Shashaguay Katie
Form 4
March 04, 2013

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
Shashaguay Katie

(Last) (First) (Middle)

ANIXTER INTERNATIONAL INC., 2301 PATRIOT BLVD.

(Street)

GLENVIEW, IL 60026

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
ANIXTER INTERNATIONAL INC [AXE]

3. Date of Earliest Transaction (Month/Day/Year)
03/01/2013

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Vice President-Internal Audit

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common stock units	03/01/2013		A		1,166 (1)	A	$ 0	2,247 (2)	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Shashaguay Katie ANIXTER INTERNATIONAL INC. 2301 PATRIOT BLVD. GLENVIEW, IL 60026			Vice President-Internal Audit	

Signatures

Michele Nelson, by power of attorney	03/04/2013
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Stock units convert to common stock on a 1-for-1 basis on the date they vest. Units vest in thirds beginning on the second anniversary of the grant date.

(2) Includes 2,247 common stock units.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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NOTE 4. EARNINGS PER SHARE

The computations of basic and diluted earnings per share follow:

For the Three Months Ended June 30,					
2011			2010		
Income	Common Shares	Per	Income	Common Shares	Per

Dollars in thousands, except per share amounts	(Numerator)	(Denominator)	Share	(Numerator)	(Denominator)	Share
Net income	$ 905			$ (2,878)		
Less preferred stock dividends	(74)			(74)		
Basic EPS	$ 831	7,425,472	$ 0.11	$ (2,952)	7,425,472	$ (0.40)
Effect of dilutive securities:						
Stock options	-	-		-	-	
Convertible preferred stock	-	-		-	-	
Diluted EPS	$ 831	7,425,472	$ 0.11	$ (2,952)	7,425,472	$ (0.40)

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Summit Financial Group, Inc. and Subsidiaries
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	For the Six Months Ended June 30,					
	2011			2010		
Dollars in thousands, except per share amounts	Income (Numerator)	Common Shares (Denominator)	Per Share	Income (Numerator)	Common Shares (Denominator)	Per Share
Net income	$ 657			$ (2,758)		
Less preferred stock dividends	(148)			(148)		
Basic EPS	$ 509	7,425,472	$ 0.07	$ (2,906)	7,425,472	$ (0.39)
Effect of dilutive securities:						
Stock options	-	-		-	-	
Convertible preferred stock	-	-		-	-	
Diluted EPS	$ 509	7,425,472	$ 0.07	$ (2,906)	7,425,472	$ (0.39)

Stock option grants and the conversion of preferred stock are disregarded in this computation if they are determined to be anti-dilutive. Our anti-dilutive stock options at June 30, 2011 and 2010 totaled 312,180 shares and 309,180 shares, respectively. Our anti-dilutive convertible preferred shares totaled 674,545 shares at June 30, 2011 and 2010.

NOTE 5. SECURITIES

The amortized cost, unrealized gains, unrealized losses and estimated fair values of securities at June 30, 2011, December 31, 2010, and June 30, 2010 are summarized as follows:

	June 30, 2011			
	Amortized	Unrealized		Estimated
Dollars in thousands	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable debt securities:				
U. S. Government agencies and corporations	$ 14,749	$ 303	$ 102	$ 14,950
Residential mortgage-backed securities:				
Government-sponsored agencies	147,619	3,288	296	150,611
Nongovernment-sponsored agencies	44,101	1,459	1,523	44,037

State and political subdivisions	12,411	30	284	12,157
Corporate debt securities	999	-	53	946
Total taxable debt securities	219,879	5,080	2,258	222,701
Tax-exempt debt securities:				
State and political subdivisions	72,439	1,151	562	73,028
Total tax-exempt debt securities	72,439	1,151	562	73,028
Equity securities	77	-	-	77
Total available for sale securities	$ 292,395	$ 6,231	$ 2,820	$ 295,806

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Summit Financial Group, Inc. and Subsidiaries
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	December 31, 2010			
	Amortized	Unrealized		Estimated
Dollars in thousands	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable debt securities				
U. S. Government agencies and corporations	$ 30,645	$ 319	$ 299	$ 30,665
Residential mortgage-backed securities:				
Government-sponsored agencies	119,608	3,642	213	123,037
Nongovernment-sponsored entities	60,257	2,528	3,518	59,267
State and political subdivisions	23,342	6	960	22,388
Corporate debt securities	999	-	50	949
Total taxable debt securities	234,851	6,495	5,040	236,306
Tax-exempt debt securities				
State and political subdivisions	35,843	211	707	35,347
Total tax-exempt debt securities	35,843	211	707	35,347
Equity securities	77	-	-	77
Total available for sale securities	$ 270,771	$ 6,706	$ 5,747	$ 271,730

	June 30, 2010			
	Amortized	Unrealized		Estimated
In thousands	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable debt securities:				
U. S. Government agencies and corporations	$ 49,893	$ 848	$ 17	$ 50,724
Residential mortgage-backed securities:				
Government-sponsored agencies	97,468	5,073	15	102,526
Nongovernment-sponsored agencies	63,265	512	6,419	57,358
State and political subdivisions	7,791	23	42	7,772
Corporate debt securities	-	-	-	-
Total taxable debt securities	218,417	6,456	6,493	218,380
Tax-exempt debt securities:				
State and political subdivisions	40,056	717	259	40,514
Total tax-exempt debt securities	40,056	717	259	40,514
Equity securities	77	-	-	77
Total available for sale securities	$ 258,550	$ 7,173	$ 6,752	$ 258,971

The maturities, amortized cost and estimated fair values of securities at June 30, 2011, are summarized as follows:

	Available for Sale	
Dollars in thousands	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 68,100	$ 69,530
Due from one to five years	105,556	107,961
Due from five to ten years	27,081	26,822
Due after ten years	91,581	91,416
Equity securities	77	77
Total	$ 292,395	$ 295,806

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Notes to Consolidated Financial Statements (unaudited)

The proceeds from sales, calls and maturities of available for sale securities, including principal payments received on mortgage-backed obligations, and the related gross gains and losses realized, for the six months ended June 30, 2011 are as follows:

	Proceeds from			Gross realized	
Dollars in thousands	Sales	Calls and Maturities	Principal Payments	Gains	Losses
Securities available for sale	$ 57,190	$ 6,941	$ 29,207	$ 2,289	$ 343

During the three and six months ended June 30, 2011, we recorded other-than-temporary impairment losses on securities as follows:

	Three Months Ended			Six Months Ended		
In thousands	Residential MBS Nongovernment - Sponsored Entities	Equity Securities	Total	Residential MBS Nongovernment - Sponsored Entities	Equity Securities	Total
June 30, 2011						
Total other-than-temporary impairment losses	$ (1,304)	$ -	$ (1,304)	$ (3,131)	$ -	$ (3,131)
Portion of loss recognized in other comprehensive income	771	-	771	1,370	-	1,370
Net impairment losses recognized in earnings	$ (533)	$ -	$ (533)	$ (1,761)	$ -	$ (1,761)
June 30, 2010						
Total other-than-temporary impairment losses	$ -	$ -	$ -	$ (454)	$ -	$ (454)
Portion of loss recognized in other comprehensive income	-	-	-	425	-	425
	$ -	$ -	$ -	$ (29)	$ -	$ (29)

Net impairment losses recognized in earnings

Activity related to the credit component recognized on debt securities available for sale for which a portion of other-than-temporary impairment was recognized in other comprehensive income for the three and six months ended June 30, 2011 is as follows:

	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011
In thousands	Total	Total
Beginning Balance	$ (5,138)	$ (3,910)
Additions for the credit component on debt securities in which other-than-temporary impairment was not previously recognized	(533)	(1,761)
Securities sold during the period	201	201
Ending Balance	$ (5,470)	$ (5,470)

At June 30, 2011, our debt securities with other-than-temporary impairment in which only the amount of loss related to credit was recognized in earnings consisted solely of residential mortgage-backed securities issued by nongovernment-sponsored entities. We utilize third party vendors to estimate the portion of loss attributable to credit using a discounted cash flow models. The vendors estimate cash flows of the underlying collateral of each mortgage-backed security using models that incorporate their best estimates of current key assumptions, such as default rates, loss severity and prepayment rates.

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Assumptions utilized vary widely from security to security, and are influenced by such factors as underlying loan interest rates, geographical location of underlying borrowers, collateral type and other borrower characteristics. Specific such assumptions utilized by our vendors in their valuation of our other-than-temporarily impaired residential mortgage-backed securities issued by nongovernment-sponsored entities were as follows at June 30, 2011:

	Weighted Average	Range Minimum	Range Maximum
Constant voluntary prepayment rates	9.7%	4.7%	12.1%
Constant default rates	7.1%	3.6%	7.5%
Loss severities	49.1%	40.0%	52.0%

Our vendors performing these valuations also analyze the structure of each mortgage-backed instrument in order to determine how the estimated cash flows of the underlying collateral will be distributed to each security issued from the structure. Expected principal and interest cash flows on the impaired debt securities are discounted predominantly using unobservable discount rates which the vendors assume that market participants would utilize in pricing the specific security. Based on the discounted expected cash flows derived from our vendor's models, we expect to recover the remaining unrealized losses on residential mortgage-backed securities issued by nongovernment sponsored entities.

Provided below is a summary of securities available for sale which were in an unrealized loss position at June 30, 2011 and December 31, 2010, including debt securities for which a portion of other-than-temporary impairment has been recognized in other comprehensive income.

	June 30, 2011					
	Less than 12 months		12 months or more		Total	
Dollars in thousands	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Temporarily impaired securities						
Taxable debt securities						
U. S. Government agencies and corporations	$ 2,227	$ (88)	$ 1,246	$ (14)	$ 3,473	$ (102)
Residential mortgage-backed securities:						
Government-sponsored agencies	24,468	(296)	-	-	24,468	(296)
Nongovernment-sponsored entities	3,454	(35)	7,749	(577)	11,203	(612)
	7,211	(279)	385	(5)	7,596	(284)

State and political subdivisions						
Corporate debt securities	946	(53)	-	-	946	(53)
Tax-exempt debt securities						
State and political subdivisions	27,990	(434)	1,193	(128)	29,183	(562)
Total temporarily impaired securities	66,296	(1,185)	10,573	(724)	76,869	(1,909)
Other-than-temporarily impaired securities						
Taxable debt securities						
Residential mortgage-backed securities:						
Nongovernment-sponsored entities	343	(419)	3,591	(492)	3,934	(911)
Total other-than-temporarily impaired securities	343	(419)	3,591	(492)	3,934	(911)
Total	$ 66,639	$ (1,604)	$ 14,164	$ (1,216)	$ 80,803	$ (2,820)

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Summit Financial Group, Inc. and Subsidiaries
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	December 31, 2010					
	Less than 12 months		12 months or more		Total	
Dollars in thousands	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Temporarily impaired securities						
Taxable debt securities						
U. S. Government agencies and corporations	$ 9,658	$ (284)	$ 1,272	$ (15)	$ 10,930	$ (299)
Residential mortgage-backed securities:						
Government-sponsored agencies	24,869	(213)	-	-	24,869	(213)
Nongovernment-sponsored entities	7,506	(459)	12,695	(2,716)	20,201	(3,175)
State and political subdivisions	18,215	(955)	385	(5)	18,600	(960)
Corporate debt securities	949	(50)	-	-	949	(50)
Tax-exempt debt securities						
State and political subdivisions	17,523	(555)	1,169	(152)	18,692	(707)
Total temporarily impaired securities	78,720	(2,516)	15,521	(2,888)	94,241	(5,404)
Other-than-temporarily impaired securities						
Taxable debt securities						
Residential mortgage-backed securities:						
Nongovernment-sponsored entities	71	(43)	4,624	(300)	4,695	(343)
Total other-than-temporarily impaired securities	71	(43)	4,624	(300)	4,695	(343)
Total	$ 78,791	$ (2,559)	$ 20,145	$ (3,188)	$ 98,936	$ (5,747)

We held 84 available for sale securities, including debt securities with other-than-temporary impairment in which a portion of the impairment remains in other comprehensive income, having an unrealized loss at June 30, 2011. We do not intend to sell these securities, and it is more likely than not that we will not be required to sell these securities before recovery of their amortized cost bases. We believe that this decline in value is primarily attributable to the lack of market liquidity and to changes in market interest rates and not due to credit quality. Accordingly, no additional other-than-temporary impairment charge to earnings is warranted at this time.

At June 30, 2011, we had $1.5 million in total unrealized losses related to residential mortgage-backed securities issued by nongovernment sponsored entities. We monitor the performance of the mortgages underlying these bonds. Although there has been some deterioration in their collateral performance, we primarily hold the senior tranches of each issue which provides protection against defaults. We attribute the unrealized loss on these mortgage-backed securities held largely to the current absence of liquidity in the markets for such securities. The

mortgages in these asset pools have been made to borrowers with strong credit history and significant equity invested in their homes. Nonetheless, further weakening of economic fundamentals coupled with significant increases in unemployment and substantial deterioration in the value of high end residential properties could extend distress to this borrower population. This could increase default rates and put additional pressure on property values. Should these conditions occur, the value of these securities could decline further and result in the recognition of additional other-than-temporary impairment charges recognized in earnings.

NOTE 6. LOANS

Loans are generally stated at the amount of unpaid principal, reduced by unearned discount and allowance for loan losses. Interest on loans is accrued daily on the outstanding balances. Loan origination fees and certain direct loan origination costs are deferred and amortized as adjustments of the related loan yield over its contractual life.

Generally, loans are placed on nonaccrual status when principal or interest is greater than 90 days past due based upon the loan's contractual terms. Interest is accrued daily on impaired loans unless the loan is placed on nonaccrual status. Impaired loans are placed on nonaccrual status when the payments of principal and interest are in default for a period of 90 days, unless the loan is both well-secured and in the process of collection. Interest on nonaccrual loans is recognized primarily using the cost-recovery method. Loans may be returned to accrual status when repayment is reasonably assured and there has been demonstrated performance under the terms of the loan or, if applicable, the terms of the restructured loans.

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Commercial-related loans or portions thereof (which are risk-rated) are charged off to the allowance for loan losses when the loss has been confirmed. This determination is made on a case by case basis considering many factors, including the prioritization of our claim in bankruptcy, expectations of the workout/restructuring of the loan and valuation of the borrower's equity. We deem a loss confirmed when a loan or a portion of a loan is classified "loss" in accordance with bank regulatory classification guidelines, which state, "Assets classified loss are considered uncollectible and of such little value that their continuance as bankable assts is not warranted".

Consumer-related loans are generally charged off to the allowance for loan losses upon reaching specified stages of delinquency, in accordance with the Federal Financial Institutions Examination Council policy. For example, credit card loans are charged off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification about a specified event (e.g., bankruptcy of the borrower), whichever is earlier. Residential mortgage loans are generally charged off to net realizable value no later than when the account becomes 180 days past due. Other consumer loans, if collateralized, are generally charged off to net realizable value at 120 days past due.

Loans are summarized as follows:

Dollars in thousands	June 30, 2011	December 31, 2010	June 30, 2010
Commercial	$92,287	$97,059	$117,072
Commercial real estate			
Owner-occupied	180,943	187,098	196,376
Non-owner occupied	242,431	235,337	231,716
Construction and development			
Land and land development	94,464	99,085	105,324
Construction	12,223	13,691	36,545
Residential real estate			
Non-jumbo	228,205	239,290	250,958
Jumbo	60,817	61,340	65,021
Home equity	50,884	50,987	51,431
Consumer	23,773	24,145	25,908
Other	3,116	4,511	5,534
Total loans, net of unearned fees	989,143	1,012,543	1,085,885
Less allowance for loan losses	18,016	17,224	20,767
Loans, net	$971,127	$995,319	$1,065,118

The following table presents the contractual aging of the recorded investment in past due loans by class as of June 30, 2011 and 2010 and December 31, 2010.

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Notes to Consolidated Financial Statements (unaudited)

	At June 30, 2011					
	Past Due					Recorded Investment > 90 days and Accruing
Dollars in thousands	30-59 days	60-89 days	> 90 days	Total	Current	
Commercial	$ 315	$ 1,476	$ 1,964	$ 3,755	$ 88,532	$ -
Commercial real estate						
Owner-occupied	1,284	379	1,648	3,311	177,632	-
Non-owner occupied	1,167	137	976	2,280	240,151	-
Construction and development						
Land and land development	12	152	8,423	8,587	85,877	-
Construction	-	-	152	152	12,071	-
Residential mortgage						
Non-jumbo	5,427	1,265	4,459	11,151	217,054	-
Jumbo	-	2,302	-	2,302	58,515	-
Home equity	-	209	378	587	50,297	-
Consumer	335	99	112	546	23,227	2
Other	-	-	-	-	3,116	-
Total	$ 8,540	$ 6,019	$ 18,112	$ 32,671	$ 956,472	$ 2

	At December 31, 2010					
	Past Due					Recorded Investment > 90 days and Accruing
Dollars in thousands	30-59 days	60-89 days	> 90 days	Total	Current	
Commercial	$ 388	$ 307	$ 1,286	$ 1,981	$ 95,078	$ -
Commercial real estate						
Owner-occupied	364	-	1,348	1,712	185,386	-
Non-owner occupied	3,697	590	310	4,597	230,740	-
Construction and development						
Land and land development	3,023	131	9,732	12,886	86,199	-
Construction	-	2	317	319	13,372	-
Residential mortgage						
Non-jumbo	3,557	2,412	3,953	9,922	229,368	-

Jumbo	2,997	10,383	2,549	15,929	45,411	1,442
Home equity	501	270	51	822	50,165	-
Consumer	420	147	107	674	23,471	-
Other	9	10	-	19	4,492	-
Total	$ 14,956	$ 14,252	$ 19,653	$ 48,861	$ 963,682	$ 1,442

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	At June 30, 2010					
	Past Due					Recorded Investment > 90 days and
Dollars in thousands	30-59 days	60-89 days	> 90 days	Total	Current	Accruing
Commercial	$ 265	$ 572	$ 1,023	$ 1,860	$ 115,212	$ 317
Commercial real estate						
Owner-occupied	849	5,535	2,405	8,789	187,588	1,101
Non-owner occupied	1,589	1,308	12,910	15,807	215,909	-
Construction and development						
Land and land development	464	9,851	8,698	19,013	86,311	-
Construction	342	-	579	921	35,624	-
Residential mortgage						
Non-jumbo	5,389	3,866	3,221	12,476	238,482	66
Jumbo	1,290	1,991	547	3,828	61,192	-
Home equity	-	126	524	650	50,781	81
Consumer	425	92	12	529	25,380	-
Other	12	17	-	29	5,504	-
Total	$ 10,625	$ 23,358	$ 29,919	$ 63,902	$ 1,021,983	$ 1,565

Nonaccrual loans: The following table presents the nonaccrual loans included in the net balance of loans at June 30, 2011, December 31, 2010 and June 30, 2010.

Dollars in thousands	June 30, 2011	December 31, 2010	June 30, 2010
Commercial	$ 2,212	$ 1,318	$ 1,347
Commercial real estate			
Owner-occupied	3,848	2,372	7
Non-owner occupied	4,245	314	15,380
Construction and development			
Land & land development	19,070	9,732	18,538
Construction	152	317	581
Residential mortgage			
Non-jumbo	4,420	4,918	5,682
Jumbo	3,876	1,106	-
Home equity	941	51	443
Consumer	128	141	23

Other	2	-	-
Total	$ 38,894	$ 20,269	$ 42,001

The increase in nonaccrual loans in second quarter 2011 includes a single residential construction and development loan totaling $8.4 million.

Impaired loans: Impaired loans include the following:

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

§ Loans which we risk-rate (consisting of loan relationships having aggregate balances in excess of $2,000,000, or loans exceeding $500,000 and exhibiting credit weakness) through our normal loan review procedures and which, based on current information and events, it is probable that we will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement. Risk-rated loans with insignificant delays or insignificant short falls in the amount of payments expected to be collected are not considered to be impaired.

§ Loans that have been modified in a troubled debt restructuring.

Both commercial and consumer loans are deemed impaired upon being contractually modified in a troubled debt restructuring. Troubled debt restructurings typically result from our loss mitigation activities and occur when we grant a concession to a borrower who is experiencing financial difficulty in order to minimize our economic loss and to avoid foreclosure or repossession of collateral. Once restructured in a troubled debt restructuring, a loan is generally considered impaired until its maturity, regardless of whether the borrower performs under the modified terms. Although such a loan may be returned to accrual status if the criteria set forth in our accounting policy are met, the loan would continue to be evaluated for an asset-specific allowance for loan losses and we would continue to report the loan in the impaired loan table below.

The tables below set forth information about our impaired loans.

Loan Category	06/30/2011	12/31/2010	06/30/2010	Method used to measure impairment
Commercial	$ 1,638	$ 630	$ 1,691	Fair value of collateral
Commerical real estate				
Owner-occupied	11,103	8,866	10,193	Fair value of collateral
	2,598	2,623	2,388	Discounted cash flow
Non-owner occupied	11,458	4,922	11,856	Fair value of collateral
	1,794	530	4,797	Discounted cash flow
Construction and development				
Land & land development	25,457	16,515	18,106	Fair value of collateral
	1,525	-	-	Discounted cash flow
Construction	-	-	-	Fair value of collateral
Residential mortgage				
Non-jumbo	6,516	4,533	3,698	

							Fair value of collateral
		1,188		753		638	Discounted cash flow
Jumbo		15,974		17,296		19,199	Fair value of collateral
Home equity		541		213		-	Fair value of collateral
Consumer		38		-		-	Fair value of collateral
Total	$	79,830	$	56,881	$	72,566	

The following tables present loans individually evaluated for impairment at June 30, 2011, December 31, 2010 and June 30, 2010.

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

	June 30, 2011				
Dollars in thousands	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized while impaired
Without a related allowance					
Commercial	$ 614	$ 615	$ -	$ 603	$ 4
Commercial real estate					
Owner-occupied	6,991	7,007	-	6,141	84
Non-owner occupied	7,298	7,301	-	691	7
Construction and development					
Land & land development	22,302	22,302	-	15,191	94
Construction	-	-	-	-	-
Residential real estate					
Non-jumbo	5,095	5,108	-	4,178	62
Jumbo	13,670	13,672	-	12,622	456
Home equity	194	194	-	1	-
Total without a related allowance	$ 56,164	$ 56,199	$ -	$ 39,427	$ 707
With a related allowance					
Commercial	$ 1,023	$ 1,023	$ 423	$ 411	$ -
Commercial real estate					
Owner-occupied	6,691	6,694	844	3,941	71
Non-owner occupied	5,952	5,951	684	2,491	44
Construction and development					
Land & land development	4,679	4,679	1,103	2,650	43
Construction	-	-	-	-	-
Residential real estate					
Non-jumbo	2,595	2,596	691	2,085	23
Jumbo	2,298	2,302	541	1,350	-
Home equity	347	347	326	210	1
Consumer	38	38	12	-	-
Total with a related allowance	$ 23,623	$ 23,630	$ 4,624	$ 13,138	$ 182
Total					
Commercial	$ 55,550	$ 55,572	$ 3,054	$ 32,119	$ 347
Consumer	38	38	12	-	-

Residential real estate	24,199	24,219	1,558	20,446	542
Total	$ 79,787	$ 79,829	$ 4,624	$ 52,565	$ 889

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

	December 31, 2010				
Dollars in thousands	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized while impaired
Without a related allowance					
Commercial	$ 629	$ 630	$ -	$ 232	$ 9
Commercial real estate					
Owner-occupied	7,538	7,556	-	9,052	440
Non-owner occupied	3,314	3,321	-	12,852	734
Construction and development					
Land & land development	9,213	9,214	-	12,852	468
Construction	-	-	-	-	-
Residential real estate					
Non-jumbo	2,161	2,696	-	2,074	76
Jumbo	14,822	14,822	-	7,887	547
Home equity	165	165	-	-	-
Total without a related allowance	$ 37,842	$ 38,404	$ -	$ 44,949	$ 2,274
With a related allowance					
Commercial	$ -	$ -	$ -	$ -	$ -
Commercial real estate					
Owner-occupied	3,933	3,933	265	670	-
Non-owner occupied	2,130	2,130	267	1,953	88
Construction and development					
Land & land development	7,301	7,301	2,575	3,183	7
Construction	-	-	-	-	-
Residential real estate					
Non-jumbo	2,589	2,591	843	1,242	22
Jumbo	2,474	2,474	877	1,343	31
Home equity	48	48	48	12	1
Total with a related allowance	$ 18,475	$ 18,477	$ 4,875	$ 8,403	$ 149
Total					
Commercial	$ 34,058	$ 34,085	$ 3,107	$ 40,794	$ 1,746
Residential real estate	22,259	22,796	1,768	12,558	677
Total	$ 56,317	$ 56,881	$ 4,875	$ 53,352	$ 2,423

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Explanation of Responses:

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

	June 30, 2010				
Dollars in thousands	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized while impaired
Without a related allowance					
Commercial	$ 1,537	$ 1,537	$ -	$ 722	$ 27
Commercial real estate			-		
Owner-occupied	6,333	6,340	-	2,508	81
Non-owner occupied	4,116	4,139	-	3,353	9
Construction and development					
Land & land development	5,822	5,822	-	3,810	7
Construction	-	-	-	-	-
Residential real estate					
Non-jumbo	1,989	1,990	-	762	10
Jumbo	15,887	15,888	-	553	13
Home equity	-	-	-	-	-
Consumer	-	-	-	-	-
Total without a related allowance	$ 35,684	$ 35,716	$ -	$ 11,708	$ 147
With a related allowance					
Commercial	$ 153	$ 154	$ 112	$ 33	$ -
Commercial real estate					
Owner-occupied	6,219	6,241	1,201	6,071	209
Non-owner occupied	12,495	12,515	2,466	8,516	98
Construction and development					
Land & land development	12,284	12,284	6,296	10,095	25
Construction	-	-	-	-	-
Residential real estate					
Non-jumbo	2,969	2,979	1,366	2,133	32
Jumbo	2,677	2,677	433	15	-
Home equity	-	-	-	-	-
Total with a related allowance	$ 36,797	$ 36,850	$ 11,874	$ 26,863	$ 364
Total					
Commercial	$ 48,959	$ 49,032	$ 10,075	$ 35,108	$ 456
Consumer	-	-	-	-	-

Residential	23,522	23,534	1,799	3,463	55
Total	$ 72,481	$ 72,566	$ 11,874	$ 38,571	$ 511

Included in impaired loans are troubled debt restructurings of $44,780,000 and $31,712,000 at June 30, 2011 and December 31, 2010, respectively, with no commitments to lend additional funds under these restructurings at either balance sheet date.

We categorize loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. We analyze loans individually by classifying the loans as to credit risk. We internally grade all commercial loans at the time of loan origination. In addition, we perform an annual loan review on all non-homogenous commercial loan relationships with an aggregate exposure exceeding $2 million, at which time these loans are re-graded. We use the following definitions for our risk grades:

Pass: Loans graded as Pass are loans to borrowers of acceptable credit quality and risk. They are higher quality loans that do not fit any of the other categories described below.

Summit Financial Group, Inc. and Subsidiaries
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OLEM (Special Mention): Commercial loans categorized as OLEM are potentially weak. The credit risk may be relatively minor yet represent a risk given certain specific circumstances. If the potential weaknesses are not monitored or mitigated, the asset may weaken or inadequately protect our position in the future.

Substandard: Commercial loans categorized as Substandard are inadequately protected by the borrower's ability to repay, equity, and/or the collateral pledged to secure the loan. These loans have identified weaknesses that could hinder normal repayment or collection of the debt. These loans are characterized by the distinct possibility that we will sustain some loss if the identified weaknesses are not mitigated.

Doubtful: Commercial loans categorized as Doubtful have all the weaknesses inherent in those loans classified as Substandard, with the added elements that the full collection of the loan is improbable and the possibility of loss is high.

Loss: Loans classified as loss are considered to be non-collectible and of such little value that their continuance as a bankable asset is not warranted. This does not mean that the loan has absolutely no recovery value, but rather it is neither practical nor desirable to defer writing off the loan, even though partial recovery may be obtained in the future.

The following table presents the recorded investment in construction and development, commercial, and commercial real estate loans which are generally evaluated based upon the internal risk ratings defined above.

Loan Risk Profile by Internal Risk Rating

	Construction and Development						Commercial Real Estate			
	Land and land development		Construction		Commercial		Owner Occupied		Non-Owner Occupied	
Dollars in thousands	6/30/2011	12/31/2010	6/30/2011	12/31/2010	6/30/2011	12/31/2010	6/30/2011	12/31/2010	6/30/2011	12/31/2010
Pass	$52,142	$63,061	$11,921	$13,321	$82,785	$89,129	$158,525	$167,048	$222,387	$218,555
OLEM (Special Mention)	16,706	19,509	250	249	7,260	6,481	13,114	4,417	3,999	14,154
Substandard	25,616	15,796	52	121	2,242	1,449	9,304	15,633	16,045	2,628
Doubtful	-	719	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-	-
Total	$94,464	$99,085	$12,223	$13,691	$92,287	$97,059	$180,943	$187,098	$242,431	$235,337

The following table presents the recorded investment in consumer, residential real estate, and home equity loans, which are generally evaluated based on the aging status of the loans, which was previously presented, and payment activity.

	Performing		Nonperforming	
Dollars in thousands	6/30/2011	12/31/2010	6/30/2011	12/31/2010
Residential real estate				
Non-jumbo	$ 223,786	$ 233,857	$ 4,419	$ 5,433

Jumbo	56,940	59,307	3,877	2,033
Home Equity	50,756	50,936	128	51
Consumer	22,832	24,003	941	142
Other	3,116	4,511	-	-
Total	$ 357,430	$ 372,614	$ 9,365	$ 7,659

Loan commitments: ASC Topic 815, Derivatives and Hedging, requires that commitments to make mortgage loans should be accounted for as derivatives if the loans are to be held for sale, because the commitment represents a written option and accordingly is recorded at the fair value of the option liability.

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

NOTE 7. ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses for the six month periods ended June 30, 2011 and 2010, and for the year ended December 31, 2010 is as follows:

	Six Months Ended June 30,		Year Ended December 31,
Dollars in thousands	2011	2010	2010
Balance, beginning of period	$ 17,224	$ 17,000	$ 17,000
Losses:			
Commercial	93	103	601
Commercial real estate	213	4,524	9,239
Construction and development	1,875	3,812	7,937
Residential real estate	3,098	1,797	3,836
Consumer	82	193	279
Other	57	84	233
Total	5,418	10,513	22,125
Recoveries:			
Commercial	32	16	38
Commercial real estate	57	5	273
Construction and development	4	184	331
Residential real estate	29	115	164
Consumer	41	46	87
Other	47	65	106
Total	210	431	999
Net losses	5,208	10,082	21,126
Provision for loan losses	6,000	13,850	21,350
Balance, end of period	$ 18,016	$ 20,768	$ 17,224

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

Activity in the allowance for loan losses by loan class during the first six months of 2011 is as follows:

	Construction & Land Development			Commercial Real Estate		Residential Real Estate					
Dollars in thousands	Land & Land Devlop-ment	Construc-tion	Commer-cial	Owner Occupied	Non-Owner Occupied	Non-jumbo	Jumbo	Home Equity	Con-sumer	Other	Total
Allowance for loan losses											
Beginning balance	$5,903	$448	$392	$1,306	$3,199	$3,195	$1,468	$786	$201	$35	$16,933
Charge-offs	47	-	93	153	61	1,140	455	-	45	28	2,022
Recoveries	2	-	3	36	13	17	-	-	16	18	105
Provision	(56)	(27)	504	694	(67)	1,216	599	87	47	3	3,000
Ending balance	$5,802	$421	$806	$1,883	$3,084	$3,288	$1,612	$873	$219	$28	$18,016
Allowance related to:											
Loans individually evaluated for impairment	$1,104	$-	$423	$844	$683	$691	$542	$325	$12	$-	$4,624
Loans collectively evaluated for impairment	4,698	421	383	1,039	2,401	2,597	1,070	548	207	28	13,392
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-
Total	$5,802	$421	$806	$1,883	$3,084	$3,288	$1,612	$873	$219	$28	$18,016
Loans											
Loans individually evaluated for impairment	$26,982	$-	$1,638	$13,701	$13,252	$7,704	$15,974	$541	$38	$-	$79,830

Loans collectively evaluated for impairment	67,482	12,223	90,649	167,242	229,179	220,501	44,843	50,343	23,735	3,116	$909,313
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-
Total	$94,464	$12,223	$92,287	$180,943	$242,431	$228,205	$60,817	$50,884	$23,773	$3,116	$989,143

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Explanation of Responses:

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

NOTE 8. GOODWILL AND OTHER INTANGIBLE ASSETS

The following tables present our goodwill by reporting unit at June 30, 2011 and other intangible assets by reporting unit at June 30, 2011 and December 31, 2010.

	Goodwill Activity		
Dollars in thousands	Community Banking	Insurance Services	Total
Balance, January 1, 2011	$ 1,488	$ 4,710	$ 6,198
Acquired goodwill, net	-	-	-
Balance, June 30, 2011	$ 1,488	$ 4,710	$ 6,198

	Other Intangible Assets					
	June 30, 2011			December 31, 2010		
Dollars in thousands	Community Banking	Insurance Services	Total	Community Banking	Insurance Services	Total
Unidentifiable intangible assets						
Gross carrying amount	$ 2,267	$ -	$ 2,267	$ 2,267	$ -	$ 2,267
Less: accumulated amortization	1,839	-	1,839	1,763	-	1,763
Net carrying amount	$ 428	$ -	$ 428	$ 504	$ -	$ 504
Identifiable intangible assets						
Gross carrying amount	$ -	$ 3,000	$ 3,000	$ -	$ 3,000	$ 3,000
Less: accumulated amortization	-	800	800	-	700	700
Net carrying amount	$ -	$ 2,200	$ 2,200	$ -	$ 2,300	$ 2,300

We recorded amortization expense of approximately $176,000 for the six months ended June 30, 2011 relative to our other intangible assets. Annual amortization is expected to be approximately $351,000 for each of the years ending 2011 through 2013.

NOTE 9. DEPOSITS

The following is a summary of interest bearing deposits by type as of June 30, 2011 and 2010 and December 31, 2010:

Dollars in thousands	June 30, 2011	December 31, 2010	June 30, 2010
Demand deposits, interest bearing	$ 150,004	$ 150,291	$ 142,771
Savings deposits	212,745	177,053	196,224
Retail time deposits	401,599	404,704	368,295
Wholesale deposits	195,782	230,287	240,329
Total	$ 960,130	$ 962,335	$ 947,619

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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 all certificates of deposit in denominations of $100,000 or more as of June 30, 2011:

Dollars in thousands	Amount	Percent
Three months or less	$ 43,047	11.1 %
Three through six months	57,223	14.8 %
Six through twelve months	51,093	13.2 %
Over twelve months	236,236	60.9 %
Total	$ 387,599	100.0%

A summary of the scheduled maturities for all time deposits as of June 30, 2011 is as follows:

Dollars in thousands	
Six month period ending December 31, 2011	$ 177,027
Year ending December 31, 2012	158,245
Year ending December 31, 2013	91,976
Year ending December 31, 2014	46,529
Year ending December 31, 2015	46,352
Thereafter	77,251
	$ 597,380

NOTE 10. BORROWED FUNDS

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

	Six Months Ended June 30, 2011		
Dollars in thousands	Short-term FHLB Advances	Repurchase Agreements	Federal Funds Purchased and Lines of Credit
Balance at June 30	$ -	$ 1,092	$ 955
Average balance outstanding for the period	-	932	954
Maximum balance outstanding at any month end during period	-	1,233	955
Weighted average interest rate for the period	0.00 %	0.15 %	0.25 %
Weighted average interest rate for balances outstanding at June 30	0.00 %	0.15 %	0.25 %

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Summit Financial Group, Inc. and Subsidiaries
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	Year Ended December 31, 2010		
Dollars in thousands	Short-term FHLB Advances	Short-Term Repurchase Agreements	Federal Funds Purchased and Lines of Credit
Balance at December 31	$ -	$ 629	$ 953
Average balance outstanding for the period	13,724	1,084	1,364
Maximum balance outstanding at any month end during period	45,000	1,787	3,617
Weighted average interest rate for the period	0.42 %	0.34 %	1.39 %
Weighted average interest rate for balances outstanding at December 31	0.00 %	0.15 %	0.25 %

	Six Months Ended June 30, 2010		
In thousands	Short-term FHLB Advances	Repurchase Agreements	Federal Funds Purchased and Lines of Credit
Balance at June 30	$ -	$ 1,787	$ 952
Average balance outstanding for the period	27,412	1,326	1,782
Maximum balance outstanding at any month end during period	45,000	1,787	3,617
Weighted average interest rate for the period	0.41 %	0.38 %	2.00 %
Weighted average interest rate for balances outstanding at June 30	0.00 %	0.39 %	0.25 %

Long-term borrowings: Our long-term borrowings of $282,631,000, $304,109,000 and $361,175,000 at June 30, 2011, December 31, 2010, and June 30, 2010 respectively, consisted primarily of advances from the Federal Home Loan Bank ("FHLB") and structured reverse repurchase agreements with two unaffiliated institutions. All FHLB advances are collateralized primarily by similar amounts of residential mortgage loans, certain commercial loans, mortgage backed securities and securities of U. S. Government agencies and corporations.

Balance at

Dollars in thousands	Balance at June 30, 2011	Balance at June 30, 2010	December 31, 2010
Long-term FHLB advances	$ 161,799	$ 238,538	$ 182,375
Long-term reverse repurchase agreements	110,000	110,000	110,000
Term loan	10,832	12,637	11,734
Total	$ 282,631	$ 361,175	$ 304,109

The term loan represents a long-term borrowing with an unaffiliated banking institution which is secured by the common stock of our subsidiary bank, bears a variable interest rate of prime minus 50 basis points, and matures in 2017.

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, 2011 was 4.13% compared to 4.94% for the first six months of 2010.

Subordinated debentures: We have subordinated debt totaling $16.8 million at June 30, 2011, December 31, 2010, and June 30, 2010. The subordinated debt qualifies as Tier 2 capital under Federal Reserve Board guidelines until the debt is within 5 years of its maturity; thereafter the amount qualifying as Tier 2 capital is reduced by 20 percent each year until maturity. During 2009, we issued $6.8 million in subordinated debt, of which $5 million was issued to

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an affiliate of a director of Summit. We also issued $1.0 million and $0.8 million to two unrelated parties. These three issuances bear an interest rate of 10 percent per annum, a term of 10 years, and are not pre-payable by us within the first five years. During 2008, we issued $10 million of subordinated debt 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 is not pre-payable by us within the first two and one half years.

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, 2011, December 31, 2010, and June 30, 2010.

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 each Capital Trust are redeemable by us quarterly.

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		Long-term borrowings	Subordinated debentures	Subordinated debentures owed to unconsolidated subsidiary trusts
Year Ending				
December 31,	2011	$ 13,084	$ -	$ -
	2012	66,732	-	-
	2013	41,898	-	-
	2014	83,429	-	-

2015		1,909		10,000		-
Thereafter		75,579		6,800		19,589
	$	282,631	$	16,800	$	19,589

NOTE 11. STOCK OPTION PLAN

The 2009 Officer Stock Option Plan was adopted by our shareholders in May 2009 and provides for the granting of stock options for up to 350,000 shares of common stock to our key officers. Each option granted under the Plan vests according to a schedule designated at the grant date and has a term of no more than 10 years following the vesting date. Also, the option price per share was not to be less than the fair market value of our common stock on the date of grant. The 2009 Officer Stock Option Plan, which expires in May 2019, replaces the 1998 Officer Stock Option Plan (collectively the "Plans") that expired in May 2008.

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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. There were no options granted during the first six months of 2011 or 2010.

We recognize compensation expense based on the estimated number of stock awards expected to actually vest, exclusive of the awards expected to be forfeited. During the first six months of 2011 and 2010, our stock compensation expense and related deferred taxes were insignificant.

A summary of activity in our Plans during the first three months of 2011 and 2010 is as follows:

	For the Six Months Ended June 30,			
	2011		2010	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding, January 1	317,180	$ 18.17	309,180	$ 18.54
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding, June 30	317,180	$ 18.17	309,180	$ 18.54

Other information regarding options outstanding and exercisable at June 30, 2011 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)
$ 2.54 - $6.00	64,150	$ 5.15	2.64	$ 3	59,150	$ 5.37	$ -
6.01 - 10.00	33,680	9.20	5.09	-	31,280	9.43	-
	2,300	17.43	2.67	-	2,300	17.43	-

10.01 - 17.50							
17.51 - 20.00	51,300	17.79	5.50	-	51,100	17.79	-
20.01 - 25.93	165,750	25.15	4.28	-	165,750	25.15	-
	317,180	18.17		$ 3	309,580	18.51	$ -

NOTE 12. 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.

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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, 2011
Commitments to extend credit:	
Revolving home equity and credit card lines	$ 43,845
Construction loans	18,446
Other loans	32,607
Standby letters of credit	2,262
Total	$ 97,160

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 13. REGULATORY MATTERS

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, 2011, 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.

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

	Actual		Minimum Required Regulatory Capital		To be Well Capitalized under Prompt Corrective Action Provisions	
Dollars in thousands	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2011						
Total Capital (to risk weighted assets)						
Summit	$ 126,858	11.9 %	$ 85,063	8.0 %	$ 106,329	10.0 %
Summit Community	136,133	12.8 %	85,039	8.0 %	106,298	10.0 %
Tier I Capital (to risk weighted assets)						
Summit	98,562	9.3 %	42,532	4.0 %	63,798	6.0 %
Summit Community	122,637	11.5 %	42,519	4.0 %	63,779	6.0 %
Tier I Capital (to average assets)						
Summit	98,562	6.7 %	44,130	3.0 %	73,549	5.0 %
Summit Community	122,637	8.3 %	44,093	3.0 %	73,488	5.0 %
As of December 31, 2010						
Total Capital (to risk weighted assets)						
Summit	129,610	11.8 %	87,543	8.0 %	109,428	10.0 %
Summit Community	138,164	12.6 %	87,558	8.0 %	109,447	10.0 %
Tier I Capital (to risk weighted assets)						
Summit	100,840	9.2 %	43,771	4.0 %	65,657	6.0 %
Summit Community	124,192	11.3 %	43,779	4.0 %	65,668	6.0 %
Tier I Capital (to average assets)						
Summit	100,840	6.9 %	43,869	3.0 %	73,116	5.0 %
	124,192	8.5 %	43,851	3.0 %	73,085	5.0 %

Summit
Community

We, Summit Financial Group, Inc. (“Summit”) and our bank subsidiary, Summit Community (the “Bank”), have entered into informal Memoranda of Understanding (“MOU’s”) with our respective regulatory authorities. A memorandum of understanding is characterized by the regulatory authorities as an informal action that is not published or publicly available and that is used when circumstances warrant a milder form of action than a formal supervisory action, such as a formal written agreement or order. Among other things, under the MOU’s, our management team has agreed to:

§ The Bank achieving and maintaining a minimum Tier 1 leverage capital ratio of at least 8% and a total risk-based capital ratio of at least 11%;

§ The Bank providing 30 days prior notice of any declaration of intent to pay cash dividends to provide the Bank’s regulatory authorities an opportunity to object;

§ Summit (parent holding company only) suspending all cash dividends on its common stock until further notice. Dividends on all preferred stock, as well as interest payments on subordinated notes underlying Summit’s trust preferred securities, continue to be permissible; and,

§ Summit (parent holding company only) not incurring any additional debt, other than trade payables, without the prior written consent of the principal banking regulators.

Additional information regarding the MOU’s is included in Part I. Item 1A – Risk Factors on our Form 10-K for the year ended December 31, 2010.

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

NOTE 14. SEGMENT INFORMATION

We operate two business segments: community banking and insurance services. These segments are primarily identified by the products or services offered. The community banking segment consists of our full service banks which offer customers traditional banking products and services through various delivery channels. The insurance services segment consists of three insurance agency offices that sell insurance products. The accounting policies discussed throughout the notes to the consolidated financial statements apply to each of our business segments.

Intersegment revenue and expense consists of management fees allocated to the bank and Summit Insurance Services, LLC for all centralized functions that are performed by the parent, including overall direction in the areas of credit policy and administration, strategic planning, marketing, investment portfolio management and other financial and administrative services. Information for each of our segments is included below:

	Six Months Ended June 30, 2011				
In thousands	Community Banking	Insurance Services	Parent	Eliminations	Total
Net interest income	$21,167	$-	$(905)	$ -	$20,262
Provision for loan losses	6,000	-	-	-	6,000
Net interest income after provision for loan losses	15,167	-	(905)	-	14,262
Other income	(2,193)	2,456	1,606	(495)	1,374
Other expenses	12,341	2,142	891	(495)	14,879
Income (loss) before income taxes	633	314	(190)	-	757
Income tax expense (benefit)	(33)	126	7	-	100
Net income (loss)	666	188	(197)	-	657
Dividends on preferred shares	-	-	148	-	148
Net income (loss) applicable to common shares	$666	$188	$(345)	$ -	$509
Intersegment revenue (expense)	$(438)	$(57)	$495	$ -	$-
Average assets	$1,539,586	$6,751	$140,502	$ (210,103)	$1,476,736

	Six Months Ended June 30, 2010				
In thousands	Community Banking	Insurance Services	Parent	Eliminations	Total
Net interest income	$21,128	$-	$(961)	$ -	$20,167
Provision for loan losses	13,850	-	-	-	13,850
Net interest income after provision for loan losses	7,278	-	(961)	-	6,317
Other income	1,733	2,430	872	(587)	4,448
Other expenses	12,986	2,124	993	(587)	15,516
Income (loss) before income taxes	(3,975)	306	(1,082)	-	(4,751)

Income tax expense (benefit)	(1,587)	118	(524)	-	(1,993)
Net income (loss)	(2,388)	188	(558)	-	(2,758)
Dividends on preferred shares	-	-	148	-	148
Net income (loss) applicable to common shares	$(2,388)	$188	$(706)	$ -	$(2,906)
Intersegment revenue (expense)	$(530)	$(57)	$587	$ -	$-
Average assets	$1,571,215	$7,012	$142,459	$ (178,904)	$1,541,782

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	Three Months Ended June 30, 2011				
In thousands	Community Banking	Insurance Services	Parent	Eliminations	Total
Net interest income	$10,613	$-	$(454)	$ -	$10,159
Provision for loan losses	3,000	-	-	-	3,000
Net interest income after provision for loan losses	7,613	-	(454)	-	7,159
Other income	767	1,219	247	(247)	1,986
Other expenses	6,602	1,115	432	(247)	7,902
Income (loss) before income taxes	1,778	104	(639)	-	1,243
Income tax expense (benefit)	514	36	(212)	-	338
Net income (loss)	1,264	68	(427)	-	905
Dividends on preferred shares	-	-	74	-	74
Net income (loss) applicable to common shares	$1,264	$68	$(501)	$ -	$831
Intersegment revenue (expense)	$(219)	$(28)	$247	$ -	$-
Average assets	$1,543,308	$6,822	$140,714	$ (209,657)	$1,481,187

	Three Months Ended June 30, 2010				
In thousands	Community Banking	Insurance Services	Parent	Eliminations	Total
Net interest income	$10,412	$-	$(476)	$ -	$9,936
Provision for loan losses	8,500	-	-	-	8,500
Net interest income after provision for loan losses	1,912	-	(476)	-	1,436
Other income	384	1,211	334	(248)	1,681
Other expenses	6,290	1,085	529	(248)	7,656
Income (loss) before income taxes	(3,994)	126	(671)	-	(4,539)
Income tax expense (benefit)	(1,356)	50	(355)	-	(1,661)
Net income (loss)	(2,638)	76	(316)	-	(2,878)
Dividends on preferred shares	-	-	74	-	74
Net income (loss) applicable to common shares	$(2,638)	$76	$(390)	$ -	$(2,952)
Intersegment revenue (expense)	$(219)	$(29)	$248	$ -	$-
Average assets	$1,569,927	$7,127	$141,383	$ (187,563)	$1,530,874

Explanation of Responses:

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Management's Discussion and Analysis of Financial Condition and
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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 segments, Summit Community Bank ("Summit Community"), and Summit Insurance Services, LLC for the periods indicated. See Note 14 of the accompanying consolidated financial statements for our segment information. This discussion and analysis should be read in conjunction with our 2010 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.

Interest earning assets declined by 5.31% for the first six months in 2011 compared to the same period of 2010 while our net interest earnings on a tax equivalent basis increased 0.57%. Our tax equivalent net interest margin increased 18 basis points. Historically high levels of nonaccrual loans continue to negatively impact our net interest earnings.

BUSINESS SEGMENT RESULTS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
In thousands	2011	2010	2011	2010
Community banking	$ 1,264	$ (2,638)	$ 666	$ (2,388)
Insurance	68	76	188	188
Parent and other	(501)	(390)	(345)	(706)
Consolidated net income	$ 831	$ (2,952)	$ 509	$ (2,906)

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.

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Our most significant accounting policies are presented in the notes to the consolidated financial statements of our 2010 Annual Report on Form 10-K. These policies, along with the other disclosures presented in the 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, the valuation of goodwill, fair value measurements and deferred tax assets 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.

Allowance for Loan Losses: 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 8 to the consolidated financial statements of our 2010 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 2010 Annual Report on Form 10-K.

Goodwill: Goodwill is subject to a two-step impairment test by reporting unit at least annually to determine whether write-downs of the recorded balances are necessary. During the third quarter, we completed the required annual impairment test for 2010 for each of our reporting units, community banking and insurance services. The first step (Step 1) of impairment testing requires a comparison of each reporting unit's fair value to its carrying value to identify potential impairment. If the fair value equals or exceeds the related unit's carrying value, no write-down of recorded goodwill is necessary. If the fair value is less than the carrying value, an expense may be required on our books to write down the goodwill to the proper carrying value. The second step (Step 2) of impairment testing is necessary only if the reporting unit does not pass Step 1. Step 2 compares the implied fair value of the reporting unit goodwill with the carrying amount of the goodwill for the reporting unit. The implied fair value of goodwill is determined in the same manner as goodwill that is recognized in a business combination.

The fair value, carrying amount and allocated goodwill with regard to each of our reporting units as of September 30, 2010 (date of our most recent goodwill impairment test) were as follows:

(in thousands)	Community Banking	Insurance Services
Fair value	$ 159,510	$ 7,000
Carrying amount	126,755	6,651
Allocated goodwill	1,488	4,710

Neither of our reporting units failed Step 1 of the goodwill impairment tests conducted as of September 30, 2010. For purposes of these goodwill impairment tests, the following methodologies were utilized and key assumptions were made in determining the fair value of each reporting unit:

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Community Banking – We performed an internal valuation utilizing the income approach to determine the fair value of our Community Banking reporting unit. The income approach was based on discounted cash flows derived from assumptions of balances sheet and income statement activity based upon an internally developed forecast considering several long-term key business drivers such as anticipated loan and deposit growth. The long term growth rate used in determining the terminal value was estimated at 3.5%, and a discount rate of 11% based upon the Capital Asset Pricing Model was applied to the Bank's estimated future cash flow streams.

Insurance Services – We performed an internal valuation utilizing the income approach to determine the fair value of our Insurance Services reporting unit. This methodology consisted of discounting the expected future cash flows of this unit based upon a forecast of its operations considering long-term key business drivers such as anticipated commission revenue growth. The long term growth rate used in determining the terminal value was estimated at 0%, and a discount rate of 10% was applied to the Insurance Services unit's estimated future cash flows.

We cannot assure you that future goodwill impairment tests will not result in a charge to earnings. See Note 11 of the consolidated financial statements of our Annual Report on Form 10-K for further discussion of our intangible assets, which include goodwill.

Fair Value Measurements: ASC Topic 820 Fair Value Measurements and Disclosures provides a definition of fair value, establishes a framework for measuring fair value, and requires expanded disclosures about fair value measurements. Fair value is the price that could be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Based on the observability of the inputs used in the valuation techniques, we classify our financial assets and liabilities measured and disclosed at fair value in accordance with the three-level hierarchy (e.g., Level 1, Level 2 and Level 3) established under ASC Topic 820. Fair value determination in accordance with this guidance requires that we make a number of significant judgments. In determining the fair value of financial instruments, we use market prices of the same or similar instruments whenever such prices are available. We do not use prices involving distressed sellers in determining fair value. If observable market prices are unavailable or impracticable to obtain, then fair value is estimated using modeling techniques such as discounted cash flow analyses. These modeling techniques incorporate our assessments regarding assumptions that market participants would use in pricing the asset or the liability, including assumptions about the risks inherent in a particular valuation technique and the risk of nonperformance.

Fair value is used on a recurring basis for certain assets and liabilities in which fair value is the primary basis of accounting. Additionally, fair value is used on a non-recurring basis to evaluate assets or liabilities for impairment or for disclosure purposes in accordance with ASC Topic 825 Financial Instruments.

Deferred Income Tax Assets: At June 30, 2011, we had net deferred tax assets of $11.5 million. Based on our ability to offset the net deferred tax asset against taxable income in carryback years and expected future taxable income in carryforward years, there was no impairment of the deferred tax asset at June 30, 2011. All available evidence, both positive and negative, was considered to determine whether, based on the weight of that evidence, impairment should be recognized. However, our forecast process includes judgmental and quantitative elements that may be subject to significant change. If our forecast of taxable income within the carryback/carryforward periods available under applicable law is not sufficient to cover the amount of net deferred tax assets, such assets may become impaired.

RESULTS OF OPERATIONS

Earnings Summary

Net income applicable to common shares for the six months ended June 30, 2011 increased 118% to $509,000, or $0.07 per diluted share as compared to a loss of $2,906,000 or $0.39 per diluted share for the same period of 2010.

Net income applicable to common shares for the quarter ended June 30, 2011 improved 128% to income of $831,000, or $0.11 per diluted share as compared to a loss of $2,952,000, or $0.40 per diluted share for the quarter ended June 30, 2010. Earnings were negatively impacted for all periods by continued high provisions for loan losses due to our continued increased nonperforming loans. The provision for loan losses was $6.0 million and $13.85 million for the six months ended June 30, 2011 and 2010, respectively and $3.0 million and $8.5 million for the quarters ended June 30, 2011 and 2010, respectively. Included in earnings for the six months ended June 30, 2011 was $1,946,000 of realized securities gains, $4,132,000 of charges resulting from the write-down of a portion of our foreclosed properties to fair value and $1,761,000 in other than temporary impairment charges on securities. Returns on average equity and assets for the first six months of 2011 were 1.50% and 0.09%, respectively, compared with (6.29%) and (0.36%) for the same period of 2010.

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 $20,835,000 for the six months ended June 30, 2011 compared to $20,717,000 for the same period of 2010, representing an increase of $118,000 or 0.57%. Interest income on interest earning assets decreased for the six month period ended June 30, 2011 primarily due to lower volumes of interest earning assets, but this decrease was more than offset by a reduction in our cost of interest bearing liabilities (see Table II). Average interest earning assets decreased 5.31% from $1,429,509,000 during the first six months of 2010 to $1,353,613,000 for the first six months of 2011. Average interest bearing liabilities declined 5.56% from $1,370,500,000 at June 30, 2010 to $1,294,312 at June 30, 2011, at an average yield for the first six months of 2011 of 2.50% compared to 3.04% for the same period of 2010.

Our consolidated net interest margin increased to 3.10% for the six months ended June 30, 2011, compared to 2.92% for the same period in 2010. The margin continues to be affected by elevated levels of non-accruing loans. The present continued low interest rate environment has served to positively impact our net interest margin due to our liability sensitive balance sheet. For the six months ended June 30, 2011 compared to June 30, 2010, the yields on earning assets decreased 35 basis points, while the cost of our interest bearing funds decreased by 54 basis points. The decrease in the cost of interest bearing funds is primarily the result of our reducing or re-pricing over $100 million of our higher-rate long-term borrowings in late 2010.

Assuming no significant change in market interest rates, we anticipate a stable net interest margin in the near term as a result of our anticipated lower cost of funds, we do not expect interest rates to rise in the near future, we do not expect significant growth in our interest earning assets, nor do we expect our nonperforming asset balances to decline significantly in the near future. We continue to monitor the net interest margin through net interest income simulation to minimize the potential for any significant negative impact. 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, 2011			June 30, 2010		
	Average Balance	Earnings/ Expense	Yield/ Rate	Average Balance	Earnings/ Expense	Yield/ Rate
Interest earning assets						
Loans, net of unearned income (1)						
Taxable	$993,905	$29,967	6.08%	$1,131,013	$33,491	5.97%
Tax-exempt (2)	4,861	195	8.09%	6,376	247	7.81%
Securities						
Taxable	270,338	5,183	3.87%	249,937	6,278	5.07%
Tax-exempt (2)	44,434	1,492	6.77%	41,475	1,374	6.68%
Federal funds sold and interest bearing deposits with other banks	40,075	45	0.23%	708	13	3.70%
Total interest earning assets	1,353,613	36,882	5.49%	1,429,509	41,403	5.84%
Noninterest earning assets						
Cash & due from banks	3,894			14,543		
Premises and equipment	22,857			24,034		
Other assets	114,467			92,337		
Allowance for loan losses	(18,095)			(18,641)		
Total assets	$1,476,736			$1,541,782		
Interest bearing liabilities						
Interest bearing demand deposits	$150,437	$201	0.27%	$146,331	$330	0.45%
Savings deposits	204,666	1,005	0.99%	195,746	1,328	1.37%
Time deposits	615,953	8,204	2.69%	598,749	9,218	3.10%
Short-term borrowings	1,886	2	0.21%	30,519	78	0.52%
Long-term borrowings and capital trust securities	321,370	6,635	4.16%	399,155	9,732	4.92%
Total interest bearing liabilities	1,294,312	16,047	2.50%	1,370,500	20,686	3.04%

Noninterest bearing liabilities					
and shareholders' equity					
Demand deposits	82,142			71,255		
Other liabilities	9,378			8,865		
Total liabilities	1,385,832			1,450,620		
Shareholders' equity - preferred	3,519			3,519		
Shareholders' equity - common	87,385			87,643		
Total liabilities and					
shareholders' equity	$1,476,736			$1,541,782		
Net interest earnings		$20,835			$20,717	
Net yield on interest earning assets			3.10%			2.92%

(1) For purposes of this table, nonaccrual loans are included in average loan balances.

(2) 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 $573,000 and $550,000 for the periods ended June 30, 2011 and June 30, 2010, respectively.

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Table II - Changes in Interest Margin Attributable to Rate and Volume

	For the Three Months Ended June 30, 2011 versus June 30, 2010 Increase (Decrease) Due to Change in:		
In thousands	Volume	Rate	Net
Interest earned on:			
Loans			
Taxable	$ (4,124)	$ 600	$ (3,524)
Tax-exempt	(61)	9	(52)
Securities			
Taxable	481	(1,576)	(1,095)
Tax-exempt	99	19	118
Federal funds sold and interest bearing deposits with other banks	56	(24)	32
Total interest earned on interest earning assets	(3,549)	(972)	(4,521)
Interest paid on:			
Interest bearing demand deposits	9	(138)	(129)
Savings deposits	59	(382)	(323)
Time deposits	259	(1,273)	(1,014)
Short-term borrowings	(47)	(29)	(76)
Long-term borrowings and capital trust securities	(1,734)	(1,363)	(3,097)
Total interest paid on interest bearing liabilities	(1,454)	(3,185)	(4,639)
Net interest income	$ (2,095)	$ 2,213	$ 118

Noninterest Income

Total noninterest income decreased to $1,374,000 for the first six months of 2011, compared to $4,448,000 for the same period of 2010, with other-than-temporary impairment charges on securities and write-downs of foreclosed properties to their estimated fair value being the primary negative components. Further detail regarding noninterest income is reflected in the following table.

Noninterest Income

	For the Quarter Ended June 30,		For the Six Months Ended June 30,	
Dollars in thousands	2011	2010	2011	2010
Insurance commissions	$ 1,142	$ 1,223	$ 2,384	$ 2,432
Service fees	758	828	1,379	1,535
Realized securities gains	318	1,256	1,946	1,520
Other-than-temporary impairment of securities	(533)	-	(1,761)	(29)
Gain on sale of assets	76	183	147	195
Write-down of foreclosed properties	(689)	(2,194)	(4,132)	(2,194)
Other	914	511	1,411	989
Total	$ 1,986	$ 1,807	$ 1,374	$ 4,448

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Other-than-temporary impairment of securities: During the first six months of 2011, we recorded non-cash other-than temporary impairment charges of $1,761,000 related to certain residential mortgage-backed securities which we continue to own.

Write-down of foreclosed properties: During the first six months of 2011, we recorded $4,132,000 in charges to write down certain foreclosed properties to estimated fair value as part of our normal, ongoing re-appraisal process. $2,719,000 of this write-down is attributable to three residential subdivisions.

Noninterest Expense

Total noninterest expense decreased approximately 4.1% for the six months ended June 30, 2011, as compared to the same period in 2010. While foreclosed property expenses continue to increase due to higher levels of foreclosed properties, FDIC premiums are lower in 2011 due to the change that became effective during second quarter 2011 of the assessment base used in calculating FDIC premiums, and other expenses are down primarily as a result of a refund of Virginia business franchise taxes. This refund is a result of OREO property taxes paid in Virginia being an allowable offset to taxable capital for business franchise tax calculation purposes. Table III below shows the breakdown of the changes.

Table III - Noninterest Expense

	For the Quarter Ended June 30,				For the Six Months Ended June 30,			
		Change				Change		
Dollars in thousands	2011	$	%	2010	2011	$	%	2010
Salaries, commissions, and employee benefits	$ 4,186	$ 221	5.6 %	$ 3,965	$ 8,028	$ 215	2.8 %	$ 7,813
Net occupancy expense	481	(28)	-5.5 %	509	990	(41)	-4.0 %	1,031
Equipment expense	581	(53)	-8.4 %	634	1,161	(103)	-8.1 %	1,264
Professional fees	193	(69)	-26.3 %	262	389	(147)	-27.4 %	536
Amortization of intangibles	88	-	0.0 %	88	176	-	0.0 %	176
FDIC premiums	586	(39)	-6.2 %	625	1,279	(171)	-11.8 %	1,450
Foreclosed properties expense	412	168	68.9 %	244	846	370	77.7 %	476
Other	1,376	(79)	-5.4 %	1,455	2,010	(760)	-27.4 %	2,770
Total	$ 7,903	$ 121	1.6 %	$ 7,782	$ 14,879	$ (637)	-4.1 %	$ 15,516

Credit Experience

Due to continued recessionary economic conditions, borrowers have in many cases been unable to meet their current debt obligation due to a range of factors including declining property values and elevated unemployment levels. 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 anticipates loan delinquencies will generally trend lower than those

experienced over the past two years, and we anticipate that nonperforming assets will remain elevated in the near term.

The provision for loan losses represents charges to earnings necessary to maintain an adequate allowance for probable credit losses inherent in the loan portfolio. 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 $6,000,000 and $13,850,000 provisions for loan losses for the first six months of 2011 and 2010, respectively. This decline is a result of lower levels of specific reserves related to loans individually evaluated for impairment, and declining charge-offs relative to loans collectively evaluated for impairment at June 30, 2011 compared to June 30, 2010. At June 30, 2011, the allowance for loan losses totaled $18,016,000 or 1.82% of loans, net of unearned income, compared to $17,224,000 or 1.70% of loans, net of unearned income, at December 31, 2010.

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As illustrated in Table IV below, our non-performing assets have decreased during the past 12 months.

Table IV - Summary of Non-Performing Assets

Dollars in thousands	June 30, 2011	June 30, 2010	December 31, 2010
Accruing loans past due 90 days or more	$ 2	$ 1,566	$ 1,442
Nonaccrual loans			
Commercial	2,212	1,029	1,318
Commercial real estate	8,093	14,285	2,686
Commercial construction and development	-	812	-
Residential construction and development	19,222	18,307	10,049
Residential real estate	9,237	5,979	6,075
Consumer	128	23	141
Total nonaccrual loans	38,892	40,435	20,269
Foreclosed properties			
Commercial	597	-	597
Commercial real estate	14,179	15,011	14,745
Commercial construction and development	16,886	16,213	17,021
Residential construction and development	30,512	34,506	34,377
Residential real estate	4,014	3,748	3,495
Consumer	-	-	-
Total foreclosed properties	66,188	69,478	70,235
Repossessed assets	264	333	289

Total nonperforming assets	$ 105,346	$ 111,812	$ 92,235
Total nonperforming loans as a percentage of total loans	3.93 %	3.86 %	2.14 %
Total nonperforming assets as a percentage of total assets	7.18 %	7.36 %	6.24 %

The following table presents a summary of our 30 to 89 days past due performing loans.

Loans Past Due 30-89 Days	For the Quarter Ended				
Dollars in thousands	6/30/2011	3/31/2011	12/31/2010	9/30/2010	6/30/2010
Commercial	$ 1,572	$ 910	$ 695	$ 817	$ 516
Commercial real estate	2,756	2,514	4,651	1,933	9,246
Construction and development	163	1,948	3,156	1,711	819
Residential real estate	6,603	6,561	20,120	7,050	10,846
Consumer	415	494	586	691	536
Total	$ 11,509	$ 12,427	$ 29,208	$ 12,202	$ 21,963

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The following table details our most significant nonperforming loan relationships at June 30, 2011.

Significant Nonperforming Loan Relationships
June 30, 2011
In thousands

Location by Region	Underlying Collateral	Loan Origination Date	Loan Nonaccrual Date	Current Loan Balance	Method Used to Measure Impairment	Most Recent Appraised Value		Amount Allocated to Allowance for Loan Losses	Amount Previously Charged-off
Rockingham Co., VA & Hardy Co., WV	Residential subdivision & undeveloped acreage	Nov. 2007 & Oct. 2005	Mar. 2009 & Mar. 2011	$ 2,215	Collateral value	$ 2,557	(1)	$ -	$ 904
Northern VA	Commercial building	Jan. 2009	Jun. 2010	$ 1,311	Collateral value	$ 1,265	(1)	$ 265	$ -
Jefferson Co., WV	Residential building lots, single familty residence & undeveloped acreage	Aug. 2006 & Dec. 2007	Oct. 2010	$ 1,082	Collateral value	$ 890	(3)	$ 245	$ 643
Rockingham Co., VA	Convenience store	Apr. 2004	Mar. 2011	$ 1,065	Collateral value	$ 2,200	(1)	$ -	$ -
Shenandoah Co., Spotsylvania Co., and Fauquier Co., VA	Single family rentals & residential lots	Mar. 2007 & May 2008	Jan. 2011 & Mar. 2011	$ 1,583	Collateral value	$ 2,118	(1)	$ 160	$ -
Western MD and Florida	Residential development, undeveloped acreage, 2 residential condos, a single family residence and a residential building lot	Various 2003-2007	Jun. 2010	$ 3,131	Collateral value	$ 4,293	(1)	$ 18	$ 1,290
Shenandoah Co. & Frederick Co,	Residential building lots	Aug 2004, July 2005, & July 2007	Jun. 2011	$ 2,182	Collateral value	$ 2,020	(1)	$ 401	$ -

VA									
Hampshire Co., WV	Single family residence & acreage	Dec. 2008	Jun. 2011	$ 1,051	Collateral value	$ 1,855	(2)	$ -	$ -
Frederick Co., VA	Single family residence	Sept. 2010	Jun. 2011	$ 1,345	Collateral value	$ 1,350	(1)	$ 130	$ 100
Frederick Co., VA	Mini Storage facility	Mar. 2010	Jun. 2011	$ 1,792	Collateral value	$ 1,791	(1)	$ 180	$ -
Jefferson Co., WV	Residential development & undeveloped acreage	Mar. 2008 & June 2008	Jun. 2011	$ 8,445	Collateral value	$ 9,424	(1)	$ -	$ -

(1) - Values based upon recent external appraisal.
(2) - Values based upon appraisal obtained at loan origination.
(3) - Value is based upon recent offer for purchase of note.

As a result of our internal loan review process, the ratio of internally criticized loans to total loans increased from 10.47% at December 31, 2010 to 12.62% at June 30, 2011. 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 collectability, performance and collateral protection. In addition, a grade is

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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 2010 Annual Report on Form 10-K for further discussion of the processes related to internally classified loans.

Internally Criticized Loans

In thousands	6/30/2011	3/31/2011	12/31/2010	9/30/2010	6/30/2010
Commerical	$ 9,251	$ 6,605	$ 5,979	$ 7,272	$ 8,113
Commercial real estate	40,669	38,487	36,395	35,401	45,971
Land development & construction	40,858	33,039	34,751	27,544	27,216
Residential real estate	31,697	29,689	29,045	27,788	24,714
Consumer	38	38	40	-	-
Total	$ 122,513	$ 107,858	$ 106,210	$ 98,005	$ 106,014

Included in the above table of internally criticized loans are approximately $5.5 million of performing loans which we have identified as potential problem loans at June 30, 2011. These loans are performing at June 30, 2011, but known information about possible credit problems of the related borrowers causes management to have concerns as to the ability of such borrowers to comply with the current loan repayment terms and which may result in disclosure of such loans as nonperforming within the next quarter. Management cannot predict the extent to which economic conditions may worsen or other factors which may impact borrowers and the potential problem loans. Accordingly, there can be no assurance that other loans will not become 90 days or more past due, be placed on nonaccrual, or require increased allowance coverage and provision for loan losses.

We maintain the allowance for loan losses at a level considered adequate to provide for estimated probable credit losses inherent in the loan portfolio. The allowance is comprised of three distinct reserve components: (1) specific reserves related to loans individually evaluated, (2) quantitative reserves related to loans collectively evaluated, and (3) qualitative reserves related to loans collectively evaluated. A summary of the methodology we employ on a quarterly basis with respect to each of these components in order to evaluate the overall adequacy of our allowance for loan losses is as follows:

Specific Reserve for Loans Individually Evaluated

First, we identify loan relationships having aggregate balances in excess of $500,000 and that may also have credit weaknesses. Such loan relationships are identified primarily through our analysis of internal loan evaluations, past due loan reports, and loans adversely classified by regulatory authorities. Each loan so identified is then individually evaluated to determine whether it is impaired – that is, based on current information and events, it is probable that we will be unable to collect all amounts due in accordance with the contractual terms of the underlying loan

agreement. Substantially all of our impaired loans are and historically have been collateral dependent, meaning repayment of the loan is expected to be provided solely from the sale of the loan's underlying collateral. For such loans, we measure impairment based on the fair value of the loan's collateral, which is generally determined utilizing current appraisals. A specific reserve is established in an amount equal to the excess, if any, of the recorded investment in each impaired loan over the fair value of its underlying collateral, less estimated costs to sell. Our policy is to re-evaluate the fair value of collateral dependent loans at least every twelve months unless there is a known deterioration in the collateral's value, in which case a new appraisal is obtained.

Quantitative Reserve for Loans Collectively Evaluated

Second, we stratify the loan portfolio into the following ten loan pools: land and land development, construction, commercial, commercial real estate -- owner-occupied, commercial real estate -- non-owner occupied, conventional residential mortgage, jumbo residential mortgage, home equity, consumer, and other. Loans within each pool are then further segmented between larger-balance loan relationships exceeding $2 million loans which were individually evaluated for impairment and not deemed to be impaired and smaller-balance homogenous loans.

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Quantitative reserves relative to each loan pool are established by assigning an allocation equaling 100% of the respective pool's average 12 month historical net loan charge-off rate (determined based upon the most recent twelve quarters) is applied to the aggregate recorded investment in the smaller-balance homogenous pool of loans.

Qualitative Reserve for Loans Collectively Evaluated

Third, we consider the necessity to adjust our average historical net loan charge-off rates relative to each of the above ten loan pools for potential risks factors that could result in actual losses deviating from prior loss experience. For example, if we observe a significant increase in delinquencies within the conventional mortgage loan pool above historical trends, an additional allocation to the average historical loan charge-off rate is applied. Such qualitative risk factors considered are: (1) levels of and trends in delinquencies and impaired loans, (2) levels of and trends in charge-offs and recoveries, (3) trends in volume and term of loans, (4) effects of any changes in risk selection and underwriting standards, and other changes in lending policies, procedures, and practice, (5) experience, ability, and depth of lending management and other relevant staff, (6) national and local economic trends and conditions, (7) industry conditions, and (8) effects of changes in credit concentrations.

Relationship between Allowance for Loan Losses, Net Charge-offs and Nonperforming Loans

In analyzing the relationship between the allowance for loan losses, net loan charge-offs and nonperforming loans, it is helpful to understand the process of how loans are treated as they deteriorate over time. Reserves for loans are established at origination through the quantitative and qualitative reserve process discussed above. If the quality of a loan which is reviewed as part of our normal internal loan review procedures deteriorates to a point causing us to deem the loan impaired, the loan is then evaluated for specific reserves under FAS 114, and a reserve, if necessary, is assigned.

Charge-offs, if necessary, are typically recognized in a period after the reserves were established. If the previously established reserves exceed that needed to satisfactorily resolve the problem credit, a reduction in the overall level of the reserve could be recognized. In summary, if loan quality deteriorates, the typical credit sequence is periods of reserve building, followed by periods of higher net charge-offs.

Consumer loans are generally charged off to the allowance for loan losses upon reaching specified stages of delinquency, in accordance with the Federal Financial Institutions Examination Council policy. For example, credit card loans are charged off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification about a specified event (e.g., bankruptcy of the borrower), whichever is earlier. Residential mortgage loans are generally charged off to net realizable value no later than when the account becomes 180 days past due. Other consumer loans, if collateralized, are generally charged off to net realizable value at 120 days past due.

Commercial-related loans (which are risk-rated) are charged off to the allowance for loan losses when the loss has been confirmed. This determination includes many factors, including the prioritization of our claim in bankruptcy, expectations of the workout/restructuring of the loan and valuation of the borrower's equity.

Substantially all of our nonperforming loans are secured by real estate. The substantial majority of these loans were underwritten in accordance with our loan-to-value policy guidelines which range from 70-85% at the time of origination. Although property values have deteriorated across our market areas, the fair values of the underlying collateral value remain in excess of the recorded investment in many of our nonperforming loans, and therefore, no

specific reserve allocation is required; as of June 30, 2011, approximately 70% of our impaired loans required no reserves or have been charged down to their fair value. Accordingly, during this economic downturn, our allowance for loan losses has generally not increased proportionately as our nonperforming loans have increased.

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At June 30, 2011, December 31, 2010, and June 30, 2010, our allowance for loan losses totaled $18,016,000, or 1.82% of total loans, $17,224,000, or 1.70% of total loans and $20,768,000, or 1.91% of total loans, respectively, and is considered adequate to cover inherent losses in our loan portfolio.

At June 30, 2011, December 31, 2010, and June 30, 2010, we had approximately $66,188,000, $70,235,000 and $69,478,000, respectively, in other real estate owned which was obtained as the result of foreclosure proceedings. Although foreclosed property is recorded at fair value less estimated costs to sell, the prices ultimately realized upon sale may or may not result in a recognized loss.

FINANCIAL CONDITION

Our total assets were $1,467,986,000 at June 30, 2011, compared to $1,478,470,000 at December 31, 2010, representing a 0.07% decrease. Table V below serves to illustrate significant changes in our financial position between December 31, 2010 and June 30, 2011.

Table V - Summary of Significant Changes in Financial Position

Dollars in thousands	Balance December 31, 2010	Increase (Decrease) Amount	Percentage	Balance June 30, 2011
Assets				
Securities available for sale	$ 271,730	24,076	8.9 %	$ 295,806
Loans, net of unearned interest	1,012,543	(41,416)	-4.1 %	971,127
Liabilities				
Deposits	$ 1,036,939	$ 9,155	0.9 %	$ 1,046,094
Short-term borrowings	1,582	465	29.4 %	2,047
Long-term borrowings	304,109	(21,478)	-7.1 %	282,631
Subordinated debentures	16,800	-	0.0 %	16,800
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	-	0.0 %	19,589

Loans decreased 4.1% and securities increased 8.9% during the first six months of 2011. We have restricted our growth in order to improve our capital ratios.

Deposits increased approximately $9.2 million during the first six months of 2011; wholesale deposits decreased by $34.5 million while retail deposits increased by $43.7 million.

The decrease in long term borrowings is primarily attributable to maturities and repayments of long-term FHLB advances during the first six months of 2011 funded by increased deposits.

Refer to Notes 6, 7, 9, and 10 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, 2011 and December 31, 2010.

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LIQUIDITY AND CAPITAL RESOURCES

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 (net of float and reserves), Federal funds sold, non-pledged securities (less estimated haircuts), and available lines of credit with the Federal Home Loan Bank of Pittsburgh ("FHLB") and Federal Reserve Bank of Richmond, which totaled approximately $390 million or 26.6% of total consolidated assets at June 30, 2011.

Our liquidity strategy is to fund loan growth with deposits and other borrowed funds while maintaining an adequate level of short- and medium-term investments to meet normal daily loan and deposit activity. As a member of the FHLB, we have access to approximately $385 million. As of June 30, 2011 and December 31, 2010, these advances totaled approximately $162 million and $182 million, respectively. At June 30, 2011, we had additional borrowing capacity of $223 million through FHLB programs. We have established a line with the Federal Reserve Bank to be used as a contingency liquidity vehicle. The amount available on this line at June 30, 2011 was approximately $63 million, which is secured by a pledge of our consumer and commercial and industrial loan portfolios. Also, we classify all of our securities as available for sale to enable us to liquidate them if the need arises.

Liquidity risk represents the risk of loss due to the possibility that funds may not be available to satisfy current or future commitments based on external market issues, customer or creditor perception of financial strength, and events unrelated to Summit such as war, terrorism, or financial institution market specific issues. The Asset/Liability Management Committee ("ALCO"), comprised of members of senior management and certain members of the Board of Directors, oversees our liquidity risk management process. The ALCO develops and recommends policies and limits governing our liquidity to the Board of Directors for approval with the objective of ensuring that we can obtain cost-effective funding to meet current and future obligations, as well as maintain sufficient levels of on-hand liquidity, under both normal and "stressed" circumstances.

One aspect of our liquidity management process is establishing contingency liquidity funding plans under various scenarios in order to prepare for unexpected liquidity shortages or events. The following represents three "stressed" liquidity circumstances and our related contingency plans with respect to each.

Scenario 1 – Summit Community's capital status becomes less than "well capitalized". Banks which are less than "well capitalized" in accordance with regulatory capital guidelines are prohibited from issuing new brokered deposits without first obtaining a waiver from the FDIC to do so. In the event Summit Community's capital status were to fall below well capitalized and was not successful in obtaining the FDIC's waiver to issue new brokered deposits, Summit Community:

- Would have limited amounts of maturing brokered deposits to replace in the short-term, as we have limited our brokered deposits maturing in any one quarter to no more than $50 million.
- Presently has $390 million in available sources of liquidity which could be drawn upon to fund maturing brokered deposits until Summit Community had restored its capital to well capitalized status.
- Would first seek to restore its capital to well capitalized status through capital contributions from Summit, its parent holding company. Summit has present cash reserves in excess of $3 million available for capital infusion into Summit Community.
- Would generally have no more than $100 million in brokered deposits maturing in any one year time frame, which is well within its presently available sources of liquid funds, if in the event Summit does not have the capital

resources to restore Summit Community's capital to well capitalized status. One year would give Summit Community ample time to raise alternative funds either through retail deposits or the sale of assets, and obtain capital resources to restore it to well capitalized status.

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Scenario 2 – Summit Community's credit quality deteriorates such that the FHLB restricts further advances. If in the event that the Bank's credit quality deteriorated to the point that further advances under its line with the FHLB were restricted, Summit Community:

- Would severely curtail lending and other growth activities until such time as access to this line could be restored, thus eliminating the need for net new advances, and
- Would still have available current liquid funding sources secured by unemcumbered loans and securities (less estimated haircuts) totaling $214 million aside from its FHLB line, resulting in total funding sources of approximately $165 million including liquid funds.

Scenario 3 – A competitive financial institution offers a retail deposit program at interest rates significantly above current market rates in the Summit Community's market areas. If a competitive financial institution offered a retail deposit program at rates well in excess of current market rates in the Summit Community's market area, the Bank:

- Presently has $390 million in available sources of liquid funds which could be drawn upon immediately to fund any "net run off" of deposits from this activity.
- Would severely curtail lending and other growth activities so as to preserve the availability of as much contingency funds as possible.
- Would begin offering its own competitive deposit program when deemed prudent so as to restore the retail deposits lost to the competition.

We continuously monitor our liquidity position 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.

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, 2011 totaled $91,859,000 compared to $89,821,000 at December 31, 2010.

Summit and Summit Community have each entered into informal Memoranda of Understanding ("MOU's") with their respective regulatory authorities. A memorandum of understanding is characterized by the regulatory authorities as an informal action that is not published or publicly available and that is used when circumstances warrant a milder form of action than a formal supervisory action, such as a formal written agreement or order. Among other things, under the MOU's, Summit's management team has agreed to:

- Summit Community achieving and maintaining a minimum Tier 1 leverage capital ratio of at least 8% and a total risk-based capital ratio of at least 11%;

- Summit Community providing 30 days prior notice of any declaration of intent to pay cash dividends to provide the Bank's regulatory authorities an opportunity to object;

- Summit suspending all cash dividends on its common stock until further notice; and,

-

Summit not incurring any additional debt, other than trade payables, without the prior written consent of the banking regulators.

Management presently believes Summit and Summit Community are in compliance with all provisions of the MOUs.

Dividends on Summit's preferred stock, as well as interest payments on our subordinated debt and junior subordinated debentures underlying our trust preferred securities, continue to be permissible. However, such dividends and interest payments on our preferred stock and trust preferred debt are subject to future review by the regulatory authorities should we continue to experience deterioration in our financial condition.

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Although dividends from Summit Community are the principal source of funds to pay dividends, interest, and principal payments on Summit's preferred stock, subordinated debentures (including those owed to unconsolidated subsidiary trusts), and term bank borrowing, we currently have sufficient cash on hand to continue to service our subordinated debenture and term bank borrowing obligations as well as the dividend payments on our preferred stock through at least mid-2012. Nevertheless, we can make no assurances that we will continue to have sufficient funds available for Summit's debt service and for distributions to the holders of our preferred stock.

We initiated a $6.0 million offering of our 8% Non-cumulative Convertible Preferred Stock Series 2011, pursuant to a rights offering to our common shareholders on July 26, 2011. The rights offering will conclude on September 15, 2011, unless extended. Following the rights offering, any unsold shares of the Series 2011 Preferred Stock will be offered in a public offering.

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

CONTRACTUAL CASH OBLIGATIONS

During our normal course of business, we incur contractual cash obligations. The following table summarizes our contractual cash obligations at June 30, 2011.

Dollars in thousands	Long Term Debt	Capital Trust Securities	Operating Leases
2011	$ 13,084	$ -	$ 119
2012	66,732	-	241
2013	41,898	-	228
2014	83,429	-	170
2015	1,909	-	21
Thereafter	75,579	19,589	-
Total	$ 282,631	$ 19,589	$ 779

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, 2011 are presented in the following table.

Dollars in thousands	June 30, 2011
Commitments to extend credit:	

Revolving home equity and credit card lines	$ 43,845
Construction loans	18,446
Other loans	32,607
Standby letters of credit	2,262
Total	$ 97,160

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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 liability sensitive. The nature of our lending and funding activities tends to drive our interest rate risk position to being liability sensitive. That is, absent any changes in the volumes of our interest earning assets or interest bearing liabilities, liabilities are likely to reprice faster than assets, resulting in a decrease in net income in a rising rate environment. Net income would increase in a falling interest rate environment. Net income is also subject to changes in the shape of the yield curve. In general, a flattening yield curve would result in a decline in 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 gradually take place over the next 12 months, and then remain stable, except for the up 400 scenario, which assumes a gradual increase in rates over 24 months. 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. Non-contractual deposit re-pricings are modeled on historical patterns.

The following table presents the estimated sensitivity of our net interest income to changes in interest rates, as measured by our earnings simulation model as of June 30, 2011. The sensitivity is measured as a percentage change in net interest income given the stated changes in interest rates (gradual change over 12 months, stable thereafter for the up and down 100 and the up 200 scenarios, and gradual change over 24 months for the up 400 scenario) compared to net interest income with rates unchanged in the same period. The estimated changes set forth below are dependent on the assumptions discussed above and are well within our ALCO policy limit, which is a 10% reduction in net interest income over the ensuing twelve month period.

Change in Interest Rates (basis points)	Estimated % Change in Net Interest Income Over: 0-12 Months	13-24 Months

Down 100 (1)	1.77 %	9.55 %
Up 100 (1)	-2.21 %	1.53 %
Up 200 (1)	-4.50 %	-2.35 %
Up 400 (2)	-4.48 %	-3.55 %

(1) assumes a parallel shift in the yield curve
(2) assumes 400 bp increase over 24 months

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CONTROLS AND PROCEDURES

Our management, including the Chief Executive Officer and Chief Financial Officer, has conducted as of June 30, 2011, 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, 2011 were effective. There were no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2011 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 management, the outcome of these matters will not have a significant adverse effect on the consolidated financial statements.

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, 2010.

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 12 , 2011

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Explanation of Responses: