisted primarily of advances from the Federal Home Loan Bank (“FHLB”). Included in the June 2008 total is also \$10 million of subordinated debt issued to an unrelated institution, which bears a variable interest rate of 1 month LIBOR plus 275 basis points, a term of 7.5 years, and it is not prepayable by us within the first two and one half years.

Our long term borrowings bear both fixed and variable rates and mature in varying amounts through the year 2019.

The average interest rate paid on long-term borrowings for the six month period ended June 30, 2008 was 4.61% compared to 5.51% for the first six months of 2007.

**Subordinated Debentures Owed to Unconsolidated Subsidiary Trusts:** 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, 2008, December 31, 2007, and June 30, 2007.

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

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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 are redeemable by us quarterly, and the debentures of SFG Capital Trust II, and SFG Capital Trust III are first redeemable by us in March 2009 and March 2011, respectively.

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:

Dollars in thousands	
Year Ending December 31,	Amount
2008	\$ 28,825
2009	83,911
2010	76,481
2011	32,466
2012	99,409
Thereafter	98,683
	\$ 419,775

#### Note 12. 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 eliminates 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

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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 expired 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.

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. There were no option grants during the first six months of 2008 or 2007.

During the first six months of 2008, we recognized \$6,000 of compensation expense for share-based payment arrangements in our income statement, with a deferred tax asset of \$2,000, compared to \$16,000 compensation expense for the first six months of 2007 with a deferred tax asset of \$6,000. At June 30, 2008, we had approximately \$6,000 total compensation cost related to nonvested awards not yet recognized and we expect to recognize it over the remainder of this year.

A summary of activity in our Officer Stock Option Plan during the first six months of 2008 and 2007 is as follows:

	For the Six Months Ended			
	June 30, 2008		June 30, 2007	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding, January 1	337,580	\$ 18.28	349,080	\$ 17.83
Granted	-	-	-	-
Exercised	(1,850)	4.81	-	-
Forfeited	-	-	-	-
Outstanding, June 30	335,730	\$ 18.36	349,080	\$ 17.83

Other information regarding options outstanding and exercisable at June 30, 2008 is as follows:





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Range of exercise price	# of shares	Options Outstanding			Options Exercisable		
		WAEP	Wted. Avg. Remaining Contractual Life (yrs)	Aggregate Intrinsic Value (in thousands)	# of shares	WAEP	Aggregate Intrinsic Value (in thousands)
4.63 - \$ 6.00	69,750	\$ 5.37	4.56	\$ 497	69,750	\$ 5.37	\$ 497
6.01 - 10.00	31,680	9.49	7.51	95	31,680	9.49	95
10.01 - 17.50	3,500	17.43	5.67	-	3,500	17.43	-
17.51 - 20.00	52,300	17.79	8.50	-	41,400	17.79	-
20.01 - 25.93	178,500	25.19	7.07	-	178,500	25.19	-
	335,730	18.36		\$ 592	324,830	18.37	\$ 592

Note 13. 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:

Dollars in thousands	June 30, 2008
Commitments to extend credit:	
Revolving home equity and credit card lines	\$ 41,271

Construction loans	89,279
Other loans	52,263
Standby letters of credit	11,529
Total	\$ 194,342

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.

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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 14. 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, 2008, that we and each of our subsidiaries met all capital adequacy requirements to which they were subject.

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

Our actual capital amounts and ratios as well as our subsidiary, Summit Community Bank's ("Summit Community") are presented in the following table.

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Dollars in thousands As of June 30, 2008	Actual		Minimum Required Regulatory Capital		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to risk weighted assets)						
Summit	\$ 125,047	10.7%	\$ 93,307	8.0%	\$ 116,634	10.0%
Summit Community	118,402	10.2%	92,619	8.0%	115,773	10.0%
Tier I Capital (to risk weighted assets)						
Summit	\$ 104,699	9.0%	46,654	4.0%	69,980	6.0%
Summit Community	108,054	9.3%	46,309	4.0%	69,464	6.0%
Tier I Capital (to average assets)						
Summit	\$ 104,699	7.1%	44,229	3.0%	73,716	5.0%
Summit Community	108,054	7.4%	43,692	3.0%	72,819	5.0%
As of December 31, 2007						
Total Capital (to risk weighted assets)						
Summit	\$ 108,167	10.0%	86,162	8.0%	107,703	10.0%
Summit Community	109,697	10.3%	85,488	8.0%	106,860	10.0%
Tier I Capital (to risk weighted assets)						
Summit	98,975	9.2%	43,081	4.0%	64,622	6.0%
Summit Community	100,505	9.4%	42,744	4.0%	64,116	6.0%
Tier I Capital (to average assets)						
Summit	98,975	7.3%	40,897	3.0%	68,161	5.0%
Summit Community	100,505	7.4%	40,520	3.0%	67,533	5.0%

Note 15. Pending Acquisition

As announced on April 9, 2008, we exercised our right to terminate the Agreement and Plan of Reorganization (the "Agreement") by and between Summit and Greater Atlantic Financial Corp. ("Greater Atlantic") (Pink Sheets: GAFC.PK) dated April 12, 2007 under the terms of which Summit was to acquire Greater Atlantic. The Agreement permitted either party to terminate the Agreement if the transaction was not completed by March 31, 2008.

Also, as announced on June 10, 2008, we entered into a new agreement to acquire Greater Atlantic. The merger is expected to be completed in the fourth quarter of 2008, subject to regulatory and shareholder approvals. Following the transaction, Summit intends to merge Greater Atlantic Bank into Summit Community Bank.

Under the terms of the Agreement, each holder of a share of Greater Atlantic common stock is entitled to receive, subject to the limitations and adjustments set forth in the Agreement, the number of shares of Summit common stock equal to \$4.00 divided by the average closing price of Summit's common stock as reported on the NASDAQ Capital Market for the twenty (20) trading days before the closing of the merger. In no event will each share of Greater Atlantic common stock be exchanged for more than 0.328625 of a share of Summit common stock. If, at closing, Greater Atlantic's shareholders' equity, adjusted to exclude accumulated other comprehensive income or loss and the effect of removing the benefit of net operating loss carryforwards from the net deferred tax assets, is less than \$4,214,000 (which equals Greater Atlantic's shareholders' equity at March 31, 2008), then the aggregate value of the merger consideration will be reduced one dollar for each dollar that Greater Atlantic's adjusted shareholders' equity is

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less than \$4,214,000. For purposes of determining Greater Atlantic's adjusted shareholders' equity at closing, Greater Atlantic's shareholders' equity at closing shall be increased by the actual monthly operating losses, up to \$250,000 per month, incurred by Greater Atlantic after March 31, 2008 and before September 1, 2008, the fees accrued or paid to Greater Atlantic's financial advisor, and the fees accrued or paid to Greater Atlantic's legal counsel up to \$150,000.

The acquisition is also conditioned upon the following at close of the transaction: (a) Greater Atlantic and GAB having minimum regulatory capital ratios of: Tier 1 (core) capital equal to 4.0%, Tier 1 risk-based capital equal to 4.0% and total risk-based capital equal to 8.0%; (b) GAB's ratio of the sum of non-performing loans, other real estate owned and net loans charged off after March 31, 2008, to total consolidated assets not exceeding 2.78%; and (c) Greater Atlantic's allowance for loan losses being adequate in accordance with generally accepted accounting principles and applicable regulatory guidance, as determined by Summit with the concurrence of Greater Atlantic's independent auditors.

Consummation of the merger is subject to approval of the shareholders of Greater Atlantic and the receipt of all required regulatory approvals, as well as other customary conditions. This acquisition is expected to close during fourth quarter of this year.

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

## INTRODUCTION

The following discussion and analysis focuses on significant changes in our financial condition and results of operations of Summit Financial Group, Inc. ("Company" or "Summit") and our operating units, Summit Community Bank ("Summit Community"), and Summit Insurance Services, LLC for the periods indicated. This discussion and analysis should be read in conjunction with our 2007 audited financial statements and Annual Report on Form 10-K.

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

## OVERVIEW

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

Growth in our interest earning assets coupled with the lower interest rate environment beneficially impacting our cost of funds resulted in an increase of 18.24%, or \$3,550,000 in our net interest earnings on a tax equivalent basis for the first six months in 2008 compared to the same period of 2007.

## 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 2 to the consolidated financial statements of our 2007 Annual Report on Form 10-K. These policies, along with the disclosures presented in the other financial statement notes and in this financial review, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined.

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

The allowance for loan losses represents our estimate of probable credit losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows



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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 2 to the consolidated financial statements of our 2007 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 2007 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 2008. We cannot assure you that future goodwill impairment tests will not result in a charge to earnings. See Notes 2 and 10 of the consolidated financial statements of our Annual Report on Form 10-K for further discussion of our intangible assets, which include goodwill.

## RESULTS OF OPERATIONS

### Earnings Summary

Income from continuing operations for the six months ended June 30, 2008 grew 8.54% to \$6,418,000, or \$0.86 per diluted share as compared to \$5,913,000, or \$0.83 per diluted share for the six months ended June 30, 2007. For the quarter ended June 30, 2008, income from continuing operations decreased 12.95% to \$2,594,000, or \$0.35 per diluted share as compared to \$2,980,000, or \$0.42 per diluted share for the same period of 2007. Included in earnings for the current period was an other-than-temporary non-cash impairment charge of \$1.5 million pre-tax, equivalent to \$971,000 after-tax, or \$0.13 per diluted share. This impairment charge relates to certain preferred stock issuances of the Fannie Mae and Freddie Mac which we continue to own. Consolidated net income for the three months and six months ended June 30, 2007, which includes the results of discontinued operations, was \$2,862,000 and \$5,601,000, respectively. As of January 31, 2008, we no longer have any material operations related to discontinued operations. Consolidated returns on average equity and assets for the first six months of 2008 were 13.80% and 0.88%, respectively, compared with 13.45% and 0.89% for the same period of 2007.

### 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 consolidated net interest income on a fully tax-equivalent basis totaled \$23,018,000 for the six month period ended June 30, 2008 compared to \$19,468,000 for the same period of 2007, representing an increase of \$3,550,000 or 18.24%. This increase resulted from growth in interest earning assets, primarily loans, and also an 80 basis points decrease in the cost of interest bearing liabilities. Average interest earning assets grew 16.46% from \$1,201,516,000

during the first six months of 2007 to \$1,399,342,000 for the first six months of 2008. Average interest bearing liabilities grew 17.49% from \$1,098,677,000 at June 30, 2007 to \$1,290,887,000 at June 30, 2009, at an average yield for the first six months of 2008 of 3.88% compared to 4.68% for the same period of 2007.

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Our consolidated net interest margin increased to 3.31% for the six month period ended June 30, 2008, compared to 3.27% for the same period in 2007. On a quarterly basis, our net interest margin increased to 3.33% at June 30, 2008, from 3.28% for the quarter ended June 30, 2007. While our margin continues to be pressured by an extremely competitive environment, both for loans and deposits, rate reductions by the Federal Reserve have served to positively impact our net interest margin due to our liability sensitive balance sheet. For the six months ended June 30, 2008 compared to June 30, 2007, the yields on earning assets decreased 66 basis points, while the cost of our interest bearing funds decreased by 80 basis points.

Assuming no significant change in market interest rates, we anticipate modest growth in our net interest income to continue over the near term due to modest growth in the volume of interest earning assets coupled with an expected relatively stable net interest margin over the same period. If market interest rates significantly rise 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. Conversely, if market interest rates were to decline over the next 12 to 18 months, the spread between interest earning assets and interest bearing liabilities would be expected to widen, thus increasing net interest income. 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, 2008			June 30, 2007		
	Average Balance	Earnings/ Expense	Yield/ Rate	Average Balance	Earnings/ Expense	Yield/ Rate
<b>Interest earning assets</b>						
Loans, net of unearned income						
Taxable	\$ 1,088,544	\$ 39,410	7.28%	\$ 934,513	\$ 37,645	8.12%
Tax-exempt (1)	8,790	356	8.15%	9,147	358	7.89%
Securities						
Taxable	250,414	6,358	5.11%	209,965	5,316	5.11%
Tax-exempt (1)	51,153	1,774	6.97%	46,433	1,597	6.94%
Federal funds sold and interest bearing deposits with other banks						
	441	6	2.74%	1,458	33	4.56%
Total interest earning assets	1,399,342	47,904	6.88%	1,201,516	44,949	7.54%
<b>Noninterest earning assets</b>						
Cash & due from banks	16,691			13,821		
Premises and equipment	22,062			22,260		
Other assets	36,426			27,452		
Allowance for loan losses	(9,785)			(8,376)		
Total assets	\$ 1,464,736			\$ 1,256,673		
<b>Interest bearing liabilities</b>						
Interest bearing demand deposits						
	\$ 203,707	\$ 1,548	1.53%	\$ 225,705	\$ 4,150	3.71%
Savings deposits	51,549	407	1.59%	44,820	398	1.79%
Time deposits	511,873	11,604	4.56%	546,634	13,362	4.93%
Short-term borrowings						
	105,405	1,490	2.84%	71,930	1,918	5.38%
Long-term borrowings						

and capital trust securities	418,353	9,837	4.73%	209,588	5,653	5.44%
Total interest bearing liabilities	1,290,887	24,886	3.88%	1,098,677	25,481	4.68%
Noninterest bearing liabilities						
and shareholders' equity						
Demand deposits	72,203			62,986		
Other liabilities	8,629			11,722		
Shareholders' equity	93,017			83,288		
Total liabilities and shareholders' equity	\$ 1,464,736			\$ 1,256,673		
Net interest earnings		\$ 23,018			\$ 19,468	
Net yield on interest earning assets			3.31%			3.27%

(1) - Interest income on tax-exempt securities has been adjusted assuming an effective tax rate of 34% for all periods presented.

The tax equivalent adjustment resulted in an increase in interest income of \$705,000 and \$738,000 for the periods ended

June 30, 2008 and June 30 2007, 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, 2008 versus June 30, 2007		
	Increase (Decrease) Due to Change in:		
	Volume	Rate	Net
<b>Interest earned on:</b>			
<b>Loans</b>			
Taxable	\$ 5,877	\$ (4,112)	\$ 1,765
Tax-exempt	(14)	12	(2)
<b>Securities</b>			
Taxable	1,042	-	1,042
Tax-exempt	168	9	177
<b>Federal funds sold and interest bearing deposits with other banks</b>			
	(17)	(10)	(27)
<b>Total interest earned on interest earning assets</b>	<b>7,056</b>	<b>(4,101)</b>	<b>2,955</b>
<b>Interest paid on:</b>			
<b>Interest bearing demand deposits</b>			
	(370)	(2,232)	(2,602)
Savings deposits	57	(48)	9
Time deposits	(806)	(952)	(1,758)
Short-term borrowings	686	(1,114)	(428)
<b>Long-term borrowings and capital trust securities</b>			
	5,005	(821)	4,184
<b>Total interest paid on interest bearing liabilities</b>	<b>4,572</b>	<b>(5,167)</b>	<b>(595)</b>
<b>Net interest income</b>	<b>\$ 2,484</b>	<b>\$ 1,066</b>	<b>\$ 3,550</b>

### Noninterest Income

Total noninterest income from continuing operations increased to \$3,976,000 for the six months ended June 30, 2008, compared to \$1,752,000 for the same period of 2007. Further detail regarding noninterest income is reflected in the following table.

Noninterest Income	For the Quarter Ended	For the Six Months Ended
	June 30,	June 30,

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Dollars in thousands	2008	2007	2008	2007
Insurance commissions	\$ 1,275	\$ 209	\$ 2,602	\$ 415
Service fees	824	736	1,567	1,353
Net cash settlement on derivative instruments	-	(179)	(171)	(363)
Change in fair value of derivative instruments	-	(273)	705	(47)
Unrealized securities(losses)	(1,541)	-	(1,541)	-
Gain(Loss) on sale of assets	236	(33)	236	(32)
Other	334	236	578	426
Total	\$ 1,128	\$ 696	\$ 3,976	\$ 1,752

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Insurance commissions: Both 2008 periods include commissions derived from the Kelly Agencies, which were acquired in third quarter 2007.

Change in fair value of derivative instruments: The \$705,000 change reflected in the six months ended June 30, 2008 period includes the gain realized upon termination of these interest rate swaps that did not qualify for hedge accounting.

Unrealized securities losses: During second quarter 2008, we recorded a non-cash other-than temporary impairment charge of \$1,541,000 related to certain preferred stock issuances of the Fannie Mae and Freddie Mac which we continue to own.

Gain on sale of assets: During 2008, we recognized \$236,000 as gains on the sale of two foreclosed properties.

#### Noninterest Expense

Total noninterest expense for continuing operations increased approximately 25% for both the six months and three months ended June 30, 2008 as compared to the same periods in 2007. Salaries and employee benefits expense represented the largest category of expense growth. Table III below shows the breakdown of these increases.

Table III -  
Noninterest  
Expense

Dollars in thousands	For the Quarter Ended June 30, Change				For the Six Months Ended June 30, Change			
	2008	\$	%	2007	2008	\$	%	2007
Salaries and employee benefits	\$ 4,187	\$ 949	29.3%	\$ 3,238	\$ 8,581	\$ 2,118	32.8%	\$ 6,463
Net occupancy expense	443	35	8.6%	408	919	93	11.3%	826
Equipment expense	533	40	8.1%	493	1,068	128	13.6%	940
Supplies	241	44	22.3%	197	435	65	17.6%	370
Professional fees	182	(11)	-5.7%	193	300	(67)	-18.3%	367
Amortization of intangibles	88	50	131.6%	38	176	100	131.6%	76
Other	1,475	324	28.1%	1,151	2,758	432	18.6%	2,326
Total	\$ 7,149	\$ 1,431	25.0%	\$ 5,718	\$ 14,237	\$ 2,869	25.2%	\$ 11,368



Salaries and employee benefits: The growth in salaries and employee benefits was primarily due to the additional staff of the Kelly Agencies, which were acquired in third quarter 2007 and also general merit raises.

Amortization of intangibles: Amortization of intangible assets increased 131.6% during 2008 compared to 2007 due to the amortization of the identifiable customer intangible related to the acquisition in 2007 of the Kelly Agencies.

#### 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.

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We recorded a \$2,750,000 provision for loan losses for the first six months of 2008, compared to \$780,000 for the same period in 2007. Net loan charge offs for the first six months of 2008 were \$1,593,000, as compared to \$215,000 over the same period of 2007. At June 30, 2008, the allowance for loan losses totaled \$10,349,000 or 0.91% of loans, net of unearned income, compared to \$9,192,000 or 0.86% of loans, net of unearned income at December 31, 2007.

As illustrated in Table IV below, our non-performing assets and loans past due 90 days or more and still accruing interest have increased during the past 12 months.

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

	2008	June 30, 2007	December 31, 2007
Accruing loans past due 90 days or more	\$ 5,832	\$ 5,631	\$ 7,416
Nonperforming assets:			
Nonaccrual loans	9,783	1,676	2,917
Foreclosed properties	2,537	850	2,058
Repossessed assets	8	1	-
Total	\$ 18,160	\$ 8,158	\$ 12,391
Total nonperforming loans as a			
percentage of total loans	1.37%	0.76%	0.97%
Total nonperforming assets as a			
percentage of total assets	1.19%	0.64%	0.86%

During 2007, certain of our customers began experiencing difficulty making timely payments on their loans. Due to current declining economic conditions, borrowers have in many cases been unable to refinance their loans due to a range of factors including declining property values. As a result, we have experienced higher delinquencies and nonperforming assets, particularly in our residential real estate loan portfolios and in commercial construction loans to residential real estate developers. It is not known when the housing market will stabilize. Management expects that recent increasing trends in delinquencies and nonperforming assets will persist.

The following table shows our nonperforming loans by category as of June 30, 2008 and 2007 and December 31, 2007.

Nonperforming Loans by Type

June 30,

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Dollars in thousands	2008	2007	December 31, 2007
Commercial	\$ 81	\$ 124	\$ 716
Commercial real estate	3,184	84	4,346
Construction and development	6,460	4,177	2,016
Residential real estate	5,521	2,683	3,012
Consumer	368	239	243
Total nonperforming loans	\$ 15,614	\$ 7,307	\$ 10,333

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Commercial real estate nonperforming: Three properties comprise 89% of the balance of nonperforming commercial real estate loans at June 30, 2008. One credit with a balance of \$1.9 million is secured by a commercial office building located in Charleston, West Virginia, and a relationship totaling approximately \$1.0 million is secured by an apartment unit and a restaurant in Front Royal, Virginia.

Construction and land development nonperforming: Approximately 90% of the land development and construction nonperforming loans are comprised of four credits related to residential development projects. One loan had a balance of \$1.8 million for construction of a residential subdivision in Jefferson County, West Virginia; one relationship totaled approximately \$1.5 million for the acquisition of residential property and the construction of two spec-homes; one loan had a balance of \$1.6 million for the infrastructure of residential building lots in Front Royal, Virginia; and one loan had a balance of \$1.0 million on a commercially zoned parcel of real estate near Winchester, Virginia.

In addition, we currently have a land development credit related to a residential subdivision in Berkeley County, West Virginia, totaling approximately \$9.5 million on our internal watch list, which may become nonperforming and may require restructuring. Any potential loss associated with such restructuring can not be estimated at this time.

Residential real estate nonperforming: Nonperforming residential real estate loans continued to increase during the first half of 2008 as many borrowers have been unable to make their payments due to a range of factors stemming from current declining economic conditions. Also included in the June 30, 2008 are three loans totaling approximately \$1.3 million to residential builders that have completed homes to be sold.

All nonperforming loans are individually reviewed and adequate reserves are in place. The majority of nonperforming loans are secured by real property with values supported by appraisals. As a result of our internal loan review process, the ratio of internally classified loans to total loans increased from 6.21% at December 31, 2007 to 8.33% at June 30, 2008. Our internal loan review process includes a watch list of loans that have been specifically identified through the use of various sources, including past due loan reports, previous internal and external loan evaluations, classified loans identified as part of regulatory agency loan reviews and reviews of new loans representative of current lending practices. Once this watch list is reviewed to ensure it is complete, we review the specific loans for collectibility, performance and collateral protection. In addition, a grade is assigned to the individual loans utilizing internal grading criteria, which is somewhat similar to the criteria utilized by our subsidiary bank's primary regulatory agency. Refer to the Asset Quality section of the financial review of the 2007 Annual Report on Form 10-K for further discussion of the processes related to internally classified loans.

## FINANCIAL CONDITION

Our total assets were \$1,525,978,000 at June 30, 2008, compared to \$1,435,536,000 at December 31, 2007, representing a 6.3% increase. Table V below serves to illustrate significant changes in our financial position between December 31, 2007 and June 30, 2008.

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

	Balance December 31, 2007	Increase (Decrease) Amount      Percentage		Balance June 30, 2008
<b>Assets</b>				
Securities available for sale	\$ 283,015	1,386	0.5%	\$ 284,401
Loans, net of unearned interest	1,061,681	79,151	7.5%	1,140,832
<b>Liabilities</b>				
Deposits	\$ 828,687	\$ 29,062	3.5%	\$ 857,749
Short-term borrowings	172,055	(24,155)	-14.0%	147,900
Long-term borrowings and subordinated debentures	335,327	84,448	25.2%	