SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 8-K/B
(Amendment Number 2)

Current Report Pursuant to Section 13 or 15(d) of
The Securities Act of 1934

Date of Report (Date of earliest event reported)................June 1, 1998

SOUTH BRANCH VALLEY BANCORP, INC.
(Exact name of registrant as specified in its charter)

West Virginia	0-16587	55-0672148
(State of other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

310 North Main Street, Moorefield, West Virginia 26836
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code (304) 538-2353

South Branch Valley Bancorp hereby amends its previously filed 8-K/A (Amendment Number 1) dated April 6, 1998, for the purposes of providing the financial information required by this Item 7 on Capital State Bank, Inc., acquired by the Registrant in a business combination accounted for under the purchase method of accounting effective April 1, 1998.

Item 7. Financial Statements and Exhibits.

Item 7(a). Financial Statements of Businesses Acquired.

I. Audited Financial Statements of Capital State Bank, Inc. as of December 31, 1997 and 1996 and for the years ended December 31, 1997 and 1996, and for the period from September 11, 1995, date of inception, to December 31, 1995.

II. Unaudited Interim Financial Statements of Capital State Bank, Inc. as of March 31, 1998 and 1997 and for the three months then ended.

Item 7(b). Proforma Condensed Financial Information.

The proforma condensed financial information reflecting South Branch Valley Bancorp, Inc. after giving effect to the Merger with Capital State Bank, Inc. is included in Note 3 of the Notes to Condensed Consolidated Financial Statements of South Branch Valley Bancorp, Inc. (Unaudited) filed on Form 10-QSB as of March 31, 1998, and is hereby incorporated by reference in its entirety.

Item 7(c). Exhibits.

Exhibit 99. Consent of Independent Accountants.

SOUTH BRANCH VALLEY BANCORP, INC.

June 1, 1998	/s/ H. Charles Maddy, III
Date	By: H. Charles Maddy, III
	Its: President

The original statement shall be signed by each person on whose behalf the statement is filed or his authorized representative. If the statement is signed on behalf of a person by his authorized representative (other than an executive officer or general partner of this filing person), evidence of the representative's authority to sign on behalf of such person shall be filed with the statement, provided, however, that a power of attorney for this purpose which is already on file with the Commission may be incorporated by reference. The name and any title of each person who signs the statement shall be typed or printed beneath his signature.

Item 7(a)I

Financial Report

Captial State Bank, Inc.

December 31, 1997

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Capital State Bank, Inc.
Charleston, West Virginia

We have audited the accompanying balance sheets of The Capital State Bank, Inc. (A Development Stage Company for 1995) as of December 31, 1997 and 1996, and the related statements of operations, shareholders' equity and cash flows for the years ended December 31, 1997, 1996 and for the period from September 11, 1995, date of inception, to December 31, 1995. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Capital State Bank, Inc., as of December 31, 1997 and 1996, and the results of its operations and cash flows for the years ended December 31, 1997, 1996 and for the period from September 11, 1995, date of inception, to December 31, 1995, in conformity with generally accepted accounting principles.

ARNETT & FOSTER, P.L.L.C.

Charleston, West Virginia
January 30, 1998

THE CAPITAL STATE BANK, INC.

(A Development Stage Company for 1995)

BALANCE SHEETS

December 31, 1997 and 1996

ASSETS	1997	1996
Cash and due from banks	$ 640,734	$ 379,830
Interest bearing deposits with other banks	9,180	1,536,279
Federal funds sold	5,877,000	3,484,000
Securities available for sale	7,976,975	6,949,578
Loans, less allowance for loan losses of $247,017 and $127,300, respectively	24,007,035	16,237,114
Bank premises and equipment, net	1,289,629	1,399,984
Other assets	609,201	524,594
Total assets	$40,409,754	$30,511,379
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non interest bearing	$1,047,578	$ 678,677
Interest bearing	28,020,898	18,658,567
Total deposits	29,068,476	19,337,244
Other liabilities	498,505	233,782
Total liabilities	29,566,981	19,571,026
Commitments and Contingencies		
Shareholders' Equity		
Common stock, $1 par value, authorized, issued and outstanding 1,200,000 shares	1,200,000	1,200,000
Capital surplus	10,398,528	10,398,528
Retained earnings (deficit), including deficit accumulated during the development stage of ($347,296)	(743,587)	(625,997)
Net unrealized gain (loss) on securities	(12,168)	(32,178)
Total shareholders' equity	10,842,773	10,940,353
Total liabilities and shareholders' equity	$40,409,754	$30,511,379

See Notes to Financial Statements

THE CAPITAL STATE BANK, INC.
(A Development Stage Company for 1995)

STATEMENTS OF OPERATIONS
For the Years Ended December 31, 1997, 1996

and for the Period from September 11, 1995,
Date of Inception, to December 31, 1995

	1997	1996	1995
Interest income:			
Interest and fees on loans	$1,760,790	$ 770,938	$ 940
Interest on taxable securities	490,801	320,505	-
Interest bearing deposits with other banks	9,234	11,579	89,360
Interest on Federal funds sold	271,439	314,484	33,770
Total interest income	2,532,264	1,417,506	124,070
Interest expense:			
Interest on deposits	1,210,104	523,386	6,534
Interest on other borrowings	-	-	17,621
Total interest expense	1,210,104	523,386	24,155
Net interest income	1,322,160	894,120	99,915
Provision for loan losses	120,000	123,800	6,500
Net interest income after provision for loan losses	1,202,160	770,320	93,415
Other income:			
Service fee income	29,738	15,324	83
Other, net	13,916	5,719	-
	43,654	21,043	83
Other expenses:			
Salaries and employee benefits	562,291	442,899	187,143
Net occupancy expense	127,281	91,747	13,663
Equipment rentals, depreciation and maintenance	100,108	85,686	11,102
Data processing	124,180	86,541	48,120
Insurance	54,013	62,397	12,576
Professional fees	153,340	56,478	54,070
Advertising and marketing	53,164	47,429	66,508
Other	168,936	178,642	28,314
	1,343,313	1,051,819	421,496
Income (loss) before income tax expense (benefit)	(97,499)	(260,456)	(327,998)
Income tax expense (benefit)	20,091	18,245	19,298
Net income (loss)	$(117,590)	$ (278,701)	$ (347,296)
Basic earnings (loss) per common shar$	(.10)	$ (.23)	$ (.29)
Average common shares outstanding	1,200,000	1,200,000	1,200,000

See Notes to Financial Statements

THE CAPITAL STATE BANK, INC.
(A Development Stage Company for 1995)

STATEMENTS OF SHAREHOLDERS' EQUITY
For the Years Ended December 31, 1997, 1996

and the Period from September 11, 1995,
Date of Inception, to December 31, 1995

	Common Stock	Capital Surplus	Retained Earnings (Deficit)	Net Unrealized Gain (Loss) on Securities	Total Share-holders' Equity
Balance, September 11, 1995,					
date of inception	$ -	$ -	$ -	$ -	$ -
Issuance of common stock for cash on December 11, 1995	1,200,000	10,398,528	-	-	11,598,528
Net income (loss) during development stage	-	-	(347,296)	-	(347,296)
Balance, December 31, 1995	1,200,000	10,398,528	(347,296)	-	11,251,232
Net income (loss)	-	-	(278,701)	-	(278,701)
Change in net unrealized gain (loss) on securities	-	-	-	(32,178)	(32,178)
Balance, December 31, 1996	1,200,000	10,398,528	(625,997)	(32,178)	10,940,353
Net income (loss)	-	-	(117,590)	-	(117,590)
Change in net unrealized gain (loss) on securities	-	-	-	20,010	20,010
Balance, December 31, 1997	$1,200,000	$10,398,528	$ (743,587)	$ (12,168)	$10,842,773

See Notes to Financial Statements

THE CAPITAL STATE BANK, INC.
(A Development Stage Company for 1995)

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 1997, 1996
and the Period from September 11, 1995,
Date of Inception, to December 31, 1995

	1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$(117,590)	$(278,701)	$(347,296)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	105,974	105,863	10,548
Provision for loan losses	120,000	123,800	6,500
Deferred income tax expense (benefit)	20,091	18,245	19,298
Amortization of organization costs	3,576	3,576	298
Amortization of prepaid land lease	6,000	5,500	2,000
Amortization of security premiums and (accretion) of discounts, net	(2,500)	(833)	-
Gain on sale of bank premises and equipment	(6,261)	-	-
Decrease (increase) in other assets	(15,161)	9,547	(362,310)
Decrease (increase) in accrued interest receivable	(58,055)	(184,003)	(870)
Increase (decrease) in other liabilities	213,933	127,493	86,991
Net cash provided by (used in) operating activities	270,007	(69,513)	(584,841)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of securities available for sale	(3,245,155)	(4,997,500)	(2,000,000)
Proceeds from calls and maturities of securities available for sale	2,250,000	-	-
Principal collected on (loans made to) customers, net	(7,889,921)	(16,002,334)	(367,530)
Purchases of bank premises and equipment	(1,358)	(26,873)	(1,489,522)
Proceeds from sale of bank premises and equipment	12,000	-	-
(Increase) decrease in Federal funds sold, net	(2,393,000)	6,751,000	(10,235,000)
(Increase) decrease in interest bearing deposits with other banks	1,527,099	(1,536,279)	-
Proceeds from sale of repossessed assets	-	2,450	-
Net cash provided by (used in) investing activities	(9,740,335)	(15,809,536)	(14,092,052)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in non interest bearing deposits	368,901	556,711	121,966
Net increase (decrease) in NOW accounts and savings accounts	818,442	5,374,140	2,211,693
Proceeds from the sales of (payments for matured) time deposits, net	8,543,889	9,998,657	1,074,077
Proceeds from the sale of common stock	-	-	11,598,528
Net cash provided by (used in) financing activities	9,731,232	15,929,508	15,006,264

(Continued)

THE CAPITAL STATE BANK, INC.
(A Development Stage Company for 1995)

STATEMENT OF CASH FLOWS - CONTINUED
For the Years Ended December 31, 1997, 1996
and the Period from September 11, 1995,
Date of Inception, to December 31, 1995

	1997	1996	1995
Increase (decrease) in cash and due from banks	260,904	50,459	329,371
Cash and due from banks:			
Beginning	379,830	329,371	-
Ending	$ 640,734	$ 379,830	329,371
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash payments for:			
Interest on deposits	$1,150,409	$ 384,315	$ 508
Interest on short-term debt, net of interest capitalized	$ -	$ -	$ 17,621
Other assets acquired in settlement of loan	$ -	$ 2,450	$ -

See Notes to Financial Statements

Note 1. Significant Accounting Policies

Nature of the business: The Capital State Bank, Inc. is a commercial bank with operations in Kanawha County, West Virginia. The Bank provides consumer and commercial loans and deposit services principally to individuals and small businesses in Kanawha, Boone and Lincoln Counties, West Virginia and the adjacent counties.

Basis of presentation: The accounting and reporting policies of The Capital State Bank, Inc. (A Development Stage Company for 1995), conform to generally accepted accounting principles and to the general practices within the banking industry.

Organization and Development of the Bank: The Bank was incorporated on September 11, 1995, and undertook an offering to sell 1,200,000 shares of its $1 par value stock for $10 per share. On December 11, 1995, after completion of the stock offering and obtaining the requisite regulatory approvals, the Bank was capitalized with the $12,000,000 proceeds from the stock offering, net of $401,472 in registration costs. The results of operations of the newly organized Bank from September 11, 1995, date of inception, to December 31, 1995, are reflected in the accompanying financial statements. The Bank was considered a development stage entity for the period from September 11, 1995, to December 31, 1995.

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles required management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Presentation of cash flows: For purposes of reporting cash flows, cash and due from banks includes cash on hand and non interest bearing amounts due from banks (including cash items in process of clearing). Cash flows from demand deposits, NOW accounts, savings accounts and Federal funds sold are reported net since their original maturities are less than three months. Cash flows from loans and certificates of deposits and other time deposits are reported net.

Securities: Securities are classified as "held to maturity", "available for sale" or "trading" according to management's intent. The appropriate classification is determined at the time of purchase of each security and re-evaluated at each reporting date. The appropriate classification is determined as follows:

> Securities held to maturity - Debt securities for which the Bank has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts. There are no securities classified as "held to maturity" on the accompanying financial statements.
>
> Securities available for sale - Securities not classified as "held to maturity" or as "trading" are classified as "available for sale". Securities classified as "available for sale" are those securities the Bank intends to hold for an indefinite period of time, but not necessarily to maturity. "Available for sale" securities are reported at estimated fair value net of unrealized gains or losses, which are adjusted for applicable income taxes, and reported as a separate component of shareholders' equity.
>
> Trading securities - There are no securities classified as "trading" in the accompanying financial statements.

Realized gains and losses on sales of securities are recognized on the specific identification method. Amortization of premiums and accretion of discounts are computed using methods which approximate the interest method.

Loans and allowance for loan losses: Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses. Interest income on loans is accrued and credited to operations using methods that approximate a level yield on principal amounts outstanding.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. The allowance is increased by provisions charged to operating expense and reduced by net charge-offs. The Bank makes continuous credit evaluations of the loan portfolio and considers current economic conditions, historical loan loss experience of similar banks, review of specific problem loans and other factors in determining the adequacy of the allowance for loan losses. Loans are charged against the allowance for loan losses when management believes that collectibility is unlikely. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in conditions.

A loan is impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due in accordance with the contractual terms of the specific loan agreement. Impaired loans, other than certain large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, are required to be reported at the present value of expected future cash flows discounted using the loan's original effective interest rate or, alternatively, at the loan's observable market price, or at the fair value of the loan's collateral if the loan is collateral dependent. The method selected to measure impairment is made on a loan-by-loan basis, unless foreclosure is deemed to be probable, in which case the fair value of the collateral method is used.

Loans are placed on non-accrual status when management believes that the borrower's financial condition, after giving consideration to economic and business conditions and collection efforts, is such that collection of interest is doubtful. Interest is accrued daily on impaired loans unless the loan is placed on non-accrual status. Impaired loans are placed on non-accrual status when the payments of principal and interest are in default for a period of 90 days, unless the loan is both well-secured and in the process of collection. Interest on non-accrual loans is recognized primarily using the cost-recovery method.

Certain loan fees and direct loan costs are recognized as income or expense when incurred. Statement Number 91 of the Financial Accounting Standards Board requires that such fees and costs be deferred and amortized as adjustments of the related loan's yield over the contractual life of the loan. The Bank's method of recognition of loan fees and direct loan costs produce results which are not materially different from those that would have been recognized had Statement Number 91 been adopted.

Bank premises and equipment: Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily by the straight-line method for Bank premises and equipment over the estimated useful lives of the assets. Repairs and maintenance expenditures are charged to operating expenses as incurred. Major improvements and additions to premises and equipment are capitalized.

Organization costs: Organization costs, which are insignificant, are being amortized on a straight-line basis over a period of 60 months beginning in December 1995.

Income taxes: Deferred tax assets and liabilities are determined based on differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Valuation allowances are established, when deemed necessary, to reduce deferred tax assets to the amount expected to be realized.

The provision for income taxes includes Federal and state income taxes and is based on pretax income reported in the financial statements, adjusted for transactions that may never enter into the computation of income taxes payable.

Earnings per share: Basic earnings per common share is computed based upon the weighted average shares outstanding. The weighted average shares outstanding were 1,200,000 for each of the years ended December 31, 1997, 1996 and the period from September 11, 1995 to December 31, 1995, respectively. For the year ended December 31, 1997, the Bank adopted Financial Accounting Standards Board Statement No. 128, Earnings per Share. During the years ended December 31, 1997, 1996 and the period from September 11, 1995 to December 31, 1995, the Bank did not have any potential dilutive securities, thus, this pronouncement did not have an impact on the Bank's earnings per share computations.

Emerging accounting standards: In June 1997, the Financial Accounting Standards Board issued Statement No. 130, Reporting Comprehensive Income. This Statement requires an entity to include a statement of comprehensive income in their full set of general-purpose financial statements. Statement No. 130 is effective for years beginning after December 15, 1997, and will require financial statements of earlier periods that are presented for comparative purposes to be reclassified. Based on the Bank's operations at December 31, 1997, this pronouncement is not expected to have a significant impact on the Bank's financial statements.

Reclassifications: Certain accounts in the financial statements for 1996 and 1995, as previously reported, have been reclassified to conform to current year classifications.

Note 2. Cash Concentrations

At December 31, 1997, the Bank had a concentration of risk totaling $3,715,000 and $2,244,194 in its cash balances on deposit with First USA Bank and the Bankers Bank of Kentucky, respectively. At December 31, 1996, the Bank had a concentration of risk in its cash balances on deposit with First USA Bank of $3,220,000. These cash balances are comprised of balances in due from correspondent accounts, Federal funds sold and interest bearing deposits, and are generally unsecured by the correspondent bank.

Note 3. Securities

The amortized cost, unrealized gains and losses and estimated fair values of the Bank's securities at December 31, 1997 and 1996, is summarized as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying Value (Estimated Fair Value)
1997				
Available for sale:				
U.S. Government securities	$ 500,521	$ -	$ 20	$ 500,501
U.S. Government agencies and corporations	7,495,466	5,708	24,700	7,476,474
	$7,995,987	$ 5,708	$ 24,720	$7,976,975
1996				
Available for sale:				
U.S. Government agencies	$6,998,333	$ 9,958	$ 58,713	$6,949,578

At December 31, 1997 and 1996, respectively, securities having an amortized cost of $2,050,625 and $1,150,000 and an estimated fair value of $2,044,523 and $1,148,196 were pledged to secure public deposits and for other purposes required or permitted by law.

The maturities, amortized cost and estimated fair values of the Bank's securities at December 31, 1997, is summarized as follows:

Available for Sale

	Amortized Cost	Carrying Value (Estimated Fair Value)
Due after 1 but within 5 years	$7,995,988	$7,976,976

Maturities presented in the above schedule are based on the contractual maturity date of the securities. All U.S. Government Agency and Corporate securities owned at December 31, 1997, have provisions which allow the issuer to "call" the security prior to its contractual maturity date. Should these "call" provisions be exercised, the scheduled maturities disclosed above may be altered.

The proceeds from sales, calls and maturities of securities, and principal payments received on mortgage backed obligations and the related gross gains and losses realized during the years ended December 31, 1997 and 1996, and the period ended December 31, 1995 are as follows:

	Proceeds From			Gross Realized	
For the Year Ended December 31,	Sales	Calls and Maturities	Principal Payments	Gains	Losses
1997					
Securities available for sale	$ -	$2,250,000	$ -	$ -	$ -

Note 4. Loans

	1997	1996
Commercial financial and agriculture	$ 1,925,892	$1,358,418
Real estate:		
Single family residential	12,558,048	7,477,960
Commercial	3,367,396	2,769,273
Revolving home equity	1,125,884	590,097
Construction	172,073	552,807
Consumer installment	5,104,759	3,615,859
Total loans	24,254,052	16,364,414
Less allowance for loan losses	247,017	127,300
Loans, net	$24,007,035	$16,237,114

Scheduled maturities on loans, without regard to scheduled periodic principal repayments on amortizing loans, are as follows at December 31, 1997:

	Due Within 1 Year	Due After 1 Year but Within 5 Years	Due After 5 Years	Total
Fixed rate:				
Commercial	$ 45,065	$ 222,761	$ 60,260	$ 328,095
Commercial real estate	-	2,209,642	648,356	2,857,998
Single family real estate, including home equity	124,470	3,052,802	6,599,789	9,777,061
Construction	-	-	-	-
Consumer installment	344,872	4,160,266	377,104	4,882,242
Total fixed rate loans	514,407	9,645,471	7,685,518	17,845,396
Floating rate:				
Commercial	1,239,253	289,075	69,469	1,597,797
Commercial real estate	43,455	208,815	257,128	509,398
Single family real estate, including home equity	230,377	-	3,676,494	3,906,871
Construction	172,073	-	-	172,073
Consumer installment	185,185	37,332	-	222,517
Total floating rate loans	1,870,343	535,222	4,003,091	6,408,656
Total loans	$2,384,750	$10,180,693	$11,688,609	$24,254,052

Substantially all real estate loans outstanding were originated under 3, 5 or 7 year balloon terms with amortization periods of generally 15 to 25 years. Interest rates on floating rate loans generally reprice within one year based on indices which are set by sources independent of the Bank and are subject to interest rate floors, caps and ceilings which may limit changes in the interest rate over the life of the loan.

Loans to related parties: The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, principal officers, their immediate families and affiliated companies in which they are principal stockholders (commonly referred to as related parties), all of which have been in the opinion of management, on the same terms including interest rates and collateral, as those prevailing at the time for comparable transactions with others.

The following presents the activity with respect to related party loans aggregating $60,000 or more to any one related party during the years ended December 31, 1997 and 1996:

	1997	1996
Balance beginning	$ 1,387,804	$ -
Additions	347,914	1,458,918
Amounts collected	122,156	71,114
Other	(100,000)	-
Balance, ending	$ 1,513,562	$1,387,804

At December 31, 1997 and 1996, outstanding loans to directors, officers and employees totaled $1,802,427 and $1,499F,255, respectively. Commitments to extend credit under unused open lines of credit to such individuals totaled approximately $98,623 and $210,000 at December 31, 1997 and 1996, respectively.

NOTES TO FINANCIAL STATEMENTS

Concentration of credit risk: The Bank grants installment, commercial and residential loans to customers primarily in Kanawha, Boone and Lincoln Counties, West Virginia and adjacent counties. Although the Bank strives to maintain a diversified loan portfolio, exposure to credit losses can be adversely impacted by downturns in local economic and employment conditions. Major employment within the market area is diverse but primarily includes the industries of government, health care, education, coal production and related services, and various professional, financial and related service industries.

The Bank accepts chattel paper without recourse from various approved businesses, primarily automobile dealerships, within its lending area. The Bank has sole discretion whether to purchase such paper on a case basis which is evaluated substantially under the Bank's normal credit underwriting standards and is generally secured by a first lien on the property purchased by the borrower. At December 31, 1997, and December 31, 1996, respectively, such loans approximated $1,995,837 and $1,759,000 of which approximately 80.0% and 86.8% were purchased from businesses considered to be a related party to the Bank.

Note 5. Allowance for Loan Losses

An analysis of the allowance for loan losses for the years ended December 31, 1997, 1996 and the period from September 11, 1995, date of inception, to December 31, 1995, is as follows:

	1997	1996	1995
Balance, beginning of period	$ 127,300	$ 6,500	$ -
Losses:			
Commercial financial and agriculture	-	-	-
Real estate	-	-	-
Consumer installment	283	3,000	-
Total	283	3,000	-
Recoveries:			
Commercial financial and agriculture	-	-	-
Real estate	-	-	-
Consumer installment	-	-	-
Total	-	-	-
Net recoveries (losses)	(283)	(3,000)	-
Provision for loan losses	120,000	123,800	6,500
Balance, end of period	$ 247,017	$ 127,300	$ 6,500

During 1997 and 1996, the Company did not have any loans classified as impaired. For purposes of evaluating impairment, the Company considers groups of smaller-balance homogeneous loans to include: mortgage loans secured by residential property, other than those which significantly exceed the bank's typical residential mortgage loan amount and "other" loans, which include small balance, overdraft protection lines and installment loans to individuals.

Note 6. Bank Premises and Equipment

The major categories of Bank premises and equipment and accumulated depreciation at December 31, 1997 and 1996, is summarized as follows:

	1997	1996
Building and improvements	$1,026,262	$1,024,904
Furniture and equipment	465,662	491,491
	1,491,924	1,516,395
Less accumulated depreciation	(202,295)	(116,411)
Bank premises and equipment, net	$1,289,629	$1,399,984

NOTES TO FINANCIAL STATEMENTS

Depreciation expense for the year ended December 31, 1997, 1996 and the period from September 11, 1995, date of inception, to December 31, 1995, totaled $105,974, $105,863 and $10,548, respectively.

Interest costs incurred to construct the Bank building, amounting to $21,783, were capitalized in 1995 as part of building and improvements.

During 1995, the Bank entered into a 50 year agreement to lease the land on which the Bank building is situated. The original term of the lease expires in the year 2045, with an additional 45 year renewal option available through the year 2090. In consideration for this lease, the Bank made a one time, up front payment of $300,000 covering the first 50 year lease term. Total rental expense incurred and recognized on this lease for the years ended December 31, 1997, 1996 and the period from September 11, 1995, date of inception, to December 31, 1995, approximated $6,000, $5,500 and $2,000 respectively. The remaining amount of prepaid lease expense at December 31, 1997 and 1996, which is included in other assets, totaled $286,500 and $292,500, respectively.

Note 7. Deposits

The following is a summary of interest bearing deposits by type as of December 31, 1997 and 1996:

	1997	1996
NOW and Super NOW accounts	$1,159,858	$ 806,664
Money market accounts	5,399,958	5,758,685
Savings accounts	1,843,921	1,019,946
Certificates of deposit	19,374,669	10,936,308
Individual retirement accounts	242,492	136,964
Total	$28,020,898	$18,658,567

Time certificates of deposit in denominations of $100,000 or more totaled $6,378,906 and $3,740,852 at December 31, 1997 and 1996, respectively. Interest paid on time certificates in denominations of $100,000 or more was $284,657 and $114,005 year ended December 31, 1997 and 1996, respectively.

The following is a summary of the maturity distribution of certificates of deposits in amounts of $100,000 or more as of December 31, 1997:

	Amount	Percent
Three months or less	$ 655,472	10.3%
Three through six months	311,186	4.9%
Six through twelve months	2,087,796	32.7%
Over twelve months	3,324,452	52.1%
Total	$6,378,906	100.0%

A summary of the maturities of time deposits, which includes certificates of deposit and certain individual retirement accounts, is as follows:

Year	Amount
1998	$10,129,214
1999	8,891,134
2000	427,888
2001	122,027
2002	11,950
Thereafter	32,000
Total	$19,614,213

At December 31, 1997 and 1996, the Bank was holder of deposits from related parties totaling approximately $1,324,000 and $3,524,000 or 4.7% and 18.2% of total deposits, respectively. At December 31, 1996, these balances included a concentration of deposits totaling $2,090,000 from three individuals and their related interests.

At December 31, 1997 and 1996, the Bank had a concentration of deposits from an unrelated party totaling approximately $1,460,000 and $1,091,000 or 5.2% and 5.5% of total deposits, respectively.

Note 8. Financial Instruments with Off-Balance-Sheet Risk

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statement of financial position. The contract amounts of these instruments reflect the extent of involvement the Bank has in particular cases of financial instruments. At December 31, 1997 and 1996, respectively, the Bank's financial instruments with off-balance sheet risk were as follows:

Financial instruments whose contract Amount amounts represent credit risk	Contract 1997	1996
Commitments to extend credit	$ 371,126	$ 780,750
Unused open lines of credit	1,399,404	667,140
Standby letters of credit and financial guarantees written	-	100,000
Remaining commitments on construction loans	22,938	267,345
Total	$1,793,468	$1,815,235

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

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

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans. These letters of credit are generally collateralized.

NOTES TO FINANCIAL STATEMENTS

Note 9. Income Taxes

The components of applicable income tax expense (benefit) for the year ended December 31, 1997, 1996 and the period from September 11, 1995, date of inception, and December 31, 1995, respectively is as follows:

	1997	1996	1995
Current:			
Federal	$ -	$ -	$ -
State	-	-	-
	-	-	-
Deferred:			
Federal	17,804	11,368	16,734
State	2,287	6,877	2,564
Total	$ 20,091	$ 18,245	$ 19,298

A reconciliation between the amount of reported income tax expense (benefit) and the amount computed by multiplying the statutory income tax rate by book pretax income for the year ended December 31, 1997 and 1996, respectively, is as follows:

	1997		1996		1995	
	Amount	Percent	Amount	Percent	Amount	Percent
Computed tax at applicable statutory rate	$(33,150)	(34.0)	$ (88,555)	(34.0)	(111,519)	(34.0)
Increase (decrease) in taxes resulting from:						
Increase in deferred tax valuation allowance	60,243	61.8	126,087	48.4	156,534	47.7
Deferred state income tax (benefit), expense	(11,926)	(12.2)	(18,968)	(7.3)	(9,522)	(2.9)
Other, net	4,924	5.0	(319)	(.1)	(16,195)	(4.9)
Applicable income taxes	$20,091	20.6	$ 18,245	7.0	$ 19,298	5.9

Deferred income taxes reflect the impact of "temporary differences" between amounts of assets and liabilities for financial reporting purposes and such amounts as measured for tax purposes. Deferred tax assets and liabilities represent the future tax return consequences of temporary differences, which will either be taxable or deductible when the related assets and liabilities are recovered or settled.

NOTES TO FINANCIAL STATEMENTS

The tax effects of temporary differences which create the Bank's deferred tax assets and liabilities as of December 31, 1997 and 1996, are as follows:

	1997	1996
Deferred Tax Assets:		
Start up costs deferred for tax purposes	$59,076	$ 79,606
Federal and state net operating loss carryforward	262,854	190,242
Net unrealized losses on securities	6,844	16,577
Allowance for loan losses	8,146	11,570
Other	12,788	1,203
Subtotal	349,708	299,198
Less: valuation allowance	(342,864)	(282,621)
Total deferred tax asset	6,844	16,577
Deferred Tax Liability:		
Depreciation	57,634	37,543
Total deferred tax liability	57,634	37,543
Net deferred tax liability	$50,790	$20,966

Realization of future tax benefits related to deferred tax assets is dependent on many factors, including the bank's ability to generate taxable income within the net operating loss carryforward period.

Management believes the Bank will generate sufficient future taxable income to realize the tax assets prior to the expiration of carryforward periods. However, failure to achieve forecasted taxable income has and could in the future affect the ultimate realization of deferred tax assets. As a result, a valuation allowance is recorded to reduce deferred tax assets to that portion that is not expected to more likely than not be realized within the next year. The Bank continually reviews the adequacy of the valuation allowance and will recognize these benefits only as reassessment indicates that it is more likely than not that the benefits will be realized.

Note 10. Commitments and Contingent Liabilities

<u>Commitments under servicing agreement</u>: The Bank has contracted with a third-party service center to perform substantially all electronic data processing services for the Bank. Pursuant to this agreement, certain payments, as defined in the agreement, may become due if the agreement is terminated before December, 2000.

<u>Employment Contracts</u>: The Bank entered into employment agreements (the Agreements) with its President and Executive Vice President. These agreements provide for the payment of minimum salaries through December 31, 2000. During 1997, the Bank negotiated with its President to terminate his employment agreement as of December 31, 1997, in exchange for a lump sum settlement of $105,000 which is charged to operations for the year ended December 31, 1997. Minimum salaries payable under the remaining Agreement total $75,000 for each of the remaining three years of the agreement. In addition, the agreement provides for total incentive compensation payments of up to .75% of after tax net income if the Bank achieves certain performance standards as outlined in the agreement. This incentive compensation provision is effective for each of the years ended through December 31, 2000. During 1997, 1996 and 1995, no incentive compensation was paid under the terms of these employment agreements.

NOTES TO FINANCIAL STATEMENTS

Year 2000 Compliant: The Bank is conducting a comprehensive review of its computer systems to identify the systems that could be affected by the "ear 2000 Issue"; and is developing a remediation plan to resolve the Issue. The Issue is whether computer systems will properly recognize date-sensitive information when the year changes to 2000. Systems that do not properly recognize such information could generate erroneous data or cause a system to fail. The Bank is heavily dependent on computer processing in the conduct of its business activities. While management believes it is doing everything technologically possible to assure Year 2000 compliance, it is in part dependent upon systems and software vendors to represent that the products provided are, or will be, "Year 2000 Compliant".

Because the Bank has not completed its review of computer systems and software, management is unable to estimate the costs of making the system Year 2000 compliant, however, the total cost is not expected to be significant to the Bank's financial position or results of operations.

Note 11. Fair Value of Financial Instruments

The following summarizes the methods and significant assumptions used by the Bank in estimating its fair value disclosures for financial instruments.

Cash and due from banks: The carrying values of cash and due from banks approximate their estimated fair value.

Federal funds sold and interest bearing deposits with other banks: The carrying values of Federal funds sold and interest bearing deposits with other banks approximate their estimated fair values.

Securities: Estimated fair values of securities are based on quoted market prices, where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities.

Loans: The estimated fair values for loans are computed based on scheduled future cash flows of principal and interest, discounted at interest rates currently offered for loans with similar terms to borrowers of similar credit quality. No prepayments of principal are assumed.

Accrued interest receivable and payable: The carrying values of accrued interest receivable and payable approximate their fair values.

Deposits: The estimated fair values of demand deposits (i.e. noninterest bearing checking, NOW, Super NOW, money market), savings accounts, and other variable rate deposits approximate their carrying values. Fair values of fixed maturity deposits are estimated using a discounted cash flow methodology at rates currently offered for deposits with similar remaining maturities. Any intangible value of long-term relationships with depositors is not considered in estimating the fair values disclosed.

NOTES TO FINANCIAL STATEMENTS

The fair values of the Bank's financial instruments as of December 31, 1997 and 1996, are summarized below:

	1997		1996	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and due from bank	$ 640,734	$ 640,734	$ 379,830	$ 379,830
Interest bearing deposits with other banks	9,180	9,180	1,536,279	1,536,279
Federal funds sold	5,877,000	5,877,000	3,484,000	3,484,000
Securities available for sale	7,976,975	7,976,975	6,949,578	6,949,578
Loans	24,007,035	23,881,235	16,237,114	16,167,628
Accrued interest receivable	242,928	242,928	184,873	184,873
	$38,753,852	$38,628,052	$28,771,674	$28,702,188
Financial liabilities:				
Deposits	$29,068,476	$29,162,441	$19,337,244	$19,359,623
Accrued interest payable	204,792	204,792	145,097	145,097
	$29,273,268	$29,376,233	$19,482,341	$19,504,720

Note 12. Restrictions on Dividends and Capital

Dividends paid by the Bank are subject to restrictions by banking regulations. The most restrictive provision requires approval by the regulatory agency if dividends declared in any year exceed the year's net income, as defined, plus the retained net profits of the two preceding years. Since the Bank has a net deficit, there are no net retained profits available for distribution.

The Bank is subject to various regulatory capital requirements administered by the Federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification 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 the Bank to maintain minimum amounts and ratios (set forth in the table below) 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) which is commonly referred to as the leverage ratio. Management believes, as of December 31, 1997, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 1997, the most recent notification from the Bank's regulatory authority categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following table. There are no conditions or events since its last financial reporting that management believes have changed the institution's category.

NOTES TO FINANCIAL STATEMENTS

The Bank's actual capital amounts and ratios are presented in the following table (in thousands).

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 1997:						
Total Capital (to Risk Weighted Assets)	$ 11,092	48.7%	$ 1,822	8.0%	$ 2,278	10.0%
Tier I Capital (to Risk Weighted Assets)	$ 10,845	47.6%	$ 911	4.0%	$ 1,367	6.0%
Tier I Capital (to Average Assets)	$ 10,845	27.5%	$ 1,577	4.0%	$ 1,972	5.0%
As of December 31, 1996:						
Total Capital (to Risk Weighted Assets)	$ 11,128	64.2%	$ 1,405	8.0%	$ 1,757	10.0%
Tier I Capital (to Risk Weighted Assets)	$ 11,001	63.4%	$ 703	4.0%	$ 1,054	6.0%
Tier I Capital (to Average Assets)	$ 11,001	37.7%	$ 1,171	4.0%	$ 1,464	5.0%

Note 13. Change in Control and Proposed Merger

During the first six months of 1997, approximately 40% of the Bank's 1,200,000 issued and outstanding common shares were acquired by South Branch Valley Bancorp, Inc. (South Branch). On August 6, 1997, the Board of Directors entered into an Agreement and Plan of Merger with South Branch. The Agreement, as amended on December 16, 1997, called for the shareholders of Capital State to receive one (1) share of South Branch common stock in exchange for every 3.95 shares of Capital State common stock owed. The proposed merger, which has received necessary regulatory approval, is subject to shareholder approval. Capital State has scheduled its shareholder meeting for March 24, 1998, while South Branch has scheduled its meeting for March 25, 1998.

It is anticipated that the proposed merger will be accounted for under the purchase method of accounting in accordance with generally accepted accounting principles. Accordingly, as of the effective date of the merger, the assets and liabilities of Capital State will be adjusted to their fair values and the excess purchase price paid over the fair value of the assets acquired (goodwill) will be reflected in Capital State'as financial statements. Based upon preliminary estimates and assumptions, the excess purchase price over the fair value of the net assets acquired would have approximated $2,450,000 if the proposed merger had been consummated as of December 31, 1997. The goodwill recognized is expected to be amortized over a period of 15 years using the straight-line method.

Upon consummation of the proposed merger, which is expected at or near the end of the first quarter of 1998, it is anticipated that Capital State will operate as a wholly-owned subsidiary of South Branch.

Item 7(a) II.

Unaudited Interim Financial Statements of Capital State Bank, Inc. as of March 31, 1998 and 1997 and for the three months then ended.

Contents

BALANCE SHEETS

THE CAPITAL STATE BANK, INC

	March 31, 1998 (Unaudited)	December 31, 1997 1997	Restated March 31, 1998 (Unaudited)
Assets			
Cash and due from banks	$976,517	$640,734	$769,997
Interest bearing deposits with other banks	9,100	9,180	0
Federal funds sold	6,217,000	5,877,000	4,866,000
Cash and cash equivalents	7,202,617	6,526,914	5,635,997
Securities			
Available for sale, at fair value	10,466,790	7,976,975	6,852,037
Loans			
Total loans	24,787,782	24,254,052	17,817,765
Allowance for loan losses	(271,802)	(247,017)	(157,300)
Net loans	24,515,980	24,007,035	17,660,465
Bank premises and equipment - net	1,287,230	1,289,629	1,373,490
Other assets	536,870	609,201	490,872
Total Assets	44,009,487	40,409,754	32,012,661
Liabilities and Shareholders' Equity			
Deposits			
Non-Interest bearing	1,034,280	1,047,578	848,533
Interest bearing	31,726,407	28,020,898	20,022,708
Total deposits	32,760,687	29,068,476	20,871,241
Short Term Borrowings			
Federal Funds Purchased	0	0	0
Repurchase agreements and other borrowings	0	0	0
Total short term borrowings	0	0	0
Long-term borrowings	0	0	0
Other liabilities	375,785	498,505	278,133
Total Liabilities	33,136,472	29,566,981	21,149,374
Shareholders' Equity			
Common Stock - $1 per, 1,200.000 shares authorized and outstanding	1,200,000	1,200,000	1,200,000
Capital surplus	10,398,528	10,398,528	10,398,528
Retained earnings	(706,478)	(743,587)	(638,273)
Unrealized gain (loss) on securities available for sale, net of deferred taxes	(18,035)	(12,168)	(96,968)
Total shareholders' equity	10,873,015	10,842,773	10,863,287
Total liabilities and shareholders' equity	44,009,487	40,409,754	32,012,661

Information extracted from audited financial statements

The accompanying notes are an integral part of these financial statements

STATEMENTS OF OPERATIONS

THE CAPITAL STATE BANK, INC.

	For the Three Months Ended March 31, 1998	For the Three Months Ended March 31, 1998
Interest Income		
Interest and fees on loans		
Taxable	$505,568	$348,217
Tax-exempt	0	0
Total	505,568	348,217
Interest on investment securities		
Taxable	126,978	112,588
Tax-exempt	0	0
Total	126,978	112,588
Interest on interest bearing deposits with other banks	0	9,234
Interest on federal funds sold	98,848	46,538
Total interest income	731,394	516,577
Interest expense		
Deposits	400,248	232,420
Short-term borrowings	0	0
Total interest expense	400,248	232,420
Net Interest Income	331,146	284,157
Provision for loan losses	30,000	30,000
Net Interest Income after provision for laon losses	301,146	254,157
Other Income		
Service fee income	8,572	4,709
Other, net	3,381	4,957
Securities transactions	0	0
Total other income	11,953	9,666
Other Expenses		
Salaries and employee benefits	89,182	120,000
Occupancy expenses - net	22,878	37,846
Equipment expenses	22,696	25,407
Data Processing	39,692	25,341
Insurance	10,119	14,060
Professional fees	22,324	18,377
Advertising and marketing	7,564	13,840
Other operation expenses	30,257	28,432
Total other expenses	244,712	283,303
Income (loss) before taxes	68,387	(19,480)
Applicable income tax expense (benefit)	31,278	(7,204)
Net Income (loss)	$37,109	($12,276)
Basic earnings (loss) per common share	$0.03	($0.01)
Average common shares outstanding	1,200,000	1,200,000

The accompanying notes are an integral part of these financial statements

STATEMENTS OF SHAREHOLDERS' EQUITY Three Months Ended March 31, 1998 and 1997 (Unaudited)

THE CAPITAL STATE BANK, INC.

	Common Stock	Capital Surplus	Restated Retained Earnings	Unrealized Gain (loss) on Securities Available for Sale	Total Shareholders' Equity
Balance January 1, 1997	$1,200,000	$10,398,528	($625,997)	($32,178)	$10,940,353
Three Months Ended March 31, 1997					
Net Income			(12,276)		(12,276)
Cash Dividends			0		0
Charge in Fair Value of Securities Available for Sale, net of deferred taxes				(64,790)	(64,790)
Balance March 31, 1997	$1,200,000	$10,398,528	($638,273)	($96,968)	$10,863,287
Balance January 1, 1998	$1,200,000	$10,395,528	($743,587)	($12,168)	$10,842,773
Three months ended March 31, 1998					
Net Income			37,109		37,109
Cash Dividends					0
Change in Fair Value of Securities Available for Sale, net deferred taxes				(6,867)	(6,867)
Balance March 31, 1998	$1,200,000	$10,398,528	($706,478)	($19,035)	$10,873,015

The accompanying notes are an integral part of these financial statements

STATEMENTS OF CASH FLOWS

THE CAPITAL STATE BANK, INC.

	For the Three Months Ended March 31, 1998 (Unaudited)	For the Three Months Ended March 31, 1997 (Unaudited)
Operating Activities		
Net Income (loss)	$37,109	($12,276)
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	30,000	30,000
Depreciation	25,597	26,494
Amortization and accretion	(1,622)	(625)
Securities losses (gains)	0	0
Deferred income tax expense (benefit)	31,278	(7,402)
Increase / decrease due to changes in:		
Accrued interest receivable	50,303	115,642
Accrued interest payable	14,138	44,351
Other Assets	26,968	(40,942)
Other liabilities	(168,136)	
Net cash provided by operating activities	45,635	155,242
Investing Activities		
Proceeds from maturities of securities available for sale	1,000,000	-
Purchases of securities available for sale	(3,500,000)	-
Net increase in loans	(538,945)	(1,453,351)
Purchases of bank premises and equipment	(23,198)	-
(Increase) decrease in interest bearing deposits with other banks	0	1,536,279
(Increase) decrease in federal funds sold, net	(340,000)	(1,382,000)
Net cash provided by Investing activities	(3,402,063)	(1,299,072)
Financing Activities		
Net Increase in non interest bearing accounts	(13,298)	169,856
Net Increase in NOW accounts and savings accounts	103,000	(262,308)
Proceeds from the sales of (payments for matured) time deposits, net	3,602,509	1,626,449
Net cash provided by financing activities	3,692,211	1,533,997
Increase (decrease) in cash and cash equivalents	335,783	390,167
Cash and Cash equivalents:		
Beginning of year	640,734	379,830
End of year	$976,517	$769,997
Supplemental Disclosures of Cash Flow information:		
Cash payments for:		
Interest	$414,386	$276,771

The accompanying notes are an integral part of these financial statements

STATEMENTS OF COMPREHENSIVE INCOME

THE CAPITAL STATE BANK, INC.

	Three Months Ended March 31	
	1998	1997
Net Income		
Other comprehensive income of tax:	$37,109	($12,276)
Unrealized gain (loss) on securities arising during the period	6,867	64,790
Comprehensive Income	$43,976	$52,514

The accompanying notes are an integral part of these financial statements

Notes to Financial Statements

Note 1. Basis of Presentation

The accounting and reporting policies of The Capital State Bank, Inc., ("Capital State" or "The Bank") conform to generally accepted accounting principles and to general policies within the financial services industry. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the financial statement date and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

The information contained in the financial statements is unaudited except where indicated. In the opinion of management, all adjustments for a fair presentation of the results of the interim periods have been made. All such adjustments were of a normal recurring nature. The results of operations for the three months ended March 31, 1998 are not necessarily indicative of the results to be expected for the full year. The financial statements and notes included herein should be read in conjunction with those included in Capital State's 1997 Form F-2.

For the period ended March 31, 1998, the Company was required to adopt Statement of Financial Accounting Standards No. 130 (SFAS 130), "Reporting 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 financial statements to comply with SFAS 130. Prior interim periods presented have been reclassified to provide comparative information.

Reclassifications: Certain accounts in the Financial Statements for 1997, as previously reported have been reclassified to conform to current year classification.

Note 2. Cash Concentrations

At March 31, 1998 and March 31, 1997, the Bank had a concentration of risk totaling $3,715,000 and $3,220,000 respectively in its cash balances on deposit with First USA Bank. At December 31, 1997, the Bank had a concentration of risk totaling $3,715,000 and $2,244,194 in its cash balances on deposit with First USA Bank and Bankers Bank of Kentucky, respectively. At March 31, 1998 the Bank had a concentration on deposit with Bankers Bank of Kentucky of $2,811,990. These cash balances are comprised of balances in due from correspondent accounts, Federal funds sold and interest bearing deposits, and are generally unsecured by the correspondent bank.

Note 3. Securities

The amortized cost, unrealized gains and losses and estimated fair values of the Bank's securities at March 31, 1998, December 31, 1997 and March 31, 1997 are summarized as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying Value (Estimated Fair Value)
March 31, 1998				
U.S. Treasuries available for sale	$500,443	$407	-	$500,850
U.S. Government agencies and corporations available for sale	9,997,166	5,024	36,250	9,965,940
Total	$10,497,609	$5,431	$36,250	$10,466,790

	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying Value (Estimated Fair Value)
December 31, 1997				
U.S. Treasuries available for sale	$500,521	-	$20	$500,501
U.S. Government agencies and corporations available for sale	7,495,466	5,708	24,700	7,476,474
Total	$7,995,987	$5,708	$24,720	$7,976,975
March 31, 1997				
U.S. Government agencies and corporations available for sale	$6,998,958	-	$146,921	$6,852,037
Total	$6,998,958	-	$146,921	$6,852,037

The maturities, amortized cost and estimated fair values of the Bank's securities at March 31, 1998 is summarized as follows:

	Amortized Cost	Carrying Value (Estimated Fair Value)
Due within 1 year	$ -	$ -
Due after 1 year but within 5 years	10,497,609	10,466,790
Due after 5 but within 10 years	-	-
Due after 10 years	-	-
Total	$10,497,609	$10,466,790

Maturities presented above are based on the contractual maturities of the securities. At March 31, 1998, securities with amortized cost of $9,497,609 have provisions which allow the issuer to "call" the securities prior to its contractual maturity date. Should these "call" provisions be exercised, the scheduled maturities disclosed above may be altered. Through March 31, 1998, there have been calls, or maturities of 1,000,000 in par value of these securities.

At March 31, 1998, securities carried at $2,042,992 were pledged to secure public deposits, repurchase agreements, and for other purposes as required or permitted by law.

Note 4. Loans

	March 31, 1998	Dec 31, 1997	March 31, 1997
Commercial, financial and agricultural	$1,823,134	$1,925,892	$1,348,704
Consumer loans	4,890,233	5,104,759	3,867,049
Real Estate:			
Revolving home equity	1,085,138	1,125,884	629,076
Single family residential	13,141,969	12,558,048	8,285,620
Commercial	3,673,078	3,367,396	3,074,925
Construction	174,230	172,073	612,391
Total loans net of unearned income	24,787,782	24,254,052	17,817,765
Less allowance for loan losses	271,802	247,017	157,300
Loans-net	$24,515,980	$24,007,035	$17,660,465

Scheduled maturities on loans, without regard to scheduled periodic principal repayments on amortizing loans, are as follows at March 31, 1998:

	Due within 1 year	Due after 1 year but within 5 years	Due after 5 years	Total
Fixed Rate:				
Commercial	$ -	$336,641	$ -	$336,641
Commercial real estate	150,000	2,964,963	-	3,114,963
Single family real estate including home equity	180,094	7,119,133	2,159,280	9,458,507
Construction	-	-	-	-
Consumer Installment	288,230	4,357,276	54,287	4,699,793
Total fixed rate loans	618,324	14,778,013	2,213,567	17,609,904
Floating rate:				
Commercial	1,147,288	339,205	-	1,486,493

Commercial real estate	-	208,266	349,849	558,115
Single family real estate including home equity	192,410	-	4,576,190	4,768,600
Construction	174,230	-	-	174,230
Consumer Installment	155,750	34,690	-	190,440
Total floating rate loans	1,669,678	582,161	4,926,039	7,177,878
Total loans	$2,288,002	$15,360,174	$7,139,606	$24,787,782

Substantially all real estate loans outstanding were originated under 3, 5 or 7 year balloon or adjustable rate mortgage (ARM) terms with amortization periods of generally 15 to 25 years. Interest rates on floating rate loans generally reprice within one year based on indices which are set by sources independent of the Bank and are subject to interest rate floors, caps and ceilings which may limit changes in the interest rate over the life of the loan.

Loans to related parties.

The Bank has had and may be expected to have in the future, banking transactions in the ordinary course of business with directors, principal officers, their immediate families and affiliated companies in which they are principal stockholders (commonly referred to as related parties), all of which have been, in the opinion of management, on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others.

The following presents the activity with respect to related party loans aggregating $60,000 or more to any one related party during the three months ended March 31, 1998:

Balance beginning	$1,513,562
Additions	29,283
Amounts Collected	20,045
Balance, ending	$1,522,800

At March 31, 1998, outstanding loans to directors, officers and employees totaled $1,779,609. Commitments to extend credit under unused open lines of credit to such individuals totaled approximately $93,980 at March 31, 1998.

The Bank accepts chattel paper without recourse from various approved businesses, primarily automobile dealerships, within its lending area. The Bank has sole discretion whether to purchase such paper on a case by case basis which is evaluated substantially under the Bank's normal credit underwriting standards and is generally secured by a first lien on the property purchased by the borrower. At March 31, 1998, December 31, 1997 and March 31, 1997 respectively, such loans approximated $1,862,746, $1,995,837 and $1,889,157, of which approximately 80.0%, 80.0%, and 54.8% were purchased from businesses considered to be a related party to the Bank.

Concentration of credit risk

The Bank grants installment, commercial and residential loans to customers primarily in Kanawha, Boone and Lincoln Counties, West Virginia and adjacent counties. Although the Bank strives to maintain a diversified loan portfolio, exposure to credit losses can be adversely impacted by downturns in local economic and employment conditions. Major employment within the market area is diverse but primarily includes the industries of government, health care, education, coal production and related services, and various professional, financial and related service industries.

Note 5. Allowance for Loan Losses

An analysis of the allowance for loan losses for the three months ended March 31, 1998 and 1997 are as follows:

	1998	1997
Balance, beginning of period	$ 247,017	$ 127,300
Losses:		
Commercial financial and agriculture	-	-
Real estate	-	-
Consumer installment	5,215	-
Total	5,215	-
Recoveries:		
Commercial financial and agriculture	-	-
Real estate	-	-
Consumer installment	-	-
Total	-	-
Net recoveries (losses)	(5,215)	-
Provision for loan losses	30,000	30,000
Balance, end of period	$ 271,802	$ 157,300

Note 6. Bank premises and Equipment

The major categories of Bank premises and equipment and accumulated depreciation are summarized as follows:

	March 31, 1998	Dec 31, 1997	March 31, 1997
Building and Improvements	$1,026,262	$1,026,262	$1,024,904
Furniture and Equipment	488,860	465,662	491,491
	1,515,122	1,491,924	1,516,395
Less accumulated depreciation	(227,892)	(202,295)	(142,905)
Bank premises and equipment, net	$1,287,230	$1,289,629	$1,373,490

Depreciation expense for the three month period ended March 31, 1998 and March 31, 1997 was $25,597 and $26,494, respectively.

During 1995 the Bank entered into a 50 year agreement to lease the land on which the Bank building is situated. The original term of the lease expires in the year 2045, with an additional 45 year option available through the year 2090. In consideration for this lease, the Bank made a one time, up front payment of $300,000 covering the first 50 year lease term.

Total rental expense incurred and recognized for each of the three month periods ended March 31, 1998 and 1997 approximated $1,500. The remaining amount of prepaid lease at March 31, 1998, December 31, 1997 and March 31, 1996, which is included in other assets totaled $285,000, $286,500 and $291,000 respectively.

Note 7. Deposits

The following is a summary of interest bearing deposits by type as of the dates indicated:

	March 31, 1998	Dec 31, 1997	March 31, 1997
NOW and Super NOW accounts	$2,312,293	$1,159,858	$1,174,440
Money market accounts	4,347,362	5,399,958	4,587,813
Savings accounts	1,847,082	1,843,921	1,560,734
Certificates of deposit	23,219,670	19,617,161	12,699,721
Total	$31,726,407	$28,020,898	$20,022,708

Time certificates of deposit in denomination of $100,000 or more totaled $8,158,399, $6,378,906 and $4,167,605 at March 31, 1998, December 31, 1997 and March 31, 1997, respectively. Interest paid on time certificates in denominations of $100,000 or more was $106,557 and $52,416 for the three month period ended March 31, 1998 and Mach 31, 1997 respectively.

The following is a summary of the maturity distribution of deposits in amounts of $100,000 or more as of the date indicated.

March 31, 1998	Amount	Percent
Three months or less	$304,442	3.7%
Three through six months	1,166,680	14.3%
Six through twelve months	2,235,497	27.4%
Over twelve months	4,451,780	54.6%
Total	$8,158,399	100.0%

December 31, 1997	Amount	Percent
Three months or less	$655,472	10.3%
Three through six months	311,186	4.9%
Six through twelve months	2,087,796	32.7%
Over twelve months	3,324,452	52.1%
Total	$6,378,906	100.0%

March 31, 1997	Amount	Percent
Three months or less	$1,214,999	29.2%

Three through six months	902,356	21.6%
Six through twelve months	1,742,668	41.8%
Over twelve months	307,582	7.4%
Total	$4,167,605	100.0%

A summary of the maturities of time deposits is as follows:

1999	$11,640,279
2000	10,934,259
2001	456,292
2002	120,986
2003	32,851
After	35,003
Total	$23,219,670

The Bank is the holder of deposits from related parties totaling approximately $1,973,208 ,or 6.02% of total deposits, and $1,491,123, or 7.14% of total deposits, at March 31, 1998 and 1997, respectively. At December 31, 1997, deposits of related parties totaled approximately $1,324,000 or 4.7% of total deposits. At March 31, 1998 and 1997 the Bank had a concentration of deposits from an unrelated party totaling approximately $1,479,342 and $1,402,400, or 4.52% and 6.72%, of total deposits and $1,460,000, or 5.2% or deposits, at December 31, 1997, respectively.

Note 8. Income Taxes

The components of applicable income tax expense (benefit) for the three months ended March 31, 1998 and 1997 are as follows:

	1998	1997
Current:		
Federal	$ -	$ -
State	-	-
Deferred:		
Federal	7,526	(1,781)
State	23,753	(5,621)
Total	$31,279	$(7,402)

Deferred income taxes reflect the impact of "temporary differences" between amounts of assets and liabilities for financial reporting purposes and such amounts as measured for tax purposes. Deferred tax assets and liabilities represent the future tax return consequences of temporary differences, which will either be taxable or deductible when the related assets and liabilities are recovered or settled.

The tax effects of temporary differences which create the Bank's deferred tax assets and liabilities as of March 31, 1998, December 31, 1997 and March 31, 1997, are as follows:

	March 31, 1998	Dec. 31, 1997	March 31, 1997
Deferred Tax Assets:			
Start up costs deferred for tax purposes	$54,216	$59,076	$72,751
Federal and state net operating loss carry forward	270,182	262,854	197,446
Depreciation	-	-	-
Net unrealized losses on securities	11,785	6,844	49,953
Allowance for loan losses	-	8,146	18,000
Other	15,328	12,788	1,203
Subtotal	351,511	349,708	339,353
Less: valuation allowance	339,726	342,864	289,400
Total deferred tax asset	11,785	6,844	49,953
Deferred Tax Liability:			
Allowance for loan losses	30,480	-	-
Depreciation	58,432	57,634	30,339
Total deferred tax liability	88,912	57,634	30,339
Net deferred tax (liability)	$(77,127)	$(50,790)	$19,614

Realization of future tax benefits related to deferred tax assets is dependent on many factors, including the bank's ability to generate taxable income within the net operating loss carry forward period.

Management believes the Bank will generate sufficient future taxable income to realize the tax assets prior to the expiration of carry forward periods. However, failure to achieve forecasted taxable income has and could in the future affect the ultimate realization of deferred tax assets. As a result, a valuation allowance is recorded to reduce deferred tax assets to that portion that is not expected to more likely than not be realized within the next year. The Bank continually reviews the adequacy of the valuation allowance and will recognize these benefits only as reassessment indicates that it is more likely than not that the benefits will be realized. As more fully described in Note 14, the financial statements have been restated to record a valuation allowance for deferred tax assets of $342,864 and $282,621 at December 31, 1997 and March 31, 1997, respectively.

Note 9 Fair Value of Financial Instruments

The following summarizes the methods and significant assumptions used by the Bank in estimating its fair value disclosure for financial instruments.

Cash and due from banks: The carrying values of cash and due from banks approximate their estimated fair value.

Federal funds sold and interest bearing deposits with other banks: The carrying values of Federal funds sold and interest bearing deposits with other banks approximate their estimated fair values.

Securities: Estimated fair values of securities are based on quoted market prices, where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities.

Loans: The estimated fair values for loans are computed based on scheduled future cash flows of principal and interest, discounted at interest rates currently offered for loans with similar terms to borrowers of similar credit quality. No prepayments of principal are assumed.

Accrued interest receivable and payable: The carrying values of accrued interest receivable and payable approximate their fair values.

Deposits: The estimated values of demand deposits (i.e. noninterest bearing checking, NOW, Super NOW, money market), savings accounts, and other variable rate deposits approximate their carrying values. Fair values of fixed maturity deposits are estimated using a discounted cash flow methodology at rates currently offered for deposits with similar remaining maturities. Any intangible value of long-term relationships with depositors is not considered in estimating the fair values disclosed.

The fair values of the Bank's financial instruments as of March 31, 1998, December 31, 1997, and March 31, 1997 are summarized below:

	March 31, 1998		December 31, 1997		March 31, 1997	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value value
Financial assets:						
Cash and due from banks	$976,517	$976,517	$640,734	$640,734	$769,997	$769,997
Interest bearing deposits with other banks	9,100	9,100	9,180	9,180	0	0
Federal funds sold	6,217,000	6,217,000	5,877,000	5,877,000	4,866,000	4,866,000
Securities available for sale	10,466,790	10,466,790	7,976,975	7,976,975	6,852,037	6,852,037
Loans	24,515,980	24,488,647	24,007,035	23,881,235	17,660,465	17,583,779
Accrued interest receivable	192,625	192,625	242,928	242,928	129,231	129,231
	$42,378,012	$42,350,679	$38,753,852	$38,628,052	$30,277,73	$30,201,044
Financial liabilities:						
Deposits	32,760,687	32,896,217	29,068,476	29,162,441	20,871,241	20,912,165
Accrued interest payable	218,930	218,930	204,792	204,792	213,995	213,995
	$32,979,617	$33,115,147	$29,273,268	$29,367,233	$21,085,23	$21,126,160

Note 10. Restrictions on Dividends and Capital

Dividends paid by the Bank are subject to restrictions by banking regulations. The most restrictive provision requires approval by the regulatory agency if dividends in any year exceeds the year's net income, as defined, plus the retained net profits of the preceding years. Since the Bank has a net deficit, there are no net retained profits available for distribution.

The Bank is subject to various regulatory capital requirements administered by the Federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weighting and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined) to average assets (as defined). Management believes, as of March 31, 1998, that the Bank meets all capital adequacy requirements to which it is subject.

The Bank has not yet received formal notification through examination by its primary regulatory authority of its capital categorization under the regulatory framework for prompt corrective action. However, the Bank's most recent financial reporting to the Bank's primary regulatory authority categorizes the Bank as well capitalized. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following table. There are no conditions or events since its last financial reporting that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios at March 31, 1998 is presented in the following table .

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital						
(to Risk Weighted Assets)	$11,154,316	47.1%	$1,896,560	8.0%	$2,370,700	10.0%
Tier I Capital (to Risk Weighted Assets)	$10,873,016	45.9%	$948,280	4.0%	$1,422,420	6.0%
Tier I Capital (to Average Assets)	$10,873,016	26.0%	$1,674,595	4.0%	$2,093,244	5.0%

Note 11. Financial Instruments With Off-Balance-Sheet Risk.

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statement of financial position. The contract amounts of these instruments reflect the extent of involvement the Bank has in particular cases of financial instruments.

Financial Instruments whose contract amounts represent credit risk	Contract Amount
Commitments to extend credit	$250,000
Unused open lines of credit	1,716,278
Standby letters of credit and financial guarantees written	-
Remaining commitments on construction loans	55,100
Total	$2,021,378

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

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

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans. These letters of credit are generally collateralized.

Note 12. Acquisition by South Branch Valley Bancorp, Inc.

On March 24, 1998 and March 24, 1998, the shareholders of The Capital State Bank, Inc. and South Branch Valley Bancorp, Inc., (South Branch), 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. The merger will be treated using the purchase method of accounting; accordingly, the assets and liabilities and results of operations of Capital State will be adjusted to their estimated fair values as of the effective date using the push down accounting guidelines established by generally accepted accounting principles. Based upon preliminary estimates and assumptions, the excess purchase price over the fair value of the net assets acquired as of the consummation date is approximately $2,300,000. This goodwill recognized is expected to be amortized over a period of 15 years using the straight line method.

The amount of goodwill will also be adjusted, in accordance with the requirements of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, in future years for tax deductions that are available for future use, which were in existence at the acquisition date, for which no benefit had been recognized (i.e. for which a valuation allowance was recorded). The total of such future deductions was approximately $760,000 for federal tax purposes and approximately $986,000 for state tax purposes. The largest component of these deductions relates to net operating loss carry forwards which will generally only be available for use to the extent that Capital State generates future taxable income. The total amount of Deferred tax assets recorded relating to these acquired deductions for which no benefit was taken was approximately $340,000.

The following table sets forth certain pro forma condensed financial information of Capital State, using the purchase method of accounting, after giving effect to the merger as if it had been consummated as of the date presented.

Pro Forma Reflecting Capital State
After Giving Effect to the Acquisition by South Branch
(In thousands, except per share data)

As of March 31, 1998

Balance Sheet Data	As Reported	Pro Forma
Total assets	44,009	46,707
Investment Securities	10,467	10,467
Net Loans	24,516	24,488
Bank premises and equipment - net	1,287	1,500
Other assets	537	744
Goodwill	-	2,305
Total liabilities	33,136	36,135
Total Deposits	32,761	32,896
Long term debt	-	2,771
Other liabilities	376	468
Total equity	10,873	10,572

Risk Based Capital Ratios	As Reported		Pro Forma	
	Amount	Ratio	Amount	Ratio
Total	11,154	47.1%	8,529	35.4%
Tier 1	10,873	45.9%	8,267	34.3%
Leverage	10,873	26.0%	8,267	19.3%

The Long term Debt recorded as part of the purchase accounting adjustments will mature as follows:

1998	33,500
1998	683,332
2000	683,332
2001	683,332
2002	683,332
thereafter	4,172
	$2,771,000

Note 13. Restatement

The accompanying financial statements as of and for the three months ended March 31, 1997, have been restated to reflect the recording of a valuation allowance for deferred tax assets for which it is more likely than not that a tax benefit will not be realized within a short term. Accordingly, a valuation allowance of $282,621 has been recorded at March 31, 1997. The effects of the restatements are as follows:

	March 31, 1997	
	As Previously Reported	As Restated
Balance Sheets:		
Other Assets	773,293	490,672
Total Assets	773,293	490,672
Retained earnings (deficit)	(355,652)	(638,273)
Statements of Operations:		
Income tax expense (benefit)	(7,204)	(7,204)
Net Income (loss)	(7,204)	(7,204)
Earnings (loss) per common share	(0.01)	(0.01)

EXHIBIT 99

CONSENT OF INDEPENDENT AUDITORS

We hereby consent to the inclusion in this Form 8-K/B (Amendment Numbe 2) of our report dated January 30, 1998, on the financial statements of The Capital State Bank, Inc. (A development stage company for 1995) as of December 31, 1997 and 1996, and the related statement of operations, shareholders' equity and cash flows for the years ended December 31, 1997 and 1996, and for the period September 11, 1995, date of inception, to December 31, 1995.

ARNETT & FOSTER, P.L.L.C.

Charleston, West Virginia
June 1, 1998