M&T BANK CORP
Form DEF 14A
March 06, 2008

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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 (Amendment No.)

Filed by the Registrant o
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

M&T BANK CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ 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:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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M&T BANK CORPORATION
One M&T Plaza
Buffalo, New York 14203
Notice of 2008 Annual Meeting of Stockholders
and
Proxy Statement

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M&T BANK CORPORATION
One M&T Plaza
Buffalo, New York 14203

March 6, 2008

Dear Stockholder,

You are cordially invited to attend the 2008 Annual Meeting of Stockholders of M&T Bank Corporation. Our annual meeting will be held on the 10th floor of One M&T Plaza in Buffalo, New York on Tuesday, April 15, 2008 at 11:00 a.m.

Stockholders will be asked to elect 20 directors and to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the year ending December 31, 2008. Information about the nominees for director and PricewaterhouseCoopers LLP can be found in the attached Proxy Statement.

Whether or not you presently plan to attend the meeting, please indicate your vote by using the enclosed proxy card or by voting by telephone or the Internet. You may withdraw your proxy if you attend the meeting and wish to vote in person.

We urge you to vote for the election of all 20 nominees and to ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm of M&T Bank Corporation.

ROBERT G. WILMERS
Chairman of the Board and
Chief Executive Officer

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IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON APRIL 15, 2008

The Proxy Statement and 2007 Annual Report of M&T Bank Corporation are available at http://ir.mandtbank.com/proxy.cfm.

YOUR VOTE IS IMPORTANT

It is important that your shares be represented and voted at the Annual Meeting of Stockholders. Stockholders whose shares are held in registered form have a choice of using a traditional proxy card or voting by telephone or the Internet, as described on your proxy card. Stockholders or other beneficial owners of shares whose shares are held in the name of a broker, bank or other holder of record must vote using the form of proxy sent by the nominee. Check your proxy card or the information forwarded by your broker, bank or other holder of record to see which options are available to you. Any stockholder present at the meeting may withdraw his or her proxy and vote personally on any matter properly brought before the meeting.

DISCONTINUE DUPLICATE MAILINGS

M&T Bank Corporation currently provides annual reports to stockholders who receive proxy statements. If you are a stockholder of record and have more than one account in your name or at the same address as other stockholders of record, you may authorize M&T Bank Corporation to discontinue mailings of multiple annual reports and proxy statements. To discontinue duplicate mailings, please either mail your request to M&T Bank Corporation, Attention: Shareholder Relations, One M&T Plaza, Buffalo, New York 14203, or send your request to Shareholder Relations via electronic mail at *ir@mtb.com*.

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M&T BANK CORPORATION
One M&T Plaza
Buffalo, New York 14203

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TIME	11:00 a.m., local time, on Tuesday, April 15, 2008.
PLACE	One M&T Plaza 10th Floor Buffalo, New York 14203
ITEMS OF BUSINESS	(1) To elect 20 directors for a term of one (1) year and until their successors have been elected and qualified. (2) To ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm of M&T Bank Corporation for the year ending December 31, 2008. (3) To transact such other business as may properly come before the meeting and any adjournments thereof.
RECORD DATE	Holders of the Common Stock of record at 5:00 p.m., Eastern Standard Time, on February 29, 2008 are entitled to vote at the meeting.
VOTING	It is important that your shares be represented and voted at the meeting. You can vote your shares by proxy by using one of the following methods: mark, sign, date and promptly return the enclosed proxy card in the postage-paid envelope furnished for that purpose, **or** vote by telephone or the Internet using the instructions on the enclosed proxy card. Any proxy may be revoked in the manner described in the accompanying Proxy Statement at any time prior to its exercise at the Annual Meeting of Stockholders. Any stockholder present at the meeting may withdraw his or her proxy and vote personally on any matter properly brought before the meeting.

March 6, 2008

MARIE KING
Corporate Secretary

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M&T BANK CORPORATION
PROXY STATEMENT

INTRODUCTION

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of M&T Bank Corporation of proxies in the accompanying form for use at the 2008 Annual Meeting of Stockholders or any adjournment or adjournments thereof.

The Annual Meeting of Stockholders of M&T Bank Corporation will be held on the 10th floor of One M&T Plaza in Buffalo, New York on Tuesday, April 15, 2008, at 11:00 a.m., local time. M&T Bank Corporation s mailing address is One M&T Plaza, Buffalo, New York 14203, and its telephone number is (716) 842-5138.

This Proxy Statement and the accompanying form of proxy are first being sent to stockholders of record on or about March 6, 2008. A copy of M&T Bank Corporation s Annual Report for 2007, including financial statements, has either previously been delivered or accompanies this Proxy Statement, but is not part of the proxy solicitation materials.

VOTING RIGHTS

Stockholders of record at 5:00 p.m., Eastern Standard Time, on February 29, 2008 are entitled to vote at the Annual Meeting. At that time, M&T Bank Corporation had outstanding 110,087,256 shares of common stock, $0.50 par value per share (Common Stock). Each share of Common Stock is entitled to one vote. Shares may not be voted at the meeting unless the owner is present or represented by proxy. A stockholder can be represented through the return of a physical proxy or by utilizing the telephone or Internet voting procedures. The telephone and Internet voting procedures are designed to authenticate stockholders by use of a control number and allow stockholders to confirm that their instructions have been properly recorded. The method by which you vote will in no way limit your right to vote at the Annual Meeting if you later decide to attend in person. A stockholder giving a proxy may revoke it at any time before it is exercised by giving written notice of such revocation or by delivering a later dated proxy, in either case, to Marie King, Corporate Secretary, at the address set forth above, or by the vote of the stockholder in person at the Annual Meeting.

Proxies will be voted in accordance with the stockholder s direction, if any. Unless otherwise directed, proxies will be voted in favor of the election as directors of the persons named under the caption NOMINEES FOR DIRECTOR and in favor of ratifying the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm of M&T Bank Corporation for the year ending December 31, 2008.

The presence in person or by proxy of the holders of a majority of the outstanding Common Stock will constitute a quorum for the transaction of business at the meeting. Broker non-votes will be counted as being present or represented at the meeting for purposes of establishing a quorum. The vote of a plurality of the shares of Common Stock present or represented at the meeting is required for the election of directors, assuming a quorum is present or represented at the meeting. If, however, a director does not receive a

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majority of the votes cast (which includes votes to withhold but excludes abstentions), that director would be required to tender his or her resignation to the Board of Directors for consideration in accordance with the bylaws of M&T Bank Corporation.

The vote of a majority of the votes cast at the meeting is required to ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm of M&T Bank Corporation for the year ending December 31, 2008. An abstention with respect to the ratification of PricewaterhouseCoopers LLP as the independent registered public accounting firm of M&T Bank Corporation will not constitute a vote cast and therefore will not affect the outcome of the vote on the ratification of PricewaterhouseCoopers LLP as the independent registered public accounting firm of M&T Bank Corporation.

Broker non-votes will not constitute votes cast for purposes of determining, and therefore will have no effect on, the outcome of the vote for the election of directors, the ratification of PricewaterhouseCoopers LLP as the independent registered public accounting firm of M&T Bank Corporation.

PRINCIPAL BENEFICIAL OWNERS OF SHARES

The following table sets forth certain information with respect to all persons or groups known by M&T Bank Corporation to be the beneficial owners of more than 5% of its outstanding Common Stock as of February 29, 2008.

Name and address of beneficial owner		Amount and Nature of Beneficial Ownership	Percent of class
Allied Irish Banks, p.l.c.	Bankcentre, Ballsbridge Dublin 4, Ireland	26,700,000(1)	24.25%
Robert G. Wilmers and others:			
R.I. REM Investments S.A.	Eskildsen & Eskildsen Calle 50 102 Edifico Universal Planta Baja Panama	4,513,200	4.1%
Interlaken Foundation	2214 Massachusetts Ave., N.W. Washington, D.C. 20008	105,859	less than 1%
St. Simon Charitable Foundation	2214 Massachusetts Ave., N.W. Washington, D.C. 20008	186,559	less than 1%
Roche Foundation	One M&T Plaza, 19th floor Buffalo, NY 14203	78,532	less than 1%
West Ferry Foundation	One M&T Plaza, 19th floor Buffalo, NY 14203	168,218	less than 1%
Elisabeth Roche Wilmers	One M&T Plaza, 19th floor Buffalo, NY 14203	461,273	less than 1%
Robert G. Wilmers	One M&T Plaza, 19th floor Buffalo, NY 14203	4,906,031	4.44%

Group Total	10,419,672(2)	9.46%

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Name and address of beneficial owner		Amount and Nature of Beneficial Ownership	Percent of class
Berkshire Hathaway Inc.	1440 Kiewit Plaza Omaha, NE 68131	6,708,760 (3)	6.09%

(1) Allied Irish Banks, p.l.c. (AIB) has filed with the U.S. Securities and Exchange Commission (SEC) a Schedule 13D reporting that it is the beneficial owner of in excess of 5% of the outstanding shares of Common Stock and that it has sole voting and dispositive power with respect to the indicated shares.

(2) The members of this group have jointly filed with the SEC a Schedule 13D, as amended, indicating that they constitute a group as such term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (Exchange Act). Each member of

the group has indicated in such amended Schedule 13D or otherwise advised M&T Bank Corporation that such member has sole voting and dispositive power with respect to the shares indicated opposite such member s name in the table.

Robert G. Wilmers, chairman of the board and chief executive officer of M&T Bank Corporation, is the trustee of the West Ferry Foundation, a charitable trust formed by him, and, as trustee, holds sole voting and dispositive power over the shares which it owns.
Mr. Wilmers is also the sole director and president of the Roche Foundation, and holds sole voting and dispositive power over the shares owned by it. He is a director and president of the Interlaken Foundation and

the St. Simon Charitable Foundation, and holds voting and dispositive power over the shares owned by each of them. As to Mr. Wilmers, the shares indicated in the table as being owned by him include the shares owned by the Interlaken Foundation, the West Ferry Foundation, the Roche Foundation, and the St. Simon Charitable Foundation, 400,000 shares owned by a limited liability company of which he is the sole member, and 370,000 shares subject to options granted under the M&T Bank Corporation 1983 Stock Option Plan (the 1983 Stock Option Plan) and the M&T Bank Corporation 2001 Stock Option Plan (the 2001 Stock Option Plan) which are currently exercisable or are exercisable within 60 days

after February 29, 2008 and which were deemed to be outstanding for purposes of calculating the percentage of outstanding shares beneficially owned by Mr. Wilmers and the group. See also the footnotes applicable to Mr. Wilmers in the table set forth under the caption STOCK OWNERSHIP BY DIRECTORS AND EXECUTIVE OFFICERS.

(3) Warren E. Buffett, Berkshire Hathaway Inc., National Indemnity Company, OBH, Inc., National Fire and Marine Insurance Company, GEICO Corporation and Government Employees Insurance Company have jointly filed with the SEC a Schedule 13G, as amended, reporting that they are the

beneficial owners of in excess of 5% of the outstanding shares of Common Stock and that they have shared voting and dispositive power with respect to the indicated shares.

M&T Bank Corporation is the sponsor of various employee benefit plans that hold an aggregate of 2,913,656 shares of Common Stock as of February 29, 2008, of which its principal banking subsidiary, Manufacturers and Traders Trust Company (M&T Bank), has sole voting authority over 327,923 of such shares. The remaining 2,585,733 shares of Common Stock are voted by the trustee of the applicable employee benefit plan pursuant to the instructions of the participants in accordance with the terms of such plan. Certain of the directors and executive officers of M&T Bank Corporation hold indirect beneficial interests in the holdings of these employee benefit plans. See also footnote (4) in the table set forth under the caption STOCK OWNERSHIP BY DIRECTORS AND EXECUTIVE OFFICERS.

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ELECTION OF DIRECTORS

Shares represented by properly executed proxies will be voted, unless such authority is withheld, for the election as directors of M&T Bank Corporation of the following 20 persons
recommended by the Board of Directors, to hold office until the 2009 Annual Meeting of Stockholders and until their successors have been elected and qualified. Each of the nominees listed below was elected at the 2007 Annual Meeting of Stockholders.

In accordance with its rights under the Agreement and Plan of Reorganization dated September 26, 2002 by and among M&T Bank Corporation, AIB and Allfirst Financial Inc. (Allfirst), pursuant to which M&T Bank Corporation acquired Allfirst on April 1, 2003, AIB has designated Michael D. Buckley, Colm E. Doherty, Richard G. King and Eugene J. Sheehy (the AIB Designees) as nominees to stand for election as directors of M&T Bank Corporation.

If any nominee for any reason should become unavailable for election or if a vacancy should occur before the election (which events are not expected), it is intended that the shares represented by the proxies will be voted for such other person, if any, as the Nomination, Compensation and Governance Committee shall designate. In the event that any of the AIB Designees are unable to serve as directors for any reason, AIB has the right to designate replacements and the shares represented by the proxies will be voted for such designee or designees.

The principal occupation of each of the nominees for the last five years is listed below. The information with respect to the nominees is as of February 29, 2008, and includes each nominee s affiliations with M&T Bank Corporation s subsidiary banks, M&T Bank and M&T Bank, National Association (M&T Bank, N.A.), and
with M&T Bank s principal operating subsidiaries.

NOMINEES FOR DIRECTOR

BRENT D. BAIRD is 69, is a member of the Executive and the Nomination, Compensation and Governance Committees and has been a director since 1983.

Mr. Baird is a private investor. He is a director of M&T Bank and a member of its Executive and Trust and Investment Committees. Mr. Baird is a director of M&T Financial Corporation and a member of M&T Bank s Directors Advisory Council-New York City Division. He is president of First Carolina Investors, Inc., a non-diversified investment company. Mr. Baird is also a director of Todd Shipyards Corporation and Sun-Times Media Group, Inc.

ROBERT J. BENNETT is 66, is a member of the Executive Committee and has been a director since 1998.

Mr. Bennett is a director of M&T Bank and a member of its Executive and Trust and Investment Committees. He is a member of M&T Bank s Directors Advisory Council-Central New York Division. Mr. Bennett served as chairman of the board of M&T Bank Corporation from April 1, 1998 until his retirement on July 18, 2000. He was chairman of the board, president and chief executive officer of ONBANCorp, Inc. and its main bank subsidiary from May 1989 until M&T Bank Corporation s acquisition of ONBANCorp, Inc. on April 1, 1998. Mr. Bennett is a private investor, a principal of Wooded Valley Estates, LLC II, a residential property development company, and is a director of Welch Allyn Holdings, Inc.

C. ANGELA BONTEMPO is 67, is a member and the chair of the Audit and Risk Committee and has been a director since 1991.

Ms. Bontempo is the president, chief executive officer and a director of Saint Vincent Health System, located in Erie, Pennsylvania. From 1998 to June 2001, she was president and chief executive officer of Bryant & Stratton College, a system of colleges headquartered in Buffalo, New York. From 1994 through 1998, Ms. Bontempo served as senior vice president and executive director of the Roswell Park Cancer Institute. She is a director of M&T Bank and a member and the chair of its Examining Committee. Ms. Bontempo is also a member of the advisory board of Ciminelli Development Company, Inc., and is a director of Bryant & Stratton College, the Pennsylvania Catholic Health Association, the Vantage Holding Group, LLC, and a board member of Healthcare Association of Pennsylvania.

ROBERT T. BRADY is 67, is a member of the Nomination, Compensation and Governance Committee and has been a director since 1994.

Mr. Brady is chairman of the board of directors and chief executive officer of Moog Inc., a worldwide manufacturer of control systems and components for aircraft, satellites, automated machinery and medical equipment. He is a director of M&T Bank. Mr. Brady is a director of Seneca Foods Corporation, National Fuel Gas Company and Astronics Corporation. He is also a director of the Buffalo Niagara Partnership, a director of the Albright-Knox Art Gallery and serves as a trustee of the University at Buffalo Foundation, Inc. and the University at Buffalo Council

MICHAEL D. BUCKLEY is 63, is a member of the Executive and Nomination, Compensation and Governance Committees and has been a director since 2003.

Mr. Buckley retired as group chief executive and as a director of AIB on June 30, 2005. He was a director of AIB since 1995. Mr. Buckley was a former managing director of the AIB Poland Division and of the AIB Capital Markets Division. He is a director of M&T Bank and a member of its Executive and Trust and Investment Committees. Mr. Buckley is also a non-executive director of DCC plc, a business support services company quoted on the Dublin and London stock exchanges. He is also a non-executive director of Bradford & Bingley Group, a specialist United Kingdom bank and a non-executive director of Bramdean Alternatives Ltd., an investment fund, both of which are quoted on the London Stock Exchange. Mr. Buckley is a senior advisor to a number of privately held companies, sits on the board of the Irish Chamber Orchestra and is an adjunct professor in the Department of Economics at the National University of Ireland, Cork.

T. JEFFERSON CUNNINGHAM III is 65 and has been a director since 2001.

Mr. Cunningham is a director of M&T Bank, a member of M&T Bank s Community Reinvestment Act Committee and a member and the chairman of M&T Bank s Directors Advisory Council-Hudson Valley Division. He assumed his positions with M&T Bank Corporation and M&T Bank upon M&T Bank Corporation s acquisition of Premier National Bancorp, Inc. (Premier) on February 9, 2001. From 1994 through February 9, 2001, Mr. Cunningham served as chairman of the board and chief executive officer of Premier and its bank subsidiary, Premier National Bank, and of Premier s predecessor, Hudson Chartered Bancorp, Inc. Mr. Cunningham is chairman and chief executive officer of Magnolia Capital Management, Ltd., a trustee of Boscobel Restoration, Inc., a trustee of Open Space Institute, an advisory director of the Hudson River Valley Greenway Communities Council, and a member of the management council of the Hudson Valley Economic Development Corp.

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MARK J. CZARNECKI is 52 and has been a director since 2007.

Mr. Czarnecki is the president and a director of M&T Bank, and is chairman of its Trust and Investment Committee. Prior to his appointment as the president of M&T Bank Corporation and M&T Bank on January 1, 2007, he served as an executive vice president of M&T Bank Corporation and M&T Bank and was in charge of the M&T Investment Group and M&T Bank s retail banking network. Mr. Czarnecki is the chairman of the board, president and chief executive officer and a director of M&T Bank, N.A., a director of the MTB Group of Funds and a director and officer of a number of principal subsidiaries of M&T Bank. He serves as chairman of the board of trustees of M&T Bank s partner school, Westminster Community Charter School, and is a trustee of the University at Buffalo Council.

COLM E. DOHERTY is 49 and has been a director since 2005.

Mr. Doherty is the managing director of AIB Capital Markets plc and has been a director of AIB since 2003. He is a director of M&T Bank. Mr. Doherty is a member of the board of Allied Energy Holdings, Commerzbank Europe and the Worldwide Opportunity Fund.

RICHARD E. GARMAN is 77, is a member of the Executive Committee and has been a director since 1987.

Mr. Garman is a former president of R&P Oak Hill, LLC, a real estate company, former president of Newbery Alaska, Inc., an electrical contractor, and former managing partner of R.E.G. LLC, a private investment company. He is also a former board member and chair of the Buffalo Niagara Partnership, Merchants Insurance Group and the Associated General Contractors of America. Prior to July 19, 2000, he was president and chief executive officer of A.B.C. Paving Co., Inc. and Buffalo Crushed Stone, Inc. Mr. Garman is a director of M&T Bank and a member of its Executive and Trust and Investment Committees. He is also a director of the Greater Frontier Council of the Boy Scouts of America.

DANIEL R. HAWBAKER is 68 and has been a director since 2000.

Mr. Hawbaker is the president and chief executive officer of Glenn O. Hawbaker, Inc., a heavy construction services and products company located in State College, Pennsylvania. He is a director of M&T Bank and a member of its Community Reinvestment Act Committee. Mr. Hawbaker had served as a director of Keystone Financial Bank, N.A. and its predecessor from 1989 through M&T Bank Corporation s acquisition of Keystone Financial Inc. (Keystone) on October 6, 2000.

PATRICK W.E. HODGSON is 67, is a member of the Audit and Risk Committee and has been a director since 1987.

Mr. Hodgson is president of Cinnamon Investments Limited, a private investment company with real estate and securities holdings. He is a director and chairman of the board of Todd Shipyards Corporation. Mr. Hodgson is a director and a member of the Examining Committee of M&T Bank. He is also a director of First Carolina Investors, Inc.

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RICHARD G. KING is 63, is a member of the Audit and Risk Committee and has been a director since 2000.
Mr. King is chairman of the executive committee of Utz Quality Foods, Inc., a manufacturer and distributor of salted snack foods located in Hanover, Pennsylvania. He formerly served as president and chief operating officer of Utz from January 1996 until December 2007. Mr. King is a director of M&T Bank and a member of its Examining Committee. Mr. King had served as a director of Keystone from 1997 and as director of Keystone Financial Bank, N.A. from 1999 through M&T Bank Corporation s acquisition of Keystone. He is also a director of High Industries, Inc.

REGINALD B. NEWMAN, II is 70, is a member of the Audit and Risk Committee and has been a director since 1998.
Mr. Newman is chairman of the board of Prior Aviation Service, Inc., which is a fixed base operator at Buffalo Niagara International Airport in Buffalo, New York. He is a director and member of the Examining Committee of M&T Bank. Mr. Newman is a director of Dunn Tire LLC and Taylor Devices, Inc. and a director and chairman of Rand Capital Corp. He also serves as a trustee and chairman of the University at Buffalo Foundation, Inc.

JORGE G. PEREIRA is 74 and has been a director since 1982. He is the vice chairman of the board of M&T Bank Corporation and is a member and the chairman of its Nomination, Compensation and Governance Committee.
Mr. Pereira is a private investor. He is a vice chairman of the board and a director of M&T Bank. Mr. Pereira also serves as the lead outside director of M&T Bank Corporation and has been designated as the presiding director of the non-management directors of M&T Bank Corporation when they meet in executive sessions without management.

MICHAEL P. PINTO is 52 and has been a director since 2003. He is a vice chairman of the board of M&T Bank Corporation.
Mr. Pinto is a vice chairman and a director of M&T Bank, chairman and chief executive officer of M&T Bank s Mid-Atlantic Division, and executive vice president and a director of M&T Bank, N.A. He is also a director and officer of a number of subsidiaries of M&T Bank. Mr. Pinto joined M&T Bank in 1985 as an executive associate. He is a member of the board of trustees of Mercy Health Services, Inc. and a member of the board of directors of the Economic Alliance of Greater Baltimore.

ROBERT E. SADLER, JR. is 62 and has been a director since 1999. He is a vice chairman of the board of M&T Bank Corporation.
Mr. Sadler is a vice chairman of the board of M&T Bank. Prior to January 1, 2007, he also served as president and chief executive officer of M&T Bank Corporation and M&T Bank. Mr. Sadler serves as a director of Gibraltar Industries, Inc. and Security Mutual Life Insurance Company of New York.

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EUGENE J. SHEEHY is 53 and has been a director since 2003.

Mr. Sheehy is the group chief executive of Allied Irish Banks, p.l.c. and has been a director since 2005. He is a director of M&T Bank. From April 1, 2003 until April 1, 2005, Mr. Sheehy was the chairman and chief executive officer of M&T Bank s Mid-Atlantic Division. Prior to April 1, 2003, he served as chief executive officer of AIB s USA Division from March 14, 2002 and chairman of the board of Allfirst from April 30, 2002. Mr. Sheehy also served as president and chief executive officer of Allfirst Bank from July 31, 2002 through the date of the Allfirst acquisition. Prior to March 14, 2002, Mr. Sheehy was the managing director of AIB Bank Republic of Ireland.

STEPHEN G. SHEETZ is 60 and has been a director since 2000.

Mr. Sheetz is chairman of Sheetz, Inc., the owner of a chain of convenience stores operating in six Mid-Atlantic and northeastern states. He is a director of M&T Bank and a member of its Community Reinvestment Act Committee. Mr. Sheetz had served as a director of Keystone Financial Bank, N.A. and its predecessor from 1984 through M&T Bank Corporation s acquisition of Keystone. He is also a director of QuikTrip Corporation and Eat n Park Restaurants.

HERBERT L. WASHINGTON is 57, is a member of the Audit and Risk Committee and has been a director since 1996.

Mr. Washington is president of H.L.W. Fast Track, Inc., the owner and operator of twenty-one McDonald s Restaurants located in Ohio and Pennsylvania. He is also the owner of Syracuse Minority Television, Inc. Mr. Washington is a director and a member of the Examining Committee of M&T Bank. He is a member of the board of directors of the Youngstown Chamber of Commerce.

ROBERT G. WILMERS is 73 and has been a director since 1982. He is the chairman of the board and chief executive officer of M&T Bank Corporation, and is the chairman of its Executive Committee.

Mr. Wilmers is the chairman of the board and chief executive officer of M&T Bank, chairman of its Executive Committee and a member of its Trust and Investment Committee. He is a director of AIB. Mr. Wilmers is also a director of The Business Council of New York State, Inc. and the Financial Services Roundtable.

The Board of Directors recommends a vote FOR the election of all 20 nominees.

The voting requirements with respect to the election of directors are specified under the caption VOTING RIGHTS.

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PROPOSAL TO RATIFY THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM OF M&T BANK CORPORATION

On February 19, 2008, the Audit and Risk Committee appointed PricewaterhouseCoopers LLP, certified public accountants, as the independent registered public accounting firm of M&T Bank Corporation for the year 2008, a capacity in which it has served since 1984.

Although stockholder approval of the appointment of the independent registered public accounting firm is not required by law, M&T Bank Corporation has determined that it is desirable to request that the stockholders ratify the Audit and Risk Committee s appointment of PricewaterhouseCoopers LLP as M&T Bank Corporation s independent registered public accounting firm for the year ending December 31, 2008. In the event the stockholders fail to ratify the appointment, the Audit and Risk Committee will reconsider this appointment and make such a determination as it believes to be in M&T Bank Corporation s and its stockholders best interests. Even if the appointment is ratified, the Audit and Risk Committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if the Audit and Risk Committee determines that such a change would be in M&T Bank Corporation s and its stockholders best interests.

Representatives of PricewaterhouseCoopers LLP are expected to be present at the Annual Meeting of Stockholders. The representatives may, if they wish, make a statement and, it is expected, will be available to respond to appropriate questions.

Following is a summary of the fees billed to M&T Bank Corporation by PricewaterhouseCoopers LLP for professional services rendered during 2007 and 2006, which fees totaled $2,345,210 and $2,657,485, respectively, and are categorized in accordance with the SEC s rules on auditor independence as follows:

Audit Fees. Fees billed by PricewaterhouseCoopers LLP for services rendered for the audit of M&T Bank Corporation s annual consolidated financial statements as of and for the years ended December 31, 2007 and 2006, for its review of M&T Bank Corporation s quarterly consolidated financial statements during 2007 and 2006, and for other audit and attest services in connection with statutory and regulatory filings as of and for the years ended December 31, 2007 and 2006, totaled $1,878,450 and $2,117,200, respectively.

Audit-Related Fees. Fees billed by PricewaterhouseCoopers LLP for audit-related services, including audits of employee benefit plans and other attestation services that are not required by statute or regulation rendered to M&T Bank Corporation totaled $288,600 and $252,500 for the years ended December 31, 2007 and 2006, respectively. Of the audit-related fees billed for the years ended December 31, 2007 and 2006, all services were pre-approved by the Audit and Risk Committee.

Tax Fees. Fees billed by PricewaterhouseCoopers LLP for tax compliance, planning and consulting totaled $97,800 and $190,425 for the years ended December 31, 2007 and 2006, respectively. Of the tax fees billed for the years ended December 31, 2007 and 2006, all services were pre-approved by the Audit and Risk Committee.

All Other Fees. PricewaterhouseCoopers LLP billed a total of $80,360 and $97,360 for the years ended December 31, 2007 and 2006, respectively, primarily for certain senior management training programs and for internal audit software licensing fees. All fees billed in this category for the years ended December 31, 2007 and 2006 were pre-approved by the Audit and Risk Committee.

In addition to the above services, Pricewater-houseCoopers LLP directly billed certain

common trust funds sponsored by M&T Bank Corporation a total of $134,600 for the year ended December 31, 2006, primarily for audits of annual common trust fund financial statements. No fees were billed for such services for the year ended December 31, 2007. The Audit and Risk Committee has determined that Pricewaterhouse-Coopers LLP s provision of professional services is compatible with maintaining its independence. No fees were billed and no services were provided by PricewaterhouseCoopers LLP during 2007 and 2006 for financial information systems design and implementation.

Policy on Audit and Risk Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm. Beginning for the year ended December 31, 2003, M&T Bank Corporation instituted a policy that the Audit and Risk Committee pre-approve all audit and permissible non-audit services provided by the independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally detailed as to the particular service or category of services and is generally subject to a specific budget range. The independent registered public accounting firm and management are required to periodically report to the Audit and Risk Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval policy, and the fees for the services performed to date. The Audit and Risk Committee may also pre-approve additional services on a case-by-case basis. In the period between meetings of the Audit and Risk Committee, the Chair of the Audit and Risk Committee is authorized to pre-approve such services on behalf of the Audit and Risk Committee provided that such pre-approval is reported to the Audit and Risk Committee at its next regularly scheduled meeting.

Before appointing PricewaterhouseCoopers LLP, the Audit and Risk Committee considered PricewaterhouseCoopers LLP s qualifications as an independent registered public accounting firm. This included a review of the qualifications of the engagement team, the quality control procedures the firm has established, any issues raised by the most recent quality control review of the firm, as well as its reputation for integrity and competence in the fields of accounting and auditing. The Audit and Risk Committee s review also included matters required to be considered under the SEC s rules on auditor independence, including the nature and extent of non-audit services, to ensure that the auditor s independence will not be impaired. The Audit and Risk Committee has considered and determined that PricewaterhouseCoopers LLP s provision of non-audit services to M&T Bank Corporation during 2007 is compatible with and did not impair PricewaterhouseCoopers LLP s independence.

The Board of Directors recommends a vote FOR the ratification of the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm of M&T Bank Corporation for the year ending December 31, 2008.

The voting requirements with respect to this proposal are specified under the caption VOTING RIGHTS.

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STOCK OWNERSHIP BY DIRECTORS AND EXECUTIVE OFFICERS

Direct and indirect ownership of Common Stock by each of the directors, each of the executive officers who are named in the Summary Compensation Table (the Named Executive Officers), and by all directors and executive officers as a group, is set forth in the following table as of February 29, 2008, together with the percentage of total shares outstanding represented by such ownership. (For purposes of this table, beneficial ownership has been determined in accordance with the provisions of Rule 13d-3 under the Exchange Act, under which, in general, a person is deemed to be the beneficial owner of a security if he or she has or shares the power to vote or to direct the voting of the security or the power to dispose or to direct the disposition of the security, or if he or she has the right to acquire the beneficial ownership of the security within 60 days.)

Name of beneficial owner	Number of shares	Percent of class
Brent D. Baird	50,015	(14)
Robert J. Bennett	141,347(1)	(14)
C. Angela Bontempo	5,383(2)	(14)
Robert T. Brady	3,694	(14)
Michael D. Buckley	355(5)	(14)
T. Jefferson Cunningham III	18,457(3)(4)	(14)
Mark J. Czarnecki	256,414(3)	(14)
Colm E. Doherty	0(5)	(14)
Richard E. Garman	285,235(6)	(14)
Daniel R. Hawbaker	5,587(7)	(14)
Patrick W.E. Hodgson	54,024(8)	(14)
Richard G. King	12,351(3)(5)	(14)
Reginald B. Newman, II	6,169(9)	(14)
Jorge G. Pereira	1,556,007(10)	1.41%
Michael P. Pinto	433,570(3)	(14)
Robert E. Sadler, Jr.	568,378(3)(4)(11)	(14)
Eugene J. Sheehy	1,153(5)	(14)
Stephen G. Sheetz	18,057	(14)
Herbert L. Washington	6,051	(14)
Robert G. Wilmers	4,906,031(3)(4)(12)	4.44%
René F. Jones	95,403(3)(4)	(14)
Brian E. Hickey	158,163(3)(13)	(14)
All directors and executive officers as a group (30 persons)	9,436,600(3)(4)	8.41%

(1) Includes 8,670 shares held by trusts for which Mr. Bennett is a trustee and in which he has a pecuniary interest and investment power and 50,480 shares

held by a close relative of Mr. Bennett for which beneficial ownership is disclaimed. Also includes 10,000 shares which have been pledged as security.

(2) Includes 400 shares held by trusts for which Ms. Bontempo is a trustee and in which she has a pecuniary interest and investment power.

(3) Includes the following shares subject to options granted under (a) M&T Bank Corporation s stock option plans, and (b) plans of companies acquired by M&T Bank Corporation, the obligations of which

have been assumed by M&T Bank Corporation and converted into options to receive shares of Common Stock, all of which are currently exercisable or are exercisable within 60 days after February 29, 2008: Mr. Cunningham 6,800 shares; Mr. Czarnecki 224,053 shares; Mr. Hickey 122,016 shares; Mr. King 1,406 shares; Mr. Pinto 390,883 shares; Mr. Sadler 230,000 shares; Mr. Wilmers 370,000 shares; Mr. Jones 84,380 shares; and all directors and executive officers as a group 2,062,707 shares.

(4) Includes the following shares through participation in the M&T Bank Corporation Retirement Savings Plan (the Retirement Savings Plan): Mr. Cunningham 346 shares; Mr. Sadler 19,955 shares; Mr. Wilmers

42,754 shares; Mr. Jones 4,988 shares; and all directors and executive officers as a group 81,232 shares. Such individuals retain voting and investment power over their respective shares in the Retirement Savings Plan.

(5) Such person has been designated by AIB to serve as a director of M&T Bank Corporation pursuant to contractual rights. AIB owns 26,700,000 shares, beneficial ownership of which is disclaimed by such person.

(6) Includes 27,153 shares owned by the Garman Family Foundation, a charitable foundation formed by Mr. Garman. Mr. Garman is the president of the Garman Family Foundation and holds voting and dispositive power over these shares.

(7) Includes 742 shares owned by

a corporation controlled by Mr. Hawbaker.

(8) Includes 6,000 shares held by a close relative of Mr. Hodgson for which beneficial ownership is disclaimed. Also includes 45,000 shares owned by a corporation controlled by Mr. Hodgson.

(9) Includes 1,230 shares held by a close relative of Mr. Newman for which beneficial ownership is disclaimed.

(10) Includes 1,554,000 shares owned by corporations controlled by Mr. Pereira.

(11) Includes 17,623 shares owned by the Sadler Family Foundation, a charitable foundation formed by Mr. Sadler. Mr. Sadler is a trustee of the Sadler Family Foundation and holds voting and dispositive power over the shares owned by it. Also includes 81,000 shares held in a grantor retained

annuity trust of which Mr. Sadler is the trustee and his descendants are beneficiaries. Mr. Sadler disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein.

(12) See footnote (2) to the table set forth under the caption PRINCIPAL BENEFICIAL OWNERS OF SHARES.

(13) Includes 6,035 shares of restricted stock held by Mr. Hickey.

(14) Less than 1%.

Section 16(a) Beneficial Ownership Reporting Compliance. Under Section 16(a) of the Exchange Act, M&T Bank Corporation s directors and officers are required to report their beneficial ownership of the Common Stock and any changes in that beneficial ownership to the SEC and the New York Stock Exchange. M&T Bank Corporation believes that these filing requirements were satisfied by its directors and officers during 2007, except for Messrs. Cunningham and Heath McLendon, a member of the Directors Advisory Council of M&T Bank Corporation, who each had one late filing with respect to a single reportable transaction. In making the foregoing statement, M&T Bank Corporation has relied on copies of the reporting forms received by it or on the written representations from such reporting persons that no forms were required to be filed under the applicable rules of the SEC.

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COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS

Compensation Discussion and Analysis

Overview of M&T Bank Corporation. M&T Bank Corporation (sometimes referred to in this Compensation Discussion and Analysis as the Company) is a bank holding company that offers a wide range of commercial banking, trust and investment services to its customers. As of December 31, 2007, the Company had consolidated total assets of $64.9 billion, deposits of $41.3 billion and stockholders equity of $6.5 billion, and employed 12,422 full-time and 1,447 part-time employees.

M&T Bank Corporation s executive officers are the members of its Management Group. The Board of Directors has determined that the members of the Management Group are the only persons, other than directors, who have the authority to participate in major policy-making functions of the Company and its direct and indirect subsidiaries. As of December 31, 2007, M&T Bank Corporation had 14 executive officers.

Overview and Objectives of Executive Compensation Programs. The objective of M&T Bank Corporation s compensation programs is to attract, develop and retain executive officers capable of maximizing performance for the benefit of the Company s stockholders. M&T Bank Corporation has historically placed primary emphasis on long-term, equity-based compensation in compensating its Named Executive Officers and other employees. This has allowed the Company to align its compensation with performance in two ways: first, by determining equity awards to the Named Executive Officers based on the performance of the Company in the past; and second, by ensuring that the Named Executive Officers realize compensation in the future on the equity awards based on the performance of the Company and in alignment with our stockholders. As a result of this approach, approximately 20% of the outstanding shares of the Company are owned by the management, directors and other employees of the Company, strengthening the alignment with Company stockholders.

Consistent with this objective, the Company has provided base salaries to the Named Executive Officers that are below the median of the market, while emphasizing discretionary performance-based variable incentives to provide competitive compensation, such as cash bonuses that reward good performance and the achievement of annual, shorter-term objectives, and stock-based compensation that rewards longer-term contributions to the Company s success. Also, because the Company believes that performance can best be assessed after the performance period has ended, both cash and equity incentives are determined on a discretionary basis, and the Company does not employ targets or formulas to determine the amount of an award or the allocation between cash and equity incentives.

The Company has not entered into employment agreements or separate change-of-control or severance agreements with the Named Executive Officers because the Company does not favor treatment of the Named Executive Officers in those circumstances beyond that offered to employees under the Company s Severance Plan.

M&T Bank Corporation periodically, but at least annually, compares compensation levels for the Named Executive Officers and its financial performance to a group of commercial banking institutions of similar business makeup with median size similar to the Company that have performed well over an extended period of time and/or compete with the Company in its geographic area (the Comparative Banks). The Comparative Banks group is large enough to provide a reasonable basis of comparison, but can change each year due to acquisitions, business mix or performance. For 2007, M&T Bank Corporation selected for this purpose 14

commercial banking companies.[1] As discussed below, the Comparative Banks were selected by the Nomination, Compensation and Governance Committee based on recommendations of the Company and an outside compensation consultant, Mercer Human Resource Consulting, a human resources consulting firm.

In 2007, the Nomination, Compensation and Governance Committee retained the services of Mercer Human Resource Consulting to assist in the development of a Comparative Bank group and perform a competitive review of the Named Executive Officers compensation. This review included a review of base salaries, annual incentives and long-term incentives, including stock-based compensation. For the Named Executive Officers, the review compared their compensation to the compensation disclosed in the 2007 proxy statements of the Comparative Banks for their Named Executive Officers. Such compensation information was considered in relation to a comparison of the Company s performance on certain key performance metrics, including total shareholder return, over both short- and long-term periods, to the Comparative Banks performance on the same performance metrics over the same periods. For this purpose, the compensation of the Named Executive Officers was generally compared to that of the named executive officers listed in the 2007 proxy statements of the Comparative Banks having the same or substantially similar responsibilities. Throughout this Compensation Discussion and Analysis, the proxy information from the Comparative Banks is referred to as the Market Compensation Information. The Nomination, Compensation and Governance Committee uses the Market Compensation Information as a market check to help assess the competitiveness of the Company s pay practices in relation to the Comparative Banks, but neither total compensation nor any element of compensation paid to the Named Executive Officers is benchmarked against a subset of the Comparative Banks or any other group of comparative banks. Other than as described above, Mercer Human Resource Consulting did not play a role in determining or recommending the amount or form of executive and director compensation.

In determining annual cash incentives and stock-based compensation, the Nomination, Compensation and Governance Committee believes that assessing the performance of the Named Executive Officers after the year is complete results in better and fairer compensation decisions than a strictly mechanical approach based on formulas established before the year begins. At the beginning of the year, management prepares and submits for board review an annual business plan for the upcoming year, which may encompass return on assets, return on equity, earnings per share growth, expense management, revenue growth, market concentration, and various other financial performance measures. In assessing the performance of the Named Executive Officers, the Nomination, Compensation and Governance Committee considers the Company s performance against its business plan and the Company s performance against the performance of the Comparative Banks. This assessment does not utilize a formula or formally weight any of the criteria. Consistent with this approach, the Nomination, Compensation and Governance Committee s compensation determinations with respect to the Chief Executive Officer and the other Named Executive Officers are not strictly tied to any specific performance measures or targeted amounts, but rather take into account a broad

836,944			
Short-term borrowings	120,480	153,100	93,950
Long-term borrowings	411,098	392,748	412,329
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589	19,589
Other liabilities	8,839	8,585	10,343
Total liabilities	1,515,364	1,539,872	1,373,155
Commitments and Contingencies			
Shareholders' Equity			
Preferred stock and related surplus, $1.00 par value;			

authorized 250,000 shares, no shares issued	-	-	-
Common stock and related surplus, $2.50 par value; authorized 20,000,000 shares, issued and outstanding 2009 - 7,415,310 shares; issued December 2008 - 7,415,310 shares; issued March 2008 - 7,408,941 shares	24,453	24,453	24,394
Retained earnings	66,475	64,709	68,901
Accumulated other comprehensive income	(7,324)	(1,918)	(1,340)
Total shareholders' equity	83,604	87,244	91,955
Total liabilities and shareholders' equity	$1,598,968	$1,627,116	$1,465,110

(*) - December 31, 2008 financial information has been extracted from audited consolidated financial statements

See Notes to Consolidated Financial Statements

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

	Three Months Ended	
Dollars in thousands	March 31, 2009	March 31, 2008
Interest income		
Interest and fees on loans		
Taxable	$ 18,147	$ 19,948
Tax-exempt	107	121
Interest and dividends on securities		
Taxable	4,224	3,196
Tax-exempt	513	590
Interest on interest bearing deposits with other banks	-	2
Interest on Federal funds sold	-	2
Total interest income	22,991	23,859
Interest expense		
Interest on deposits	6,620	7,124
Interest on short-term borrowings	213	919
Interest on long-term borrowings and subordinated debentures	4,822	4,877
Total interest expense	11,655	12,920
Net interest income	11,336	10,939
Provision for loan losses	4,000	1,000
Net interest income after provision for loan losses	7,336	9,939
Other income		
Insurance commissions	1,344	1,327
Service fees	735	743
Realized securities gains (losses)	256	-
Unrealized securities gains (losses)	(215)	-
Gain (loss) on sale of assets	(9)	-
Net cash settlement on derivative instruments	-	(170)
Change in fair value of derivative instruments	-	705
Other	329	243
Total other income	2,440	2,848
Other expense		
Salaries and employee benefits	4,279	4,395
Net occupancy expense	597	476
Equipment expense	568	534
Supplies	194	194
Professional fees	334	118
Amortization of intangibles	88	88
FDIC premiums	383	174
Other	1,308	1,110

Total other expense		7,751		7,089
Income before income taxes		2,025		5,698
Income tax expense		260		1,874
Net Income	$	1,765	$	3,824
Basic earnings per common share	$	0.24	$	0.52
Diluted earnings per common share	$	0.24	$	0.51

See Notes to Consolidated Financial Statements

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

Dollars in thousands	Common Stock and Related Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, December 31, 2008	$ 24,453	$ 64,709	$ (1,918)	$ 87,244
Three Months Ended March 31, 2009				
Comprehensive income:				
Net income	-	1,765	-	1,765
Other comprehensive income, net of deferred tax benefit of $3,175:				
Net unrealized loss on securities of ($5,662), net of reclassification adjustment for gains included in net income of $256	-	-	(5,406)	(5,406)
Stock compensation expense	-	-	-	-
Total comprehensive income				(3,641)
Exercise of stock options	-	-	-	-
Balance, March 31, 2009	$ 24,453	$ 66,474	$ (7,324)	$ 83,603
Balance, December 31, 2007	$ 24,391	$ 65,077	$ (48)	$ 89,420
Three Months Ended March 31, 2008				
Comprehensive income:				
Net income	-	3,824	-	3,824
Other comprehensive income, net of deferred tax expense of $792:				
Net unrealized gain on securities of $(1,292), net of reclassification adjustment for gains included in net income of $0	-	-	(1,292)	(1,292)
Stock compensation expense	3	-	-	3
Total comprehensive income				2,535
Exercise of stock options	-	-	-	-
Balance, March 31, 2008	$ 24,394	$ 68,901	$ (1,340)	$ 91,955

See Notes to Consolidated Financial Statements

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

	Three Months Ended	
	March 31,	March 31,
Dollars in thousands	2009	2008
Cash Flows from Operating Activities		
Net income	$ 1,765	$ 3,824
Adjustments to reconcile net earnings to net cash		
provided by operating activities:		
Depreciation	406	398
Provision for loan losses	4,000	1,000
Stock compensation expense	-	3
Deferred income tax (benefit)	(537)	(26)
Loans originated for sale	(4,821)	(1,608)
Proceeds from loans sold	4,485	2,523
(Gain) on sales of loans held for sale	(13)	(28)
Change in fair value of derivative instruments	-	(705)
Securities (gains)	(256)	-
Writedown of an equity investment	215	-
Loss on disposal of other assets	9	-
Amortization of securities premiums, net	(586)	(104)
Amortization of goodwill and purchase accounting		
adjustments, net	91	91
Decrease in accrued interest receivable	225	340
(Increase) decrease in other assets	193	(945)
Increase in other liabilities	254	2,430
Net cash provided by (used in) operating activities	5,430	7,193
Cash Flows from Investing Activities		
Net (increase) in interest bearing deposits		
with other banks	(6)	(26)
Proceeds from maturities and calls of securities available for sale	3,367	13,814
Proceeds from sales of securities available for sale	9,730	-
Principal payments received on securities available for sale	16,729	7,169
Purchases of securities available for sale	(6,020)	(24,029)
Purchases of other investments	(982)	(3,935)
Redemption of Federal Home Loan Bank stock	-	3,039
Net (increase) decrease in federal funds sold	2	(1,333)
Net loans made to customers	1,885	(27,881)
Purchases of premises and equipment	(1,379)	(324)
Proceeds from sales of other assets	45	-
Proceeds from early termination of interest rate swap	-	212
Net cash provided by (used in) investing activities	23,371	(33,294)
Cash Flows from Financing Activities		
Net increase (decrease) in demand deposit, NOW and		
savings accounts	31,448	(10,040)
Net increase(decrease) in time deposits	(41,940)	18,293
Net (decrease) in short-term borrowings	(32,620)	(78,105)

Proceeds from long-term borrowings	40,000	100,000
Repayment of long-term borrowings	(26,649)	(13,408)
Proceeds from issuance of subordinated debentures	4,962	9,988
Net cash provided by financing activities	(24,799)	26,728
Increase (decrease) in cash and due from banks	4,002	627
Cash and due from banks:		
Beginning	11,356	21,285
Ending	$ 15,358	$ 21,912

(Continued)

See Notes to Consolidated Financial Statements

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

	Three Months Ended	
Dollars in thousands	March 31, 2009	March 31, 2008
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	$ 11,832	$ 12,561
Income taxes	$ -	$ -
Supplemental Schedule of Noncash Investing and Financing Activities		
Other assets acquired in settlement of loans	$ 230	$ 147

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 three months ended March 31, 2009 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 2008 audited financial statements and Annual Report on Form 10-K and Form 10-K/A. Certain accounts in the consolidated financial statements for December 31, 2008 and March 31, 2008, as previously presented, have been reclassified to conform to current year classifications.

Note 2. Significant New Accounting Pronouncements

In April 2009, FASB issued FASB Staff Position ("FSP") No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. Effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009, FSP FAS 157-4 provides guidelines for making fair value measurements more consistent with the principles presented in SFAS 157, "Fair Value Measurements," when the volume and level of activity for assets or liabilities have significantly decreased. FSP FAS 157-4 relates to determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms what SFAS 157 states is the objective of fair value measurement – to reflect how much an asset would be sold for in an orderly transaction (as opposed to a distressed or forced transaction) at the date of the financial statements under current market conditions. Specifically, it reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. We will adopt FSP FAS 157-4 at June 30, 2009, and do not anticipate the adoption will have material impact on our financial condition or results of operations.

In April 2009, FASB issued FASB Staff Position ("FSP") No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. Effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009, FSP FAS 115-2 and FAS 124-2 amended Other-Than-Temporary Impairment guidance in U.S. GAAP to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairment on debt and equity securities in the financial statements. FSP FAS 115-2 and FAS 124-2 is intended to bring greater consistency to the timing of impairment recognition, and provide greater clarity to investors about the credit and noncredit components of impaired debt securities that are not expected to be sold. The measure of impairment in comprehensive income

remains fair value. The FSP also requires increased and more timely disclosures sought by investors regarding expected cash flows, credit losses, and an aging of securities with unrealized losses. We will adopt FSP FAS 115-2 and FAS 124-2 on June 30, 2009 and do not expect that the adoption will have a material effect on our financial statements.

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In April 2009, FASB issued FASB Staff Position ("FSP") No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. Effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009, FSP FAS 107-1 and APB 28-1 amends SFAS 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. FSP FAS 107-1 and APB 28-1 only relates to disclosures and therefore will not have an impact on our financial condition or results of operations. We will adopt FSP FAS 107-1 and APB 28-1 on June 30, 2009.

In March 2008, FASB issued Statement of Financial Accounting Standards No. 161 ("SFAS 161"), Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133. Effective for fiscal years and interim periods beginning after November 15, 2008, SFAS 161 amends and expands the disclosure requirements of Statement No. 133 by requiring enhanced disclosures for how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under Statement No. 133 and its related interpretations; and how derivative instruments and related items affect an entity's financial position, financial performance and cash flows. The adoption of SFAS 161 did not have a material impact on our financial condition or results of operations as it only relates to disclosures.

In December 2007, the FASB issued Statement 141 (revised 2007) (SFAS 141R), Business Combinations. SFAS 141R will significantly change how the acquisition method will be applied to business combinations. SFAS 141R requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under SFAS 141 whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. SFAS 141R requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under SFAS 141. Under SFAS 141R, the requirements of SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities, would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting and, instead, that contingency would be subject to the probable and estimable recognition criteria of SFAS 5, Accounting for Contingencies. Reversals of deferred income tax valuation allowances and income tax contingencies will be recognized in earnings subsequent to the measurement period. The allowance for loan losses of an acquiree will not be permitted to be recognized by the acquirer. Additionally, SFAS 141(R) will require new and modified disclosures surrounding subsequent changes to acquisition-related contingencies, contingent consideration, noncontrolling interests, acquisition-related transaction costs, fair values and cash flows not expected to be collected for acquired loans, and an enhanced goodwill rollforward. We will be required to prospectively apply SFAS 141(R) to all business combinations completed on or after January 1, 2009. Early adoption is not permitted. We are currently evaluating SFAS 141(R) and have not determined the impact it will have on our financial statements.

Note 3. Fair Value Measurements

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between

market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of

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unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

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

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

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

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

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

Available-for-Sale Securities: Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Certain residential mortgage-backed securities issued by nongovernment entities are Level 3, due to the unobservable inputs used in pricing those 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 SFAS 114, "Accounting by Creditors for Impairment of a Loan," (SFAS 114). The fair value of impaired loans is estimated using one of several methods, including collateral value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At March 31, 2009, substantially all of the total impaired loans were evaluated based on the fair value of the collateral. In accordance with SFAS 157, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, we record the impaired loan as nonrecurring Level 2. When an appraised value is not available or management

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determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, we record the impaired loan as nonrecurring Level 3.

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

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

Dollars in thousands	Total at March 31, 2009	Fair Value Measurements Using: Level 1	Level 2	Level 3
Assets:				
Available for sale securities	$ 295,706	$ -	$ 287,965	$ 7,741
Derivatives	13	-	13	-
Liabilities:				
Derivatives	$ 14	$ -	$ 14	$ -

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period ended March 31, 2009. There were no gains or losses recorded in earnings attributable to unrealized gains or losses relating to those securities still held at March 31, 2009.

Dollars in thousands	Securities
Balance Jan. 1, 2009	$ 11,711
Unrealized gains/(losses) recorded in other comprehensive income	(1,315)
Purchases, issuances, and settlements	(900)
Transfers in and/or out of Level 3	(1,755)
Balance March 31, 2009	$ 7,741

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.

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Dollars in thousands	Total at March 31, 2009	Fair Value Measurements Using: Level 1	Level 2	Level 3
Loans held for sale	$ 1,327	$ -	$ 1,327	$ -
Impaired loans	69,033	-	-	69,033

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral-dependent loans, had a carrying amount of $82,341,000, with a valuation allowance of $13,308,000, resulting in an additional provision for loan losses of $5,661,000 for the period.

Note 4. Earnings per Share

The computations of basic and diluted earnings per share follow:

Dollars in thousands	For the Three Months Ended March 31, 2009	2008
Numerator for both basic and diluted earnings per share:		
Net income	$ 1,765	$ 3,824
Denominator		
Denominator for basic earnings per share - weighted average common shares outstanding	7,415,310	7,408,941
Effect of dilutive securities:		
Stock options	20,200	40,164
	20,200	40,164
Denominator for diluted earnings per share - weighted average common shares outstanding and assumed conversions	7,435,510	7,449,105
Basic earnings per share	$ 0.24	$ 0.52
Diluted earnings per share	$ 0.24	$ 0.51

Note 5. Securities

The amortized cost, unrealized gains, unrealized losses and estimated fair values of securities at March 31, 2009, December 31, 2008, and March 31, 2008 are summarized as follows:

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	March 31, 2009			
	Amortized	Unrealized		Estimated Fair
Dollars in thousands	Cost	Gains	Losses	Value
Available for Sale				
Taxable:				
U. S. Government agencies and corporations	$ 35,340	$ 1,210	$ 3	$ 36,547
Residential mortgage-backed securities:				
Government-sponsored agencies	131,035	5,047	10	136,072
Nongovernment-sponsored entities	92,008	470	18,078	74,400
State and political subdivisions	3,760	28	3	3,785
Corporate debt securities	349	-	13	336
Other equity securities	77	-	-	77
Total taxable	262,569	6,755	18,107	251,217
Tax-exempt:				
State and political subdivisions	44,845	732	1,217	44,360
Other equity securities	102	27	-	129
Total tax-exempt	44,947	759	1,217	44,489
Total	$ 307,516	$ 7,514	$ 19,324	$ 295,706

	December 31, 2008			
	Amortized	Unrealized		Estimated Fair
Dollars in thousands	Cost	Gains	Losses	Value
Available for Sale				
Taxable:				
U. S. Government agencies and corporations	$ 36,934	$ 1,172	$ 3	$ 38,103
Residential mortgage-backed securities:				
Government-sponsored agencies	147,074	4,291	71	151,294
Nongovernment-sponsored entities	95,568	2,335	10,020	87,883
State and political subdivisions	3,760	19	-	3,779
Corporate debt securities	349	5	-	354
Other equity securities	293	-	-	293
Total taxable	283,978	7,822	10,094	281,706
Tax-exempt:				
State and political subdivisions	46,617	639	1,459	45,797

Other equity securities	103	-	-	103
Total tax-exempt	46,720	639	1,459	45,900
Total	$ 330,698	$ 8,461	$ 11,553	$ 327,606

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	March 31, 2008			
	Amortized	Unrealized		Estimated
Dollars in thousands	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable:				
U. S. Government agencies				
and corporations	$ 42,453	$ 1,041	$ 54	$ 43,440
Residential mortgage-backed securities:				
Government-sponsored agencies	122,771	2,421	263	124,929
Nongovernment-sponsored entities	63,749	74	4,618	59,205
State and political subdivisions	3,759	35	7	3,787
Corporate debt securities	1,349	22	39	1,332
Federal Reserve Bank stock	-	-	-	-
Other equity securities	844	-	-	844
Total taxable	234,925	3,593	4,981	233,537
Tax-exempt:				
State and political subdivisions	44,846	1,050	163	45,733
Other equity securities	6,470	-	1,658	4,812
Total tax-exempt	51,316	1,050	1,821	50,545
Total	$ 286,241	$ 4,643	$ 6,802	$ 284,082

The maturities, amortized cost and estimated fair values of securities at March 31, 2009, are summarized as follows:

	Available for Sale	
	Amortized	Estimated
Dollars in thousands	Cost	Fair Value
Due in one year or less	$ 78,185	$ 77,852
Due from one to five years	124,422	121,845
Due from five to ten years	57,953	52,950
Due after ten years	46,777	42,852
Equity securities	179	207
	$ 307,516	$ 295,706

At March 31, 2009 we had $18.1 million in 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 collateral performance, we primarily hold the most 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 credit markets and not to deterioration in credit

quality. We expect to receive all contractual principal and interest payments due on our debt securities and have the ability and intent to hold these investments until their fair value recovers or until maturity. The mortgages in these asset pools have been made to borrowers with strong credit history and significant equity invested in their homes. Nonetheless, significant further weakening of economic fundamentals coupled with significant increases in unemployment and substantial

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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 and trigger the recognition of an other-than-temporary impairment charge.

Note 6. Loans

Loans are summarized as follows:

Dollars in thousands	March 31, 2009	December 31, 2008	March 31, 2008
Commercial	$ 128,707	$ 130,106	$ 111,442
Commercial real estate	452,987	452,264	396,414
Construction and development	211,849	215,465	209,257
Residential real estate	380,351	376,026	336,985
Consumer	30,201	31,519	30,206
Other	6,133	6,061	6,395
Total loans	1,210,228	1,211,441	1,090,699
Less unearned income	2,190	2,351	1,878
Total loans net of unearned income	1,208,038	1,209,090	1,088,821
Less allowance for loan losses	21,996	16,933	9,598
Loans, net	$ 1,186,042	$ 1,192,157	$ 1,079,223

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Note 7. Allowance for Loan Losses

An analysis of the allowance for loan losses for the three month periods ended March 31, 2009 and 2008, and for the year ended December 31, 2008 is as follows:

	Three Months Ended		Year Ended
	March 31,		December 31,
Dollars in thousands	2009	2008	2008
Balance, beginning of period	$ 16,933	$ 9,192	$ 9,192
Losses:			
Commercial	35	-	198
Commercial real estate	106	-	1,131
Construction and development	7	-	4,529
Residential real estate	279	550	1,608
Consumer	38	50	375
Other	57	46	203
Total	522	646	8,044
Recoveries:			
Commercial	4	-	4
Commercial real estate	5	3	17
Construction and development	1,502	-	-
Residential real estate	7	3	64
Consumer	19	17	72
Other	48	29	128
Total	1,585	52	285
Net losses	(1,063)	594	7,759
Provision for loan losses	4,000	1,000	15,500
Balance, end of period	$ 21,996	$ 9,598	$ 16,933

Note 8. Goodwill and Other Intangible Assets

The following tables present our goodwill at March 31, 2009 and other intangible assets at March 31, 2009, December 31, 2008, and March 31, 2008.

Dollars in thousands	Goodwill Activity
Balance, January 1, 2009	$ 6,198
Acquired goodwill, net	-
Balance, March 31, 2009	$ 6,198

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	Other Intangible Assets		
Dollars in thousands	March 31, 2009	December 31, 2008	March 31, 2008
Unidentifiable intangible assets			
Gross carrying amount	$ 2,267	$ 2,267	$ 2,267
Less: accumulated amortization	1,499	1,461	1,347
Net carrying amount	$ 768	$ 806	$ 920
Identifiable intangible assets			
Gross carrying amount	$ 3,000	$ 3,000	$ 3,000
Less: accumulated amortization	350	300	150
Net carrying amount	$ 2,650	$ 2,700	$ 2,850

We recorded amortization expense of approximately $88,000 for the three months ended March 31, 2009 relative to our other intangible assets. Annual amortization is expected to be approximately $351,000 for each of the years ending 2009 through 2011.

Note 9. Deposits

The following is a summary of interest bearing deposits by type as of March 31, 2009 and 2008 and December 31, 2008:

Dollars in thousands	March 31, 2009	December 31, 2008	March 31, 2008
Interest bearing demand deposits	$ 155,157	$ 156,990	$ 201,820
Savings deposits	94,294	61,689	53,427
Retail time deposits	379,131	380,774	332,790
Brokered time deposits	256,293	296,589	184,796
Total	$ 884,875	$ 896,042	$ 772,833

Brokered deposits represent certificates of deposit acquired through third parties. The following is a summary of the maturity distribution of all certificates of deposit in denominations of $100,000 or more as of March 31, 2009:

Dollars in thousands	Amount	Percent
Three months or less	$ 63,285	16.2%
Three through six months	72,215	18.5%
Six through twelve months	76,560	19.6%

Over twelve months		178,194	45.7%
Total	$	390,254	100.0%

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A summary of the scheduled maturities for all time deposits as of March 31, 2009 is as follows:

Dollars in thousands	
Nine month period ending December 31, 2009	$ 330,232
Year Ending December 31, 2010	149,882
Year Ending December 31, 2011	92,900
Year Ending December 31, 2012	55,887
Year Ending December 31, 2013	4,625
Thereafter	1,898
	$ 635,424

Note 10. Borrowed Funds

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

	Quarter Ended March 31, 2009		
Dollars in thousands	Short-term FHLB Advances	Repurchase Agreements	Federal Funds Purchased and Lines of Credit
Balance at March 31	$ 110,000	$ 965	$ 9,515
Average balance outstanding for the period	141,044	1,505	9,633
Maximum balance outstanding at any month end during period	184,825	2,433	9,515
Weighted average interest rate for the period	0.52%	0.39%	1.24%
Weighted average interest rate for balances outstanding at March 31	0.44%	0.35%	1.26%

	Year Ended December 31, 2008		
	Short-term		Federal Funds Purchased

Dollars in thousands	FHLB Advances	Repurchase Agreements	and Lines of Credit
Balance at December 31	$ 142,346	$ 1,613	$ 9,141
Average balance outstanding for the period	106,308	3,208	2,867
Maximum balance outstanding at any month end during period	146,821	11,458	9,141
Weighted average interest rate for the period	2.13%	1.74%	2.37%
Weighted average interest rate for balances outstanding at December 31	0.57%	0.48%	0.85%

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	Quarter Ended March 31, 2008		
Dollars in thousands	Short-term FHLB Advances	Repurchase Agreements	Federal Funds Purchased and Lines of Credit
Balance at March 31	$ 81,534	$ 11,458	$ 958
Average balance outstanding for the period	98,829	9,206	863
Maximum balance outstanding at any month end during period	82,894	11,458	958
Weighted average interest rate for the period	3.47%	2.11%	5.41%
Weighted average interest rate for balances outstanding at March 31	2.26%	1.18%	4.75%

Long-term borrowings: Our long-term borrowings of $411,098,000, $392,748,000 and $412,329,000 at March 31, 2009, December 31, 2008, and March 31, 2008 respectively, consisted primarily of advances from the Federal Home Loan Bank ("FHLB"). Included in the total is also $15 million of subordinated debt. During first quarter 2009, we issued $5 million of subordinated debt which qualifies as Tier 2 capital. This debt has an interest rate of 10 percent per annum, a term of 10 years, and is not prepayable by us within the first five years.

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

The average interest rate paid on long-term borrowings for the three month period ended March 31, 2009 was 4.59% compared to 4.65% for the first three months of 2008.

Subordinated Debentures Owed to Unconsolidated Subsidiary Trusts: We have three statutory business trusts that were formed for the purpose of issuing mandatorily redeemable securities (the "capital securities") for which we are obligated to third party investors and investing the proceeds from the sale of the capital securities in our junior subordinated debentures (the "debentures"). The debentures held by the trusts are their sole assets. Our subordinated debentures totaled $19,589,000 at March 31, 2009, December 31, 2008, and March 31, 2008.

In October 2002, we sponsored SFG Capital Trust I, in March 2004, we sponsored SFG Capital Trust II, and in December 2005, we sponsored SFG Capital Trust III, of which 100% of the common equity of each trust is owned by us. SFG Capital Trust I issued $3,500,000 in capital securities and $109,000 in common securities and invested the proceeds in $3,609,000 of debentures. SFG Capital Trust II issued $7,500,000 in capital securities and $232,000 in common securities and invested the proceeds in $7,732,000 of debentures. SFG Capital Trust III issued $8,000,000 in capital securities and $248,000 in common securities and invested the proceeds in $8,248,000 of debentures. Distributions on the capital securities issued by the trusts are payable quarterly at a variable interest rate equal to 3 month LIBOR plus 345 basis points for SFG Capital Trust I, 3 month LIBOR plus 280 basis points for SFG Capital Trust II, and 3 month LIBOR plus 145 basis points for SFG Capital Trust III, and equals the interest rate

earned on the debentures held by the trusts, and is recorded as interest expense by us. The capital securities are subject to mandatory redemption in whole or in part, upon repayment of the debentures. We have entered into agreements which, taken collectively, fully and unconditionally guarantee the capital securities subject to the terms of the guarantee. The debentures of SFG Capital Trust I and SFG Capital Trust II are redeemable by us quarterly, and the debentures of SFG Capital Trust III are first redeemable by us in March 2011.

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The capital securities held by SFG Capital Trust I, SFG Capital Trust II, and SFG Capital Trust III qualify as Tier 1 capital under Federal Reserve Board guidelines. In accordance with these Guidelines, trust preferred securities generally are limited to 25% of Tier 1 capital elements, net of goodwill. The amount of trust preferred securities and certain other elements in excess of the limit can be included in Tier 2 capital.

A summary of the maturities of all long-term borrowings and subordinated debentures for the next five years and thereafter is as follows:

Dollars in thousands Year Ending December 31,		Amount
2009	$	57,262
2010		76,481
2011		32,459
2012		64,915
2013		40,080
Thereafter		159,490
	$	430,687

Note 11. Stock Option Plan

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

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

The Officer Stock Option Plan, which provided for the granting of stock options for up to 960,000 shares of common stock to our key officers, was adopted in 1998 and expired in May, 2008. Each option granted under the plan vested according to a schedule designated at the grant date and had a term of no more than 10 years following the vesting date. Also, the option price per share was not to be less than the fair market value of our common stock on the date of grant.

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The fair value of our employee stock options granted is estimated at the date of grant using the Black-Scholes option-pricing model. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. Additionally, there may be other factors that would otherwise have a significant effect on the value of employee stock options granted but are not considered by the model. Because our employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options at the time of grant. There were no option grants during the first three months of 2009 or 2008.

All compensation cost related to nonvested awards was previously recognized prior to January 1, 2009. During first quarter 2008, we recognized $3,000 of compensation expense for share-based payment arrangements in our income statement, with a deferred tax asset of $1,000.

A summary of activity in our Officer Stock Option Plan during the first quarters of 2009 and 2008 is as follows:

	For the Quarter Ended			
	March 31, 2009		March 31, 2008	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding, January 1	335,730	$ 18.36	337,580	$ 18.28
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding, March 31	335,730	$ 18.36	337,580	$ 18.28

Other information regarding options outstanding and exercisable at March 31, 2009 is as follows:

	Options Outstanding				Options Exercisable		
Range of exercise price	# of shares	WAEP	Wted. Avg. Remaining Contractual Life (yrs)	Aggregate Intrinsic Value (in thousands)	# of shares	WAEP	Aggregate Intrinsic Value (in thousands)
$ 4.63 - $6.00	69,750	$ 5.37	3.81	$ 175	69,750	$ 5.37	$ 175
6.01 - 10.00	31,680	9.49	6.76	0	31,680	9.49	-
	3,500	17.43	4.92	-	3,500	17.43	-

10.01 - 17.50									
17.51 - 20.00	52,300	17.79	7.75		-	51,900	17.79		-
20.01 - 25.93	178,500	25.19	6.32		-	178,500	25.19		-
	335,730	18.36		$	175	335,330	18.36	$	175

Note 12. Commitments and Contingencies

Off-Balance Sheet Arrangements

We are a party to certain financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of our customers. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statement of financial position. The contract amounts of these instruments reflect the extent of involvement that we have in this class of financial instruments.

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Many of our lending relationships contain both funded and unfunded elements. The funded portion is reflected on our balance sheet. The unfunded portion of these commitments is not recorded on our balance sheet until a draw is made under the loan facility. Since many of the commitments to extend credit may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash flow requirements.

A summary of the total unfunded, or off-balance sheet, credit extension commitments follows:

Dollars in thousands	March 31, 2009
Commitments to extend credit:	
Revolving home equity and credit card lines	$ 44,676
Construction loans	55,506
Other loans	41,139
Standby letters of credit	9,440
Total	$ 150,761

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. We evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if we deem necessary upon extension of credit, is based on our credit evaluation. Collateral held varies but may include accounts receivable, inventory, equipment or real estate.

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party.

Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance sheet instruments.

Note 13. Restrictions on Capital

We and our subsidiaries are subject to various regulatory capital requirements administered by the banking regulatory agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we and each of our subsidiaries must meet specific capital guidelines that involve quantitative measures of our and our subsidiaries' assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. We and each

of our subsidiaries' capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require us and each of our subsidiaries to maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). We believe, as of March 31, 2009, that we and each of our subsidiaries met all capital adequacy requirements to which they were subject.

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

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

	Actual		Minimum Required Regulatory Capital		To be Well Capitalized under Prompt Corrective Action Provisions	
Dollars in thousands	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of March 31, 2009						
Total Capital (to risk-weighted assets)						
Summit	$ 131,644	10.8%	$ 97,201	8.0%	$ 121,501	10.0%
Summit Community	131,080	10.9%	96,594	8.0%	120,743	10.0%
Tier 1 Capital (to risk-weighted assets)						
Summit	101,360	8.3%	48,600	4.0%	72,901	6.0%
Summit Community	115,890	9.6%	48,297	4.0%	72,446	6.0%
Tier 1 Capital (to average assets)						
Summit	101,360	6.2%	48,699	3.0%	81,165	5.0%
Summit Community	115,890	7.2%	48,045	3.0%	80,074	5.0%
As of December 31, 2008						
Total Capital (to risk-weighted assets)						
Summit	$ 125,091	10.0%	$ 99,694	8.0%	$ 124,618	10.0%
Summit Community	129,369	10.4%	99,225	8.0%	124,031	10.0%
Tier 1 Capital (to risk-weighted assets)						
Summit	99,497	8.0%	49,847	4.0%	74,771	6.0%
Summit Community	113,841	9.2%	49,612	4.0%	74,418	6.0%
Tier 1 Capital (to average assets)						
Summit	99,497	6.3%	47,707	3.0%	79,512	5.0%
Summit Community	113,841	7.2%	47,143	3.0%	78,571	5.0%

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INTRODUCTION

The following discussion and analysis focuses on significant changes in our financial condition and results of operations of Summit Financial Group, Inc. ("Company" or "Summit") and our operating units, Summit Community Bank ("Summit Community"), and Summit Insurance Services, LLC for the periods indicated. Although our business operates as two separate segments, the insurance segment is not a reportable segment as it is immaterial, and thus our financial information is presented on an aggregated basis. This discussion and analysis should be read in conjunction with our 2008 audited financial statements and Annual Report on Form 10-K and Form 10-K/A.

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

OVERVIEW

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

Growth in our interest earning assets for the first three months in 2009 compared to the same period of 2008 resulted in an increase of 3.22%, or $364,000, in our net interest earnings on a tax equivalent basis. Increased nonaccrual loans continue to negatively impact our net interest earnings and margin.

CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and follow general practices within the financial services industry. Application of these principles requires us to make estimates, assumptions, and judgments that affect the amounts reported in our financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments and as such have a greater possibility of producing results that could be materially different than originally reported.

Our most significant accounting policies are presented in Note 1 to the consolidated financial statements of our 2008 Annual Report on Form 10-K/A. These policies, along with the disclosures presented in the other financial statement notes and in this financial review, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined.

Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, we have identified the determination of the allowance for loan losses, the valuation of goodwill, and fair value measurements to be the accounting areas that require the most

subjective or complex judgments, and as such could be most subject to revision as new information becomes available.

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The allowance for loan losses represents our estimate of probable credit losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows
on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset type on our consolidated balance sheet. To the extent actual outcomes differ from our estimates, additional provisions for loan losses may be required that would negatively impact earnings in future periods. Note 1 to the consolidated financial statements of our 2008 Annual Report on Form 10-K/A describes the methodology used to determine the allowance for loan losses and a discussion of the factors driving changes in the amount of the allowance for loan losses is included in the Asset Quality section of the financial review of the 2008 Annual Report on Form 10-K/A.

Goodwill is subject to impairment testing at least annually to determine whether write-downs of the recorded balances are necessary. A fair value is determined based on at least one of three various market valuation methodologies. If the fair value equals or exceeds the book value, no write-down of recorded goodwill is necessary. If the fair value is less than the book value, an expense may be required on our books to write down the goodwill to the proper carrying value. During the third quarter, we will complete the required annual impairment test for 2009. We cannot assure you that future goodwill impairment tests will not result in a charge to earnings. See Notes 1 and 10 of the consolidated financial statements of our Annual Report on Form 10-K/A for further discussion of our intangible assets, which include goodwill.

Statement of Financial Accounting Standards No. 157 ("SFAS 157"), Fair Value Measurements, provides a definition of fair value, establishes a framework for measuring fair value, and requires expanded disclosures about fair value measurements. Fair value is the price that could be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Based on the observability of the inputs used in the valuation techniques, we classify our financial assets and liabilities measured and disclosed at fair value in accordance with the three-level hierarchy (e.g., Level 1, Level 2 and Level 3) established under SFAS 157. Fair value determination in accordance with SFAS 157 requires that we make a number of significant judgments. In determining the fair value of financial instruments, we use market prices of the same or similar instruments whenever such prices are available. We do not use prices involving distressed sellers in determining fair value. If observable market prices are unavailable or impracticable to obtain, then fair value is estimated using modeling techniques such as discounted cash flow analyses. These modeling techniques incorporate our assessments regarding assumptions that market participants would use in pricing the asset or the liability, including assumptions about the risks inherent in a particular valuation technique and the risk of nonperformance.

Fair value is used on a recurring basis for certain assets and liabilities in which fair value is the primary basis of accounting. Additionally, fair value is used on a non-recurring basis to evaluate assets or liabilities for impairment or for disclosure purposes in accordance with SFAS No. 107, Disclosures About Fair Value of Financial Instruments.

RESULTS OF OPERATIONS

Earnings Summary

Net income for the quarter ended March 31, 2009 declined 53.84% to $1,765,000, or $0.24 per diluted share as compared to $3,824,000, or $0.51 per diluted share for the quarter ended March 31, 2008. Returns on average equity and assets for the first three months of 2009 were 7.94% and 0.43%, respectively, compared with 16.55% and 1.06% for the same period of 2008. This decrease is primarily attributable to the $4.0 million loan loss provision during first quarter 2009 compared to $1.0 million in first quarter 2008 due to our increased nonperforming loans.

Net Interest Income

Net interest income is the principal component of our earnings and represents the difference between interest and fee income generated from earning assets and the interest expense paid on deposits and borrowed funds. Fluctuations in interest rates as well as changes in the volume and mix of earning assets and interest bearing liabilities can materially impact net interest income.

Our consolidated net interest income on a fully tax-equivalent basis totaled $11,654,000 for the three month period ended March 31, 2009 compared to $11,290,000 for the same period of 2008, representing an increase of $364,000 or 3.22%. This increase resulted from growth in interest earning assets, primarily loans. Average interest earning assets grew 12.30% from $1,384,816,000 during the first three months of 2008 to $1,555,109,000 for the first three months of 2009. The yield on interest earning assets declined to 6.08% for the quarter ended March 31, 2009 from 7.03% for the comparable period of 2008. Average interest bearing liabilities grew 13.51% from $1,279,084,000 at March 31, 2008 to $1,451,892,000 at March 31, 2009, at an average yield for the first three months of 2009 of 3.26% compared to 4.06% for the same period of 2008.

Our consolidated net interest margin decreased to 3.04% for the three month period ended March 31, 2009, compared to 3.28% for the same period in 2008. Our net interest margin remained unchanged compared to the linked quarter. The decline in margin when compared to March 31, 2008 was driven primarily by the reversal of loan interest income related to nonaccrual loans placed on nonaccrual status during first quarter 2009 and the continued reduction in interest income as a result of higher levels of loans remaining on nonaccrual. In addition, our margin continues to be pressured by an extremely competitive environment, both for loans and deposits. The present continued low interest rate environment has served to positively impact our net interest margin due to our liability sensitive balance sheet. For the three months ended March 31, 2009 compared to March 31, 2008, the yields on earning assets decreased 95 basis points, while the cost of our interest bearing funds decreased by 80 basis points.

We anticipate a stable net interest margin in the near term as we do not expect interest rates to rise in the near future, we do not expect significant growth in our interest earning assets, nor do we expect our nonperforming asset balances to decline significantly in the near future. We continue to monitor the net interest margin through net interest income simulation to minimize the potential for any significant negative impact. See the “Market Risk Management” section for further discussion of the impact changes in market interest rates could have on us. Further analysis of our yields on interest earning assets and interest bearing liabilities are presented in Tables I and II below.

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Table I - Average Balance Sheet and Net Interest Income Analysis

Dollars in thousands	For the Three Months Ended March 31, 2009			March 31, 2008		
	Average Balance	Earnings/ Expense	Yield/ Rate	Average Balance	Earnings/ Expense	Yield/ Rate
Interest earning assets						
Loans, net of unearned income						
Taxable	$ 1,202,666	$ 18,146	6.12%	$ 1,073,218	$ 19,948	7.48%
Tax-exempt (1)	7,954	162	8.26%	8,949	183	8.22%
Securities						
Taxable	298,157	4,224	5.75%	251,767	3,196	5.11%
Tax-exempt (1)	46,040	777	6.84%	50,426	879	7.01%
Federal funds sold and interest bearing deposits with other banks	292	-	0.00%	456	4	3.53%
Total interest earning assets	1,555,109	23,309	6.08%	1,384,816	24,210	7.03%
Noninterest earning assets						
Cash & due from banks	17,376			12,613		
Premises and equipment	22,720			22,110		
Other assets	47,453			35,585		
Allowance for loan losses	(19,367)			(9,533)		
Total assets	$ 1,623,291			$ 1,445,591		
Interest bearing liabilities						
Interest bearing demand deposits	$ 153,938	$ 195	0.51%	$ 207,661	$ 930	1.80%
Savings deposits	75,096	341	1.84%	46,551	195	1.68%
Time deposits	646,913	6,084	3.81%	506,036	5,999	4.77%
Short-term borrowings	152,181	213	0.57%	108,898	919	3.39%
Long-term borrowings						
	423,764	4,822	4.61%	409,938	4,877	4.78%

and capital trust securities						
Total interest bearing liabilities	1,451,892	11,655	3.26%	1,279,084	12,920	4.06%
Noninterest bearing liabilities						
and shareholders' equity						
Demand deposits	74,492			64,472		
Other liabilities	8,017			9,604		
Shareholders' equity	88,890			92,431		
Total liabilities and shareholders' equity	$ 1,623,291			$ 1,445,591		
Net interest earnings		$ 11,654			$ 11,290	
Net yield on interest earning assets			3.04%			3.28%

(1) - Interest income on tax-exempt securities has been adjusted assuming an effective tax rate of 34% for all periods presented.
The tax equivalent adjustment resulted in an increase in interest income of $351,000 and $319,000 for the periods ended
March 31, 2009 and March 31, 2008, respectively.

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

	For the Quarter Ended March 31, 2009 versus March 31, 2008 Increase (Decrease) Due to Change in:		
	Volume	Rate	Net
Interest earned on:			
Loans			
Taxable	$ 2,180	$ (3,982)	$ (1,802)
Tax-exempt	(21)	-	(21)
Securities			
Taxable	612	416	1,028
Tax-exempt	(80)	(22)	(102)
Federal funds sold and interest bearing deposits with other banks	(1)	(3)	(4)
Total interest earned on interest earning assets	2,690	(3,591)	(901)
Interest paid on:			
Interest bearing demand deposits	(195)	(540)	(735)
Savings deposits	127	19	146
Time deposits	1,450	(1,365)	85
Short-term borrowings	268	(974)	(706)
Long-term borrowings and capital trust securities	143	(198)	(55)
Total interest paid on interest bearing liabilities	1,793	(3,058)	(1,265)
Net interest income	$ 897	$ (533)	$ 364

Noninterest Income

Total noninterest income decreased to $2,440,000 for the first quarter of 2009, compared to $2,848,000 for the same period of 2008, with insurance commissions, service fees from deposit accounts, and changes in fair value of derivative instruments being the primary components. Further detail regarding noninterest income is reflected in the following table.

Noninterest Income	For the Quarter Ended March 31,

Dollars in thousands		2009		2008
Insurance commissions	$	1,344	$	1,327
Service fees		735		743
Realized securities gains		256		-
Other-than-temporary impairment of securities		(215)		-
Net cash settlement on derivative instruments		-		(170)
Change in fair value of derivative instruments		-		705
(Loss) on sale of assets		(9)		-
Other		329		243
Total	$	2,440	$	2,848

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

Noninterest Expense

Total noninterest expense increased approximately $662,000, or 9.3% to $7,751,000 during the first three months of 2009 as compared to the same period in 2008. Professional fees and FDIC premiums represented the largest categories of expense growth. Table III below shows the breakdown of these increases.

Table III - Noninterest Expense

	For the Quarter Ended March 31,			
		Change		
Dollars in thousands	2009	$	%	2008
Salaries and employee benefits	$ 4,279	$ (116)	-2.6%	$ 4,395
Net occupancy expense	597	121	25.4%	476
Equipment expense	568	34	6.4%	534
Supplies	194	-	0.0%	194
Professional fees	334	216	183.1%	118
Amortization of intangibles	88	-	0.0%	88
FDIC premiums	383	209	120.1%	174
Other	1,308	198	17.8%	1,110
Total	$ 7,751	$ 662	9.3%	$ 7,089

Salaries and employee benefits: The 2.6% decrease in salaries and employee benefits was primarily due to decreased incentive compensation payments.

Professional fees: The $216,000 increase in professional fees is primarily attributable to legal expenses, a large part of which relates to foreclosed properties.

FDIC premiums: These increased premiums resulted from higher rates charged by the FDIC.

Credit Experience

The provision for loan losses represents charges to earnings necessary to maintain an adequate allowance for potential future loan losses. Our determination of the appropriate level of the allowance is based on an ongoing analysis of credit quality and loss potential in the loan portfolio, change in the composition and risk characteristics of the loan portfolio, and the anticipated influence of national and local economic conditions. The adequacy of the allowance for loan losses is reviewed quarterly and adjustments are made as considered necessary.

We recorded a $4,000,000 provision for loan losses for the first three months of 2009, compared to $1,000,000 for the same period in 2008. Net loan recoveries for the first three months of 2009 were $1,063,000, as compared to net

charge offs of $594,000 over the same period of 2008. At March 31, 2009, the allowance for loan losses totaled $21,996,000 or 1.82% of loans, net of unearned income, compared to $16,933,000 or 1.40% of loans, net of unearned income at December 31, 2008.

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

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

	March 31, 2009	2008	December 31, 2008
Accruing loans past due 90 days or more	$ 332	$ 2,821	$ 1,039
Nonperforming assets:			
Nonaccrual loans	79,250	11,136	46,930
Foreclosed properties	7,807	2,183	8,110
Repossessed assets	18	22	3
Total	$ 87,407	$ 16,162	$ 56,082
Total nonperforming loans as a percentage of total loans	6.58%	1.28%	3.97%
Total nonperforming assets as a percentage of total assets	5.47%	1.10%	3.45%

Due to current declining economic conditions, borrowers have in many cases been unable to refinance their loans due to a range of factors including declining property values. As a result, we have experienced higher delinquencies and nonperforming assets, particularly in our residential real estate loan portfolios and in commercial construction loans to residential real estate developers. It is not known when the housing market will stabilize. While management anticipates loan delinquencies will remain higher than historical levels for the foreseeable future, we anticipate that nonperforming assets will remain elevated in the near term.

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

Loans Past Due 30-89 Days

Dollars in thousands	March 31, 2009	2008	December 31, 2008
Commercial	$ 144	$ 321	$ 114
Commercial real estate	3,985	1,249	195
Construction and development	5,559	1,059	2,722
Residential real estate	10,291	3,792	5,009
Consumer	646	946	824
Total	$ 20,625	$ 7,367	$ 8,864

The following table shows our nonperforming loans by category as of March 31, 2009 and 2008 and December 31, 2008.

Nonperforming Loans by Type

Dollars in thousands	March 31, 2009	March 31, 2008	December 31, 2008
Commercial	$ 637	$ 695	$ 199
Commercial real estate	25,788	5,095	24,323
Land development and construction	45,194	3,694	18,382
Residential real estate	7,933	4,247	4,986
Consumer	31	226	79
Total	$ 79,583	$ 13,957	$ 47,969

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Commercial real estate nonperforming: One borrower -- a hotel, conference and golf course facility near Front Royal, Virginia -- comprises 92% of the balance of nonperforming commercial real estate loans at March 31, 2009. The debtor has filed for bankruptcy reorganization, and we expect this problem credit to be resolved within the next 12 months.

Land development and construction nonperforming: 63% of the land development and construction nonperforming assets are related to residential development projects while 37% are commercial construction projects. 90 percent of the residential related nonperforming loans is comprised of six credits as follows:

Description	Location	Balance (in millions)
Residential subdivision	Berkeley County, WV	$ 9.5
Residential lots	Berkeley County, WV	5.4
Residential subdivision and acreage	Berkeley County, WV	3.4
Residential subdivision and acreage	Rockingham County, VA	2.8
Residential lots and subdivision	Front Royal, VA	2.4
Residential lots	Frederick County, VA	2.1

One relationship with a commercial contractor comprises $14.8 million, or 88%, of the commercial construction nonperforming loans.

Residential real estate nonperforming: Nonperforming residential real estate loans continued to increase during first quarter 2009 as many borrowers have been unable to make their payments due to a range of factors stemming from current declining economic conditions.

All nonperforming loans are individually reviewed and adequate reserves are in place. The majority of nonperforming loans are secured by real property with values supported by appraisals.

As a result of our internal loan review process, the ratio of internally classified loans to total loans increased from 9.18% at December 31, 2008 to 10.92% at March 31, 2009. Our internal loan review process includes a watch list of loans that have been specifically identified through the use of various sources, including past due loan reports, previous internal and external loan evaluations, classified loans identified as part of regulatory agency loan reviews and reviews of new loans representative of current lending practices. Once this watch list is reviewed to ensure it is complete, we review the specific loans for collectibility, performance and collateral protection. In addition, a grade is assigned to the individual loans utilizing internal grading criteria, which is somewhat similar to the criteria utilized by our subsidiary bank's primary regulatory agency. The increase in internally classified loans at March 31, 2009 occurred throughout our portfolios of real estate related loans, as shown in the table below, as several of these loans have been downgraded by management as they fell outside of our internal lending policy guidelines, became past due or were placed on nonaccrual status. Refer to the Asset Quality section of the financial review of the 2008 Annual Report on Form 10-K/A for further discussion of the processes related to internally classified loans.

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Internally Classified Loans

Dollars in thousands	3/31/2009	12/31/2008
Commerical	$ 993	$ 984
Commercial real estate	42,185	30,435
Land development & construction	66,890	60,589
Residential real estate	21,552	18,405
Consumer	505	633
Total	$ 132,125	$ 111,046

In addition to nonperforming loans discussed above, we have also identified approximately $7 million of potential problem loans at March 31, 2009 related to 8 relationships. These potential problem loans are loans that were performing at March 31, 2009, but known information about possible credit problems of the related borrowers causes management to have concerns as to the ability of such borrowers to comply with the current loan repayment terms and which may result in disclosure of such loans as nonperforming at some time in the future. Management cannot predict the extent to which economic conditions may worsen or other factors which may impact borrowers and the potential problem loans. Accordingly, there can be no assurance that other loans will not become 90 days or more past due, be placed on nonaccrual, or require increased allowance coverage and provision for loan losses.

FINANCIAL CONDITION

Our total assets were $1,598,968,000 at March 31, 2009, compared to $1,627,116,000 at December 31, 2008, representing a 1.7% decrease. Table V below serves to illustrate significant changes in our financial position between December 31, 2008 and March 31, 2009.

Table V - Summary of Significant Changes in Financial Position

	Balance December 31,	Increase (Decrease)		Balance March 31,
Dollars in thousands	2008	Amount	Percentage	2009
Assets				
Securities available for sale	$ 327,606	(31,900)	-9.7%	$ 295,706
Loans, net of unearned income	1,209,090	(1,052)	-0.1%	1,208,038
Liabilities				
Deposits	$ 965,850	$ (10,492)	-1.1%	$ 955,358

Short-term borrowings	153,100	(32,620)	-21.3%	120,480
Long-term borrowings and subordinated debentures	412,337	18,350	4.5%	430,687

Deposits decreased approximately $10 million during the first quarter of 2009. This decrease was attributable to a $30 million growth in retail deposits offset by a $40 million decrease in brokered deposits. We also repaid a portion of our overnight FHLB borrowings with securities cash flows and replaced approximately $13 million of them with longer term FHLB borrowings and also issued $5 million in subordinated debt.

Refer to Notes 5, 6, 9, and 10 of the notes to the accompanying consolidated financial statements for additional information with regard to changes in the composition of our available for sale securities, loans, deposits and borrowings between March 31, 2009 and December 31, 2008.

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LIQUIDITY

Liquidity reflects our ability to ensure the availability of adequate funds to meet loan commitments and deposit withdrawals, as well as provide for other transactional requirements. Liquidity is provided primarily by funds invested in cash and due from banks, Federal funds sold, non-pledged securities, and available lines of credit with the FHLB, the total of which approximated $171 million, or 10.7% of total assets at March 31, 2008 versus $174 million, or 10.7% of total assets at December 31, 2008.

Our liquidity position is monitored continuously to ensure that day-to-day as well as anticipated funding needs are met. We are not aware of any trends, commitments, events or uncertainties that have resulted in or are reasonably likely to result in a material change to our liquidity.

CAPITAL RESOURCES

One of our continuous goals is maintenance of a strong capital position. Through management of our capital resources, we seek to provide an attractive financial return to our shareholders while retaining sufficient capital to support future growth. Shareholders' equity at March 31, 2009 totaled $83,604,000 compared to $87,244,000 at December 31, 2008.

During first quarter 2009, we issued $5 million of subordinated debt which qualifies as Tier 2 capital. This debt has an interest rate of 10 percent per annum, a term of 10 years, and is not prepayable by us within the first five years.

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

CONTRACTUAL CASH OBLIGATIONS

During our normal course of business, we incur contractual cash obligations. The following table summarizes our contractual cash obligations at March 31, 2009.

Dollars in thousands	Long Term Debt	Capital Trust Securities	Operating Leases
2009	$ 57,262	$ -	$ 372
2010	76,481	-	228
2011	32,459	-	148
2012	64,915	-	149
2013	40,080	-	119
Thereafter	139,901	19,589	22
Total	$ 411,098	$ 19,589	$ 1,038

OFF-BALANCE SHEET ARRANGEMENTS

We are involved with some off-balance sheet arrangements that have or are reasonably likely to have an effect on our financial condition, liquidity, or capital. These arrangements at March 31, 2009 are presented in the following table.

Dollars in thousands	March 31, 2009
Commitments to extend credit:	
Revolving home equity and credit card lines	$ 44,676
Construction loans	55,506
Other loans	41,139
Standby letters of credit	9,440
Total	$ 150,761

MARKET RISK MANAGEMENT

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, exchange rates and equity prices. Interest rate risk is our primary market risk and results from timing differences in the repricing of assets, liabilities and off-balance sheet instruments, changes in relationships between rate indices and the potential exercise of imbedded options. The principal objective of asset/liability management is to minimize interest rate risk and our actions in this regard are taken under the guidance of our Asset/Liability Management Committee ("ALCO"), which is comprised of members of senior management and members of the Board of Directors. The ALCO actively formulates the economic assumptions that we use in our financial planning and budgeting process and establishes policies which control and monitor our sources, uses and prices of funds.

Some amount of interest rate risk is inherent and appropriate to the banking business. Our net income is affected by changes in the absolute level of interest rates. Our interest rate risk position is liability sensitive. That is, absent any changes in the volumes of our interest earning assets or interest bearing liabilities, liabilities are likely to reprice faster than assets, resulting in a decrease in net income in a rising rate environment. Net income would increase in a falling interest rate environment. Net income is also subject to changes in the shape of the yield curve. In general, a flattening yield curve would result in a decline in our earnings due to the compression of earning asset yields and funding rates, while a steepening would result in increased earnings as margins widen.

Several techniques are available to monitor and control the level of interest rate risk. We primarily use earnings simulations modeling to monitor interest rate risk. The earnings simulation model forecasts the effects on net interest income under a variety of interest rate scenarios that incorporate changes in the absolute level of interest rates and changes in the shape of the yield curve. Each increase or decrease in interest rates is assumed to gradually take place over the next 12 months, and then remain stable. Assumptions used to project yields and rates for new loans and deposits are derived from historical analysis. Securities portfolio maturities and prepayments are reinvested in like instruments. Mortgage loan prepayment assumptions are developed from industry estimates of prepayment

speeds. Noncontractual deposit repricings are modeled on historical patterns.

The following table shows our projected earnings sensitivity as of March 31, 2009 which is well within our ALCO policy limit of +/- 10%:

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

Change in Interest Rates	Estimated % Change in Net Interest Income Over:	
(basis points)	0 - 12 Months	13 - 24 Months
Down 100 (1)	-0.03%	3.77%
Up 100 (1)	-2.05%	-0.24%
Up 200 (1)	-3.60%	-2.31%
Up 400 (2)	-3.77%	-3.68%

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

CONTROLS AND PROCEDURES

Our management, including the Chief Executive Officer and Chief Financial Officer, has conducted as of March 31, 2009, an evaluation of the effectiveness of disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures as of March 31, 2009 were effective. There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K/A for the year ended December 31, 2008, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K/A are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SUMMIT FINANCIAL GROUP, INC.
(registrant)

By: /s/ H. Charles Maddy, III
H. Charles Maddy, III,
President and Chief Executive Officer

By: /s/ Robert S. Tissue
Robert S. Tissue,
Senior Vice President and Chief Financial Officer

By: /s/ Julie R. Cook
Julie R. Cook,
Vice President and Chief Accounting Officer

Date: May 8, 2009