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September 27, 2010

Mr. Russell G. Golden, Technical Director Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116

RE: File Reference No. 1810-100, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities

Dear Mr. Golden:

Summit Financial Group, Inc. ("Summit") appreciates the opportunity to comment on the Financial Accounting Standards Board's ("FASB's") Proposed Accounting Standards Update, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities (the "Proposed ASU"). Summit is a \$1.5 billion bank holding company with 15 banking offices located in West Virginia and Virginia.

Summit supports the FASB's efforts to develop a comprehensive framework which addresses the accounting for financial instruments. Further, we are supportive of an impairment model that allows for earlier recognition of expected credit losses and a more-simplified approach to account for derivatives and hedging activities. However, we have extraordinary conceptual and operational concerns with many fundamental aspects of the Proposed ASU.

CLASSIFICATION AND MEASUREMENT

We strongly oppose the expansion of fair value as the primary balance sheet measurement attribute for virtually all financial instruments for the following reasons:

The business strategy of an enterprise should not be dictated by its accounting model.

Accounting for all loans, deposits and virtually all other financial assets and liabilities will introduce significant volatility into the recorded balances on banks' balance sheets. As a consequence, banks will likely be forced to alter their business strategies and investment decisions to compensate for the volatility created by the Proposed ASU. In so doing, banks will either avoid offering certain products (e.g. long-term fixed rate loans), stop engaging in business activities with accounting volatility that is more magnified than the actual economic

300 North Main Street P.O. Box 179 Moorefield, WV 26836 Phone 304.530.1000 Fax 304.530.2188 Mr. Russell G. Golden September 27, 2010 Page 2

volatility, bear the full impact of this volatility, or incur the incremental cost of attempting to hedge such accounting risks in order to avoid fluctuations in market values. Further, investors may be inclined to place greater emphasis on short-term fluctuations in the value of long duration financial assets, to the detriment of their ability to discern the long-term earnings power of their investment, which would make it even more difficult for banks to obtain capital.

The role of an accounting model should be to provide a framework to recognize actual results and explain the impact of decisions made by management. An accounting model should not ever be the primary driver of management behavior. The Proposed ASU's requirement to use fair value as the primary measurement attribute for virtually all financial instruments disconnects completely from the current, well understood and globally accepted mixed-attribute model's emphasis on management's intended business strategy (i.e. held for investment vs. held for sale vs. held for trading). Amortized cost remains the most relevant measure for financial assets held for investment, and financial liabilities, such as deposits and most forms of debt, which are used to fund such assets. In short, community banks like Summit are in the business of managing customer credit and customer relationships, and not managing fair value.

Requiring fair value of financial instruments for which no market exists inherently diminishes financial statement reliability.

Reliable financial information is basic to effective financial reporting. The majority of the loans held in Summit's portfolio, which would be measured at fair value under the Proposed ASU, have no discernable market in which to determine fair value. Accordingly, the determination of fair value for these instruments would be based upon "Level 3" valuation techniques. Such highly subjective valuations -- due to the unique terms with respect to the individual loans, differing underwriting standards from bank to bank, and varying perceptions relative to liquidity discounts -- will necessarily compromise the integrity and comparability of reported results, reduce financial statement user confidence, and ultimately lead to an increased cost of capital for our bank.

Capital is the most critical financial measure to banks' stakeholders. Whether referenced by regulators and depositors who are interested in bank safety and soundness or by investors who analyze return on equity and forecast future capital needs, both groups closely focus on bank capital levels. Unfortunately, the reliability of reported bank capital will be more questionable if virtually all financial instruments are "marked-to-market". As we discussed above, due to the lack of any active markets for and the resulting subjective valuations of the vast majority of the financial instruments on our bank's balance sheet, our reported capital will necessarily not satisfy adequate thresholds for reliability and comparability.

We concur wholeheartedly with the comments of FASB Board members, Leslie Seidman and Lawrence Smith, who stated (in paragraph BC244 of the Proposed ASU) they, "dissent

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from several aspects of the proposed guidance, primarily because it would introduce fair value accounting for some nonmarketable, plain-vanilla instruments that are held for collection (long-term investment), and most liabilities held for payment, which they believe would not reflect the likely realization of those items in cash and, therefore, would not be the most relevant way to measure those items in the statement of financial position and comprehensive income."

Most financial statement users do not support fair value as the primary measure for all financial instruments.

The overwhelming feedback we have received from the investors in our bank as well as the analysts who follow our bank is consistent with the results of surveys and roundtable discussions conducted by major accounting firms, bank trade organizations and bank regulators – which is the vast majority of long-term bank investors and the investment professionals who follow banks do not support fair value as the sole accounting model for all financial instruments. Indeed, users of our bank's financial statements are much more concerned with and give strong precedence to traditional performance measures, such as credit performance, net interest margin, capital strength, and asset-liability management, than they do to the fair value information which is already presented in the footnotes to our financial statements. The FASB should not disregard the views of the banking industry, its regulators and the professional analysts who cover the industry, all of whom oppose this aspect of the Proposed ASU.

CREDIT IMPAIRMENT

While we are generally supportive of an impairment model which allows for earlier recognition of expected credit losses, we believe there are significant weaknesses in the Proposed ASU's credit impairment model, as follows.

 Future conditions or events must be considered in determination of expected credit losses.

Summit appreciates that the FASB acknowledged that considerable judgment is required in estimating impairment losses and agrees that a longer loss emergence period than that currently contained in the accounting literature is appropriate. However, we do not support the FASB's decision to only allow the consideration of past events and existing conditions when determining the amount of expected losses (i.e. we must assume that economic conditions existing at the reporting date will remain unchanged for the remaining lives of the related assets being evaluated). Precluding the consideration of such information from the determination of expected credit losses is not consistent with sound credit management or a financial statement user's view of inherent credit risk.

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- Accounting for subsequent changes in expected credit losses must be symmetrical. We urge the FASB to ensure the symmetrical accounting of subsequent changes in expected credit losses for all assets subject to the assessment of credit impairment. We do not support a model where adverse changes in expected losses are recognized immediately in earnings and positive changes in expected losses are accounted for prospectively over time. The treatment of changes in expected credit losses symmetrically will ensure banks are not unduly penalized when expected credit losses deteriorate.
- We strongly recommend that the income recognition proposal be dropped.

We understand the conceptual thinking behind the requirement to record income based on an amortized cost that is calculated after applying the allowance for loan losses. However bank financial statement users place high reliance on their analyses of net interest rate margins and of credit losses, and have a strong desire to evaluate a bank's credit risk management performance separately and distinctly from its interest rate risk management performance. Further, the costs of implementing the systems to accomplish this would be substantial, as accounting systems currently in use do not possess such ability.

DERIVATIVES AND HEDGE ACCOUNTING

We are supportive of a simplified approach to accounting for derivatives and hedging. We strongly support the reasonably effective threshold for hedge accounting, the related relaxed requirements for the assessment of hedge effectiveness, as well as the continuation of the bifurcation-by-risk approach to hedging. We are hopeful that the FASB will retain the preceding proposals regardless of any changes that are made with respect to the Classification and Measurement and Credit Impairment provisions of the Proposed ASU.

Again, we very much appreciate this opportunity to comment at the invitation of the FASB on these issues which are of paramount importance to our bank. If you have any questions, please feel free to contact either of us at (304) 530-1000.

Sincerely.

H. Charles Maddy, III, CPA

President and Chief Executive Officer

Robert S. Tissue, CPA Senior Vice President and Chief Financial Officer