U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10 - QSB

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

For Quarterly Period Ended September 30, 1998

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 incorporation or organization)	(IRS Employer 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) has filed all reports required by Section 13 or 15(d) of the Exchange Act of 1934 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:

592,292 common shares were outstanding as of November 4, 1998

Transitional Small Business Disclosure Format (Check one):
Yes No X

This report contains 22 pages.

South Branch Valley Bancorp, Inc. and Subsidiaries

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South Branch Valley Bancorp, Inc. and Subsidiaries

Consolidated Balance Sheets

	September 30, 1998 (unaudited)	December 31, 1997 (*)
ASSETS		
Cash and due from banks	$ 4,204,386	$ 3,945,099
Interest bearing deposits with other banks	968,000	1,256,000
Federal funds sold	4,546,898	5,806,717
Securities available for sale	35,810,175	27,547,094
Investment in affiliate	-	5,273,481
Loans, net	136,037,965	92,572,652
Bank premises and equipment, net	5,110,858	3,071,064
Accrued interest receivable	1,097,204	864,083
Other assets	3,098,579	311,435
Total assets	$ 190,874,065	$ 140,647,625
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Non interest bearing	$ 10,381,182	$ 9,693,915
Interest bearing	136,862,036	97,290,882
Total deposits	147,243,218	106,984,797
Short-term borrowings	4,877,646	7,145,010
Long-term borrowings	13,049,938	10,395,848
Other liabilities	1,721,727	1,061,418
Total liabilities	166,892,529	125,587,073
Commitments and Contingencies		
Shareholders' Equity		
Common stock, $2.50 par value, authorized 2,000,000 shares, issued 600,407 shares in 1998; 382,625 shares in 1997	1,501,018	1,042,355
Capital surplus	9,611,774	2,089,709
Retained earnings	12,938,824	11,898,420
Less cost of shares acquired for the treasury 1998 8,115 shares; 1997 4,115 shares	(384,724)	(166,970)
Net unrealized gain (loss) on securities	314,644	197,038
Total shareholders' equity	23,981,536	15,060,552
Total liabilities and shareholders' equity	$ 190,874,065	$ 140,647,625

(*) - December 31, 1997 financial information has been extracted from audited consolidated financial statements See Notes to Consolidated Financial Statements

South Branch Valley Bancorp, Inc. and Subsidiaries

Consolidated Statements of Income (unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 1998	September 30, 1997	September 30, 1998	September 30, 1997
Interest income				
Interest and fees on loans	$ 3,093,108	$ 2,202,059	$ 8,228,698	$ 6,343,404
Interest on securities				
Taxable	502,688	411,729	1,429,722	1,247,813
Tax-exempt	80,224	80,455	239,823	236,864
Interest on Federal funds sold	49,411	21,460	182,999	49,626
Total interest income	3,725,431	2,715,703	10,081,242	7,877,707
Interest expense				
Interest on deposits	1,646,856	1,186,673	4,438,711	3,420,304
Interest on short-term borrowings	60,305	58,710	182,443	191,456
Interest on long-term borrowings	167,946	153,663	504,611	388,457
Total interest expense	1,875,107	1,399,046	5,125,765	4,000,217
Net interest income	1,850,324	1,316,657	4,955,477	3,877,490
Provision for loan losses	75,000	45,000	195,000	110,000
Net interest income after provision for loan losses	1,775,324	1,271,657	4,760,477	3,767,490
Other income				
Insurance commissions	17,817	32,681	67,260	67,990
Service fees	111,533	79,404	311,906	202,645
Securities gains (losses)	-	6,104	4,131	6,104
Gain on sale of assets	-	83,608	-	96,067
Other	28,460	11,240	61,323	37,458
Total other income	157,810	213,037	444,620	410,264
Other expense				
Salaries and employee benefits	585,053	439,661	1,606,044	1,315,522
Net occupancy expense	67,883	52,952	220,835	144,723
Equipment rentals, depreciation and maintenance	106,184	75,019	286,985	217,853
Federal deposit insurance premiums	3,063	3,168	11,688	9,168
Other	442,116	261,310	1,146,511	802,264
Total other expense	1,204,299	832,110	3,272,063	2,489,530
Income before income taxes	728,835	652,584	1,933,034	1,688,224
Income tax expense	224,115	219,618	630,262	546,230
Net income	$ 504,720	$ 432,966	$ 1,302,772	$ 1,141,994
Basic earnings per common share	$ 0.85	$ 1.05	$ 2.44	$ 2.92

See Notes to Consolidated Financial Statements

South Branch Valley Bancorp, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (unaudited)

	Three Months Ended	
	September 30, 1998	September 30, 1997
Net income	$ 504,720	$ 432,966
Other comprehensive income:		
Net unrealized gain (loss) on securities arising during period, before tax	233,335	190,772
Income tax expense (benefit) related to other comprehensive income	87,980	108,587
Other comprehensive income, net of tax	145,355	82,185
Comprehensive income	$ 650,075	$ 515,151

	Nine Months Ended	
	September 30, 1998	September 30, 1997
Net income	$ 1,302,772	$ 1,141,994
Other comprehensive income:		
Net unrealized gain (loss) on securities arising during period, before tax	188,727	136,225
Income tax expense (benefit) related to other comprehensive income	71,121	87,586
Other comprehensive income, net of tax	117,606	48,639
Comprehensive income	$ 1,420,378	$ 1,190,633

See Notes to Consolidated Financial Statements

South Branch Valley Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (unaudited)

	Nine Months Ended September 30, 1998	Nine Months Ended September 30, 1997
Cash Flows from Operating Activities		
Net income	$ 1,302,772	$ 1,141,994
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	240,909	173,038
Provision for loan losses	195,000	110,000
Deferred income tax (benefit) expense	(23,823)	72,422
Security (gains) losses	(4,131)	(6,104)
(Gain) on disposal of Bank premises and equipment	(9,709)	(91,507)
(Gain) on disposal of other assets	(8,043)	(4,559)
Amortization of securities premiums (accretion of discounts) net	(17,979)	7,289
Amortization of goodwill and purchase accounting adjustments, net	72,399	27,888
(Increase) decrease in accrued interest receivable	(233,121)	7,221
(Increase) decrease in other assets	175,977	496,654
Increase (decrease) in other liabilities	109,243	43,595
Net cash provided by operating activities	1,799,494	1,977,931
Cash Flows from Investing Activities		
Proceeds from maturities of interest bearing deposits with other banks	297,100	297,000
Proceeds from maturities and calls of securities available for sale	5,825,000	3,063,700
Proceeds from sales of securities available for sale	409,050	-
Principal payments received on securities available for sale	2,262,327	1,077,408
Purchases of securities available for sale	(6,077,235)	(4,004,774)
Purchase of common stock of affiliate	(90,465)	(5,203,025)
Net (increase) decrease in Federal funds sold	7,476,819	(1,537,603)
Net loans made to customers	(19,190,412)	(8,805,180)
Purchases of Bank premises and equipment	(784,287)	(221,130)
Proceeds from sales of Bank premises and equipment	10,693	145,180
Proceeds from sales of other assets	50,801	15,000
Net cash and due from banks acquired in acquisition of		
Net cash and due from banks acquired in acquisition of Capital State	976,517	-
Net cash (used in) investing activities	(8,834,092)	(15,173,424)
Cash Flows from Financing Activities		
Net increase (decrease) in demand deposit, NOW and savings accounts	6,494,806	(1,439,996)
Net increase (decrease) in time deposits	892,474	5,909,490
Net increase (decrease) in short-term borrowings	(2,267,364)	596,633
Proceeds from long-term borrowings	6,136,337	6,500,000
Repayment of long-term borrowings	(3,482,247)	(768,464)
Purchase of treasury stock	(217,754)	-
Dividends paid	(262,367)	(155,189)
Net proceeds from issuance of common stock	-	1,489,968
Net cash provided by financing activities	7,293,885	12,132,442
Increase (decrease) in cash and due from banks	259,287	(1,063,051)
Cash and due from banks:		
Beginning	3,945,099	3,162,552
Ending	$ 4,204,386	$ 2,099,501

Consolidated Statements of Cash Flows - continued (unaudited)

	Nine Months Ended September 30, 1998	Nine Months Ended September 30, 1997
Supplement Disclosures of Cash Flow Information		
Cash payments for:		
Interest	$ 5,049,168	$ 3,921,196
Income taxes	$ 66,807	
Supplemental Schedule of Noncash Investing and Financing Activities		
Other assets acquired in settlement of loans	$ -	$ 34,510
Acquisition of The Capital State Bank, Inc.		
Acquisition of 40% of the outstanding common shares previously purchased for cash	$ 5,363,946	$ -
Acquisition of 60% of the outstanding common shares in exchange for 183,465 shares of Company common stock	7,980,728	-
	$ 13,344,674	$ -
Fair value of assets acquired (principally loans and securities)	$ 46,720,306	$ -
Deposits and other liabilities assumed	(33,375,632)	-
	$ 13,344,674	$ -

See Notes to Consolidated Financial Statements

South Branch Valley Bancorp, Inc. and Subsidiaries

Consolidated Statements of Shareholders' Equity (unaudited)

	Nine Months Ended	
	September 30, 1998	September 30, 1997
Balance, beginning of period	$ 15,060,552	$ 12,303,793
Net income	1,302,772	1,141,994
Cash dividends, $0.44 and $0.41 per share, respectively	(262,367)	(155,189)
Issuance of 183,465 shares of common stock as consideration for the acquisition of Capital State Bank, Inc.	7,980,728	-
Sale of 34,317 shares of common stock	-	1,489,968
Purchase of 4,000 shares of common stock for the treasury	(217,754)	-
Change in net unrealized gain (loss) on securities	117,605	48,639
Balance, end of period	$ 23,981,536	$ 14,829,205

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements (unaudited)

Note 1. Basis of Presentation

These consolidated financial statements of South Branch Valley Bancorp, Inc. and Subsidiaries ("South Branch" or "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with instructions to Form 10-QSB and Item 310 of Regulation S-B. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for annual year end financial statements. In the opinion of management, 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 generally accepted accounting principles requires management to make estimates and assumptions that effect 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 month and nine month periods ended September 30, 1998 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 the Company's 1997 audited financial statements and Annual Report on Form 10-KSB.

Effective January 1, 1998, South Branch adopted Statement of Financial Accounting Standards No. 130 (SFAS No. 130), "Reporting of Comprehensive Income". Comprehensive income includes any change in equity of the Company during the period resulting from transactions and other events and circumstances from nonowner sources. A Statement of Comprehensive Income has been included in these consolidated financial statements to comply with SFAS No. 130. Prior interim periods have been reclassified to provide comparative information.

Note 2. Earnings Per Share

Basic earnings per common share are computed based upon the weighted average shares outstanding. The weighted average shares outstanding for the nine month periods ended September 30, 1998 and 1997 were 534,241 and 391,709, respectively. The weighted average shares outstanding for the three month periods ended September 30, 1998 and 1997 were 592,292 and 412,827, respectively. During the periods ended September 30, 1998 and 1997, the Company did not have any dilutive securities.

Note 3. Acquisition of Capital State Bank, Inc.

On March 24, 1998 and March 25, 1998, the shareholders of Capital State Bank, Inc. and South Branch Valley Bancorp, Inc. respectively, approved the merger of Capital State into Capital Interim Bank, Inc., a wholly owned subsidiary of South Branch. The merger was consummated at the close of business on March 31, 1998. This acquisition was accounted for using the purchase method of accounting., and accordingly, the assets and liabilities and results of operations of Capital State are reflected in the Company's consolidated financial statements beginning April 1, 1998. The excess purchase price over the fair value of the net assets acquired as of the consummation date approximated $1,966,000, which is included in other assets in the accompanying consolidated balance sheet as of September 30, 1998. This goodwill is being amortized over a period of 15 years using the straight line method. The following presents certain pro forma condensed consolidated financial information of South Branch, using the purchase method of accounting, after giving effect to the merger as if it had been consummated at the beginning of the periods presented.

	(In thousands, except per share data)			
	Nine Month Period Ended September 30, 1998		Nine Month Period Ended September 30, 1997	
	As Reported	Pro Forma	As Reported	Pro Forma
Total interest income	$ 10,081	$ 10,817	$ 7,878	$9,686
Total interest expense	$ 5,126	$ 5,515	$ 4,000	$4,872
Net interest income	$ 4,955	$ 5,302	$ 3,877	$4,814
Net income	$ 1,303	$ 1,328	$ 1,142	$1,048
Basic earnings per common share	$ 2.44	$ 2.49	$ 2.92	$ 1.76

This pro forma information has been included for comparative purposes only and may not be indicative of the combined results of operations that actually would have occurred had the transaction been consummated at the beginning of the periods presented, or which will be attained in the future.

Note 4. Securities

The amortized cost, unrealized gains, unrealized losses and estimated fair values of securities at September 30, 1998 and December 31, 1997 are summarized as follows:

	September 30, 1998			
	Amortized	Unrealized		Estimated
	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable:				
U. S. Treasury securities	$ 2,989,169	$ 74,478	$ -	$ 3,063,647
U. S. Government agencies and corporations	16,725,653	92,443	38,190	16,779,906
Small Business Administration guaranteed loan participation certificates	1,035,867	18,771	-	1,054,638
Mortgage-backed securities - U. S. Government agencies and corporations	7,067,365	76,448	243	7,143,570
Corporate debt securities	249,607	1,793	-	251,400
Federal Reserve Bank stock	44,300	-	-	44,300
Federal Home Loan Bank stock	722,500	-	-	722,500
Other equity securities	6,625	-	-	6,625
Total taxable	28,841,086	263,933	38,433	29,066,586
Tax-exempt:				
State and political subdivisions	6,482,505	266,342	9,358	6,739,489
Federal Reserve Bank stock	4,100	-	-	4,100
Total tax-exempt	6,486,605	266,342	9,358	6,743,589
Total	$ 35,327,691	$ 530,275	$ 47,791	$ 35,810,175

	December 31, 1997			
	Amortized	Unrealized		Estimated
	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable:				
U. S. Treasury securities	$ 2,988,064	$ 46,546	$ -	$ 3,034,610
U. S. Government agencies and corporations	9,523,135	71,935	8,850	9,586,220
Small Business Administration guaranteed loan participation certificates	1,470,915	16,522	-	1,487,437
Mortgage-backed securities - U. S. Government agencies and corporations	6,650,070	21,182	20,328	6,650,924
Corporate debt securities	249,082	3,296	-	252,378
Federal Reserve Bank stock	44,300	-	-	44,300
Federal Home Loan Bank stock	722,400	-	-	722,400
Other equity securities	6,625	-	-	6,625
Total taxable	21,654,591	159,481	29,178	21,784,894
Tax-exempt:				
State and political subdivisions	5,568,016	190,084	-	5,758,100
Federal Reserve Bank stock	4,100	-	-	4,100
Total tax-exempt	5,572,116	190,084	-	5,762,200
Total	$ 27,226,707	$ 349,565	$ 29,178	$ 27,547,094

The maturites, amortized cost and estimated fair values of securities at September 30, 1998, are summarized as follows:

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 5,010,067	$ 5,049,319
Due from one to five years	19,729,095	19,934,008
Due from five to ten years	7,419,604	7,531,753
Due after ten years	2,391,400	2,517,570
Equity securities	777,525	777,525
	$ 35,327,691	$ 35,810,175

Note 5. Loans

Loans are summarized as follows:

	September 30, 1998	December 31, 1997
Commercial, financial and agricultural	$ 40,565,219	$ 30,325,145
Real estate - construction	304,181	144,207
Real estate - mortgage	69,318,882	42,640,294
Installment	27,249,942	20,587,084
Other	459,175	468,980
Total loans	137,897,399	94,165,710
Less unearned income	542,005	697,777
Total loans net of unearned income	137,355,394	93,467,933
Less allowance for loan losses	1,317,429	895,281
Loans, net	$ 136,037,965	$ 92,572,652

The following presents loan maturities at September 30, 1998:

	Within 1 Year	After 1 but within 5 Years	After 5 Years
Commercial, financial and agricultural	$ 10,442,023	$ 12,137,687	17,985,499
Real estate - construction	225,741	-	78,438
Real estate - mortgage	2,565,338	8,770,992	57,982,563
Installment	3,523,309	20,209,640	3,516,995
Other	23,672	-	435,503
Total	$ 16,780,083	$ 41,118,319	$ 79,998,998

Loans due after one year with:	
Variable rates	$ 36,174,464
Fixed rates	84,942,853
	$ 121,117,317

The Company grants commercial, residential and consumer loans to customers primarily located in the Potomac Highlands and South Central counties of West Virginia. Although the Company strives to maintain a diverse loan portfolio, exposure to credit losses can be adversely impacted by downturns in local economic and employment conditions. Major employment within the Company's market area is diverse, but primarily includes the poultry, government, health care, education, coal production and various professional, financial and related service industries.

Note 6. Allowance for Loan Losses

An analysis of the allowance for loan losses for the nine month periods ended September 30, 1998 and 1997, and for the year ended December 31, 1997, is as follows:

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	Nine Months Ended September 30,		Year Ended December 31,
	1998	1997	1997
Balance, beginning of period	$ 895,281	$ 858,423	$ 858,423
Losses:			
Commercial, financial & agricultural	546	-	-
Real estate - mortgage	-	16,982	25,536
Installment	113,613	156,886	166,059
Other	2,196	7,882	8,444
Total	116,355	181,750	200,039
Recoveries:			
Commercial, financial & agricultural	2,830	4,428	27,050
Real estate - mortgage	21,191	7,177	13,675
Installment	47,380	35,119	39,936
Other	300	1,236	1,236
Total	71,701	47,960	81,897
Net losses	44,654	133,790	118,142
Allowance of purchased subsidiary	271,802	-	-
Provision for loan losses	195,000	110,000	155,000
Balance, end of period	$ 1,317,429	$ 834,633	$ 895,281

Note 7. Bank Premises and Equipment

The major categories of Bank premises and equipment and accumulated depreciation at September 30, 1998 and December 31, 1997 are summarized as follows:

	September 30, 1998	December 31, 1997
Land	$ 932,178	$ 429,973
Buildings and improvements	4,168,961	2,681,707
Furniture and equipment	2,178,524	1,675,258
	7,279,663	4,786,938
Less accumulated depreciation	2,168,805	1,715,874
Bank premises and equipment,net	$ 5,110,858	$ 3,071,064

Note 8. Deposits

The following is a summary of interest bearing deposits by type as of September 30, 1998 and December 31, 1997:

	September 30, 1998	December 31, 1997
Demand deposits, interest bearing	$ 28,326,868	$ 17,468,844
Savings deposits	19,381,466	14,890,934
Individual retirement accounts	80,713,200	8,028,653
Certificates of deposit	8,440,502	56,902,451
Total	$ 136,862,036	$ 97,290,882

The following is a summary of the maturity distribution of certificates of deposit and Individual Retirement Accounts in denominations of $100,000 or more as of September 30, 1998:

	Amount	Percent
Three months or less	$ 3,916,941	18.8%
Three through six months	3,902,368	18.7%
Six through twelve months	7,109,309	34.1%
Over twelve months	5,900,880	28.3%
Total	$ 20,829,498	100.0%

A summary of the scheduled maturities for all time deposits as of September 30, 1998 is as follows:

1998	$ 16,931,014
1999	48,806,086
2000	12,532,482
2001	5,137,914
2002	2,053,376
Thereafter	3,692,830
	$ 89,153,702

Note 9. Restrictions on Capital

South Branch and its 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, South Branch and each of its subsidiaries must meet specific capital guidelines that involve quantitative measures of South Branch's and its subsidiaries' assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. South Branch and each of its 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 South Branch and each of its 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). Management believes, as of September 30, 1998, that South Branch and each of its subsidiaries met all capital adequacy requirements to which they were subject.

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

South Branch's and its subsidiaries', South Branch Valley National Bank's ("SBVNB") and Capital State Bank, Inc.'s ("CSB"), actual capital amounts and ratios are also presented in the following table (dollar amounts in thousands).

	Actual		Minimum Required Regulatory Capital		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 1998						
Total Capital (to risk weighted assets)						
South Branch	$ 22,976	18.6%	$ 9,882	8.0%	$ 12,353	10.0%
SBVNB	13,579	14.1%	7,704	8.0%	9,630	10.0%
CSB	8,968	33.9%	2,116	8.0%	2,645	10.0%
Tier I Capital (to risk weighted assets)						
South Branch	21,659	17.6%	4,923	4.0%	7,384	6.0%
SBVNB	12,582	13.1%	3,842	4.0%	5,763	6.0%
CSB	8,647	32.7%	1,058	4.0%	1,587	6.0%
Tier I Capital (to average assets)						
South Branch	21,659	11.7%	5,549	3.0%	9,248	5.0%
SBVNB	12,582	9.0%	4,194	3.0%	6,990	5.0%
CSB	8,647	18.8%	1,380	3.0%	2,300	5.0%
As of December 31, 1997						
Total Capital (to risk weighted assets)						
South Branch	$ 15,759	17.7%	$ 7,126	8.0%	$ 8,908	10.0%
SBVNB	12,779	14.4%	7,123	8.0%	8,904	10.0%
CSB *	*	*	*	*	*	
Tier I Capital (to risk weighted assets)						
South Branch	14,864	16.7%	$ 3,563	4.0%	$ 5,345	6.0%
SBVNB	11,884	13.4%	3,562	4.0%	5,342	6.0%
CSB	*	*	*	*	*	*
Tier I Capital (to average assets)						
South Branch	14,864	11.3%	3,941	3.0%	6,569	5.0%
SBVNB	11,884	9.2%	3,897	3.0%	6,494	5.0%
CSB	*	*	*	*	*	*

* - No data presented relative to CSB for the year ended December 31, 1997, as this subsidiary was acquired by South Branch in March 1998.

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Management's Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

The following is a discussion and analysis focused on significant changes in the financial condition and results of operations of South Branch Valley Bancorp, Inc. ("Company" or "South Branch") and its wholly owned subsidiaries, South Branch Valley National Bank ("SBVNB") and Capital State Bank, Inc. ("Capital State"), for the periods indicated. This discussion and analysis should be read in conjunction with the Company's 1997 audited financial statements and Annual Report on Form 10-KSB. This discussion may also contain forward-looking statements based on management's expectations, and actual results may differ materially.

ACQUISITION

At the close of business March 31, 1998, South Branch acquired 60% of the outstanding common stock of Capital State, a Charleston, West Virginia state chartered bank with total assets approximating $44 million at the time of acquisition, in exchange for 183,465 shares of South Branch's common stock. South Branch had previously acquired 40% of Capital State's outstanding common stock during 1997. This acquisition was accounted for using the purchase method of accounting, and accordingly, the assets and liabilities and results of operations of Capital State are reflected in the Company's consolidated financial statements beginning April 1, 1998.

RESULTS OF OPERATIONS

Earnings Summary

The Company reported net income of $505,000 for the three months ended September 30, 1998 compared to $433,000 for the third quarter of 1997, representing an 16.6% increase. For the nine month period ended September 30, 1998, South Branch's net income of $1,303,000, increased 14.1% from the $1,142,000 reported for the same period of 1997. The increase in earnings for both the quarterly and nine month periods resulted primarily from growth in interest earning assets and improved service fee revenues.

Earnings per common share were $0.85 for the quarter ended September 30, 1998, compared to the $1.05 reported for the third quarter of 1997. For the nine month period ended September 30, 1998, earnings per common share totaled $2.44, compared to $2.92 for the same period of 1997. The declines in quarterly and year-to-date earnings per share are attributable to the dilution arising from acquisition of Capital State. The dilutive effect of this acquisition is expected to be offset in the future by improved earnings performance of Capital State resulting from its continued asset growth and planned cost control initiatives.

Net Interest Income

The Company's net interest income on a fully tax-equivalent basis totaled $5,079,000 for the nine month period ended September 30, 1998 compared to $3,999,000 for the same period of 1997, representing an increase of $1,080,000 or 27.0%. This increase resulted from growth in the volume of earning assets as result of the acquisition of Capital State and as a result of continued solid loan growth. South Branch's net yield on interest earning assets decreased slightly to 4.3% for the nine month period ended September 30, 1998, compared to 4.4% for the same period in 1997. Growth in net interest income is expected to continue due to anticipated continued growth in volumes of interest earning asset, principally loans, over the near term. Conversely, the Company's net yield on earning assets is anticipated to continue to contract over the balance of 1998, primarily due to Capital State having a lower yield on interest earning assets and a slightly higher cost of interest bearing liabilities compared to that of SBVNB.

Further analysis of the Company's yields on interest earning assets and interest bearing liabilities are presented in Table I below.

Table I - Average Balance Sheet and Net Interest Income Analysis

	September 30, 1998			September 30, 1997		
	Average Balance	Earnings/ Expense	Yield/ Rate	Average Balance	Earnings/ Expense	Yield/ Rate
Interest Earning Assets						
Loans, net of unearned income	$117,225	$ 8,229	9.4%	$ 87,349	$ 6,343	9.7%
Securities						
Taxable	28,674	1,430	6.6%	25,398	1,248	6.6%
Tax-exempt (1)	6,187	363	7.8%	6,028	359	7.9%
Federal funds sold	5,128	182	4.7%	1,106	49	5.9%
Total interest earning assets	157,214	10,204	8.7%	119,881	7,999	8.9%
Noninterest earning assets						
Cash & due from banks	3,565			2,739		
Bank premises and equipment	4,081			3,127		
Other assets	6,066			6,140		
Allowance for loan losses	(1,144)			(846)		
Total assets	$169,782			$131,041		
Interest bearing liabilities						
Interest bearing demand Deposits	$ 23,340	$ 588	3.4%	$ 19,072	$ 444	3.1%
Savings deposits	15,881	383	3.2%	13,661	324	3.2%
Time deposits	79,918	3,466	5.8%	61,385	2,652	5.8%
Short-term borrowings	5,228	168	4.3%	5,695	191	4.5%
Long-term borrowings	12,395	520	5.6%	7,300	389	7.1%
Total interest bearing liabilities	136,762	5,125	5.0%	107,113	4,000	5.0%
Noninterest bearing liabilities and shareholders' equity						
Demand deposits	10,759			9,107		
Other liabilities	1,418			1,537		
Shareholders' equity	20,843			13,284		
Total liabilities and shareholders' equity	$169,782			$131,041		
Net interest earnings		$ 5,079			$ 3,999	
Net yield on interest earning assets			4.3%			4.4%

(1) - Interest income on tax-exempt securities has been adjusted assuming an effective tax rate of 34% for both periods presented. The tax equivalent adjustment resulted in an increase in interest income of $126,000 and $122,000 for the periods ended September 30, 1998 and 1997, respectively.

Credit Experience

The provision for loan losses represents charges to earnings necessary to maintain an adequate allowance for potential future loan losses. Management's 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.

The Company recorded a $195,000 provision for loan losses for the first nine months of 1998, compared to $110,000 for the same period in 1997. This increase reflects the acquisition of Capital State and continued growth of the loan portfolio. Net loan charge-offs for the first three quarters of 1998 were $45,000, as compared to $134,000 over the same period of 1997. At September 30, 1998, the allowance for loan losses totaled $1,317,000 or 1.0% of loans, net of unearned income, compared to $895,000 or 1.0% of loans, net of unearned income at December 31, 1997. See Note 6 of the notes to the accompanying consolidated financial statements for an analysis of the activity in the Company's allowance for loan losses for the nine month periods ended September 30, 1998 and 1997 and for the year ended December 31, 1997.

As illustrated in Table II below, the Company's non-performing assets and loans past due 90 days or more and still accruing interest have remained stable during the past 12 months, despite continued growth in the Company's loan portfolio.

Table II -
Summary of Past Due Loans and Non-Performing Assets
(in thousands of dollars)

	September 30		December 31,
	1998	1997	1997
Loans contractually past due 90 days or more still accruing interest	$327	$31	$ 96
Non-performing assets:			
Non-accruing Loans	$140	$125	$142
Other repossessed assets	-	35	16
Other real estate owned	19	55	57
	$159	$215	$215

Noninterest Income and Expense

Ignoring the $96,000 gain on the sale of Bank premises, equipment and other assets recognized in 1997, total other income increased approximately $130,000 or 41.5% to $444,000 during the first nine months of 1998, as compared to the first nine months of 1997. The most significant item contributing to this increase was service fee income, which increased $109,000 from approximately $203,000 to $312,000, or 53.9%. This resulted primarily from a change in SBVNB's deposit fee structure. Management expects the Company will achieve similar levels of service fee income throughout the remainder of 1998.

Total noninterest expense increased approximately $783,000, or 31.4% to $3,272,000 during the first nine months of 1998 as compared to the first nine months of 1997. Substantially all of this increase resulted due to the noninterest expenses of Capital State incurred from the date of its acquisition on April 1, 1998 through September 30, 1998.

FINANCIAL CONDITION

Total assets were $190,874,000 at September 30, 1998, compared to $140,648,000 at December 31, 1997, representing a 35.7% increase, which resulted primarily from the Company's acquisition of Capital State effective April 1, 1998. Table III below serves to illustrate the impact of the Capital State acquisition on the Company's securities, loans and deposit portfolios, as well as shareholders' equity.

Table III -
Impact of Capital State Acquisition on
Company's Financial Position
(in thousands)

		Increase (Decrease)		
	Balance December 31, 1997	Change due to Capital State Acquisition	Net Changes due other Factors	Balance Sept. 30, 1998
Securities	$ 27,547	$ 10,467	$ (2,204)	$ 35,810
Loans, net	92,573	24,488	18,977	136,038
Noninterest bearing deposits	9,694	1,034	(347)	10,381
Interest bearing deposits	97,291	31,861	7,710	136,862
Shareholders equity	15,061	7,981	940	23,982

Refer to Notes 4, 5 and 8 of the notes to the accompanying consolidated financial statements for additional information with regard to changes in the composition of the South Branch's securities, loans and deposits between September 30, 1998 and December 31, 1997.

LIQUIDITY

Liquidity reflects the Company's 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 and Federal funds sold, which totaled $8,751,000 at September 30, 1998 versus $9,752,000 at December 31, 1997. Further enhancing the Company's liquidity is the availability as of September 30, 1998 of $5,010,000 in securities maturing within one year, plus additional securities totaling in excess of $30,761,000 classified as available for sale in response to an unforeseen need for liquidity. Additionally, the Company has unused lines of credit available under various existing borrowing arrangements with the Federal Home Loan Bank of Pittsburgh.

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

CAPITAL RESOURCES

Maintenance of a strong capital position is a continuing goal of Company management. Through management of its capital resources, the Company seeks to provide an attractive financial return to its shareholders while retaining sufficient capital to support future growth. Shareholders' equity at September 30, 1998 totaled $23,981,000 compared to $15,061,000 at December 31, 1997, representing an increase of 59.2% which as illustrated in Table III above, resulted primarily from to the acquisition of Capital State.

See Note 9 of the notes to the accompanying consolidated financial statements for information regarding regulatory restrictions on the Company's and its subsidiaries' capital.

PART II. OTHER INFORMATION

Item 6(b). Reports on Form 8-K.

On August 10, 1998, South Branch Valley Bancorp, Inc. filed notice that it intends to seek regulatory approval to establish a subsidiary de novo national bank to be located in Winchester, Virginia.

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 Executive Officer

By: /s/ Robert S. Tissue

Robert S. Tissue,
Chief Financial Officer

Date November 16, 1998

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SOUTH BRANCH VALLEY BANCORP

9-MOS
DEC-31-1998
JAN-01-1998
SEP-30-1998
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