

FORM 10 - QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended March 31, 1996

Commission File Number 0-16587

South Branch Valley Bancorp, Inc.

(Exact name of small business issuer as
specified in its charter)

West Virginia 55-0672148

(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification No.)

310 North Main Street
Moorefield, West Virginia 26836

(Address of principal executive offices) (Zip Code)

(304) 538-2353

(Issuer's telephone number, including area code)

Check whether the issuer: (1) filed all reports required by Section
13 or 15(d) of the Exchange Act during the past 12 months (or for
such shorter period that the registrant was required to file such
reports), and (2) has been subject to such filing requirements for
the past 90 days. Yes X No

State the number of shares outstanding of each of the issuer's classes of common
equity, as of the latest practicable date.

378,510 common shares were outstanding as of May 9, 1995.

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SOUTH BRANCH VALLEY BANCORP, INC. AND SUBSIDIARY

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SOUTH BRANCH VALLEY BANCORP, INC., AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 1996 (Unaudited)	December 31, 1995 *
ASSETS		
Cash and due from banks	\$2,210,491	\$2,191,647
Interest bearing deposits with other banks	2,044,976	2,134,919
Federal funds sold	180,503	2,161,745
Securities available for sale	32,120,276	31,480,580
Loans, net	72,462,746	70,598,398
Bank premises and equipment, net	3,159,978	3,180,351
Accrued interest receivable	1,037,496	983,841
Other assets	320,029	386,377
	-----	-----
Total Assets	\$113,536,495	\$113,117,858
	=====	=====
LIABILITIES		
Non-interest bearing deposits	\$7,950,635	\$7,832,774
Interest bearing deposits	91,718,633	92,213,562
	-----	-----
Total deposits	99,669,268	100,046,336
Long-term borrowings	1,743,891	750,000
Other liabilities	722,131	992,862
	-----	-----
Total Liabilities	102,135,290	101,789,198
	-----	-----
SHAREHOLDERS' EQUITY		
Common stock, \$2.50 par value, authorized 600,000 shares, issued 382,625 shares	956,562	956,562
Surplus	685,534	685,534
Net unrealized gain (loss) on securities	102,010	340,650
Retained earnings	9,824,069	9,512,884
Less cost of shares acquired for the treasury 1996, 4,115; and 1995, 4,115	(166,970)	(166,970)
	-----	-----
Total Shareholders' Equity	11,401,205	11,328,660
	-----	-----
Total Liabilities and Shareholders' Equity	\$113,536,495	\$113,117,858
	=====	=====

*December 31, 1995 financial information has been extracted from audited financial statements.

See Notes to Condensed Consolidated Financial Statements

SOUTH BRANCH VALLEY BANCORP, INC., AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the Three Months Ended March 31, 1996 and 1995
(Unaudited)

	Three Months Ended	
	March 31, 1996	March 31, 1995
	-----	-----
Interest income:		
Interest and fees on loans	\$1,797,817	\$1,533,055
Interest on securities:		
Taxable	471,978	416,108
Tax-exempt	47,784	35,437
Interest on Federal funds sold	23,257	9,251
	-----	-----
Total interest income	2,340,836	1,993,851
	-----	-----
Interest expense:		
Interest on deposits	1,140,623	864,353
Interest on other borrowings	21,225	27,260
	-----	-----
Total interest expense	1,161,848	891,613
	-----	-----
Net interest income	1,178,988	1,102,238
Provision for loan losses	10,000	25,000
	-----	-----
Net interest income after provision for loan losses	1,168,988	1,077,238
	-----	-----
Non-interest income:		
Insurance commissions	22,563	19,855
Trust department income	(8)	508
Service fee income	49,905	49,549
Securities gains (losses)	33,912	(3,147)
Other income	14,737	14,122
	-----	-----
Total other income	121,109	80,887
	-----	-----
Non-interest expense:		
Salaries and employee benefits	443,697	391,212
Net occupancy expense	53,326	29,195
Equipment expense	47,806	40,794
FDIC insurance premiums	1,000	48,481
Other expenses	267,913	215,656
	-----	-----
Total other expense	813,742	725,338
	-----	-----
Income before income tax expense	476,355	432,787
Income tax expense	165,170	160,178
	-----	-----
Net Income	\$311,185	\$272,609
	=====	=====
Earnings per common share	\$0.82	\$0.72
	=====	=====
Dividends per common share	\$---	\$---
	=====	=====

See Notes to Condensed Consolidated Financial Statements

SOUTH BRANCH VALLEY BANCORP, INC., AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 1996 and 1995
(Unaudited)

	Three Months Ended	
	March 31, 1996	March 31, 1995
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$311,185	\$272,609
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	53,431	36,820
Provision for loan losses	10,000	25,000
Securities (gains) losses	(33,911)	3,147
Provision for deferred income tax expense(benefit)	9,237	(1,367)
(Increase) in accrued income receivable	(53,655)	(72,347)
Amortization of security premiums and (accretion of discounts), net	15,748	27,153
(Increase) decrease in other assets	57,111	(39,290)
Increase (decrease) in other liabilities	(121,338)	5,379
	-----	-----
Net cash provided by operating activities	247,808	257,104
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of securities available for sale	2,209,305	487,500
Proceeds from maturities of securities available for sale	2,500,000	100,000
Purchases of securities available for sale	(5,857,400)	(6,100)
Principal payments received on securities held to maturity	--	94,160
Principal payments received on securities available for sale	138,529	28,374
(Increase) decrease in Federal funds sold, net	1,981,242	(1,504,076)
Principal collected on (loans to customers), net	(1,874,348)	295,955
Proceeds from interest bearing deposits with other banks	89,943	179,946
Purchase of Bank premises and equipment	(33,058)	(5,155)
	-----	-----
Net cash provided by (used in) investing activities	(845,787)	(329,396)
	-----	-----

Continued

See Notes to Condensed Consolidated Financial Statements

SOUTH BRANCH VALLEY BANCORP, INC., AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - Continued
For the Three Months Ended March 31, 1996 and 1995
(Unaudited)

	Three Months Ended	
	March 31, 1996	March 31, 1995
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) in demand deposits, NOW and savings accounts	(766,959)	(1,003,375)
Proceeds from sales of time deposits, net	389,891	1,369,426
Net increase in other borrowings	993,891	--
	-----	-----
Net cash provided by (used in) financing activities	616,823	366,051
	-----	-----
Increase (decrease) in cash and due from banks	18,844	293,759
Cash and due from banks:		
Beginning	2,191,647	2,152,919
	-----	-----
Ending	\$2,210,491	\$2,446,678
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest paid to depositors	\$1,140,402	\$874,019
	=====	=====
Income taxes	\$0	\$6,030
	=====	=====
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Other real estate acquired in settlement of loans	\$0	\$0
	=====	=====

See Notes to Condensed Consolidated Financial Statements

SOUTH BRANCH VALLEY BANCORP, INC., AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Three Months ended March 31, 1996 and 1995
(Unaudited)

	Three Months Ended	
	March 31, 1996	March 31, 1995
Balance, beginning of period	\$11,328,660	\$9,378,140
Net income	311,185	272,609
Change in net unrealized gain (loss) on securities	(238,640)	329,994
Balance, March 31	\$11,401,205	\$9,980,743

See Notes to Condensed Consolidated Financial Statements

SOUTH BRANCH VALLEY BANCORP, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

The financial information included herein is unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments) which are, in the opinion of management, necessary for a fair statement of results for the interim periods.

The presentation of financial statements in conformity with generally accepted accounting procedures requires management to make estimates and assumptions that effect the reported amount 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 from the estimates.

The results of operations for the three month period ended March 31, 1996 are not necessarily indicative of the results to be expected for the full year. The Condensed Consolidated Financial Statements and notes included herein should be read in conjunction with the Company's 1995 audited financial statements and Form 10-K.

Note 2. Earnings Per Share

Earnings per common share are computed based upon the weighted average shares outstanding. The weighted average shares outstanding were 378,510 at March 31, 1996 and 1995, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION AND SUMMARY

The following is Management's discussion and analysis of the financial condition and financial results of operations for South Branch Valley Bancorp, Inc. and its wholly owned subsidiary, South Branch Valley National Bank, as of March 31, 1996. Since the primary business activities of South Branch Valley Bancorp, Inc. are conducted through the Bank, this discussion focuses primarily on the financial condition and operations of the Bank.

Net income for the first quarter of 1996 totaled \$311,000, a \$38,000 or a 13.9% increase from the \$273,000 earned during the same period of 1995. Annualized return on average assets for 1996 was 1.10% as compared to 1.13% at March 31, 1995. Earnings per share totaled \$.82 at March 31, 1996 compared to \$.72 at March 31, 1995.

RESULTS OF OPERATIONS

Net Interest Income

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For purposes of this discussion, the "taxable equivalent basis" adjustment has been included in interest income to reflect the level of income had income on state and municipal obligations exempt from Federal income tax been taxable, assuming a Federal tax rate of 34% in both 1996 and 1995. The amounts of the tax equivalent adjustments were \$12,000 in 1996 and \$9,000 in 1995.

For the three months ended March 31, 1996, the Company's net interest income, as adjusted, increased \$77,000 or 7.0% to \$1,179,000 as compared with \$1,102,000 for the three months ended March 31, 1995. However, the Company's net interest yield on earning assets (net interest margin) decreased 31 basis points from 4.77% for the three months ended March 31, 1995 to 4.46% for the three months ended March 31, 1996. See Table I for a detailed analysis of these changes.

Provision for Loan Losses and Loan Quality

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An allowance for loan losses is maintained by the Company and is funded through the provision for loan losses as a charge to current earnings. The allowance for loan losses is reviewed by management on a quarterly basis to determine it is maintained at levels considered necessary to cover potential losses associated with the Bank's current lending activities. For the three months ended March 31, 1996, the

South Branch Valley Bancorp, Inc. and Subsidiary

Table I - Average Distribution of Assets, Liabilities and Shareholders' Equity, Interest Earnings & Expenses, and Average Rates

(In thousands of dollars)	March 31, 1996			March 31, 1995		
	Average Balances	Earnings/Expense	Yield/Rate	Average Balances	Earnings/Expense	Yield/Rate
ASSETS						
Interest earning assets:						
Loans, net of unearned						
interest	\$72,125	\$1,798	9.97%	\$63,912	\$1,533	9.59%
Securities						
Taxable	27,312	436	6.39%	24,670	391	6.34%
Tax-exempt	3,486	59	6.77%	2,408	44	7.31%
Interest bearing deposits with other banks	2,116	36	6.81%	1,586	26	6.56%
Federal funds sold	1,690	23	5.44%	613	9	5.87%
Total interest earning assets	106,729	2,352	8.81%	93,189	2,003	8.60%
Noninterest earning assets:						
Cash & due from banks	2,405			2,150		
Bank premises & equipment	3,173			1,575		
Other assets	1,316			582		
Allowance for loan losses	(863)			(1,014)		
Total assets	\$112,760			\$96,482		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest bearing liabilities:						
Interest bearing demand deposits	\$18,989	\$160	3.37%	\$15,148	\$125	3.30%
Regular savings	15,728	142	3.61%	13,178	108	3.28%
Time savings	56,588	839	5.93%	48,874	632	5.17%
Other borrowings	1,430	21	5.87%	1,777	27	6.08%
	92,735	1,162	5.01%	78,977	892	4.52%
Noninterest bearing liabilities:						
Demand deposits	7,789			7,365		
Other liabilities	946			610		
Total liabilities	101,470			86,952		
Shareholders' equity	11,290			9,530		
Total liabilities and shareholders' equity	\$112,760			\$96,482		
NET INTEREST EARNINGS		\$1,190			\$1,111	
NET INTEREST YIELD ON EARNING ASSETS			4.46%			4.77%

Company's provision for loan losses totaled \$10,000, compared to \$25,000 during the first three months of 1995. The following table represents a summary of the Company's past due and non-performing assets:

SUMMARY OF PAST DUE LOANS AND NON-PERFORMING ASSETS

	March 31		December 31
	-----	-----	-----
	1996	1995	1995
Loans contractually past due 90 days or more and still accruing interest	\$285 =====	\$ 233 =====	\$260 =====
Non-performing assets:			
Non-accruing loans	\$430	\$1,060	\$538
Other real estate owned	40	22	40
	-----	-----	-----
	\$470 =====	\$1,082 =====	\$578 =====

Although the amount of loans past due 90 days or more has increased by \$52,000 during the past 12 months, non-performing assets decreased by \$612,000. Thus, total loans past due 90 days or more plus non-performing assets have decreased approximately \$560,000 or 42.6% from the same period last year. Loans on non-accrual status have decreased approximately \$108,000 since December 1995. Approximately \$138,000 or 32.1% of the total non-accrual balance at March 31, 1996 is comprised of one loan which is current as to both principal and interest payments but is classified non-accrual due to cash flow problems being experienced by the entity.

At March 31, 1996, the allowance for loan losses totaled \$849,000 or 1.2% of net loans compared to \$988,000 or 1.6% of net loans at March 31, 1995, and \$860,000 or 1.2% at December 31, 1995. While there may be some loans or portions of loans identified as potential problem credits which are not specifically identified as either non-accrual or accruing loans past due 90 or more days, they are considered by management to be insignificant to the overall disclosure and are therefore not specifically quantified within the Management's Discussion and Analysis.

Non-interest Income

Total non-interest income increased approximately \$40,000 or 49.4% for the three months ended March 31, 1996 as compared to the three months ended March 31, 1995.

Insurance commissions increased from approximately \$20,000 to \$23,000 or 15.0% for the three months ended March 31, 1996 compared to the three months ended March 31, 1995. Management believes the Company will be able to maintain levels of insurance income similar to this throughout the remainder of 1996.

Net realized gains on securities increased by approximately \$37,000 for the three month period ended March 31, 1996 as compared with the three month period ended March 31, 1995.

Non-interest expense

Non-interest expense increased approximately \$89,000 or 12.3% during the first three months of 1996. It is the Bank's policy to review salaries and have employee evaluations during the fourth quarter of each year. Deserving employees are then awarded raises as of the first of the year. These raises and slight increases in insurance costs resulted in a 13.3% increase in salaries and employee benefits for the three months ended March 31, 1996 as compared to March 31, 1995.

Net occupancy expense increased from approximately \$29,000 to \$53,000 or 82.8%. Equipment expense also increased 17.1% from approximately \$41,000 for the period ending March 31, 1995 to \$48,000 for the period ending March 31, 1996. These increases were expected and planned for by management due to the purchase of the Petersburg branch during the fourth quarter of 1995 and the recently completed renovation and addition to the Company's home office in Moorefield.

Due to the decrease in the semi-annual rate of deposit insurance from \$.115 per hundred dollars of deposits to the minimum of \$1,000, FDIC insurance premiums decreased approximately \$47,000 for the first quarter of 1996 as compared to the first quarter of 1995.

Other expenses increased approximately \$52,000 or 24.1% from \$216,000 to \$268,000 during the first three months of 1996 compared to 1995. The major factors contributing to this increase are as follows:

- ** Telephone and communications increased by 25.0% from \$12,000 to \$15,000.
- ** During the first quarter of 1996 the bank did a computer conversion and experienced some one time expenses. Data processing expense increased 100.0% from approximately \$21,000 in 1995 to \$42,000 in 1996. ATM expense increased from \$2,000 to \$6,000 or 200.0%. Management does not expect these large increases to expenses to continue.
- ** An increase in the number of accounts served by the bank of approximately 13.7%, primarily due to the acquisition of the Petersburg branch in the fourth quarter of 1995 contributed to the increase in postage expense. Postage expense, which totaled approximately \$19,000 in 1995, increased 21.1% to \$23,000 in 1996.
- ** Also associated with the acquisition of the new branch in Petersburg was the creation of a new expense, Amortized goodwill. This expense totaled \$9,000 in 1996.

Liquidity

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Liquidity in commercial banking can be defined as the ability to satisfy customer loan demand and meet deposit withdrawals while maximizing net interest income. The Company's primary sources of funds are deposits and principal and interest payments on loans. Additional funds are provided by maturing securities. The bank uses ratio analysis to monitor the changes in its sources and uses of funds so that an adequate liquidity position is maintained. At March 31, 1996 the loan to deposit ratio was 72.7% compared to 70.6% at December 31, 1995. Cash and due from banks coupled with Federal funds sold totaled \$2,391,000 or 2.1% of total assets. Additionally, securities and interest bearing deposits with other banks maturing within one year approximated \$3,853,000 or 3.4% of total assets. Management believes that the liquidity of the Company is adequate and foresees no demands or conditions that would adversely affect it.

Financial Condition

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Total deposits have decreased approximately .4% or \$377,000 from December 31, 1995. The overall composition of the Company's assets has not changed significantly since year end 1995.

The Company's total shareholders' equity has increased approximately \$72,000 or .6% since December 31, 1995. This is the net result of an increase of \$311,000 in retained earnings and a \$239,000 decrease in net unrealized gains on securities. The Company's equity to total assets ratio was 10.0% at March 31, 1996 and at December 31, 1995. The Company's subsidiary bank's total risk weighted capital ratio was approximately 16.5% at March 31, 1996 and is well within Federal regulatory guidelines. The Company is not aware of any pending regulation which would have a material negative impact on its operations or financial condition.

PART II

Item 6 - Exhibits and Reports on Form 8-K

- A. Exhibit - Financial Data Schedule required by Part I Item 601 of Regulation S-B.
- B. No reports on Form 8-K were filed by the Company during the quarter ended March 31, 1996.

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.

South Branch Valley Bancorp, Inc.
(registrant)

By:

H. Charles Maddy, III, President and
Chief Financial Officer

By:

Russell Ratliff, Jr., Treasurer

Date: May 13 , 1996

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.

South Branch Valley Bancorp, Inc.
(registrant)

By: /s/ H. Charles Maddy, III

H. Charles Maddy, III, President and
Chief Financial Officer

By: /s/ Russell Ratliff, Jr.

Russell Ratliff, Jr., Treasurer

Date: May 13, 1996

SOUTH BRANCH VALLEY NATIONAL BANK

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