

SUMMIT FINANCIAL GROUP INC
Form DEF 14A
April 11, 2008

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934

Filed by the Registrant
Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Section 240.14a-11c or Section 240.14a-12

Summit Financial Group, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

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4) Proposed maximum aggregate value of transaction:

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

P. O. Box 179
300 N. Main Street
Moorefield, West Virginia 26836

April 11, 2008

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders of Summit Financial Group, Inc. (the "Company"), a West Virginia corporation, which will be held on Thursday, May 15 2008, at 1:00 p.m., EDT, at the Company's Corporate Office, 300 N. Main Street, Moorefield, West Virginia.

It is important that your shares be represented at the Meeting. Whether or not you plan to attend the Meeting, you are requested to complete, date, sign and return the enclosed proxy in the enclosed envelope for which postage has been paid. If you have any questions regarding the information in the attached proxy materials, please do not hesitate to call Teresa Sherman, Director of Shareholder Relations, (304) 530-1000.

You will be asked at the Meeting to elect five (5) directors to serve until 2011, and to ratify the selection of Arnett & Foster, PLLC as the Company's independent registered public accounting firm for the year ending December 31, 2008.

You are urged to read the accompanying Proxy Statement carefully, as it contains detailed information regarding the nominees for directors of the Company and the independent registered public accounting firm of the Company.

Very truly yours,

Oscar M. Bean
Chairman of the Board

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TIME 1:00 p.m., EDT, on May 15, 2008
.....

PLACE Summit Financial Group, Inc.
Corporate Office
300 N. Main Street
Moorefield, West Virginia 26836

ITEMS OF BUSINESS (1) To elect five (5) directors to serve until
..... 2011;

(2) To ratify the selection of Arnett &
Foster, PLLC as the Company's
independent
registered public accounting firm for
the year ending December 31, 2008; and

(3) To transact such other business as may
properly come before the Meeting. The
Board of Directors at present knows of
no other business to come before the
Annual Meeting.

RECORD DATE Only those shareholders of record at the
..... close of business on April 4, 2008 shall be
entitled to notice and to vote at the
Meeting.

ANNUAL REPORT Our 2007 Annual Report, which is not a
part of the proxy materials, is enclosed.

PROXY VOTING It is important that your shares be
..... represented and voted at the
Meeting. Please MARK, SIGN, DATE
and PROMPTLY RETURN the enclosed
proxy card in the postage-paid
envelope. Any proxy may be revoked
prior to its exercise at the Meeting.

April 11, 2008

Oscar M. Bean
Chairman of the Board

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PROXY STATEMENT

These proxy materials are delivered in connection with the solicitation by the Board of Directors of Summit Financial Group, Inc. (“Summit,” the “Company,” “we,” or “us”), a West Virginia corporation, of proxies to be voted at our 2008 Annual Meeting of Shareholders and at any adjournment or postponement.

You are invited to attend our Annual Meeting of Shareholders on May 15, 2008, beginning at 1:00 p.m. The meeting will be held at Summit’s Corporate Office, 300 N. Main Street, Moorefield, West Virginia.

This Proxy Statement, form of proxy and voting instructions are being mailed starting on or about April 11, 2008.

Principal Executive Office of the Company

The principal executive office of the Company is 300 North Main Street, Moorefield, West Virginia 26836.

Shareholders Entitled to Vote

Holders of record of Summit common shares at the close of business on April 4, 2008, are entitled to receive this notice and to vote their shares at the Annual Meeting. As of that date, there were 7,408,941 common shares outstanding. Each common share is entitled to one vote on each matter properly brought before the Annual Meeting.

Multiple Shareholders Sharing the Same Address

Owners of common stock in street name may receive a notice from their broker or bank stating that only one proxy statement will be delivered to multiple security holders sharing an address. This practice, known as “householding,” is designed to reduce printing and postage costs. However, if any shareholder residing at such an address wishes to receive a separate proxy statement, he or she may contact Teresa Sherman, Director of Shareholder Relations, Summit Financial Group, Inc., P. O. Box 179, Moorefield, West Virginia 26836, or by telephone at (304) 530-1000, or by e-mail at tsherman@summitfgi.com.

Proxies

Your vote is important. Shareholders of record may vote their proxies by mail. If you choose to vote by mail, a postage-paid envelope is provided.

Proxies may be revoked at any time before they are exercised by (1) written notice to the Secretary of the Company, (2) timely delivery of a valid, later-dated proxy or (3) voting at the Annual Meeting.

You may save us the expense of a second mailing by voting promptly. Choose one of the following voting methods to cast your vote.

Vote By Mail

If you choose to vote by mail, simply mark your proxy, date and sign it, and return it in the postage-paid envelope provided.

Voting at the Annual Meeting

The method by which you vote now will in no way limit your right to vote at the Annual Meeting if you later decide to attend in person. If your shares are held in the name of a bank, broker or other holder of record, you must obtain a proxy, executed in your favor, from the holder of record to be able to vote at the Meeting.

All shares that have been properly voted and not revoked will be voted at the Annual Meeting in accordance with your instructions. If you sign your proxy card but do not give voting instructions, the shares represented by that proxy will be voted as recommended by the Board of Directors.

Voting on Other Matters

If any other matters are properly presented at the Annual Meeting for consideration, the persons named in the enclosed form of proxy will have the discretion to vote on those matters for you. As of the date this proxy statement went to press, we did not know of any other matter to be raised at the Annual Meeting.

Required Vote

The presence, in person or by proxy, of the holders of a majority of the votes entitled to be cast by the shareholders entitled to vote at the Annual Meeting is necessary to constitute a quorum. Abstentions and broker "non-votes" are counted as present and entitled to vote for purposes of determining a quorum. A broker "non-vote" occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner.

On the record date, there were 7,408,941 shares of common stock outstanding which are held by approximately 1,302 shareholders of record. A majority of the outstanding shares of Summit Financial Group, Inc. will constitute a quorum at the meeting.

A plurality of the votes cast is required for the election of directors. Abstentions and broker "non-votes" will be disregarded and will have no effect on the outcome of the vote for the election of directors.

In the election of directors, shareholders cast one (1) vote for each nominee for each share held. However, every shareholder has the right of cumulative voting, in person or by proxy, in the election of directors. Cumulative voting gives each shareholder the right to aggregate all votes which he or she is entitled to cast in the election of directors and to cast all such votes for one candidate or distribute them among as many candidates and in such a manner as the shareholder desires.

At our 2008 Annual Meeting, the total number of directors to be elected is five (5) in the class expiring in 2011. Each shareholder has the right to cast five (5) votes for each share of stock held on the record date.

If you wish to exercise, by proxy, your right to cumulative voting in the election of directors, you must provide a proxy showing how your votes are to be distributed among one or more candidates. Unless

contrary instructions are given by a shareholder who signs and returns a proxy, all votes for the election of directors represented by such proxy will be divided equally among the nominees for each class. If cumulative voting is invoked by any shareholder, the vote represented by the proxies delivered pursuant to this solicitation, which do not contain contrary instructions, may be cumulated at the discretion of the Board of Directors of Summit Financial Group, Inc. in order to elect to the Board of Directors the maximum nominees named in this proxy statement.

For purposes of approving Arnett & Foster, PLLC as the Company's independent registered public accounting firm for the year ending December 31, 2008, abstentions and broker "non-votes" will be disregarded and will have no effect on the outcome of the vote for the approval of Arnett & Foster, PLLC.

Cost of Proxy Solicitation

We will pay the expenses of soliciting proxies. Proxies may be solicited on our behalf by Directors, officers or employees in person or by telephone, electronic transmission, or by facsimile transmission. Brokers, fiduciaries, custodians and other nominees have been requested to forward solicitation materials to the beneficial owners of the Company's common stock. Upon request we will reimburse these entities for their reasonable expenses.

Shareholder Account Maintenance

Registrar and Transfer Company is our transfer agent. All communications concerning accounts of shareholders of record, including address changes, name changes, inquiries as to requirements to transfer common shares and similar issues can be handled by contacting:

Registrar and Transfer Company
10 Commerce Drive
Cranford, New Jersey 07016-3572
www.rtco.com
(800) 368-5948

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our Directors, officers, and shareholders owning 10% or more of the common stock of the Company to file reports of holdings and transactions in Summit shares with the SEC. Based on our records and other information, in 2007, all directors, officers, and shareholders owning 10% or more of the common stock of the Company met all applicable SEC filing requirements under Section 16(a), except James M. Cookman had 4 late report(s) relating to 5 transactions.

GOVERNANCE OF THE COMPANY

Board and Committee Membership

During 2007, the Board of Directors met four (4) times. All of our Directors attended 75% or more of the meetings of the Board and the meetings held by committees of the Board on which the directors served in 2007.

The Company has a standing Executive Committee, Audit and Compliance Committee, and a Compensation and Nominating Committee.

Executive Committee

The Executive Committee, on an as needed basis, approves loans above specified limits and performs such duties and exercises such powers as delegated to it by the Company's Board of Directors. The members of the Company's Executive Committee are Oscar M. Bean, Chairman, H. Charles Maddy, III, John W. Crites, Charles S. Piccirillo, Ronald F. Miller, Duke A. McDaniel, Patrick N. Frye, G. R. Ours, Jr., and Gary L. Hinkle. C. David Robertson is a non-voting member of the Executive Committee. The Executive Committee met ten (10) times in 2007. Phoebe F. Heishman, Thomas J. Hawse, III, and Gerald W. Huffman served as alternates.

Audit and Compliance Committee

The Audit and Compliance Committee's primary function is to assist the Board of Directors in fulfilling its oversight responsibilities to ensure the quality and integrity of Summit's financial reports. This entails:

- Serving as an independent and objective party to monitor the Company's financial reporting process and internal control system.
- Providing direction to and oversight of the Company's internal audit function.
- Reviewing and appraising the efforts of the Company's independent auditors.
- Maintaining a free and open means of communication between directors, internal audit staff, independent auditors, and management.

The Audit and Compliance Committee has adopted a written charter, a copy of which is available on the Company's web site @ www.summitfgi.com.

Current members of this committee are Thomas J. Hawse, III, Chairman, John W. Crites, Gary L. Hinkle, Gerald W. Huffman, Charles S. Piccirillo, and James P. Geary, II. The Audit and Compliance Committee charter requires that the committee be comprised of five (5) or more directors. The Audit and Compliance Committee met six (6) times in 2007.

Pursuant to the provisions of the Sarbanes-Oxley Act, which was enacted in 2002, the SEC adopted rules requiring companies to disclose whether or not at least one member of the Audit and Compliance Committee is an “audit committee financial expert” as defined in such rules.

Under the SEC rules, an “audit committee financial expert” has the following attributes:

- An understanding of generally accepted accounting principles and financial statements.
- An ability to assess the general application of accounting principles generally accepted in the United States of America in connection with the accounting for estimates, accruals and reserves.
- Experience preparing, auditing, analyzing, or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can be expected to be raised by the Company’s financial statements, or experience actively supervising one or more persons engaged in such activities.
- An understanding of internal controls and procedures for financial reporting; and
- An understanding of audit committee functions.

A person must possess all of the above attributes to qualify as an audit committee financial expert.

The Board of Directors has determined that John W. Crites and Thomas J. Hawse, III of the Audit and Compliance Committee possess all of the above five attributes so as to be deemed “audit committee financial experts” under the SEC rules.

Also, John W. Crites and Thomas J. Hawse, III each qualify as a “financial expert” under the NASDAQ Marketplace Rules, which standards are different from the SEC rules. Under the NASDAQ Marketplace Rules, a “financial expert” must have past employment experience in finance or accounting, requisite professional certification in accounting or other comparable experience or background which results in the individual’s financial sophistication, including being a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. Mr. Crites and Mr. Hawse have the necessary experience to qualify them as “financial experts” under the NASDAQ Marketplace Rules.

For information concerning the audit fees paid by the Company in 2007 and for information about the Company’s independent auditors generally, see the Audit and Compliance Committee Report on page 16 of these Annual Meeting materials.

Compensation and Nominating Committee

The Compensation and Nominating Committee consists of a minimum of 4 independent, outside directors. The members of the Compensation and Nominating Committee during 2007 were Oscar M. Bean, Chairman, Dewey Bensenhaver, John W. Crites, Thomas J. Hawse, III, Phoebe F. Heishman, Gary L. Hinkle, and Charles S. Piccirillo.

The Compensation and Nominating Committee has adopted a written charter, a copy of which is available on the Company’s website at www.summitfgi.com.

The Committee meets at scheduled times during the year as required, generally one to two times. The Committee reports on Committee actions at Board meetings. The Committee has the authority to

retain outside counsel and any other advisors as the Company may deem appropriate in its sole discretion. The Compensation and Nominating Committee met one (1) time in 2007.

Policies and Procedures Relating to the Nomination of Directors

One purpose of the Committee is to assist the Board in (i) identifying qualified individuals to become board members, (ii) determining the composition of the board of directors and its committees, (iii) monitoring a process to assess board effectiveness, and (iv) developing and implementing the Company's corporate governance guidelines.

In determining nominees for the Board of Directors, the Compensation and Nominating Committee selects individuals who have the highest personal and professional integrity and who have demonstrated exceptional ability and judgment. The Committee also selects individuals who are most effective, in conjunction with the other nominees to the Board, in collectively serving the long-term interests of the shareholders. In identifying first-time nominees for director, or evaluating individuals recommended by shareholders, the Compensation and Nominating Committee determines, in its sole discretion, whether an individual meets the minimum qualifications approved by the Board of Directors and may consider the current composition of the Board of Directors in light of the diverse communities served by the Company and the interplay of the candidate's experience with the experience of other Board members.

The Compensation and Nominating Committee does not have a specific policy with regard to the consideration of persons nominated for Directors by shareholders. The Articles of Incorporation of the Company describe the procedures that a shareholder must follow to nominate persons for election as Directors. For more information regarding these procedures, see Requirements, Including Deadline for Submission of Proxy Proposals, Nomination of Directors and Other Business of Shareholders on page 46 of these Annual Meeting materials. The Compensation and Nominating Committee will consider nominees for Director recommended by shareholders provided the procedures set forth in the Articles of Incorporation of the Company are followed by shareholders in submitting recommendations. The Committee does not intend to alter the manner in which it evaluates nominees, including the minimum criteria set forth above, based on whether the candidate was recommended by a shareholder or not.

With regard to the Compensation and Nominating Committee's specific nominating responsibilities, see a copy of its current charter on the Company's website at www.summitfgi.com.

Processes and Procedures Relating to Executive Compensation

Another purpose of the Compensation and Nominating Committee is to review, approve and report to the Board of Directors the compensation of all executive officers of the Company who are subject to the requirements of Section 16 of the Securities Exchange Act of 1934 (the "Executive Officers"), including salaries and bonuses, and to approve and report to the Board of Directors all grants of stock options. The Compensation and Nominating Committee also reviews and approves the Board Attendance and Compensation Policy which includes the compensation paid to the Board of Directors. The Committee's primary processes and procedures for carrying out these purposes include:

- Scope of Authority. The Committee has the following duties and responsibilities:
- Annually review and approve corporate goals and objectives relevant to compensation of the Chief Executive Officer (the "CEO") established by the Board of Directors, evaluate the CEO's performance in light of these goals and objectives, and review, approve and report to the Board of

Directors all compensation arrangements, including base salary, incentive compensation and long-term compensation for the CEO.

- Annually review, approve and report to the Board of Directors all compensation arrangements, including base salary, incentive compensation and long-term compensation, for all other Executive Officers.
- Review, approve and report to the Board of Directors compensation packages for new Executive Officers and termination packages for Executive Officers.
- Review and make recommendations to the Board of Directors for ratification decisions relating to long-term incentive compensation plans, including the use of equity-based plans. Except as otherwise delegated by the Board of Directors, the committee will act on behalf of the Board of Directors as the “committee” established to administer equity-based and employee benefit plans, and as such, will discharge any responsibilities imposed on the committee under those plans, including making and authorizing grants in accordance with the terms of those plans. All such grants must be ratified by the Board of Directors.
- Make recommendations to the Board of Directors with respect to matters relating to incentive compensation and equity-based plans which are appropriate for action by the Board of Directors under applicable NASDAQ and SEC rules.
- Produce an annual report of the committee on executive compensation for the Company’s annual proxy statement in compliance with applicable NASDAQ and SEC rules.
- Delegation of Authority. The Committee has the authority to delegate any of its responsibilities to subcommittees as the committee may deem appropriate.
- Role of Executive Officers. The Chief Executive Officer provides the Committee with a verbal performance assessment and compensation recommendation for each of the other Executive Officers. In addition to the following items, these performance assessments and recommendations are considered by the Committee in reviewing, approving and reporting to the Board the compensation arrangements of each Executive Officer other than the CEO: (i) an assessment of the Company’s performance, (ii) the perquisites provided to the Executive Officers; (iii) the salaries paid by a peer group to executive officers holding equivalent positions, (iv) tally sheets showing the aggregate amount of all components of compensation paid to the Executive Officers, and (v) the complexity of the job duties of each Executive Officer.
- Role of Independent Consultant. The Committee has the authority to retain any advisors as the Committee deems appropriate in carrying out its duties. The Committee has not retained the services of an independent consultant in reviewing and approving the form and amount of executive and director compensation.

For more information regarding the Committee’s philosophy and evaluation of executive performance, see the Compensation Discussion and Analysis beginning on page 18 of these Annual Meeting materials.

Independence of Directors and Nominees

The Board of Directors annually reviews the relationships of each member of the Board with the Company to determine whether each director is independent. This determination is based on both subjective and objective criteria developed by the NASDAQ listing standards and the SEC rules.

The Board of Directors met on February 14, 2008, to determine the independence of the current members of the Board of Directors and the nominees for election as a director of the Company. At the meeting, the Board of Directors reviewed the directors' responses to a questionnaire asking about their relationships with the Company (and those of their immediate family members) and other potential conflicts of interest, as well as information provided by management related to transactions, relationships, or arrangements between the Company and the directors or parties related to the directors.

Based on the subjective and objective criteria developed by the NASDAQ listing standards and the SEC rules, the Board of Directors determined that the following nominees and current members of the Board of Directors are independent: Frank A. Baer, III, Oscar M. Bean, Dewey F. Bensenhaver, James M. Cookman, John W. Crites, James P. Geary, II, Thomas J. Hawse, III, Phoebe F. Heishman, Gary L. Hinkle, Gerald W. Huffman, Duke A. McDaniel, G. R. Ours, Jr. and Charles S. Piccirillo.

H. Charles Maddy, III, Patrick N. Frye and Ronald F. Miller are not independent because these individuals are executive officers of the Company.

The NASDAQ listing standards contain additional requirements for members of the Compensation and Nominating Committee and the Audit and Compliance Committee. All of the directors serving on each of these committees is independent under the additional requirements applicable to such committees.

The Board also considered the following relationships in evaluating the independence of the Company's independent directors and determined that none of the relationships constitute a material relationship with the Company and each of the relationships satisfied the standards for independence:

- Summit Community Bank, Inc., a subsidiary of the Company, provided lending and/or other financial services to each member of the Company's Board of Directors, their immediate family members, and/or their affiliated organizations during 2007 in the ordinary course of business and on substantially the same terms as those available to unrelated parties;
- Frank A. Baer, III is affiliated with an entity that received commissions on the placement of property and casualty insurance by the Company;
- Oscar M. Bean, James P. Geary, II, and Charles S. Piccirillo are partners of law firms that received payments for legal services provided to the Company or its subsidiaries during 2007;
- Oscar M. Bean is a member of the Board of Directors of an organization that conducts business with a subsidiary of the Company and is the campaign chair of a non-profit entity that received a donation from the Company;
- A subsidiary of the Company purchases grocery items from a supermarket owned by Thomas J. Hawse, III; and
- The Company and its subsidiary advertise in a weekly newspaper owned by Phoebe F. Heishman.

Review and Approval of and Description of Transactions with Related Persons

Policies and Procedures

The Company has a written policy and procedure for review, approval and monitoring of transactions involving the Company and “related persons” (directors, nominees for director, and executive officers or their immediate families, or shareholders owning five percent or greater of the Company’s outstanding stock). The policy covers any related person transaction that meets the minimum threshold for disclosure in the proxy statement under the relevant SEC rules (generally, transactions involving amounts exceeding \$120,000 in which a related person has a direct or indirect material interest).

Related party transactions must be approved by the Board of Directors. At each calendar year’s first regularly scheduled meeting of the Board of Directors, management recommends Related Person Transactions to be entered into by the Company for that calendar year, including the proposed aggregate value of such transactions if applicable. After review, the Board of Directors approves or disapproves such transactions. The Board of Directors will review any new transactions at each subsequently scheduled meeting. Management will update the Board of Directors as to any material change to proposed transactions.

The Board of Directors will consider all of the relevant facts and circumstances available, including (if applicable) but not limited to: the benefits to the Company; the impact on a director’s independence in the event the Related Person is a director, an immediate family member of a director or an entity in which a director is a partner, shareholder or executive officer; the availability of other sources for comparable products or services; the terms of the transaction; and the terms available to unrelated third parties or to employees generally. No member of the Board of Directors will participate in any review, consideration or approval of any Related Person Transaction with respect to which such member or any of his or her immediate family members is the Related Person. The Board of Directors will approve only those Related Person Transactions that are in, or are not inconsistent with, the best interests of the Company and its shareholders, as the Board of Directors determines in good faith.

In the event management recommends any further Related Person Transactions subsequent to the first calendar year meeting, such transactions may be presented to the Board of Directors for approval or preliminarily entered into by management subject to ratification by the Board of Directors, provided that if ratification shall not be forthcoming, management will make all reasonable efforts to cancel or annul such transaction.

The policy was adopted by the Executive Committee of the Board of Directors in March, 2007. The Board of Directors met on February 14, 2008 and reviewed all transactions with related parties since January 1, 2007, to determine if such transactions were required to be reported in this Proxy Statement. The Board of Directors determined that no transaction met the minimum threshold for disclosure in this Proxy Statement under the relevant SEC rules and no transaction was required to be approved by the Board of Directors.

Transactions with Related Persons

Directors and executive officers of the Company and its subsidiaries, members of their immediate families, and business organizations and individuals associated with them have been customers of, and have had normal banking transactions with Summit Community Bank. All such transactions were made in the ordinary course of business, were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectibility or present other unfavorable features. Loans made to

directors and executive officers are in compliance with federal banking regulations and are thereby exempt from insider loan prohibitions included in the Sarbanes-Oxley Act of 2002.

Except for the transactions described in the above paragraph, the Company has not entered into any transactions with related persons since January 1, 2007, nor has the Company entered into a current transaction, in which the amount of the transaction exceeds \$120,000 and in which a related person had or will have a direct or indirect material interest.

Shareholder Communication with Directors

The Board of Directors of the Company provides a process for shareholders to send communications to the Board of Directors or to any of the individual Directors. Shareholders may send written communications to the Board of Directors or to any of the individual Directors c/o Secretary, Summit Financial Group, Inc., P. O. Box 179, 300 N. Main Street, Moorefield, West Virginia 26836. All communications will be compiled by the Secretary of the Company and submitted to the Board of Directors or to the individual Directors on a periodic basis.

Board Member Attendance at Annual Meeting

The Company does not have a policy with regard to directors' attendance at annual meetings. Thirteen (13) of sixteen (16) members of the Board of Directors in 2007 attended the 2007 Annual Meeting of Shareholders.

Corporate Policies

The Company operates within a comprehensive plan of corporate governance for the purpose of defining responsibilities, setting high standards of professional and personal conduct and assuring compliance with such responsibilities and standards. The Sarbanes-Oxley Act of 2002, among other things, establishes a number of new corporate governance standards and disclosure requirements. In addition, the Company is subject to the corporate governance and Marketplace Rules promulgated by NASDAQ. In light of the requirements of the Sarbanes-Oxley Act of 2002 and the NASDAQ corporate governance and Marketplace Rules, Summit has a Compensation and Nominating Committee Charter and a Code of Ethics that applies to all directors, executive officers and employees of Summit Financial Group, Inc. and its subsidiaries. The Code of Ethics also contains supplemental provisions that apply to the Company's Chief Executive Officer, the Chief Financial Officer, and the Chief Accounting Officer (the "Senior Financial Officers"). In addition, the Code of Ethics contains procedures for reporting violations of the Code of Ethics involving the Company's financial statements and disclosures, accounting practices, internal control over financial reporting, disclosure controls and auditing matters. A copy of the Code of Ethics is available on the Company's website at www.summitfgi.com.

ITEM 1 – ELECTION OF DIRECTORS

The Board of Directors is divided into three classes. The terms of the Directors in each class expire at successive annual meetings. Five (5) Directors will be elected at our 2008 Annual Meeting to serve for a three-year term expiring at our Annual Meeting in the year 2011. If the proposed nominees are elected, the Company will have a Board of Directors consisting of one class of six (6) directors and two classes of five (5) directors each.

The persons named in the enclosed proxy intend to vote the proxy for the election of each of the six nominees, unless you indicate on the proxy card that your vote should be withheld from any or all of such nominees. Each nominee elected as a Director will continue in office until his or her successor has been elected, or until his or her death, resignation or retirement.

The Board of Directors has proposed the following nominees for election as Directors, with terms expiring in 2011, at the Annual Meeting: Frank A. Baer, III, Patrick N. Frye, Duke A. McDaniel, Ronald F. Miller, and G. R. Ours, Jr. All of the nominees were recommended by the Compensation and Nominating Committee and approved by the Board of Directors of the Company. All of the nominees are directors standing for re-election.

The Board of Directors recommends a vote FOR the election of these nominees for election as Directors.

We expect each nominee for election as a Director to be able to serve if elected. To the extent permitted by applicable law, if any nominee is not able to serve, proxies will be voted in favor of the remainder of those nominated and may be voted for substitute nominees, unless the Board chooses to reduce the number of Directors serving on the Board. The principal occupation and certain other information about the nominees and other Directors whose terms of office continue after the Annual Meeting are set forth on the following pages.

Security Ownership of Directors and Officers

As of March 10, 2008, the nominees and other Directors of the Company owned beneficially, directly or indirectly, the number of shares of common stock indicated on the following pages. The number of shares shown as beneficially owned by each director and executive officer is determined under the rules of the Securities and Exchange Commission and the information is not necessarily indicative of beneficial ownership for any other purposes.

All Directors and executive officers as a group owned 1,855,381 shares or 24.07% of the Company's common stock as of March 10, 2008. Each director of the Company is required to own a minimum of 2,000 shares of the Company's common stock. Ownership is defined as shares held solely in the director's name, shares held through the Company's employee stock ownership plan, a profit-sharing plan, individual retirement account, retirement plan or similar arrangement, and shares owned by a company where the director owns a controlling interest. Shares held jointly by a director and the director's spouse are counted when determining whether a director owns 2,000 shares of the Company's common stock as long as the director owns stock in his or her own name with a minimum value of at least \$500, which is the minimum imposed by West Virginia law. Directors who are also employees of the Company or its subsidiaries are exempt from this requirement.

The Company requires that all directors retire at the end of the term during which the director attains the age of 70. However, pursuant to the Merger Agreement with Potomac Valley Bank, the Company agreed that Messrs. McDaniel and Ours, Jr. would be exempt from the Company's mandatory retirement requirement. These individuals must retire at the end of the term during which they attain the age of 80.

Family Relationships

Dewey S. Bensenhaver is married to G. R. Ours, Jr.'s niece.

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as of the 2008 Date	Name and Age May 15, Meeting	Principal Occupation and Directorships	Position, Business Experience	Amount of Beneficial Ownership of Shares of Common Stock as of March 10, 2008
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NOMINEES FOR DIRECTORS WHOSE TERMS EXPIRE IN 2011

			Shares	%
Frank A. Baer, III	47	Director of Summit Financial Group since 1998. CEO of Commercial Insurance Services, an insurance brokerage firm. Vice President of M & B Properties, a real estate holding company.	25,519(1)	*
Patrick N. Frye	49	Director of Summit Financial Group since 2000. Senior Vice President and Chief Credit Officer of Summit Financial Group, since December, 2003. President and CEO of Summit Community Bank, a subsidiary of the Company, from 1998 to 2004.	39,327(2)	*
Duke A. McDaniel	69	Director of Summit Financial Group since 2000. Attorney at Law.	39,524(3)	*
Ronald F. Miller	64	Director of Summit Financial Group since 1998. President and CEO of Summit Community Bank, a subsidiary of the Company, since 1998.	47,362(4)	*
G. R. Ours, Jr.....	76	Director of Summit Financial Group and Vice Chairman of the Board since 2000. Retired President of Petersburg Oil Co. Director of Summit Community Bank since 1974 and Chairman of the Board from 1995 to 2002.	231,000(5)	3.02%

- (1) Includes 592 shares owned by minor children.
- (2) Includes 4,135 fully vested shares held in Company's ESOP and exercisable stock options for 27,200 shares.
- (3) Includes 28,404 shares that are pledged as collateral.
- (4) Includes 5,692 fully vested shares held in Company's ESOP and exercisable stock options for 33,200 shares.
- (5) Includes 21,000 shares owned by spouse and 80,000 shares owned by children for whom director has continuous voting authority until rescinded.

* Indicates director owns less than 1% of the Company's Common Stock.

the	Name and Age as of May 15, 2008 Meeting Date	Occupation Directorships	Position, Principal Business Experience and	Amount of Beneficial Ownership of Shares of Common Stock as of March 10, 2008
DIRECTORS WHOSE TERMS EXPIRE IN 2010				
			Shares	%
Oscar M. Bean	61	Director of Summit Financial Group since 1987, Chairman of the Board since 1995. Managing partner of Bean & Bean, Attorneys at Law; Foundation Board Member of Eastern West Virginia Community & Technical College since September, 2004.	71,030(1)	*
Dewey F. Bensenhaver	61	Director of Summit Financial Group since 2000. Physician in private practice; Owner of farming operation.	49,040(2)	*
John W. Crites	67	Director of Summit Financial Group since 1989. Chairman of Allegheny Wood Products, Inc.; partner in Allegheny Dimension, LLC and principal stockholder of KJV Aviation, Inc.	548,316	7.17%
James P. Geary, II.....	62	Partner of the law firm of Geary & Geary.	12,428(3)	*
Phoebe F. Heishman	67	Director of Summit Financial Group since 1987, Secretary since 1995. Publisher and Editor of The Moorefield Examiner.	93,520(4)	1.22%
Charles S. Piccirillo	53	Director of Summit Financial Group since 1998. Member in the law firm of Shaffer & Shaffer, PLLC; Partner, Lawoff Associates; President, Auggus Enterprises, Inc.	21,909(5)	*

(1) Includes 4,840 shares owned by spouse, 2,288 shares owned by children.

(2) Includes 4,769 shares owned by spouse, 13,544 shares owned by minor children, and 1,876 shares owned as a custodian for minor children; 3,804 shares are pledged as collateral.

(3) Includes 136 shares owned as custodian for minor child.

(4)

Includes 1,760 shares owned by spouse and 20,135 shares owned by children for whom she has a power of attorney; 13,920 shares are pledged as collateral.

(5) Includes 400 shares owned by spouse.

* Indicates director owns less than 1% of the Company's Common Stock.

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