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 June 30, 1999

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) 538-1000
(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:

591,292 common shares were outstanding as of August 6, 1999

Transitional Small Business Disclosure Format (Check one):

Yes ---- No X

This report contains 25 pages.

South Branch Valley Bancorp, Inc. and Subsidiaries

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South Branch Valley Bancorp, Inc. and Subsidiaries

Consolidated Balance Sheets

	June 30, 1999 (unaudited)	December 31, 1998 (*)
ASSETS		
Cash and due from banks	$ 5,117,844	$ 4,239,721
Interest bearing deposits with other banks	6,596,773	770,000
Federal funds sold	10,006,943	4,842,745
Securities available for sale	64,512,851	31,409,924
Loans, net	170,169,354	142,770,127
Bank premises and equipment, net	6,967,713	5,170,858
Accrued interest receivable	1,492,790	1,059,990
Other assets	7,001,561	2,735,672
Total assets	$ 271,865,829	$ 192,999,037
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Non interest bearing	$ 17,920,867	$ 11,455,674
Interest bearing	191,706,995	134,917,518
Total deposits	209,627,862	146,373,192
Short-term borrowings	16,312,904	4,644,143
Long-term borrowings	20,803,179	16,468,875
Other liabilities	1,491,245	1,367,698
Total liabilities	248,235,190	168,853,908
Commitments and Contingencies		
Shareholders' Equity		
Common stock, $2.50 par value, authorized 2,000,000 shares, issued 600,407 shares	1,501,018	1,501,018
Capital surplus	9,611,774	9,611,774
Retained earnings	13,687,492	13,103,264
Less cost of 9,115 shares acquired for the treasury	(384,724)	(384,724)
Accumulated other comprehensive income	(784,921)	313,797
Total shareholders' equity	23,630,639	24,145,129
Total liabilities and shareholders' equity	$ 271,865,829	$ 192,999,037

(*) - December 31, 1998 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		Six Months Ended	
	June 30, 1999	June 30, 1998	June 30, 1999	June 30, 1998
Interest income				
Interest and fees on loans	$3,502,911	$2,930,902	$6,657,718	$5,135,590
Interest on securities				
Taxable	888,691	533,554	1,380,761	927,034
Tax-exempt	78,545	81,502	158,632	159,599
Interest on Federal funds sold	44,161	84,456	66,529	133,588
Total interest income	4,514,308	3,630,414	8,263,640	6,355,811
Interest expense				
Interest on deposits	1,927,705	1,629,654	3,518,213	2,791,855
Interest on short-term borrowings	106,657	57,303	171,852	122,138
Interest on long-term borrowings	276,228	169,544	515,148	336,665
Total interest expense	2,310,590	1,856,501	4,205,213	3,250,658
Net interest income	2,203,718	1,773,913	4,058,427	3,105,153
Provision for loan losses	82,500	75,000	160,000	120,000
Net interest income after provision for loan losses	2,121,218	1,698,913	3,898,427	2,985,153
Other income				
Insurance commissions	21,478	25,988	32,876	49,443
Service fees on deposits	150,343	97,439	258,144	175,836
Securities gains (losses)	-	4,131	-	4,131
Other	38,936	28,789	73,369	57,245
Total other income	210,757	156,347	364,389	286,655
Other expense				
Salaries and employee benefits	754,807	552,169	1,389,773	1,020,991
Net occupancy expense	108,718	102,333	192,774	152,952
Equipment expense	142,597	99,769	251,667	180,801
Supplies	106,041	57,098	141,555	82,232
Amortization of intangibles	67,135	42,057	109,189	51,352
Other	513,627	360,266	824,738	579,436
Total other expense	1,692,925	1,213,692	2,909,696	2,067,764
Income before income tax expense	639,050	641,568	1,353,120	1,204,044
Income tax expense	224,785	229,462	490,985	406,147
Net income	$ 414,265	$ 412,106	$ 862,135	$ 797,897
Basic earnings per common share	$ 0.70	$ 0.69	$ 1.46	$ 1.58
Diluted earnings per common share	$ 0.70	$ 0.69	$ 1.46	$ 1.58
Dividends per common share	$ 0.47	$ 0.44	$ 0.47	$ 0.44

See Notes to Consolidated Financial Statements

South Branch Valley Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (unaudited)

	Six Months Ended June 30, 1999	Six Months Ended June 30, 1998
Cash Flows from Operating Activities		
Net income	$ 862,135	$ 797,897
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	161,408	153,542
Provision for loan losses	160,000	120,000
Deferred income tax expense (benefit)	15,315	(5,953)
Security gains (losses)	-	(4,131)
Loss (gain) on disposal of other assets	1,200	(9,175)
Amortization of securities premiums (accretion of discounts), net	12,609	(21,803)
Amortization of goodwill and purchase accounting adjustments, net	59,079	37,716
(Increase) decrease in accrued interest receivable	(381,821)	(266,180)
(Increase) decrease in other assets	(260,039)	188,608
Increase (decrease) in other liabilities	216,250	79,044
Net cash provided by operating activities	846,136	1,069,565
Cash Flows from Investing Activities		
Proceeds from maturities of interest bearing deposits with other banks	(5,826,773)	99,100
Proceeds from maturities and calls of securities available for sale	4,835,324	3,825,000
Proceeds from sales of securities available for sale	-	409,050
Principal payments received on securities available for sale	1,439,784	1,483,951
Purchases of securities available for sale	(41,172,577)	(6,077,235)
Purchase of common stock of affiliate	-	(90,465)
Net (increase) decrease in Federal funds sold	(5,164,198)	10,880,802
Net loans made to customers	(18,858,970)	(12,471,958)
Purchases of Bank premises and equipment	(709,526)	(262,991)
Proceeds from sales of other assets	-	8,411
Purchase of life insurance contracts	(1,246,000)	-
Net cash and cash equivalents received in acquisitions	35,071,460	976,517
Net cash (used in) investing activities	(31,631,476)	(1,219,818)
Cash Flows from Financing Activities		
Net increase (decrease) in demand deposit, NOW and savings accounts	14,456,198	2,605,788
Net increase (decrease) in time deposits	1,482,107	386,254
Net increase (decrease) in short-term borrowings	11,668,761	(1,217,118)
Proceeds from long-term borrowings	4,500,000	2,000,000
Repayment of long-term borrowings	(165,696)	(3,429,303)
Purchase of treasury stock	-	(217,754)
Dividends paid	(277,907)	(262,367)
Net cash provided by (used in) financing activities	31,663,463	(134,500)
Increase (decrease) in cash and due from banks	878,123	(284,753)
Cash and due from banks:		
Beginning	4,239,721	3,162,552
Ending	$ 5,117,844	$ 2,877,799

See Notes to Consolidated Financial Statements

South Branch Valley Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows - continued (unaudited)

	Six Months Ended June 30, 1999	Six Months Ended June 30, 1998
Supplement Disclosures of Cash Flow Information		
Cash payments for:		
Interest	$ 4,204,562	$ 3,148,449
Income taxes	$ 505,692	$ 406,807
Supplemental Schedule of Noncash Investing and Financing Activities		
Other assets acquired in settlement of loans	$ 112,040	$ -
Acquisition of Greenbrier County branches		
Net cash and cash equivalents received in acquisition of Greenbrier County branches	$(35,071,460)	$ -
Fair value of assets acquired (principally loans and Bank premises)	$ 12,382,196	$ -
Deposits and other liabilities assumed	(47,453,656)	-
	$(35,071,460)	$ -
Acquisition of Capital State Bank, Inc.		
Prior acquisition of 40% of the outstanding common shares 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)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Compre-hensive Income	Total Share-holders' Equity
Balance, December 31, 1998	$1,501,018	$9,611,774	$13,103,264	$(384,724)	$313,797	$24,145,129
Six Months Ended June 30, 1999						
Comprehensive income:						
Net income	-	-	862,135	-	-	862,135
Other comprehensive income, net of tax:						
Net unrealized (loss) on securities of ($1,098,718), net of reclassification adjustment for gains(losses) included in net income of $ -	-	-	-	-	(1,098,718)	(1,098,718)
Total comprehensive income	-	-	-	-	-	(236,583)
Cash dividend declared on common stock ($.47 per share)	-	-	(277,105)	-	-	(277,105)
Balance, June 30, 1999	$1,501,018	$9,611,774	$13,687,492	$(384,724)	$ (784,921)	$ 23,630,639
Balance, December 31, 1997	$1,042,355	$2,089,709	$11,898,420	$(166,970)	$ 197,038	$ 15,060,552
Six Months Ended June 30, 1998						
Comprehensive income:						
Net income	-	-	797,897	-	-	797,897
Other comprehensive income, net of tax:						
Net unrealized gain on securities of $4,335, net of reclassification adjustment for gains included in net income of $2,541	-	-	-	-	1,794	1,794
Total comprehensive income	-	-	-	-	-	799,691
Issuance of 183,465 shares of common stock at $43.50 per share as consideration for the acquisition of Capital State Bank, Inc.	458,668	7,522,065	-	-	-	7,980,728
Cost of 5,000 shares of common stock acquired for the treasury	-	-	-	(217,754)	-	(217,754)
Cash dividends declared on common stock ($.44 per share)	-	-	(262,367)	-	-	(262,367)
Balance, June 30, 1998	$1,501,018	$9,611,774	$12,433,950	$(384,724)	$ 198,832	$ 23,360,850

See Notes to Consolidated Financial Statements

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 six month periods ended June 30, 1999 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 audited consolidated financial statements and notes related thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 1998.

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 management. This Quarterly Report on Form 10-QSB contains forward- looking statements that involve risk and uncertainty. In order to comply with the terms of the safe harbor, the Company notes that a variety of factors could cause South Branch's actual results and experience to differ materially from the anticipated results or other expectations expressed in those forward-looking statements.

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 six month periods ended June 30, 1999 and 1998 were 591,292 and 504,657, respectively. The weighted average shares outstanding for the three month periods ended June 30, 1999 and 1998 were 591,292 and 595,479, respectively.

In accordance Financial Accounting Standards Board Statement No. 128, Earning per Share, diluted earnings per share amounts assume the conversion, exercise or issuance of all potential common stock instruments unless the effect is to reduce the loss or increase the income per common share from continuing operations. At June 30, 1999, options totaling 7,500 shares of South Branch's common stock had been granted under the Company's 1998 Officer Stock Option Plan, which had the effect of increasing average shares outstanding for purposes of computing diluted earnings per share by 124 and 0 shares, for the second quarter of 1999 and 1998 respectively, and by 85 and 0 shares for the six months ended June 30, 1999 and 1998, respectively.

Note 3. Acquisitions and New Subsidiary

On December 23, 1998, Capital State Bank, Inc., a subsidiary of the Company, entered into an agreement to purchase three branch banking facilities located in Greenbrier County, West Virginia. The transaction was completed on April 22, 1999, and includes the branches' facilities and associated loan and deposit accounts. Total deposits assumed approximated $47.4 million and total loans acquired approximated $8.9 million as of the transaction's closing. This transaction was accounted for using the purchase method of accounting. The excess purchase price over the fair value of the net assets acquired as of the consummation date approximated $2,267,000, which is included in other assets in the accompanying consolidated balance sheet as of June 30, 1999. This goodwill is being amortized over a period of 15 years using the straight line method.

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, and is being amortized over a period of 15 years using the straight line method.

During 1998, the South Branch applied for and on January 25, 1999 received preliminary approval from the Office of the Comptroller of the Currency to begin organizing a new subsidiary bank, Shenandoah Valley National Bank, to be located in Winchester, Virginia. Shenandoah Valley National Bank was granted its charter on May 14, 1999 and was initially capitalized with $4 million, funded by a special dividend in the amount of $3 million from the Company's subsidiary bank, South Branch Valley National Bank, and from a $1 million term loan from Potomac Valley Bank. Shenandoah Valley National Bank opened for business on May 17, 1999. Start-up costs totaling $89,998 related to the organization of this Institution were expensed during the second quarter of 1999.

Note 4. Securities

The amortized cost, unrealized gains, unrealized losses and estimated fair values of securities at June 30, 1999 and December 31, 1998 are summarized as follows:

	June 30, 1999			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Available for Sale				
Taxable:				
U. S. Treasury securities	$ 2,492,580	$ 18,983	$ -	$ 2,511,563
U. S. Government agencies and corporations	36,248,417	17,208	738,034	35,527,591
Small Business Administration guaranteed loan participation certificates	801,584	2,864	5,196	799,292
Mortgage-backed securities - U. S. Government agencies and corporations	17,561,283	14,662	-	16,940,751
Federal Reserve Bank stock	164,300	-	-	164,300
Federal Home Loan Bank stock	2,126,600	-	-	2,126,600
Other equity securities	306,625	-	-	306,625
Total taxable	59,701,389	53,717	1,378,424	58,376,682
Tax-exempt:				
State and political subdivisions	6,083,687	81,508	33,126	6,132,069
Federal Reserve Bank stock	4,100	-	-	4,100
Total tax-exempt	6,087,787	81,508	33,126	6,136,169
Total	$65,789,176	$135,225	$1,411,550	$64,512,851

	December 31, 1998			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Available for Sale				
Taxable:				
U. S. Treasury securities	$ 2,990,294	$ 68,354	$ -	$ 3,058,648
U. S. Government agencies and corporations	12,698,092	82,796	11,404	12,769,484
Small Business Administration guaranteed loan participation certificates	973,127	21,119	-	994,246
Mortgage-backed securities - U. S. Government agencies and corporations	6,334,380	86,483	-	6,420,863
Corporate debt securities	249,724	1,214	-	250,938
Federal Reserve Bank stock	44,300	-	-	44,300
Federal Home Loan Bank stock	1,052,300	-	-	1,052,300
Other equity securities	306,625	-	-	306,625
Total taxable	24,648,842	259,966	11,404	24,897,404
Tax-exempt:				
State and political subdivisions	6,246,745	268,525	6,850	6,508,420
Federal Reserve Bank stock	4,100	-	-	4,100
Total tax-exempt	6,250,845	268,525	6,850	6,512,520

Total	$30,899,687	$528,491	$18,254	$31,409,924

The maturites, amortized cost and estimated fair values of securities at June 30, 1999 and December 31, 1998, are summarized as follows:

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 7,092,506	$ 7,022,157
Due from one to five years	24,934,074	24,522,213
Due from five to ten years	27,983,084	27,223,104
Due after ten years	3,177,887	3,143,752
Equity securities	2,601,625	2,601,625
	$ 65,789,176	$ 64,512,851

Note 5. Loans

Loans are summarized as follows:

	June 30, 1999	December 31, 1998
Commercial, financial and agricultural	$ 55,551,087	$ 41,956,586
Real estate - construction	1,055,136	1,801,317
Real estate - mortgage	85,344,066	73,885,892
Installment	29,580,605	26,579,782
Other	580,621	409,382
Total loans	172,111,515	144,632,959
Less unearned income	476,108	490,946
Total loans net of unearned income	171,635,407	144,142,013
Less allowance for loan losses	1,466,053	1,371,886
Loans, net	$170,169,354	$142,770,127

The following presents loan maturities at June 30, 1999:

	Within 1 Year	After 1 but within 5 Years	After 5 Years
Commercial, financial and agricultural	$10,078,238	$11,432,010	$ 34,040,843
Real estate - construction	978,139	-	76,997
Real estate - mortgage	2,533,658	8,415,338	74,395,071
Installment	3,497,251	21,876,301	4,207,049
Other	543,848	36,773	-
Total	$17,631,134	$41,760,422	$112,719,960

Loans due after one year with:	
Variable rates	$ 47,235,748
Fixed rates	107,244,634
	$154,480,382

The Company grants commercial, residential and consumer loans to customers primarily located in the Potomac Highlands, South Central, and South Eastern counties of West Virginia, and in Winchester-Frederick County, 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 six month periods ended June 30, 1999 and 1998, is as follows:

	Six Months Ended June 30,		Year Ended December 31,
	1999	1998	1998
Balance, beginning of period	$1,371,886	$ 895,281	$ 895,281
Losses:			
Commercial, financial & agricultural	14,783	546	4,063
Real estate - mortgage	30,488	-	-
Installment	33,384	68,881	124,103
Other	3,715	2,196	24,638
Total	82,370	71,623	152,804
Recoveries:			
Commercial, financial & agricultural	-	2,830	2,830
Real estate - mortgage	1,320	15,123	21,969
Installment	13,407	15,037	60,797
Other	1,810	169	2,011
Total	16,537	33,159	87,607
Net losses	65,833	38,464	65,197
Allowance of purchased subsidiary	-	271,802	271,802
Provision for loan losses	160,000	120,000	270,000
Balance, end of period	$1,466,053	$1,248,619	$1,371,886

Note 7. Bank Premises and Equipment

The major categories of Bank premises and equipment and accumulated depreciation at June 30, 1999 and December 31, 1998 are summarized as follows:

	June 30, 1999	December 31, 1998
Land	$ 1,734,978	$ 1,174,679
Buildings and improvements	5,018,094	3,928,162
Furniture and equipment	2,624,319	2,327,419
	9,377,391	7,430,260
Less accumulated depreciation	2,409,678	2,259,402
Bank premises and equipment,net	$ 6,967,713	$ 5,170,858

Note 8. Deposits

The following is a summary of interest bearing deposits by type as of June 30, 1999 and December 31, 1998:

	June 30, 1999	December 31, 1998
Demand deposits, interest bearing	$ 43,463,987	$ 27,510,717
Savings deposits	33,552,910	14,748,928
Individual retirement accounts	104,151,394	83,319,247
Certificates of deposit	10,538,704	9,338,626
Total	$191,706,995	$134,917,518

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 June 30, 1999:

	Amount	Percent
Three months or less	$ 5,498,663	19.6%
Three through six months	5,763,148	20.6%
Six through twelve months	7,301,930	26.0%
Over twelve months	9,467,516	33.8%
Total	$28,031,257	100.0%

A summary of the scheduled maturities for all time deposits as of June 30, 1999 is as follows:

1999	$ 46,515,568
2000	46,266,699
2001	11,176,497
2002	3,858,618
2003	3,673,247
Thereafter	3,199,469
	$114,690,098

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 June 30, 1999, 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"), Capital State Bank, Inc.'s ("CSB"), and Shenandoah Valley National Bank's ("SVNB") 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 June 30, 1999						
Total Capital (to risk weighted assets)						
South Branch	$21,778	13.6%	$12,819	8.0%	$16,023	10.0%
SBVNB	12,059	11.5%	8,408	8.0%	10,511	10.0%
CSB	6,859	13.7%	4,014	8.0%	5,018	10.0%
SVNB	3,899	116.8%	267	8.0%	334	10.0%
Tier I Capital (to risk weighted assets)						
South Branch	20,312	12.7%	6,409	4.0%	9,614	6.0%
SBVNB	10,152	9.7%	4,204	4.0%	6,306	6.0%
CSB	6,490	12.9%	2,007	4.0%	3,011	6.0%
SVNB	3,899	116.8%	134	4.0%	200	6.0%
Tier I Capital (to average assets)						
South Branch	20,312	7.9%	7,717	3.0%	12,862	5.0%
SBVNB	10,152	6.7%	4,524	3.0%	7,540	5.0%
CSB	6,490	7.4%	2,624	3.0%	4,373	5.0%
SVNB	3,899	100.2%	117	3.0%	195	5.0
As of December 31, 1998						
Total Capital (to risk weighted assets)						
South Branch	$23,309	18.4%	$10,126	8.0%	$12,658	10.0%
SBVNB	13,510	14.0%	7,721	8.0%	9,652	10.0%
CSB	8,976	30.5%	2,356	8.0%	2,945	10.0%
SVNB	*	*	*	*	*	*
Tier I Capital (to risk weighted assets)						
South Branch	21,937	17.3%	5,063	4.0%	7,595	6.0%
SBVNB	12,468	12.9%	3,861	4.0%	5,791	6.0%
CSB	8,646	29.4%	1,178	4.0%	1,767	6.0%
SVNB	*	*	*	*	*	*
Tier I Capital (to average assets)						
South Branch	21,937	11.5%	5,702	3.0%	9,504	5.0%
SBVNB	12,468	8.7%	4,289	3.0%	7,148	5.0%
CSB	8,646	17.7%	1,464	3.0%	2,441	5.0%
SVNB	*	*	*	*	*	*

* - No data presented relative to SVNB as of December 31, 1998, as this subsidiary was capitalized by South Branch in April 1999.

Note 10. Pending Merger

On July 16, 1999, the Company entered into an Agreement and Plan of Merger ("Agreement") to affiliate with Potomac Valley Bank ("Potomac") in Petersburg, West Virginia. Under the terms of the Agreement South Branch and Potomac propose a merger whereby the shareholders of Potomac would exchange all of their outstanding shares of common stock for shares of South Branch common stock at a book-for-book exchange based on the respective book values of South Branch and Potomac as of the closing date. At June 30, 1999, the exchange ratio would have been 3.3188 shares of South Branch common stock for each share of Potomac's 90,000 outstanding shares of common stock. The terms of the Agreement also include, among others, that the merger is subject to South Branch changing its name to Summit Financial Group, Inc. and approval of the transaction by all applicable regulatory authorities and the shareholders of South Branch and Potomac. It is expected that the transaction will be accounted for using the pooling of interests method of accounting. As of June 30, 1999, Potomac's assets, loans, deposits and shareholders' equity totaled $90,718,000, $51,673,000, $78,664,000 and $11,937,000, respectively.

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"), Capital State Bank, Inc. ("Capital State"), and Shenandoah Valley National Bank ("SVNB") for the periods indicated. This discussion and analysis should be read in conjunction with the Company's 1998 audited consolidated 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.

ACQUISITIONS AND NEW SUBSIDIARY

On May 14, 1999, SVNB, a newly organized bank subsidiary of South Branch, was granted its charter by the Office of the Comptroller of the Currency. This entity was initially capitalized with $4 million, funded by a special dividend in the amount of $3 million from the Company's subsidiary bank, SBVNB, and from a $1 million term loan from Potomac Valley Bank. SVNB opened for business on May 17, 1999.

On December 23, 1998, Capital State entered into an agreement to purchase three branch banking facilities located in Greenbrier County, West Virginia. The transaction was completed on April 22, 1999, and includes the branches' facilities and associated loan and deposit accounts. Total deposits assumed approximated $47.4 million and total loans acquired approximated $8.9 million as of the transaction's closing. This transaction was accounted for using the purchase method of accounting and accordingly, the balances and results of operations of the branches are included in the consolidated financial statements of South Branch only from the date of purchase.

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.

Refer to Note 3 of the accompanying consolidated financial statements for additional information regarding these acquisitions.

RESULTS OF OPERATIONS

Earnings Summary

South Branch reported net income of $414,000 for the three months ended June 30, 1999 compared to $412,000 for the second quarter of 1998, representing an 0.5% increase. For the six month period ended June 30, 1999, South Branch's net income of $862,000, increased 8.0% from the $798,000 reported for the same period of 1998. The increase in earnings for both the quarterly and six month periods resulted primarily from growth in interest earning assets and improved service fee revenues.

Basic and diluted earnings per common share were $0.70 for the quarter ended June 30, 1999, compared to the $0.69 reported for the second quarter of 1998. For the six month period ended June 30, 1999, basic and diluted earnings per common share totaled $1.46, compared to $1.58 for the same period of 1998. The declines in 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 $4,141,000 for the six month period ended June 30, 1999 compared to $3,188,000 for the same period of 1998, representing an increase of $953,000 or 29.9%. This increase resulted from growth in the volume of earning assets as result of the acquisitions of Capital State and the Greenbrier County branches and as a result of solid Company-wide loan growth. South Branch's net yield on interest earning assets however decreased to 4.0% for the six month period ended June 30, 1999, compared to 4.3% for the same period in 1998. 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 1999, primarily due to the declining yields on loans as result of generally lower interest rates and an increasingly competitive market for quality new credits.

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

	June 30, 1999			June 30, 1998		
	Average Balance	Earnings/ Expense	Yield/ Rate	Average Balance	Earnings/ Expense	Yield/ Rate
Interest earning assets						
Loans, net of unearned income	$154,526	$ 6,658	8.6%	$109,934	$ 5,136	9.3%
Securities						
Taxable	38,020	1,230	6.5%	28,163	927	6.6%
Tax-exempt (1)	6,187	241	7.8%	6,083	242	8.0%
Federal fund sold and interest bearing deposits other banks	8,932	217	4.9%	4,648	134	5.8%
Total interest earning assets	207,665	8,346	8.0%	148,828	6,439	8.7%
Noninterest earning assets						
Cash & due from banks	4,253			3,547		
Bank premises and equipment	6,312			3,879		
Other assets	3,943			6,222		
Allowance for loan losses	(1,403)			(1,079)		
Total assets	$220,770			$161,397		
Interest bearing liabilities						
Interest bearing demand deposits	$ 32,263	515	3.2%	$ 21,650	355	3.3%
Savings deposits	21,391	293	2.7%	15,147	242	3.2%
Time deposits	100,693	2,710	5.4%	76,490	2,194	5.7%
Short-term borrowings	8,954	172	3.8%	5,637	122	4.3%
Long-term borrowings	18,314	515	5.6%	10,397	338	6.5%
Total interest bearing liabilities	181,615	4,205	4.6%	129,321	3,251	5.0%
Noninterest bearing liabilities and shareholders' equity						
Demand deposits	14,156			10,617		
Other liabilities	1,510			1,325		
Shareholders' equity	23,489			20,134		
Total liabilities and shareholders' equity	$220,770			$161,397		
Net interest earnings		$4,141			$3,188	
Net yield on interest earning assets			4.0%			4.3%

(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 $82,000 and $82,000 for the periods ended June 30, 1999 and 1998, 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 $160,000 provision for loan losses for the first six months of 1999, compared to $120,000 for the same period in 1998. This increase reflects the acquisition of Capital State and continued growth of the loan portfolio. Net loan charge-offs for the first half of 1999 were $66,000, as compared to $38,000 over the same period of 1998. At June 30, 1999, the allowance for loan losses totaled $1,466,000 or 0.9% of loans, net of unearned income, compared to $1,249,000 or 1.0% of loans, net of unearned income at December 31, 1998. 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 six month periods ended June 30, 1999 and 1998 and for the year ended December 31, 1998.

As illustrated in Table II below, the Company's non-performing assets and loans past due 90 days or more and still accruing interest has increased from $749,000 at December 31, 1998. to $1,203,000 at June 30, 1999. This increase resulted principally from a single borrower's credits totaling $400,000 that were past due more than 90 days at June 30, 1999. These credits were paid off in full by the borrower in July 1999.

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

	June 30,		December 31,
	1999	1998	1998
Loans contractually past due 90 days or or more still accruing interest	$698	$106	$355
Non-performing assets:			
Non-accruing loans	310	139	297
Repossessed assets	17	11	12
Foreclosed properties	178	19	85
	$1,203	$275	$749
Percentage of total loans	0.7%	0.2%	0.5%

Noninterest Income and Expense

Total other income increased approximately $78,000 or 27.1% to $364,000 during the first six months of 1999, as compared to the first six months of 1998. The most significant item contributing to this increase was service fees on deposits, which increased $82,000 from approximately $176,000 to $258,000, or 46.8%. This resulted primarily from a change in SBVNB's deposit fee structure and improved realization of fee income at Capital State during the first half of 1999. Management expects the Company will achieve similar levels of service fee income throughout the remainder of 1999.

Total noninterest expense increased approximately $842,000, or 40.7% to $2,910,000 during the first six months of 1999 as compared to $2,068,000 for the first six months of 1998. This increase resulted due to: only one quarter of Capital State's noninterest expenses being included in consolidated noninterest expense for the first half of 1998 due to its acquisition on April 1, 1998, one time acquisition costs as well as operating costs associated with the Greenbrier County branches acquired April 22, 1999, and one time start up costs related to the organization and opening of SVNB.

FINANCIAL CONDITION

Total assets of the Company were $271,866,000 at June 30, 1999, compared to $192,999,000 at December 31, 1998, representing a 40.9% increase. Table III below serves to illustrate significant changes in the Company's financial position between December 31, 1998 and June 30, 1999.

Table III -
Summary of Significant Changes in
Company's Financial Position
(in thousands of dollars)

	Balance December 31, 1998	Increase (Decrease) Amount	Increase (Decrease) Percentage	Balance June 30, 1999
Assets				
Securities	$31,410	$33,103	105.4%	$64,513
Loans, net of unearned income	144,142	27,493	19.1%	171,635
Liabilities				
Noninterest bearing deposits	11,455	6,466	56.4%	17,921
Interest bearing deposits	134,918	56,789	42.1%	191,707
Short-term borrowings	4,644	11,669	251.3%	16,313
Long-term borrowings	16,469	4,334	26.3%	20,803

The increase in securities available for sale resulted primarily from the purchase of U.S. government agency securities and mortgage backed securities during the first half of 1999. Purchases of these securities were made primarily to invest a significant portion of the $34.3 million in net funds the Company realized in conjunction with the acquisition of three branch banks in Greenbrier County, West Virginia in April 1999, and as part of South Branch's ongoing asset/liability management strategy, which strives to minimize interest rate risk while enhancing the financial position of the Company.

Growth in both noninterest bearing and interest bearing deposits reflects the approximate $47.2 million in deposits acquired with the Greenbrier County branches and SVNB's deposit growth to $10.4 million at June 30, 1999 following the new Bank's opening in May 1999.

Growth in loans during the first six months of 1999, occurring primarily in the commercial and real estate portfolios, was funded principally by short-and long-term borrowings from the Federal Home Loan Bank and by deposits acquired with the Greenbrier County branches.

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 June 30, 1999 and December 31, 1998.

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, Federal funds sold, securities and interest bearing deposits with other banks maturing within one year, and lines of credit with the Federal Home Loan Bank which totaled approximately $48.6 million at June 30, 1999 versus $45.1 million at December 31, 1998. Further enhancing the Company's liquidity is the availability as of June 30, 1999 of additional securities totaling $64.5 million classified as available for sale in response to an unforeseen need for liquidity.

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 South Branch'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 June 30, 1999 totaled $23,631,000 compared to $24,145,000 at December 31, 1998, representing a decline of 2.1% which resulted primarily from the net unrealized loss of $1,099,000 on available for sale securities during the first half of 1999.

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.

YEAR 2000

The Year 2000 Issue is the result of many existing computer programs and other date dependent electronic devices using only the last two digits, as opposed to four digits, to indicate the year. Such computer systems and devices may be unable to recognize a year that begins with 20XX instead of 19XX. If not corrected, the computer programs and devices could cause systems to fail or other computer errors, leading to possible disruptions in operations or creation of erroneous results. South Branch recognizes the significant potential risk associated with the Year 2000 Issue and, in a Company-wide effort, is taking steps to ensure that its internal systems are secure from such failure.

The Company's Year 2000 Plan ("Plan") addresses all its systems, software, hardware, and infrastructure components. The Plan identifies and addresses "Mission Critical" and "Non-mission Critical" components for Information Technology ("IT") systems and Non-information Technology ("Non-IT") systems. IT includes, for example, systems that service loan and deposit customers. Non-IT systems include security systems, elevators, utilities and voice/data communications. An application, system, or process is deemed "Mission Critical" if it is vital to the successful continuance of a core business activity.

South Branch's Plan follows a five phase approach recommended by bank regulatory authorities. These phases are: Awareness, Assessment, Renovation, Testing/Validation, and Implementation. During the Awareness Phase, management gathered information and appointed a project steering committee to coordinate the Company's Year 2000 efforts. In the Assessment Phase, South Branch identified its Mission Critical IT and Non-IT systems and performed an inventory of all systems, software, hardware, equipment and components that potentially could be affected by the Year 2000 issue. The Renovation Phase involves implementing program changes and new components, where applicable, to accommodate identified Year 2000 issues. In the Testing/Validation Phase, the Company is testing renovated applications and components to ensure they are Year 2000 compliant. During the Implementation Phase, applications, systems and other components are fine-tuned and final programs and components are placed into operation.

South Branch's estimated progress as of June 30, 1999 towards meeting the Plan's goals for both IT and Non-IT systems by phase are as follows:

Phase	Estimated Percent Complete	Completion Date
Mission Critical		
Awareness	100%	06/30/1998
Assessment	100%	09/30/1998
Renovation	100%	06/30/1999
Testing/Validation	100%	06/30/1999
Implementation	100%	06/30/1999
Non-mission Critical		
Awareness	100%	06/30/1998
Assessment	100%	09/30/1998
Renovation	100%	06/30/1999
Testing/Validation	100%	06/30/1999
Implementation	100%	06/30/1999

South Branch depends on various third-party vendors, suppliers, and service providers, and will be dependent on their continued service in order to avoid business interruptions. Any interruption in a third party's ability to provide goods and services, such as issues with telecommunication links and providers of electricity, could interrupt South Branch's ability to meet its customer's needs. South Branch has identified several third-party relationships considered Mission Critical, and is presently working with each to test transactions and/or interfaces between its processors, obtain appropriate information from each party, or assess each party's readiness with regard to the Year 2000 Issue.

Identifiable costs for the Company's Year 2000 project during 1999 approximated $20,000, substantially all of which were capital expenditures for the replacement of computers and other date dependent electronic devices. The cost to complete the Plan is not expected to exceed $20,000.

Major business risks associated with the Year 2000 problem include, but are not limited to, infrastructure failures, disruptions to the economy in general, excessive cash withdrawal activity, closure of government offices and clearing houses, and increased problem loans and credit losses in the event that borrowers fail to properly respond to the problem. These risks, along with the unlikely risk of South Branch failing to adequately complete the remaining phases of its Plan and the resulting possible inability to properly process business transactions expose the Company to loss of revenues, litigation, and asset quality deterioration.

The Year 2000 problem is unique in that it has never previously occurred; thus, it is not possible to completely foresee or quantify the overall or any specific financial or operational impacts to the Company or to third parties which provide Mission Critical services to the Company. South Branch has developed comprehensive Year 2000 contingency plans in the event that Mission Critical third party vendors or other third parties fail to adequately address Year 2000 issues. Such plans principally involve internal remediation or utilization of alternative vendors.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

On April 27, 1999, at the annual meeting of the shareholders of South Branch Valley Bancorp, Inc., the matters set forth below were voted upon. The number of votes cast for or against, as well as the number of abstentions and withheld votes concerning each matter are indicated in the following tabulations.

1. Election of John W. Crites to the Company's Board of Directors for a two year term.

For	Withheld
435,101	5,716

2. Election of the following listed individuals to the Company's Board of Directors for three year terms.

	For	Withheld
Frank A. Baer, III	434,937	5,880
Donald W. Biller	439,240	1,577
Jeffrey E. Hott	434,878	5,939
Ronald F. Miller	435,131	5,686
Russell F. Ratliff, Jr.	435,158	5,659
Harry C. Welton	447,332	0

The following directors' terms of office continued after the 1999 annual shareholders' meeting: James M. Cookman, Georgette R. George, Thomas J. Hawse, III, Gary L. Hinkle, Harold K. Michael, Oscar M. Bean, Phoebe F. Heishman, H. Charles Maddy, III and Charles S. Piccirillo.

3. Ratify Arnett & Foster, CPA's to serve as the Company's independent auditors for 1999.

For	Against	Abstentions
438,611	75	1,802

Item 6(a). Exhibits required by Item 601 of Regulation S-B

Exhibit 10. Employment Agreement

Exhibit 11. Statement re: Computation of Earnings per Share

Exhibit 27. Financial Data Schedule - electronic filing only

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

None.

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,
Vice President and
Chief Financial Officer

Date: August 13, 1999

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") made in duplicate originals and effective this 5th day of February, 1999, is between CAPITAL STATE BANK, INC., a West Virginia corporation (the "Company"), and C. DAVID ROBERTSON ("Employee").

WHEREAS, the Company offers the terms and conditions of employment hereinafter set forth and the Employee has indicated his willingness to accept such terms and conditions in consideration of his employment with the Company.

NOW, THEREFORE, in consideration of the mutual promises and covenants made in this Agreement, the parties agree as follows:

1. Employment. The Company hereby employs Employee and Employee hereby accepts employment with the Company as President and Chief Executive Officer of the Company and member of the Board of Directors of the Company upon the terms and conditions set forth herein effective March 8, 1999, or such earlier date as the parties may mutually agree.

2. Term. The term of this Agreement shall be for five (5) years, unless one of the parties terminates this Agreement as provided herein. Upon termination of the original term of the Agreement, the Board of Directors of the Company shall review the Agreement at least annually, and may, with the consent of the Employee, extend this term of employment for additional one (1) year term(s), in which case such term shall end one (1) year from the date on which it is last renewed.

3. Duties. Employee shall perform and have all of the duties and responsibilities that may be assigned to him from time to time by the Board of Directors of the Company. Employee shall devote his best efforts on a full-time basis to the performance of such duties.

4. Compensation and Benefits. During the term of employment, the Company agrees to pay Employee a base salary and to provide benefits as set forth in Exhibit A, which is attached hereto and incorporated herein by reference.

5. Termination by the Company or Employee. The employment of Employee with the Company may be terminated by any one of the following means, in which case Employee shall be entitled to such compensation as is described below:

A. Mutual Agreement. The Employee's employment may be terminated by mutual agreement of the parties upon such terms and conditions as they may agree.

B. For Cause.

(1) The Employee's employment may be terminated by the Company for cause consisting of one or more of the reasons specified in Paragraph 5(B)(2)(a) - (e) below; provided, however, that if the cause of termination is for a reason specified in Paragraph 5(B)(2)(a) below, and if in the reasonable judgment of the Board of Directors of the Company the damage incurred by the Company as a result of Employee's conduct constituting cause is damage of a type that is capable of being substantially reversed and corrected, the Company shall give Employee thirty (30) days advance notice of the Company's intention to terminate his employment for cause and a reasonable opportunity to cure the cause of the possible termination to the satisfaction of the Company.

(2) For purposes of this Agreement, the term "cause" shall be defined as follows:

(a) Employee's negligence, malfeasance or misfeasance in the performance of Employee's duties that can reasonably be expected to have an adverse impact upon the business and affairs of the Company, including but not limited to (i) failure of Employee to ensure the overall quality of the Company's loan portfolio is maintained at a level which is satisfactory to the Board of Directors of the Company, and (ii) failure of the Employee to ensure that the Company's loan loss experience remains at a level which is satisfactory to the Company's Board of Directors;

(b) Employee's commission of any act constituting theft, intentional wrongdoing or fraud;

(c) The conviction of the Employee of a felony criminal offense in either state or federal court;

(d) Any single act by Employee constituting gross negligence or which causes material harm to the reputation, financial condition or property of the Company; or

(e) The death of Employee during the term of this Agreement, in which event the Company shall pay to the estate of the Employee any compensation for services rendered but unpaid prior to the Employee's date of death.

(3) The Board of Directors of the Company shall determine, in its sole discretion, whether any acts and/or omissions on the part of Employee constitute "cause" as defined above. Notwithstanding the foregoing, Employee shall be entitled to arbitrate a finding of the Board of Directors of "cause" in accordance with Paragraph 9 hereof.

(4) In the event that Company terminates Employee's employment for cause as defined above, Employee shall be entitled to be paid his regular salary and benefits up to the effective date of the termination, but not any additional compensation.

C. Not for Cause. Employee's employment may be terminated by the Company for any reason so long as Employee is given thirty (30) days advance written notice (or payment in lieu thereof). In the event of a termination pursuant to this subparagraph, Employee shall be entitled to payment from the Company equivalent to the base salary compensation set forth in this Agreement for the remaining term of the Agreement or severance pay equal to six (6) months of base salary payments, whichever is greater.

D. Employee Resignation. Employee recognizes and understands the vital role he plays in the Company's development of the Company, and therefore agrees not to resign from employment during the initial four-year term of this Agreement except in the event of his disability. If the Employee resigns in violation of this commitment, Employee agrees to comply with the restrictions set forth in Paragraph 6 below.

E. Change in Control. Exhibit B hereto sets forth the rights and responsibilities of the parties in the event of a change in control, as defined therein, and is incorporated herein by reference.

6. Noncompetition and Nonsolicitation. In consideration of the covenants set forth herein, including but not limited to the severance pay set forth in Paragraph 5(E) and Exhibit A, Employee agrees as follows:

A. For a period of five (5) years after Employee's employment with the Company is terminated by Employee for any reason other than Employee's disability or Good Reason (as that term is defined in Exhibit B hereto), Employee shall not, directly or indirectly, engage in the business of banking in the City of Charleston or the Counties of Kanawha and Greenbrier, West Virginia, or in any other county in which the Company has operating offices at the time of the termination. For purposes of this Paragraph 6(A), being engaged in the business of banking shall mean Employee's presence or work in a bank office in the specified geographic area or Employee's solicitation of business from clients with a primary or principle office in the specified geographic area.

B. During Employee's employment by the Company and for five (5) years after Employee's employment with the Company is terminated by Employee for any reason other than Employee's disability, Employee shall not, on his own behalf or on behalf of any other person, corporation or entity, either directly or indirectly, solicit, induce, recruit or cause another person in the employ of the Company or its affiliates to terminate his or her employment for the purpose of joining, associating or becoming an employee with any business which is in competition with any business or activity engaged in by the Company or its affiliates.

C. Employee further recognizes and acknowledges that in the event of the termination of Employee's employment with the Company for any reason other than Employee's disability, (1) a breach of the obligations and conditions set forth herein will irreparably harm and damage the Company; (2) an award of money damages may not be adequate to remedy such harm; and (3) considering Employee's relevant background, education and experience, Employee believes that he will be able to earn a livelihood without violating the foregoing restrictions. Consequently, Employee agrees that, in the event that Employee breaches any of the covenants set forth in this Paragraph 6, the Company and/or its affiliates shall be entitled to both a preliminary and permanent injunction in order to prevent the continuation of such harm and to recover money damages, insofar as they can be determined, including, without limitation, all costs and attorneys' fees incurred by the Company in enforcing the provisions of this Paragraph 6. Such relief may be sought notwithstanding the arbitration provision set forth in Paragraph 10 below.

7. Definition of Disability. For purposes of the Agreement, the term "disability" shall mean a physical or mental condition rendering Employee substantially and permanently unable to perform the duties of an officer and director of a banking organization.

8. Notices. Any notice required or permitted to be given under this Agreement shall be sufficient if in writing and sent by registered or certified mail listed herein. In the case of Employee, to the following address: 206 Georgetown Place, Charleston, West Virginia 25314. In the case of the Company, addressed to H. Charles Maddy, III in care of South Branch Valley Bancorp, Inc., P.O. Box 680, Moorefield, WV 26836. Any notice sent pursuant to this paragraph shall be effective when deposited in the mail.

9. Confidential Information. Employee shall not, during the term of this Agreement or at any time thereafter, directly or indirectly, publish or disclose to any person or entity any confidential information concerning the assets, business or affairs of the Company, including but not limited to any trade secrets, financial data, employee or customer/client information or organizational structure.

10. Arbitration. Any dispute between the parties arising out of or with respect to this Agreement or any of its provisions or Employee's employment with the Company shall be resolved by the sole and exclusive remedy of binding arbitration. Arbitration shall be conducted in Charleston, West Virginia in accordance with the rules of the American Arbitration Association ("AAA"). The parties agree to select one arbitrator from an AAA employment panel. The arbitration shall be conducted in accordance with the West Virginia Rules of Evidence and all discovery issues shall be decided by the arbitrator. The arbitrator shall supply a written opinion and analysis of the matter submitted for arbitration along with the decision. The arbitration decision shall be final and subject to enforcement in the local circuit court.

11. Entire Agreement. This Agreement constitutes the entire Agreement between the parties and shall supersede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof, and may not be changed or amended except by an instrument in writing to be executed by each of the parties hereto.

12. Severability. If any provision hereof, or any portion of any provision hereof, is held to be invalid, illegal or unenforceable, all other provisions shall remain in force and effect as if such invalid, illegal or unenforceable provision or portion thereof had not been included herein. If any provision or portion of any provision of this Agreement is so broad as to be unenforceable, such provision or a portion thereof shall be interpreted to be only so broad as is enforceable.

13. Headings. The headings contained in this Agreement are included for convenience or reference only and shall have no effect on the construction, meaning or interpretation of this Agreement.

14. Governing Law. The laws of the State of West Virginia shall govern the interpretation and enforcement of this Agreement.

15. Amendments. Any amendments to the Agreement must be in writing and signed by all parties hereto except that extensions of the term of this Agreement under Paragraph 2 above, may be evidenced by minutes of a meeting of the Board of Directors.

16. Wavier of Breach. No requirement of this Agreement may be waived except by a written document signed by the party adversely affected. A waiver of a breach of any provision of the Agreement by any party shall not be construed as a waiver of subsequent breaches of that provision.

17. Counterparts. This Agreement may be executed in counterparts, all of which shall be considered one and the same Agreement and each of which shall be deemed an original.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed in its corporate name by its corporate officer thereunto duly authorized, and Employee has hereunto set his hand and seal, as of the day and year first above written:

CAPITAL STATE BANK, INC.

By: /s/ H. Charles Maddy, III

Its: Director

/s/ C. David Robertson

C. David Robertson

Exhibit A
Compensation and Benefits

A. Base Salary. Employee's starting base salary shall be as mutually agreed upon by Company and Employee. Employee shall be considered for salary increases on the basis of merit beginning in the third year of his employment.

B. Bonus. In addition to the base salary provided for herein, Employee shall be eligible for incentive bonuses subject to goals and criteria to be determined by the Board of Directors of the Company.

C. Other Compensation. The Company shall provide the following other compensation to Employee, up to a maximum of $7,000 per year:

(1) An amount equal to Employee's monthly country club dues.

(2) An amount equal to the premiums on the life insurance policy held by Employee as of the effective date of this Agreement.

Employee shall be subject to taxation on such other compensation as required by the Internal Revenue Code.

D. Vacation. Employee shall be entitled to all paid vacation and holidays and other paid leave as provided by the Company to other employees.

E. Fringe Benefits. The Company shall afford to Employee the benefit of retirement plans afforded to all other Company officers, subject to the terms and conditions thereof. In the event that Employee's health insurance coverage is discontinued or becomes unavailable to him for some reason outside the control of Employee, Employee shall be afforded the opportunity to enroll in the Company's health insurance plan; provided, however, that the Company may adjust the Other Compensation set forth above in Paragraph C in an amount equivalent to the cost of Employee's participation in the Company's health insurance plan.

F. Business Expenses. The Company shall reimburse Employee for all reasonable expenses incurred by Employee in carrying out his duties and responsibilities, including but not limited to reimbursing civic club organization dues and reasonable expenses for customer entertainment.

G. Automobile. The Company shall provide Employee with the use of an
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automobile for the employee's business and personal use. The Company shall be responsible for expenses associated with the vehicle including but not limited to taxes, gasoline, licenses, maintenance, repair, insurance and reasonable cellular phone charges. Employee shall be subject to tax for his personal use of the vehicle in accordance with the Internal Revenue Code and any applicable state law. Upon approval of the Company, appropriate replacement vehicles may be provided in the future.

H. Director's Fees. The Company shall pay Employee the same director's fees as are provided to other inside officer members of the Board of Directors.

Exhibit B
Change in Control Agreement

A. Definitions. For purposes of this Exhibit B, the following definitions shall apply:

(1) "Change of Control" means

(a) a change of ownership of the Company that would have to be reported to the Securities and Exchange Commission as a Change of Control, including but not limited to the acquisition by any "person" and/or entity as defined by securities regulations and law, of direct or indirect "beneficial ownership" as defined, of twenty-five percent (25%) or more of the combined voting power of the Company's then outstanding securities; or

(b) the failure during any period of three (3) consecutive years of individuals who at the beginning of such period constitute the Board for any reason to constitute at least a majority thereof, unless the election of each director who was not a director at the beginning of such period has been approved in advance by directors representing at least two-thirds (2/3) of the directors at the beginning of the period; or

(c) the consummation of a "Business Combination" as defined in the company's Articles of Incorporation.

(2) "Salary" means the greater of the initial base salary or the average of Employee's full earnings reported on IRS Form W-2 for the two full year periods immediately prior to the date of the consummation of the Change of Control or for the two full year periods immediately preceding the Date of Termination, whichever is greater.

(3) For purposes of this Exhibit B, "Good Cause" has the same meaning as the term "cause" set forth in Paragraph 5(B)(2) of the foregoing Employment Agreement.

(4) "Disability" means a physical or mental condition rendering Employee substantially unable to perform the duties of an officer and director of a banking organization.

(5) "Retirement" means termination of employment by Employee in accordance with Company's (or its successor's) retirement plan, including early retirement as approved by the Board of Directors.

(6) "Good Reason" means

(a) A Change of Control in the Company (as defined above) and:
(i) a decrease in Employee's Salary below its level in effect immediately prior to the date of consummation of the Change of Control, without Employee's prior written consent; or
(ii) a material reduction in the importance of Employee's job responsibilities or assignment of job responsibilities inconsistent with employee's responsibility prior to the Change in Control without Employee's prior written consent; or
(iii) a geographical relocation of Employee to an office more than 20 miles from Employee's location at the time of the Change of Control or the imposition of travel requirements inconsistent with those existing prior to the Change in Control without Employee's prior written consent; or

(b) Failure of the Company to obtain assumption of this Change in Control Agreement by its successor as required by Paragraph E(1) below; or

(c) Any removal of Employee from, or failure to re-elect Employee to any of Employee's position with Company immediately prior to a Change in Control (except in connection with the termination of Employee's employment for Good Cause, death, Disability or Retirement) without Employee's prior consent.

(7) "Wrongful Termination" means termination of Employee's employment by the Company or its affiliates for any reason other than at Employee's option, Good Cause or the death, Disability or Retirement of Employee prior to the expiration of eighteen (18) months after consummation of the Change of Control.

B. Compensation of Employee Upon Termination for Good Reason or Wrongful Termination within Twenty-four (24) Months of a Change in Control. Except as hereinafter provided, if Employee terminates his employment with the Company for Good Reason or the Company terminates Employee's employment in a manner constituting Wrongful Termination, the Company agrees as follows:

(1) The Company shall pay Employee a cash payment equal to Employee's Salary, on a monthly basis, multiplied by the number of months between the Date of Termination and the date that is eighteen (18) months after the date of consummation of the Change of Control.

(2) For the year in which termination occurs, Employee will be entitled to receive his reasonable share of the Company's cash bonuses, if any, allocated in accordance with existing principles and authorized by the Board of Directors. The amount of Employee's cash incentive award shall not be reduced due to Employee not being actively employed for the full year.

(3) Employee will continue to participate, without discrimination, for the number of months between the Date of Termination and the date that is eighteen (18) months after the date of the consummation of the Change of Control in benefit plans (such as retirement, disability and medical insurance) maintained after any Change of Control for employees, in general, of the Company, or any successor organization, provided Employee's continued participation is possible under the general terms and conditions of such plans. In the event Employee's participation in any such plan is barred, the Company shall arrange to provide Employee with benefits substantially similar to those which Employee would have been entitled had his participation not been barred. However, in no event will Employee receive from the Company the employee benefits contemplated by this subparagraph if Employee receives comparable benefits from any other source.

(4) Paragraph 6 (Noncompetition and Nonsolicitation) of the foregoing Agreement shall not apply.

C. Other Employment. Employee shall not be required to mitigate the amount of any payment provided for in this Change in Control Agreement by seeking other employment. The amount of any payment provided for in this Change in Control Agreement shall not be reduced by any compensation earned or benefits provided (except as set forth in Paragraph B(3) above) as the result of employment by another employer after the Date of Termination.

D. Rights of Company Prior to the Change of Control. This Change in Control Agreement shall not effect the right of the Company or Employee to terminate the foregoing Agreement or the employment of Employee in accordance thereof; provided, however, that any termination or reduction in salary or benefits that takes place after discussions have commenced that result in a Change in Control shall be presumed (without clear and convincing evidence to the contrary) to be a violation of this Change in Control Agreement entitling Employee to the benefits hereof, so that any termination by Company shall be deemed to be a wrongful termination, and all references in this Change in Control Agreement to Salary shall be deemed to mean the Salary, as defined herein, based on the earnings Employee would have had prior to any reduction thereof.

E. Successors; Binding Agreement

(1) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to Employee, to expressly assume and agree to perform this Change in Control Agreement. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession shall be a breach of the this Change in Control Agreement and shall entitle Employee to compensation from the Company in the same amount and on the same terms as he would be entitled to hereunder if he terminated his employment for Good Reason hereunder.

(2) This Change in Control Agreement and all rights of Employee hereunder shall inure to the benefit of and be enforceable by Employee's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees, and legatees. If Employee should die while any amounts would still be payable to him hereunder if he had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Employee's devisee, legatee, or other designee or, if there be no such designee, to Employee's estate.

EXHIBIT 11.

Statement re: Computation of Earnings per Share

	Three Months Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998
Numerator:				
Net Income	$414,265	$412,106	$862,135	$797,897
Denominator:				
Denominator for basic earnings per share -- weighted average common shares outstanding	591,292	595,479	591,292	504,657
Effect of dilutive securities: Employee stock option plan	124	-	85	-
Denominator for diluted earnings , per share -- weighted average common shares outstanding and assumed conversions	591,416	595,479	591,377	504,657
Basic earnings per share	$0.70	$0.69	$1.46	$1.58
Diluted earnings per share	$0.70	$0.69	$1.46	$1.58

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South Branch Valley Bancorp, Inc.

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DEC-31-1999
JAN-01-1999
JUN-30-1999
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