UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10 – Q

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

For the quarterly period ended September 30, 2011.
or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from ___________ to __________.

Commission File Number 0-16587

Summit Financial Group, Inc.
(Exact name of registrant as specified in its charter)

West Virginia (State or other jurisdiction of incorporation or organization)	55-0672148 (IRS Employer Identification No.)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filero
Non-accelerated filer o Smaller reporting companyþ

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

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

Common Stock, $2.50 par value
7,425,472 shares outstanding as of October 31, 2011

Summit Financial Group, Inc. and Subsidiaries
Table of Contents

Summit Financial Group, Inc. and Subsidiaries
Table of Contents

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

Dollars in thousands	September 30, 2011 (unaudited)	December 31, 2010 (*)	September 30, 2010 (unaudited)
ASSETS			
Cash and due from banks	$ 3,596	$ 4,652	$ 4,598
Interest bearing deposits with other banks	39,103	45,696	40,691
Securities available for sale	292,442	271,730	267,856
Other investments	20,028	22,941	23,988
Loans held for sale, net	294	343	1,298
Loans, net	964,349	995,319	1,018,169
Property held for sale	63,335	70,235	68,353
Premises and equipment, net	22,334	23,092	23,402
Accrued interest receivable	5,395	5,879	5,962
Intangible assets	8,739	9,002	9,090
Cash surrender value of life insurance policies	29,034	13,458	13,301
Other assets	15,935	16,123	19,704
Total assets	$ 1,464,584	$ 1,478,470	$ 1,496,412
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits			
Non interest bearing	$ 85,406	$ 74,604	$ 76,362
Interest bearing	961,903	962,335	953,670
Total deposits	1,047,309	1,036,939	1,030,032
Short-term borrowings	955	1,582	1,610
Long-term borrowings	272,031	304,109	329,648
Subordinated debentures	16,800	16,800	16,800
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589	19,589
Other liabilities	8,976	9,630	8,499
Total liabilities	1,365,660	1,388,649	1,406,178
Commitments and Contingencies			
Shareholders' Equity			
Preferred stock and related surplus - authorized 250,000 shares:			
Series 2009, 8% Non-cumulative convertible preferred stock,			
par value $1.00; issued 3,710 shares	3,519	3,519	3,519
Series 2011, 8% Non-cumulative convertible preferred stock,			
par value $1.00; 7,399 shares subscribed	3,562	-	-
Common stock and related surplus - authorized 20,000,000 shares;			
$2.50 par value; issued and outstanding 2011 and			

2010 - 7,425,472 shares		24,517		24,508		24,508
Retained earnings		63,572		61,201		60,365
Accumulated other comprehensive income		3,754		593		1,842
Total shareholders' equity		98,924		89,821		90,234
Total liabilities and shareholders' equity	$	1,464,584	$	1,478,470	$	1,496,412

(*) - December 31, 2010 financial information has been extracted
from audited consolidated financial statements

4

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

Dollars in thousands, except per share amounts	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Interest income				
Interest and fees on loans				
Taxable	$ 14,656	$ 16,161	$ 44,623	$ 49,651
Tax-exempt	61	78	191	242
Interest and dividends on securities				
Taxable	2,105	2,874	7,288	9,153
Tax-exempt	815	434	1,800	1,340
Interest on interest bearing deposits with other banks	15	7	59	21
Total interest income	17,652	19,554	53,961	60,407
Interest expense				
Interest on deposits	4,561	5,160	13,971	16,037
Interest on short-term borrowings	1	2	2	79
Interest on long-term borrowings and subordinated debentures	3,169	4,844	9,805	14,576
Total interest expense	7,731	10,006	23,778	30,692
Net interest income	9,921	9,548	30,183	29,715
Provision for loan losses	2,001	4,500	8,001	18,350
Net interest income after provision for loan losses	7,920	5,048	22,182	11,365
Other income				
Insurance commissions	1,073	1,227	3,458	3,659
Service fees	776	763	2,155	2,298
Realized securities gains	1,517	67	3,463	1,587
Gain on sale of assets	130	(84)	277	111
Write-down of foreclosed properties	(1,637)	-	(5,770)	(2,194)
Other	812	556	2,223	1,545
Total other-than-temporary impairment loss on securities	(1,684)	(184)	(4,815)	(638)
Portion of loss recognized in other comprehensive income	1,200	75	2,570	500
Net impairment loss recognized in earnings	(484)	(109)	(2,245)	(138)
Total other income	2,187	2,420	3,561	6,868
Other expense				
Salaries, commissions, and employee benefits	3,959	3,999	11,987	11,812
Net occupancy expense	473	498	1,463	1,529
Equipment expense	589	620	1,750	1,883
Professional fees	265	223	654	759
Amortization of intangibles	88	88	263	263
FDIC premiums	580	715	1,859	2,165

Foreclosed properties expense	389	671	1,235	1,147
Other	1,230	1,379	3,240	4,151
Total other expense	7,573	8,193	22,451	23,709
Income (loss) before income taxes	2,534	(725)	3,292	(5,476)
Income tax expense (benefit)	598	(598)	698	(2,591)
Net Income (loss)	1,936	(127)	2,594	(2,885)
Dividends on preferred shares	74	74	223	223
Net Income (loss) applicable to common shares	$ 1,862	$ (201)	$ 2,371	$ (3,108)
Basic earnings per common share	$ 0.25	$ (0.03)	$ 0.32	$ (0.42)
Diluted earnings per common share	$ 0.24	$ (0.03)	$ 0.32	$ (0.42)

See Notes to Consolidated Financial Statements

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

Dollars in thousands, except per share amounts	Series 2009 Preferred Stock and Related Surplus	Subscribed Series 2011 Preferred Stock and Related Surplus	Common Stock and Related Surplus	Retained Earnings	Accumulated Other Compre-hensive Income (Loss)	Total Share-holders' Equity
Balance, December 31, 2010	$3,519	$-	$24,508	$61,201	$ 593	$89,821
Nine Months Ended September 30, 2011						
Comprehensive income:						
Net income	-	-	-	2,594	-	2,594
Other comprehensive income:						
Non-credit related other-than-temporary impairment on available for sale debt securities of $2,570, net of deferred taxes of $976	-	-	-	-	(1,594)	(1,594)
Net unrealized gain on available for sale debt securities of $7,669 net of deferred taxes of $2,914 and reclassification adjustment for net realized gains included in net income of $3,463	-	-	-	-	4,755	4,755
Total comprehensive income						5,755
Exercise of stock options	-	-	-	-	-	-
Stock compensation expense	-	-	9	-	-	9
Subscription of 7,399 shares Series 2011 Preferred Stock	-	3,562	-	-	-	3,562
Preferred stock cash dividends declared ($60.00 per share)	-	-	-	(223)	-	(223)
Balance, September 30, 2011	$3,519	$3,562	$24,517	$63,572	$ 3,754	$98,924
Balance, December 31, 2009	$3,519	$-	$24,508	$63,474	$ (841)	$90,660
Nine Months Ended September 30, 2010						
Comprehensive income:						

Net income (loss)	-	-	-	(2,885)	-	(2,885)
Other comprehensive income:						
Non-credit related other-than-temporary impairment on available for sale debt securities of $500, net of deferred taxes of $190	-	-	-	-	(310)	(310)
Net unrealized gain on available for sale debt securities of $4,827 net of deferred taxes of $1,834 and reclassification adjustment for net realized gains included in net income of $1,587	-	-	-	-	2,993	2,993
Total comprehensive income						(202)
Exercise of stock options	-	-	-	-	-	-
Stock compensation expense	-	-	-	-	-	-
Preferred stock cash dividends declared ($60.00 per share)	-	-	-	(223)	-	(223)
Balance, September 30, 2010	$3,519	$-	$24,508	$60,365	$ 1,842	$90,234

See Notes to Consolidated Financial Statements

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

	Nine Months Ended	
Dollars in thousands	September 30, 2011	September 30, 2010
Cash Flows from Operating Activities		
Net income (loss)	$ 2,594	$ (2,885)
Adjustments to reconcile net earnings to net cash		
provided by operating activities:		
Depreciation	1,056	1,194
Provision for loan losses	8,001	18,350
Stock compensation expense	9	-
Deferred income tax (benefit)	(2,362)	(1,575)
Loans originated for sale	(6,978)	(7,453)
Proceeds from loans sold	7,027	6,156
Securities (gains)	(3,463)	(1,587)
Other-than-temporary impairment of debt securities	2,245	138
(Gain) on disposal of other repossessed assets & property held for sale	(324)	(121)
Write-down of foreclosed properties	5,770	2,194
Amortization of securities premiums (accretion of discounts), net	1,455	(762)
Amortization of goodwill and purchase accounting		
adjustments, net	272	272
Increase in accrued interest receivable	483	360
(Increase) in other assets	(1,214)	(4,306)
(Decrease) in other liabilities	(343)	(507)
Net cash provided by operating activities	14,228	9,468
Cash Flows from Investing Activities		
Proceeds from (purchase of) interest bearing deposits		
with other banks	6,592	(6,444)
Proceeds from maturities and calls of securities available for sale	6,985	46,860
Proceeds from sales of securities available for sale	97,826	32,849
Principal payments received on securities available for sale	43,385	40,134
Purchases of securities available for sale	(170,045)	(109,508)
Purchases of other investments	-	(2,998)
Proceeds from maturities and calls of other investments	5,999	3,000
Redemption of Federal Home Loan Bank Stock	2,914	19

Net principal payments received on loans		13,680		54,854
Purchases of premises and equipment		(298)		(364)
Proceeds from sales of other repossessed assets & property held for sale		11,674		17,417
Purchase of life insurance contracts		(15,000)		-
Net cash provided by investing activities		3,712		75,819
Cash Flows from Financing Activities				
Net increase (decrease) in demand deposit, NOW and savings accounts		55,328		(86)
Net increase (decrease) in time deposits		(44,958)		12,780
Net (decrease) in short-term borrowings		(627)		(48,129)
Proceeds from long-term borrowings		842		-
Repayment of long-term borrowings		(32,920)		(51,844)
Dividends paid on preferred stock		(223)		(223)
Proceeds from subscription of preferred stock		3,562		-
Net cash (used in) financing activities		(18,996)		(87,502)
(Decrease) in cash and due from banks		(1,056)		(2,215)
Cash and due from banks:				
Beginning		4,652		6,813
Ending	$	3,596	$	4,598

(Continued)

See Notes to Consolidated Financial Statements

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

	Nine Months Ended			
Dollars in thousands	September 30, 2011		September 30, 2010	
Supplemental Disclosures of Cash Flow Information				
Cash payments for:				
Interest	$	24,120	$	31,274
Income taxes	$	1,925	$	-
Supplemental Schedule of Noncash Investing and Financing Activities				
Other assets acquired in settlement of loans	$	9,289	$	45,962

See Notes to Consolidated Financial Statements

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

NOTE 1. BASIS OF PRESENTATION

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

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

The results of operations for the quarter ended September 30, 2011 are not necessarily indicative of the results to be expected for the full year. The consolidated financial statements and notes included herein should be read in conjunction with our 2010 audited financial statements and Annual Report on Form 10-K. Certain accounts in the consolidated financial statements for December 31, 2010 and September 30, 2010, as previously presented, have been reclassified to conform to current year classifications.

NOTE 2. SIGNIFICANT NEW AUTHORITATIVE ACCOUNTING GUIDANCE

ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures About Fair Value Measurements, requires expanded disclosures related to fair value measurements including (i) the amounts of significant transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy and the reasons for the transfers, (ii) the reasons for transfers of assets or liabilities in or out of Level 3 of the fair value hierarchy, with significant transfers disclosed separately, (iii) the policy for determining when transfers between levels of the fair value hierarchy are recognized and (iv) for recurring fair value measurements of assets and liabilities in Level 3 of the fair value hierarchy, a gross presentation of information about purchases, sales, issuances and settlements.
ASU 2010-06 further clarifies that (i) fair value measurement disclosures should be provided for each class of assets and liabilities (rather than major category), which would generally be a subset of assets or liabilities within a line item in the statement of financial position and (ii) company's should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for each class of assets and liabilities included in Levels 2 and 3 of the fair value hierarchy. The disclosures related to the gross presentation of purchases, sales, issuances and settlements of assets and liabilities included in Level 3 of the fair value hierarchy is required for us beginning January 1, 2011. The remaining disclosure requirements and clarifications made by ASU 2010-06 became effective for us on January 1, 2010. See Note 3 – Fair Value Measurements.

ASU No. 2010-20, Receivables (Topic 310) - Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses requires entities to provide disclosures designed to facilitate financial statement users' evaluation of (i) the nature of credit risk inherent in the entity's portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable. The required disclosures include, among other things, a roll-forward of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality indicators.

ASU 2010-20 will be effective for our financial statements as of December 31, 2010, as it relates to disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period were effective January 1, 2011 and had no impact on our financial statements.

ASU No. 2010-28, Intangibles – Goodwill and Other (Topic 350) – When to Perform Step 2 of the goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance and examples in paragraph 350-20-35-30, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. This amendment was effective for us January 1, 2011 and had no impact on our financial statements.

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

ASU No. 2011-01, Receivables (Topic 310) – Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20 temporarily delayed the effective date of the disclosures regarding troubled debt restructurings in ASU No. 2010-20 for public entities. The effective date is for interim and annual reporting periods beginning after June 15, 2011.

ASU 2011-02, Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring provides additional guidance to clarify when a loan modification or restructuring is considered a troubled debt restructuring (TDR) in order to address current diversity in practice and lead to more consistent application of U.S. GAAP for debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. The amendments to Topic 310 clarify the guidance regarding the evaluation of both considerations above. Additionally, the amendments clarify that a creditor is precluded from using the effective interest rate test in the debtor's guidance on restructuring of payables (paragraph 470-60-55-10) when evaluating whether a restructuring constitutes a TDR. This amendment is effective for us July 1, 2011. Early adoption is permitted. Retrospective application to the beginning of the annual period of adoption for modifications occurring on or after the beginning of the annual adoption period is required. As a result of applying these amendments, we may identify receivables that are newly considered to be impaired. For purposes of measuring impairment of those receivables, an entity should apply the amendments prospectively for the first interim or annual period beginning on or after June 15, 2011.

ASU No. 2011-03, Transfers and Servicing (Topic 860) - Reconsideration of Effective Control for Repurchase Agreement is intended to improve financial reporting of repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. ASU 2011-03 removes from the assessment of effective control (i) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (ii) the collateral maintenance guidance related to that criterion. ASU 2011-03 will be effective for us on January 1, 2012 and is not expected to have a significant impact on our financial statements.

ASU 2011-04, Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs amends Topic 820, Fair Value Measurements and Disclosures, to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. ASU 2011-04 is effective for annual periods beginning after December 15, 2011, and is not expected to have a significant impact on our financial statements.

ASU 2011-05, Comprehensive Income (Topic 220) - Presentation of Comprehensive Income amends Topic 220, Comprehensive Income, to require that all nonowner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. ASU 2011-05 is effective for annual periods beginning after December 15, 2011, and is not expected to have a significant impact on our financial statements.

ASU 2011-08, Intangibles - Goodwill and Other (Topic 350) - Testing Goodwill for Impairment, amends Topic 350, Intangibles – Goodwill and Other, to permit entities to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-than-likely-than-not threshold is defined as having a likelihood of more than 50 percent. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of the reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of impairment loss, if any. ASU 2011-08 is effective for annual and interim impairment tests beginning after December 15, 2011, and is not expected to have a significant impact on our financial statements.

NOTE 3. FAIR VALUE MEASUREMENTS

ASC Topic 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

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

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

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

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

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

Available-for-Sale Securities: Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities.

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

Loans: We do not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with

ASC Topic 310, Accounting by Creditors for Impairment of a Loan. The fair value of impaired loans is estimated using one of several methods, including collateral value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At September 30, 2011, substantially all of the total impaired loans were evaluated based on the fair value of the collateral. In accordance with ASC Topic 310, impaired loans where an allowance is established based on the fair value of collateral requires classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, we record the impaired loan as nonrecurring Level 2. When a current appraised value is not available and there is no observable market price, we record the impaired loan as nonrecurring Level 3.

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

When a collateral-dependent loan is identified as impaired, management immediately begins the process of evaluating the estimated fair value of the underlying collateral to determine if a related specific allowance for loan losses or charge-off is necessary. Current appraisals are ordered once a loan is deemed impaired if the existing appraisal is more than twelve months old, or more frequently if there is known deterioration in value. For recently identified impaired loans, a current appraisal may not be available at the financial statement date. Until the current appraisal is obtained, the original appraised value is discounted, as appropriate, to compensate for the estimated depreciation in the value of the loan's underlying collateral since the date of the original appraisal. Such discounts are generally estimated based upon management's knowledge of sales of similar collateral within the applicable market area and its knowledge of other real estate market-related data as well as general economic trends. When a new appraisal is received (which generally are received within 3 months of a loan being identified as impaired), management then re-evaluates the fair value of the collateral and adjusts any specific allocated allowance for loan losses, as appropriate. In addition, management also assigns a discount of 7–10% for the estimated costs to sell the collateral. As of September 30, 2011, the appraised values of the underlying collateral for our collateral-dependent impaired loans which had a related specific allowance or prior charge-off was in excess of the total fair value by $3,806,000.

Other Real Estate Owned ("OREO"): OREO consists of real estate acquired in foreclosure or other settlement of loans. Such assets are carried on the balance sheet at the lower of the investment in the real estate or its fair value less estimated selling costs. The fair value of OREO is determined on a nonrecurring basis generally utilizing current appraisals performed by an independent, licensed appraiser applying an income or market value approach using observable market data (Level 2). Updated appraisals of OREO are generally obtained if the existing appraisal is more than 18 months old or more frequently if there is a known deterioration in value. However, if a current appraisal is not available, the original appraised value is discounted, as appropriate, to compensate for the estimated depreciation in the value of the real estate since the date of its original appraisal. Such discounts are generally estimated based upon management's knowledge of sales of similar property within the applicable market area and its knowledge of other real estate market-related data as well as general economic trends (Level 3). Upon foreclosure, any fair value adjustment is charged against the allowance for loan losses. Subsequent fair value adjustments are recorded in the period incurred and included in other noninterest income in the consolidated statements of income.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

Dollars in thousands	Balance at September 30, 2011	Fair Value Measurements Using: Level 1	Level 2	Level 3
Available for sale securities				
U.S. Government sponsored agencies	$ 8,845	$ -	$ 8,845	$ -
Mortgage backed securities:				
Government sponsored agencies	156,724	-	156,724	-
Nongovernment sponsored agencies	40,280	-	40,280	-
State and political subdivisions	4,579	-	4,579	-
Corporate debt securities	847	-	847	-
Other equity securities	77	-	77	-
Tax-exempt state and political subdivisions	81,090	-	81,090	-

Total available for sale securities	$	292,442	$	-	$	292,442	$	-

12

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

Dollars in thousands	Balance at December 31, 2010	Fair Value Measurements Using: Level 1	Level 2	Level 3
Available for sale securities				
U.S. Government sponsored agencies	$ 30,665	$ -	$ 30,665	$ -
Mortgage backed securities:				
Government sponsored agencies	123,037	-	123,037	-
Nongovernment sponsored agencies	59,267	-	59,267	-
State and political subdivisions	22,388	-	22,388	-
Corporate debt securities	949	-	949	-
Other equity securities	77	-	77	-
Tax-exempt state and political subdivisions	35,347	-	35,347	-
Total available for sale securities	$ 271,730	$ -	$ 271,730	$ -

There were no assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period ended September 30, 2011.

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

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

Dollars in thousands	Total at September 30, 2011	Fair Value Measurements Using: Level 1	Level 2	Level 3
Residential mortgage loans held for sale	$ 294	$ -	$ 294	$ -
Impaired loans				
Commercial	$ 2,940	$ -	$ -	$ 2,940
Commercial real estate	25,435	-	21,344	4,091
Construction and development	25,951	-	22,390	3,561
Residential real estate	20,137	-	15,986	4,151
Consumer	-	-	-	-
Total impaired loans	$ 74,463	$ -	$ 59,720	$ 14,743
OREO	$ 63,335	$ -	$ 63,335	$ -

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

	Total at December 31, 2010	Fair Value Measurements Using:		
Dollars in thousands		Level 1	Level 2	Level 3
Residential mortgage loans held for sale	$ 343	$ -	$ 343	$ -
Impaired loans				
Commercial	$ 630	$ -	$ -	$ 630
Commercial real estate	16,408	-	13,569	2,839
Construction and development	13,940	-	11,251	2,689
Residential real estate	21,028	-	14,836	6,192
Total impaired loans	$ 52,006	$ -	$ 39,656	$ 12,350
OREO	$ 70,235	$ -	$ 69,855	$ 380

Impaired loans, which are measured for impairment primarily using the fair value of the collateral for collateral-dependent loans, had a carrying amount at September 30, 2011 of $78,959,000, with a valuation allowance of $4,496,000, resulting in no additional provision for loan losses for the nine months ended September 30, 2011.

ASC Topic 825, Financial Instruments, requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The following summarizes the methods and significant assumptions we used in estimating our fair value disclosures for financial instruments.

Cash and due from banks: The carrying values of cash and due from banks approximate their estimated fair value.

Interest bearing deposits with other banks: The carrying values of interest bearing deposits with other banks approximate their estimated fair values.

Federal funds sold: The carrying values of Federal funds sold approximate their estimated fair values.

Securities: Estimated fair values of securities are based on quoted market prices, where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities.

Loans held for sale: The carrying values of loans held for sale approximate their estimated fair values.

Loans: The estimated fair values for loans are computed based on scheduled future cash flows of principal and interest, discounted at interest rates currently offered for loans with similar terms to borrowers of similar credit quality. No prepayments of principal are assumed.

Accrued interest receivable and payable: The carrying values of accrued interest receivable and payable approximate their estimated fair values.

Deposits: The estimated fair values of demand deposits (i.e. non-interest bearing checking, NOW, money market and savings accounts) and other variable rate deposits approximate their carrying values. Fair values of fixed maturity deposits are estimated using a discounted cash flow methodology at rates currently offered for deposits with similar remaining maturities. Any intangible value of long-term relationships with depositors is not considered in estimating the fair values disclosed.

Short-term borrowings: The carrying values of short-term borrowings approximate their estimated fair values.

Long-term borrowings: The fair values of long-term borrowings are estimated by discounting scheduled future payments of principal and interest at current rates available on borrowings with similar terms.

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

Subordinated debentures: The carrying values of subordinated debentures approximate their estimated fair values.

Subordinated debentures owed to unconsolidated subsidiary trusts: The carrying values of subordinated debentures owed to unconsolidated subsidiary trusts approximate their estimated fair values.

Off-balance sheet instruments: The fair values of commitments to extend credit and standby letters of credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit standing of the counter parties. The amounts of fees currently charged on commitments and standby letters of credit are deemed insignificant, and therefore, the estimated fair values and carrying values are not shown below.

The carrying values and estimated fair values of our financial instruments are summarized below:

	September 30, 2011		December 31, 2010	
Dollars in thousands	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets				
Cash and due from banks	$ 3,596	$ 3,596	$ 4,652	$ 4,652
Interest bearing deposits with other banks	39,103	39,103	45,696	45,696
Securities available for sale	292,442	292,442	271,730	271,730
Other investments	20,028	20,028	22,941	22,941
Loans held for sale, net	294	294	343	343
Loans, net	964,349	979,325	995,319	1,002,889
Accrued interest receivable	5,395	5,395	5,879	5,879
	$ 1,325,207	$ 1,340,183	$ 1,346,560	$ 1,354,130
Financial liabilities				
Deposits	$ 1,047,309	$ 1,105,686	$ 1,036,939	$ 1,102,131
Short-term borrowings	955	955	1,582	1,582
Long-term borrowings	272,031	293,998	304,109	323,803
Subordinated debentures	16,800	16,800	16,800	16,800
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589	19,589	19,589
Accrued interest payable	2,788	2,788	3,130	3,130
	$ 1,359,472	$ 1,439,816	$ 1,382,149	$ 1,467,035

NOTE 4. EARNINGS PER SHARE

The computations of basic and diluted earnings per share follow:

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

	For the Three Months Ended September 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	$ 1,936			$ (127)		
Less preferred stock dividends	(74)			(74)		
Basic EPS	$ 1,862	7,425,472	$ 0.25	$ (201)	7,425,472	$ (0.03)
Effect of dilutive securities:						
Stock options	-	-		-	2,483	
Series 2011 convertible preferred stock	-	10,053		-	-	
Series 2009 convertible preferred stock	74	674,545		-	-	
Diluted EPS	$ 1,936	8,110,070	$ 0.24	$ (201)	7,427,955	$ (0.03)

	For the Nine Months Ended September 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	$ 2,594			$ (2,885)		
Less preferred stock dividends	(223)			(223)		
Basic EPS	$ 2,371	7,425,472	$ 0.32	$ (3,108)	7,425,472	$ (0.42)
Effect of dilutive securities:						

Stock options	-	-		-	950	
Series 2011 convertible preferred stock	-	3,388		-	-	
Series 2009 convertible preferred stock	-	-		-	-	
Diluted EPS	$ 2,371	7,428,860	$ 0.32	$ (3,108)	7,426,422	$ (0.42)

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 September 30, 2011 and 2010 totaled 312,180 shares. Our anti-dilutive convertible preferred shares totaled 674,545 shares for the nine months ended September 30, 2011 and for the quarter and nine months ended September 30, 2010.

NOTE 5. SECURITIES

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

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

	September 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	$ 8,351	$ 494	$ -	$ 8,845
Residential mortgage-backed securities:				
Government-sponsored agencies	153,271	3,974	521	156,724
Nongovernment-sponsored agencies	40,946	1,072	1,738	40,280
State and political subdivisions	4,561	23	5	4,579
Corporate debt securities	999	-	152	847
Total taxable debt securities	208,128	5,563	2,416	211,275
Tax-exempt debt securities:				
State and political subdivisions	78,179	3,102	191	81,090
Total tax-exempt debt securities	78,179	3,102	191	81,090
Equity securities	77	-	-	77
Total available for sale securities	$ 286,384	$ 8,665	$ 2,607	$ 292,442

	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

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

	September 30, 2010			
	Amortized	Unrealized		Estimated
In thousands	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable debt securities:				
U. S. Government agencies				
and corporations	$ 46,008	$ 944	$ 15	$ 46,937
Residential mortgage-backed securities:				
Government-sponsored agencies	104,419	4,553	85	108,887
Nongovernment-sponsored agencies	66,272	1,212	5,024	62,460
State and political subdivisions	8,561	72	5	8,628
Corporate debt securities	999	-	16	983
Total taxable debt securities	226,259	6,781	5,145	227,895
Tax-exempt debt securities:				
State and political subdivisions	38,547	1,423	86	39,884
Total tax-exempt debt securities	38,547	1,423	86	39,884
Equity securities	77	-	-	77
Total available for sale securities	$ 264,883	$ 8,204	$ 5,231	$ 267,856

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

	Available for Sale	
	Amortized	Estimated
Dollars in thousands	Cost	Fair Value
Due in one year or less	$ 73,784	$ 74,352
Due from one to five years	93,258	96,403
Due from five to ten years	22,653	22,766
Due after ten years	96,612	98,844
Equity securities	77	77
Total	$ 286,384	$ 292,442

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 nine months ended September 30, 2011 are as follows:

	Proceeds from	Gross realized

Dollars in thousands	Sales	Calls and Maturities	Principal Payments	Gains	Losses
Securities available for sale	$ 97,826	$ 6,985	$ 43,385	$ 3,805	$ 342

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

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

	Three Months Ended			Nine Months Ended		
In thousands	Residential MBS Nongovernment - Sponsored Entities	Equity Securities	Total	Residential MBS Nongovernment - Sponsored Entities	Equity Securities	Total
September 30, 2011						
Total other-than-temporary impairment losses	$(1,684)	$-	$(1,684)	$(4,815)	$-	$(4,815)
Portion of loss recognized in other comprehensive income	1,200	-	1,200	2,570	-	2,570
Net impairment losses recognized in earnings	$(484)	$-	$(484)	$(2,245)	$-	$(2,245)
September 30, 2010						
Total other-than-temporary impairment losses	$(184)	$-	$(184)	$(638)	$-	$(638)
Portion of loss recognized in other comprehensive income	75	-	75	500	-	500
Net impairment losses recognized in earnings	$(109)	$-	$(109)	$(138)	$-	$(138)

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 nine months ended September 30, 2011 is as follows:

	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
In thousands	Total	Total
Beginning Balance	$ (5,470)	$ (3,910)
Additions for the credit component on debt securities in which other-than-temporary impairment was not previously recognized	(484)	(2,245)
Securities sold during the period	-	201
Ending Balance	$ (5,954)	$ (5,954)

At September 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 model. 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. 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 September 30, 2011:

	Weighted Average	Range Minimum	Maximum
Constant voluntary prepayment rates	8.2 %	0.8 %	22.4 %
Constant default rates	5.5 %	3.7 %	10.0 %
Loss severities	47.9 %	40.0 %	57.0 %

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

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

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 September 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.

	September 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	$ -	$ -	$ 122	$ -	$ 122	$ -
Residential mortgage-backed securities:						
Government-sponsored agencies	34,336	(521)	-	-	34,336	(521)
Nongovernment-sponsored entities	6,217	(181)	4,805	(305)	11,022	(486)
State and political subdivisions	-	-	386	(5)	386	(5)
Corporate debt securities	-	-	847	(152)	847	(152)
Tax-exempt debt securities						
State and political subdivisions	12,342	(100)	1,230	(91)	13,572	(191)
Total temporarily impaired securities	52,895	(802)	7,390	(553)	60,285	(1,355)
Other-than-temporarily impaired securities						
Taxable debt securities						
Residential mortgage-backed securities:						
Nongovernment-sponsored entities	563	(427)	5,861	(825)	6,424	(1,252)
Total other-than-temporarily impaired securities	563	(427)	5,861	(825)	6,424	(1,252)
Total	$ 53,458	$ (1,229)	$ 13,251	$ (1,378)	$ 66,709	$ (2,607)

	December 31, 2010					
	Less than 12 months		12 months or more		Total	
	Estimated	Unrealized	Estimated	Unrealized	Estimated	Unrealized

Dollars in thousands	Fair Value	Loss	Fair Value	Loss	Fair Value	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)

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

We held 55 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 September 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 September 30, 2011, we had $1.7 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.

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, net of unearned fees, are summarized as follows:

21

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

Dollars in thousands	September 30, 2011	December 31, 2010	September 30, 2010
Commercial	$ 90,422	$ 97,059	$ 95,713
Commercial real estate			
Owner-occupied	171,192	187,098	193,109
Non-owner occupied	253,538	235,337	236,260
Construction and development			
Land and land development	94,023	99,085	112,185
Construction	9,445	13,691	10,201
Residential real estate			
Non-jumbo	224,499	239,290	243,987
Jumbo	62,255	61,340	64,264
Home equity	51,025	50,987	51,152
Consumer	22,988	24,145	24,945
Other	2,911	4,511	5,222
Total loans, net of unearned fees	982,298	1,012,543	1,037,038
Less allowance for loan losses	17,949	17,224	18,869
Loans, net	$ 964,349	$ 995,319	$ 1,018,169

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

	At September 30, 2011					
	Past Due					Recorded Investment > 90 days and
Dollars in thousands	30-59 days	60-89 days	> 90 days	Total	Current	Accruing
Commercial	$ 194	$ 178	$ 2,606	$ 2,978	$ 87,444	$ -
Commercial real estate						
Owner-occupied	510	-	1,403	1,913	169,279	-
Non-owner occupied	1,926	667	1,308	3,901	249,637	-

Construction and development						
Land and land development	814	438	4,635	5,887	88,136	-
Construction	-	-	152	152	9,293	-
Residential mortgage						
Non-jumbo	3,973	835	3,493	8,301	216,198	-
Jumbo	-	-	1,345	1,345	60,910	-
Home equity	28	132	120	280	50,745	-
Consumer	178	141	77	396	22,592	-
Other	-	-	-	-	2,911	-
Total	$ 7,623	$ 2,391	$ 15,139	$ 25,153	$ 957,145	$ -

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

At December 31, 2010

Dollars in thousands	Past Due 30-59 days	60-89 days	> 90 days	Total	Current	Recorded Investment > 90 days and Accruing
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

At September 30, 2010

Dollars in thousands	Past Due 30-59 days	60-89 days	> 90 days	Total	Current	Recorded Investment > 90 days and Accruing
Commercial	$ 589	$ 264	$ 587	$ 1,440	$ 94,273	$ 11
Commercial real estate						
Owner-occupied	423	209	2,455	3,087	190,022	-
	1,131	177	2,025	3,333	232,926	-

Non-owner occupied						
Construction and development						
Land and land development	197	1,423	8,541	10,161	102,024	-
Construction	93	-	572	665	9,535	-
Residential mortgage						
Non-jumbo	2,860	1,859	4,741	9,460	234,528	771
Jumbo	-	2,996	2,863	5,859	58,405	1,572
Home equity	-	20	91	111	51,042	45
Consumer	563	134	69	766	24,179	15
Other	-	-	-	-	5,222	-
Total	$5,856	$7,082	$21,944	$34,882	$1,002,156	$2,414

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

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

Dollars in thousands	September 30, 2011	December 31, 2010	September 30, 2010
Commercial	$ 3,473	$ 1,318	$ 880
Commercial real estate			
Owner-occupied	3,451	2,372	4,652
Non-owner occupied	4,948	314	2,025
Construction and development			
Land & land development	17,354	9,732	13,985
Construction	152	317	462
Residential mortgage			
Non-jumbo	3,949	4,918	4,820
Jumbo	2,273	1,106	-
Home equity	595	51	45
Consumer	87	141	29
Other	-	-	-
Total	$ 36,282	$ 20,269	$ 26,898

The increase in nonaccrual loans in 2011 includes a single residential construction and development loan totaling $8.3 million.

Impaired loans: Impaired loans include the following:

§ 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.

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

Method Used to Measure Impairment of Impaired Loans
Dollars in thousands

Loan Category	September 30, 2011	December 31, 2010	September 30, 2010	Method used to measure impairment
Commercial	$ 3,043	$ 630	$ 1,306	Fair value of collateral
Commerical real estate				
Owner-occupied	10,613	8,866	11,296	Fair value of collateral
	2,591	2,623	-	Discounted cash flow
Non-owner occupied	11,397	4,922	4,858	Fair value of collateral
	1,791	530	-	Discounted cash flow
Construction and development				
Land & land development	26,360	16,515	15,014	Fair value of collateral
	1,525	-	-	Discounted cash flow
Construction	-	-	-	Fair value of collateral
Residential mortgage				
Non-jumbo	5,157	4,533	4,043	Fair value of collateral
	1,179	753	272	Discounted cash flow
Jumbo	14,894	17,296	18,717	Fair value of collateral
Home equity	409	213	48	Fair value of collateral
Consumer	-	-	-	Fair value of collateral
Total	$ 78,959	$ 56,881	$ 55,554	

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

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

	September 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	$ 2,739	$ 2,741	$ -	$ 1,060	$ 12
Commercial real estate					