

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, 1998

Commission File Number 0-16587

South Branch Valley Bancorp, Inc.

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

West Virginia 55-0672148

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

310 North Main Street
Moorefield, West Virginia 26836

(Address of principal executive offices) (Zip Code)

(304) 538-2353

(Issuer's telephone number, including area code)

Check whether the issuer: (1) 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 ☒ No ☐

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

592,292 common shares were outstanding as of August 7, 1998

Transitional Small Business Disclosure Format (Check one):
Yes No ☒
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This report contains 22 pages.

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SOUTH BRANCH VALLEY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

	June 30, 1998 (unaudited)	December 31, 1997 (*)
<hr/>		
ASSETS		
Cash and due from banks	\$3,660,346	\$3,945,099
Interest bearing deposits with other banks	1,166,000	1,256,000
Federal funds sold	1,142,915	5,806,717
Securities available for sale	38,404,373	27,547,094
Investment in affiliate	-	5,273,481
Loans, net	129,398,006	92,572,652
Bank premises and equipment, net	4,679,329	3,071,064
Accrued interest receivable	1,130,263	864,083
Other assets	3,160,893	311,435
	<hr/>	<hr/>
Total assets	\$ 182,742,125	\$140,647,625
	<hr/>	<hr/>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Non interest bearing	\$ 11,269,165	\$9,693,915
Interest bearing	131,591,088	97,290,882
	<hr/>	<hr/>
Total deposits	142,860,253	106,984,797
	<hr/>	<hr/>
Short-term borrowings	5,927,892	7,145,010
Long-term borrowings	8,966,545	10,395,848
Other liabilities	1,626,585	1,061,418
	<hr/>	<hr/>
Total liabilities	159,381,275	125,587,073
	<hr/>	<hr/>
Commitments and Contingencies		
Shareholders' Equity		
Common stock, \$2.50 parvalue, authorized 2,000,000 shares, issued 600,407 shares in 1998; 382,625 shares in 1997	1,501,018	1,042,355
Capital surplus	9,611,774	2,089,709
Retained earnings	12,433,950	11,898,420
Less cost of shares acquired for the treasury 1998 8,115 shares; 1997 4,115 shares	(384,724)	(166,970)
Net unrealized gain (loss) on securities	198,832	197,038
	<hr/>	<hr/>
Total shareholders' equity	23,360,850	15,060,552
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$182,742,125	\$140,647,625
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(*) - December 31, 1997 financial information has been extracted from audited consolidated financial statements

See Notes to Consolidated Financial Statements

SOUTH BRANCH VALLEY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30, 1998	June 30, 1997	June 30, 1998	June 30, 1997
Interest income				
Interest and fees on loans	2,930,902	2,130,325	5,135,590	4,141,345
Interest on securities				
Taxable	533,554	424,128	927,034	836,084
Tax-exempt	81,502	81,874	159,599	156,409
Interest on Federal funds sold	84,456	14,862	133,588	28,166
Total interest income	3,630,414	2,651,189	6,355,811	5,162,004
Interest expense				
Interest on deposits	1,629,654	1,133,228	2,791,855	2,233,631
Interest on short-term borrowings	57,303	90,578	122,138	132,746
Interest on long-term borrowings	169,544	131,547	336,665	234,794
Total interest expense	1,856,501	1,355,353	3,250,658	2,601,171
Net interest income	1,773,913	1,295,836	3,105,153	2,560,833
Provision for loan losses	75,000	35,000	120,000	65,000
Net interest income after provision for loan losses	1,698,913	1,260,836	2,985,153	2,495,833
Other income				
Insurance commissions	25,988	25,387	49,443	35,309
Service fees	111,595	66,237	200,373	123,241
Securities gains (losses)	4,131	-	4,131	-
Other	14,633	9,318	32,708	38,677
Total other income	156,347	100,942	286,655	197,227
Other expense				
Salaries and employee benefits	552,169	427,984	1,020,991	875,861
Net occupancy expense	102,333	49,129	152,952	91,771
Equipment rentals, depreciation and maintenance	99,769	74,931	180,801	142,834
Federal deposit insurance premiums	5,365	3,220	8,625	6,000
Other	454,056	280,512	704,395	540,954
Total other expense	1,213,692	835,776	2,067,764	1,657,420
Income before income taxes	641,568	526,002	1,204,044	1,035,640
Income tax expense	229,462	155,555	406,147	326,612
Net income	\$412,106	\$370,447	\$797,897	\$709,028
Basic earnings per common share	\$ 0.69	0.97	1.58	1.86

See Notes to Consolidated Financial Statements

SOUTH BRANCH VALLEY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended	
	June 30, 1998	June 30, 1997
Net income	412,106	370,447
Other comprehensive income:		
Net unrealized gain (loss) on securities arising during period, before tax	13,985	221,087
Income tax expense (benefit) related to other comprehensive income	5,700	85,118
Other comprehensive income, net of tax	8,285	135,969
Comprehensive income	420,391	506,416

	Six Months Ended	
	June 30, 1998	June 30, 1997
Net income	797,897	709,028
Other comprehensive income:		
Net unrealized gain (loss) on securities arising during period, before tax	3,430	(54,547)
Income tax expense (benefit) related to other comprehensive income	1,635	(21,001)
Other comprehensive income, net of tax	1,795	(33,546)
Comprehensive income	799,692	675,482

See Notes to Consolidated Financial Statements

SOUTH BRANCH VALLEY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended	
	June 30, 1998	June 30, 1997
Cash Flows from Operating Activities		
Net income	797,897	709,028
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	153,542	114,466
Provision for loan losses	120,000	65,000
Deferred income tax (benefit) expense	(5,953)	45,881
Security gains (losses)	(4,131)	-
(Gain) on disposal of other assets	(9,175)	(12,459)
Amortization of securities premiums (accretion of discounts) net	(21,803)	5,631
Amortization of goodwill and purchase accounting adjustments, net	37,716	15,493
(Increase) decrease in accrued interest receivable	(266,180)	(7,287)
(Increase) decrease in other assets	188,608	513,499
Increase (decrease) in other liabilities	79,044	(78,947)
Net cash provided by operating activities	1,069,565	1,370,305
Cash Flows from Investing Activities		
Proceeds from maturities of interest bearing deposits with other banks	99,100	-
Proceeds from maturities and calls of securities available for sale	3,825,000	1,283,700
Proceeds from sales of securities available for sale	409,050	-
Principal payments received on securities available for sale	1,483,951	872,895
Purchases of securities available for sale	(6,077,235)	(3,004,774)
Purchase of common stock of affiliate	(90,465)	(5,188,905)
Net (increase) decrease in Federal funds sold	10,880,802	539,375
Net loans made to customers	(12,471,958)	(6,838,589)
Purchases of Bank premises and equipment	(262,991)	(148,908)
Proceeds from sales of other assets	8,411	22,900
Net cash and due from banks acquired in acquisition of The Capital State Bank, Inc.	976,517	-
Net cash (used in) investing activities	(1,219,818)	(12,462,306)
Cash Flows from Financing Activities		
Net increase (decrease) in demand deposit, NOW and savings accounts	2,605,788	319,037
Net increase (decrease) in time deposits	386,254	3,373,127
Net increase (decrease) in short-term borrowings	(1,217,118)	1,055,071
Proceeds from long-term borrowings	2,000,000	5,500,000
Repayment of long-term borrowings	(3,429,303)	(543,416)
Purchase of treasury stock	(217,754)	-
Dividends paid	(262,367)	(155,189)
Net proceeds from issuance of common stock	-	1,489,968
Net cash provided by financing activities	(134,500)	11,038,598
Increase (decrease) in cash and due from banks	(284,753)	(53,403)
Cash and due from banks:		
Beginning	3,945,099	3,162,552
Ending	3,660,346	3,109,149

SOUTH BRANCH VALLEY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED (UNAUDITED)

	Six Months Ended	
	June 30, 1998	June 30, 1997
Supplement Disclosures of Cash Flow Information		
Cash payments for:		
Interest	3,148,449	2,222,602
Income taxes	406,807	200,271
Supplemental Schedule of Noncash Investing and Financing Activities		
Other assets acquired in settlement of loans	-	22,200
Acquisition of The Capital State Bank, Inc.		
Acquisition of 40% of the outstanding common shares previously purchased for cash	5,363,946	-
Acquisition of 60% of the outstanding common shares in exchange for 183,465 shares of Company common stock	7,980,728	-
	13,344,674	-
Fair value of assets acquired (principally loans and securities)	46,720,306	-
Deposits and other liabilities assumed	(33,375,632)	-
	13,344,674	-

SOUTH BRANCH VALLEY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)

	Six Months Ended	
	June 30, 1998	June 30, 1997
Balance, beginning of period	15,060,552	12,303,793
Net income	797,897	709,028
Cash dividends, \$0.44 and \$0.41 per share, respectively	(262,367)	(155,189)
Issuance of 183,465 shares of common stock as consideration for the acquisition of The Capital State Bank, Inc.	7,980,728	-
Sale of 34,317 shares of common stock	-	1,489,968
Purchase of 4,000 shares of common stock for the treasury	(217,754)	-
Change in net unrealized gain (loss) on securities	1,794	(33,546)
Balance, end of period	23,360,850	14,314,054
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See Notes to Consolidated Financial Statements

SOUTH BRANCH VALLEY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Basis of Presentation

These consolidated financial statements of South Branch Valley Bancorp, Inc. and Subsidiaries ("South Branch" or "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with instructions to Form 10-QSB and Item 310 of Regulation S-B. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for annual year end financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature.

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these estimates.

The results of operations for the three month and six month periods ended June 30, 1998 are not necessarily indicative of the results to be expected for the full year. The consolidated financial statements and notes included herein should be read in conjunction with the Company's 1997 audited financial statements and Annual Report on Form 10-KSB.

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

Note 2. Earnings Per Share

Basic earnings per common share are computed based upon the weighted average shares outstanding. The weighted average shares outstanding for the six month periods ended June 30, 1998 and 1997 were 504,735 and 381,164, respectively. The weighted average shares outstanding for the three month periods ended June 30, 1998 and 1997 were 595,633 and 383,790, respectively. During the periods ended June 30, 1998 and 1997, the Company did not have any dilutive securities.

Note 3. Acquisition of Capital State Bank, Inc.

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

The following presents certain pro forma condensed consolidated financial information of South Branch, using the purchase method of accounting, after giving effect to the merger as if it had been consummated at the beginning of the periods presented.

(In thousands, except per share data)

	Six Month Period Ended June 30, 1998		Six Month Period Ended June 30, 1997	
	As Reported	Pro Forma	As Reported	Pro Forma
Total interest income	6,356	7,092	5,162	6,264
Total interest expense	3,251	3,640	2,601	3,107
Net interest income	3,105	3,452	2,561	3,157
Net income	798	823	709	660
Basic earnings per common share	1.58	1.38	1.86	1.17

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

Note 4. Securities

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

	June 30, 1998			
	Amortized	Unrealized		Estimated
	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable:				
U. S. Treasury securities	3,488,070	\$46,904	-	3,534,974
U. S. Government agencies and corporations	18,699,646	51,207	35,058	18,715,795
Small Business Administration guaranteed loan participation certificates	1,243,911	22,361	-	1,266,272
Mortgage-backed securities -				
U. S. Government agencies and corporations	7,636,272	55,759	11,873	7,680,158
Corporate debt securities	249,424	2,159	-	251,583
Federal Reserve Bank stock	44,300	-	-	44,300
Federal Home Loan Bank stock	722,500	-	-	722,500
Other equity securities	6,625	-	-	6,625
Total taxable	32,090,748	178,390	46,931	32,222,207
Tax-exempt:				
State and political subdivisions	5,985,709	192,404	47	6,178,066
Federal Reserve Bank stock	4,100	-	-	4,100
Total tax-exempt	5,989,809	192,404	47	6,182,166
Total	38,080,557	370,794	46,978	38,404,373

December 31, 1997				
	Amortized	Unrealized		Estimated
	Cost	Gains	Losses	Fair Value

Available for Sale				
Taxable:				
U. S. Treasury securities	2,988,064	46,546	-	3,034,610
U. S. Government agencies and corporations	9,523,135	71,935	8,850	9,586,220
Small Business Administration guaranteed loan participation certificates	1,470,915	16,522	-	1,487,437
Mortgage-backed securities - U. S. Government agencies and corporations	6,650,070	21,182	20,328	6,650,924
Corporate debt securities	249,082	3,296	-	252,378
Federal Reserve Bank stock	44,300	-	-	44,300
Federal Home Loan Bank stock	722,400	-	-	722,400
Other equity securities	6,625	-	-	6,625

Total taxable	21,654,591	159,481	29,178	21,784,894

Tax-exempt:				
State and political subdivisions	5,568,016	190,084	-	5,758,100
Federal Reserve Bank stock	4,100	-	-	4,100

Total tax-exempt	5,572,116	190,084	-	5,762,200

Total	27,226,707	349,565	29,178	27,547,094
	=====			

The maturities, amortized cost and estimated fair values of securities at June 30, 1998 and December 31, 1997, are summarized as follows:

Available for Sale		
	Amortized Cost	Estimated Fair Value

Due in one year or less	3,471,463	3,489,803
Due from one to five years	23,260,456	23,411,466
Due from five to ten years	8,181,969	8,251,439
Due after ten years	2,389,244	2,474,240
Equity securities	777,425	777,425

	38,080,557	38,404,373
	=====	

Note 5. Loans

Loans are summarized as follows:

	June 30, 1998	December 31, 1997
Commercial, financial and agricultural	39,451,022	30,325,145
Real estate - construction	307,519	144,207
Real estate - mortgage	64,175,273	42,640,294
Installment	26,976,455	20,587,084
Other	319,443	468,980
Total loans	131,229,712	94,165,710
Less unearned income	583,087	697,777
Total loans net of unearned income	130,646,625	93,467,933
Less allowance for loan losses	1,248,619	895,281
Loans, net	129,398,006	92,572,652

The following presents loan maturities at June 30, 1998:

	Within 1 Year	After 1 but within 5 years	After 5 Years
Commercial, financial and agricultural	17,771,749	10,701,245	10,977,996
Real estate - construction	228,522	-	78,995
Real estate - mortgage	2,220,755	7,681,802	54,272,702
Installment	3,352,442	20,176,080	3,447,932
Other	38,613	-	280,879
Total	16,541,577	38,835,878	75,852,257

Loans due after one year with:

Variable rates	\$ 32,936,351
Fixed rates	81,751,784

	\$ 114,688,135
	=====

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

Note 6. Allowance for Loan Losses

An analysis of the allowance for loan losses for the six month periods ended June 30, 1998 and 1997, is as follows:

	Six Months Ended June 30,	Year Ended December 31,	
	1998	1997	1997
Balance, beginning of period	895,281	858,423	858,423
Losses:			
Commercial, financial & agricultural	546	-	-
Real estate - mortgage	-	-	25,536
Installment	68,881	124,753	166,059
Other	2,196	7,286	8,444
Total	71,623	132,039	200,039
Recoveries:			
Commercial, financial & agricultural	2,830	3,303	27,050
Real estate - mortgage	15,123	4,179	13,675
Installment	15,037	22,456	39,936
Other	169	1,079	1,236
Total	33,159	31,017	81,897
Net losses	38,464	101,022	118,142
Allowance of purchased subsidiary	271,802	-	-
Provision for loan losses	120,000	65,000	155,000
Balance, end of period	1,248,619	822,401	895,281

Note 7. Bank Premises and Equipment

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

	June 30, 1998	December 31, 1997
Land	429,973	429,973
Buildings and improvements	4,162,439	2,681,707
Furniture and equipment	2,184,226	1,675,258
	6,776,638	4,786,938
Less accumulated depreciation	2,097,309	1,715,874
Bank premises and equipment, net	4,679,329	3,071,064

Note 8. Deposits

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

	June 30, 1998	December 31, 1997
Demand deposits, interest bearing	26,301,134	17,468,844
Savings deposits	16,630,199	14,890,934
Individual retirement accounts	8,594,785	8,028,653
Certificates of deposit	80,064,970	56,902,451
Total	131,591,088	97,290,882

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

	Amount	Percent
Three months or less	2,989,178	14.8%
Three through six months	4,003,251	19.8%
Six through twelve months	6,190,252	30.6%
Over twelve months	7,037,965	34.8%
Total	20,220,646	100.0%

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

1998	31,250,344
1999	39,216,163
2000	9,244,703
2001	4,473,198
2002	1,994,067
Thereafter	2,481,280
	88,659,755

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, 1998, that South Branch and each of its subsidiaries met all capital adequacy requirements to which they were subject.

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

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

	Actual		Minimum	Required	To be Well Capitalized	
	Amount	Ratio	Regulatory	Capital	under Prompt Corrective	Action Provisions
			Amount	Ratio	Amount	Ratio
As of June 30, 1998						
Total Capital (to risk weighted assets)						
South Branch	22,378	19.2%	11,668	8.0%	9,334	10.0%
SBVNB	13,043	14.1%	7,388	8.0%	9,236	10.0%
CSB	8,868	35.0%	2,023	8.0%	2,529	10.0%
Tier I Capital (to risk weighted assets)						
South Branch	21,130	18.1%	4,667	4.0%	7,001	6.0%
SBVNB	12,071	13.1%	3,694	4.0%	5,541	6.0%
CSB	8,592	34.0%	1,012	4.0%	1,517	6.0%
Tier I Capital (to average assets)						
South Branch	21,130	11.8%	5,380	3.0%	8,967	5.0%
SBVNB	12,071	8.9%	4,049	3.0%	6,748	5.0%
CSB	8,592	19.3%	1,334	3.0%	2,223	5.0%
As of December 31, 1997						
Total Capital (to risk weighted assets)						
South Branch	15,759	17.7%	7,126	8.0%	8,908	10.0%
SBVNB	12,779	14.4%	7,123	8.0%	8,904	10.0%
CSB	*	*	*	*	*	*
Tier I Capital (to risk weighted assets)						
South Branch	14,864	16.7%	3,563	4.0%	5,345	6.0%
SBVNB	11,884	13.4%	3,562	4.0%	5,342	6.0%
CSB	*	*	*	*	*	*
Tier I Capital (to average assets)						
South Branch	14,864	11.3%	3,941	3.0%	6,569	5.0%
SBVNB	11,884	9.2%	3,897	3.0%	6,494	5.0%
CSB	*	*	*	*	*	*

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

SOUTH BRANCH VALLEY BANCORP, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

INTRODUCTION

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

ACQUISITION

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

RESULTS OF OPERATIONS

Earnings Summary

The Company reported net income of \$412,000 for the three months ended June 30, 1998 compared to \$370,000 for the second quarter of 1997, representing an 11.4% increase. For the six month period ended June 30, 1998, South Branch's net income of \$798,000, increased 12.6% from the \$709,000 reported for the same period of 1997. 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.

Earnings per common share were \$0.69 for the quarter ended June 30, 1998, compared to the \$0.97 reported for the second quarter of 1997. For the six month period ended June 30, 1998, earnings per common share totaled \$1.58, compared to \$1.86 for the same period of 1997. The declines in quarterly and year-to-date earnings per share are attributable to the dilution arising from acquisition of Capital State. The dilutive effect of this acquisition is expected to be offset in the future by improved earnings performance of Capital State resulting from continued strong asset growth and planned cost control initiatives.

Net Interest Income

The Company's net interest income on a fully tax-equivalent basis totaled \$3,188,000 for the six month period ended June 30, 1998 compared to \$2,641,000 for the same period of 1997, representing an increase of \$547,000 or 20.7%. This increase resulted from growth in the volume of earning assets as result of the acquisition of Capital State and as result of solid loan growth. South Branch's net yield on interest earning assets decreased slightly to 4.3% for the six month period ended June 30, 1998, compared to 4.4% for the same period in 1997. Growth in net interest income is expected to continue due to anticipated continued growth in earning asset volume over the near term. Conversely, the Company's net yield on earning assets is anticipated to continue to contract over the

balance of 1998, primarily due to Capital State having a lower yield on interest earning assets and a slightly higher cost of interest bearing liabilities compared to that of SBVNB.

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

Table I - Average Balance Sheet and Net Interest Income Analysis

	June 30, 1998			June 30, 1997		
	Average Balance	Earnings/Yield/ Expense Rate		Average Balance	Earnings/ Expense	Yield/ Rate
Interest Earning Assets						
Loans, net of unearned income	109,934	5,136	9.3%	86,693	4,141	9.6%
Securities						
Taxable	28,163	927	6.6%	26,063	836	6.4%
Tax-exempt (1)	6,083	242	8.0%	5,979	237	7.9%
Federal funds sold	4,648	134	5.8%	893	28	6.3%
Total interest earning assets	148,828	6,439	8.7%	119,628	5,242	8.8%
Noninterest earning assets						
Cash & due from banks	3,547			2,709		
Bank premises and equipment	3,879			3,121		
Other assets	6,222			4,056		
Allowance for loan losses	(1,079)			(853)		
Total assets	161,397			128,661		
Interest bearing liabilities						
Interest bearing demand deposits	21,650	355	3.3%	19,188	297	3.1%
Savings deposits	15,147	242	3.2%	13,755	216	3.1%
Time deposits	76,490	2,194	5.7%	59,888	1,720	5.7%
Short-term borrowings	5,637	122	4.3%	4,008	84	4.2%
Long-term borrowings	10,397	338	6.5%	8,344	284	6.8%
Total interest bearing liabilities	129,321	3,251	5.0%	105,183	2,601	4.9%
Noninterest bearing liabilities and shareholders' equity						
Demand deposits	10,617			9,131		
Other liabilities	1,325			1,772		
Shareholders' equity	20,134			12,575		
Total liabilities and shareholders' equity	161,397			128,661		
Net interest earnings		3,188			2,641	
Net yield on interest earning assets		4.3%			4.4%	

(1) - Interest income on tax-exempt securities has been adjusted assuming an effective tax rate of 34% for both periods presented. The tax equivalent adjustment resulted in an increase in interest income of \$83,000 and \$81,000 for the periods ended June 30, 1998 and 1997, respectively.

Credit Experience

The provision for loan losses represents charges to earnings necessary to maintain an adequate allowance for potential future loan losses. Management's determination of the appropriate level of the allowance is based on an ongoing analysis of credit quality and loss potential in the loan portfolio, change in the composition and risk characteristics of the loan portfolio, and the anticipated influence of national and local economic conditions. The adequacy of the allowance for loan losses is reviewed quarterly and adjustments are made as considered necessary.

The Company recorded a \$120,000 provision for loan losses for the first six months of 1998, compared to \$65,000 for the same period in 1997. This increase reflects the acquisition of Capital State and continued growth of the loan portfolio. Net loan charge-offs for the first half of 1998 were \$38,000, as compared to \$101,000 over the same period of 1997. At June 30, 1998, the allowance for loan losses totaled \$1,249,000 or 1.0% of loans, net of unearned income, compared to \$895,000 or 1.0% of loans, net of unearned income at December 31, 1997. See Note 6 of the notes to the accompanying consolidated financial statements for an analysis of the activity in the Company's allowance for loan losses for the six month periods ended June 30, 1998 and 1997 and for the year ended December 31, 1997.

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

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

	June 30		December 31,
	-----	-----	-----
	1998	1997	1997
	----	----	----
Loans contractually past due 90 days or more still accruing interest	\$106	\$157	\$ 96
	=====	=====	=====
Non-performing assets:			
Non-accruing Loans	\$139	\$125	\$142
Other repossessed assets	11	31	16
Other real estate owned	19	40	57
	-----	-----	-----
	\$169	\$196	\$215
	=====	=====	=====

Noninterest Income and Expense

Total other income increased approximately \$89,000 or 45.2% to \$287,000 during the first six months of 1998, as compared to the first six months of 1997. The most significant item contributing to this increase was service fee income, which increased \$77,000 from approximately \$123,000 to \$200,000 or 62.6%. This resulted primarily from a change in SBVNB's deposit fee structure. Management expects the Company will achieve similar levels of service fee income throughout the remainder of 1998.

Total noninterest expense increased approximately \$411,000 or 24.8% to \$2,686,000 during the first six months of 1998 as compared to the first six months of 1997. Substantially all of this increase resulted due to noninterest expenses totaling \$314,000 incurred by Capital State from the date of its acquisition on April 1, 1998 through June 30, 1998.

FINANCIAL CONDITION

Total assets were \$182,742,000 at June 30, 1998, compared to \$140,648,000 at December 31, 1997, representing a 23.0% increase, which resulted primarily from the Company's acquisition of Capital State effective April 1, 1998. Table III below serves to illustrate the impact of the Capital State acquisition on the Company's securities, loans and deposit portfolios, as well as shareholders' equity.

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

		Increase (Decrease)		
	Balance	Change due	Net	Balance
	December 31,	to Capital	Changes due	June 30,
	1997	State	other	1998
		Acquisition	Factors	
Securities	27,547	10,467	390	38,404
Loans, net	92,573	24,488	12,337	129,398
Noninterest bearing deposits	9,694	1,034	541	11,269
Interest bearing deposits	97,291	31,861	2,439	131,591
Shareholders' equity	15,061	7,981	319	23,361

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, 1998 and December 31, 1997.

LIQUIDITY

Liquidity reflects the Company's ability to ensure the availability of adequate funds to meet loan commitments and deposit withdrawals, as well as provide for other transactional requirements. Liquidity is provided primarily by funds invested in cash and due from banks and Federal funds sold, which totaled \$4,803,000 at June 30, 1998 versus \$9,752,000 at December 31, 1997. Further enhancing the Company's liquidity is the availability as of June 30, 1998 of \$3,490,000 in securities maturing within one year, plus additional securities totaling in excess of \$34,600,000 classified as available for sale in response to an unforeseen need for liquidity. Additionally, the Company has unused lines of credit available under existing borrowing arrangements with the Federal Home Loan Bank of Pittsburgh.

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

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, 1998 totaled \$23,361,000 compared to \$15,061,000 at December 31, 1998, representing an increase of 55.2% which as illustrated in Table III resulted primarily due to the acquisition of Capital State.

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

PART II. OTHER INFORMATION

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

On May 5, 1998, at the annual meeting 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 concerning each matter are indicated in the following tabulations.

1. Election of Frank A. Baer, III to the Company's Board of Directors for a one year term.

For	Against	Abstentions	Withheld
278,756	0	0	5,268

2. Election of Georgette Rashid George to the Company's Board of Directors for a two year term.

For	Against	Abstentions	Withheld
276,121	0	0	7,903

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

	For	Against	Abstentions	Withheld
Oscar M. Bean	285,715	0	0	0
Phoebe F. Heishman	285,448	0	0	0
H. Charles Maddy, III	278,760	0	0	5,264
Charles S. Piccirillo	276,181	0	0	7,843

The following directors' terms of office continued after the 1998 annual shareholders' meeting: Donald W. Biller, James M. Cookman, John W. Crites, Thomas J. Hawse, III, Gary L. Hinkle, Jeffrey E. Hott, Harold K. Michael, Harry C. Welton and Russell F. Ratliff, Jr.

4. Adoption of the Officer Stock Option Plan.

For	Against	Abstentions	Withheld
271,511	8,955	3,558	0

Ratify Arnett & Foster, CPA's to serve as the Company's independent auditors for 1998.

For	Against	Abstentions	Withheld
282,761	0	1,263	0

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

On June 1, 1998, South Branch Valley Bancorp, Inc. filed audited financial statements, unaudited interim financial statements and pro forma condensed financial information of Capital State Bank, Inc. in conjunction with its acquisition of Capital State.

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOUTH BRANCH VALLEY BANCORP, INC.
(registrant)

By: /s/ H. Charles Maddy, III

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

By: /s/ Robert S. Tissue

Robert S. Tissue,
Chief Financial Officer

Date August 14, 1998

ARTICLES OF INCORPORATION
OF
SOUTH BRANCH VALLEY BANCORP, INC.

The undersigned, acting as incorporator of a corporation under Section 27, Article 1, Chapter 31 of the Code of West Virginia, adopts the following Articles of Incorporation for such corporation, FILED IN DUPLICATE:

I. The undersigned agrees to become a corporation by the name of SOUTH BRANCH VALLEY BANCORP, INC.

II. The address of the principal office of said corporation will be 310 North Main Street, City of Moorefield, County of Hardy, State of West Virginia.

III. The purpose or purposes for which this corporation is organized are as follows.

To acquire and own stock and securities, of whatever kind, nature and description, in a bank or banks, and to take such actions as are necessary or incidental to the acquisition of a bank or banks;

To engage, either directly itself, indirectly by the formation of subsidiary corporations or otherwise, in any activity permitted to be undertaken by a bank holding company under existing or future laws, rules and regulations relating thereto;

Subject to the foregoing and unless otherwise limited herein to own, buy, acquire, sell, exchange, assign, lease and deal in and with real property and any interest or right therein; to own, buy, acquire, sell, exchange, assign, lease and deal in and with personal property and any interest or right therein; to own, buy, acquire, sell, exchange, assign, pledge and deal with voting stock, non-voting stock, notes, bonds, evidence of indebtedness and rights and options in and to other corporate and non-corporate entities, and to pay therefor in whole or in part in cash or by exchanging therefor stocks, bonds, or other evidences of indebtedness or securities of this or any other corporation, and while the owner or holder of any such stocks, bonds, debentures, notes, evidences or indebtedness or the securities, contracts, or obligations, to receive, collect, and dispose of the interest, dividends and income arising from such property, and to possess and exercise in respect thereof, all the rights, powers and privileges of ownership, including all voting powers on any stocks so owned; and to borrow money without limit as to amount; and

Otherwise, subject to the foregoing and unless otherwise limited herein, to engage in any lawful act or activity for which corporations may be organized under the laws of the State of West Virginia.

IV. The amount of the total authorized capital stock of said corporation shall be One Million Five Hundred Thousand Dollars (\$5,000,000.00) which shall be divided into six hundred thousand (2,000,000) shares of common stock having a par value of Two and 50/100 Dollars (\$2.50) per share.

V. The name and address of the incorporators and the number of shares subscribed by each of them is as follows:

NAME - - - - -	ADDRESS - - - - -	NUMBER OF SHARES - - - - -
Oscar M. Bean	Rt. 2, Box 116 Moorefield, WV 26836	34
Donald W. Biller	Rt. 1, Box 30 Lost River, WV 26811	35
Thomas J. Hawse	216 Washington Street Moorefield, WV 26836	35
Phoebe F. Heishman	136 S. Main Street Moorefield, WV 26836	35
Ed A. Leatherman, Jr.	Rt. 1, Box 175 Purgitsville, WV 26852	35
J. Aleck Welton	Box 366 Moorefield, WV 26836	35
Renick C. Williams	Box 664 Moorefield, WV 26836	35
Michael T. Wilson	Rt. 4 Sunset View Moorefield, WV 26836	35
Harry C. Welton	Rt. 4, Box 27 Moorefield, WV 26836	35

A. Clyde Ours, Jr.	Box 541 Moorefield, WV 26836	35
E. E. Hott	Box 1 Franklin, WV 26807	35

VI. The existence of this corporation is to be perpetual.

VII. The name and address of the person to whom shall be sent notice or process served upon, or service of which is accepted by the Secretary of State is:

Renick C. Williams
Box 664
Moorefield, WV 26836

VIII. The number of directors constituting the initial board of directors of the corporation is eleven (11).

The names and addresses of the persons who are to serve as directors until their term expires and their successors are elected and shall qualify are:

NAME - - - - -	ADDRESS - - - - -
Oscar M. Bean	Rt. 2, Box 116 Moorefield, WV 26836
Donald W. Biller	Rt. 1, Box 30 Lost River, WV 26811
Thomas J. Hawse	216 Washington Street Moorefield, WV 26836
Phoebe F. Heishman	136 S. Main Street Moorefield, WV 26836
Ed A. Leatherman, Jr.	Rt. 1, Box 175 Purgitsville, WV 26852
J. Aleck Welton	Box 366 Moorefield, WV 26836
Renick C. Williams	Box 664 Moorefield, WV 26836
Michael T. Wilson	Rt. 4, Sunset View Moorefield, WV 26836
Harry C. Welton	Rt. 4, Box 27 Moorefield, WV 26836
A. Clyde Ours, Jr.	Box 541 Moorefield, WV 26836
E.E. Hott	Box 1 Franklin, WV 26807

IX. Provisions limiting preemptive rights are: The shareholders of the corporation shall not have any preemptive rights to acquire any shares of stock of the corporation.

X. Provisions for the regulations of the internal affairs of the corporation shall be as follows:

A. Definitions. For purposes hereof, the following terms are defined

as follows:

1. Affiliate. An "affiliate" of, or a person "affiliated" with, a specific

person, means a person (other than this Corporation or a majority-owned or wholly owned subsidiary of this Corporation) that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified.

2. Associate. The term "associate" when used to indicate a relationship

with any person, means (i) any corporation, partnership, limited partnership, association, joint venture, group or other organization (other than this Corporation or a majority-owned or wholly owned subsidiary of this Corporation) of which such person is an officer or partner or is, directly or indirectly, the Beneficial Owner of ten percent (10%) or more of any class of equity securities or other medium of ownership rights, (ii) any trust or other estate in which such person has a substantial beneficial interest or as to which such person serves as trustee or in a similar fiduciary capacity, (iii) any relative or spouse of such person, or any relative of such spouse provided the relative has the same home as such person, or (iv) any investment company registered under the Investment Company Act of 1940 for which such person or any affiliate of such person serves as investment adviser.

3. Beneficial Owner. A person shall be considered the "Beneficial Owner"

of any shares of stock whether or not owned of record by such Person:

(a) With respect to any shares as to which such Person or any Affiliate or Associate of such Person directly or indirectly has or shares (i) voting power, including the power to vote or to direct the voting of such shares of stock and /or (ii) investment power, including the power to dispose of or to direct the disposition of such shares of stock;

(b) With respect to any shares as to which such Person or any Affiliate or Associate of such Person has (i) the right to acquire such shares (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, and/or (ii) the right to vote pursuant to any agreement, arrangement or understanding (whether such right is exercisable immediately or only after the passage of time); or

(c) With respect to any shares which are Beneficially Owned within the meaning of (a) or (b) of this Paragraph (3) above by any other Person with which such first-mentioned Person or any of its Affiliates or Associates has any agreement, arrangement or understanding, written or oral, with respect to acquiring, holding or

disposing of all or substantially all, or any substantial part, of the assets or businesses of the Corporation or a Subsidiary of the Corporation.

For the purpose only of determining whether a Person is the Beneficial Owner of a percentage of outstanding shares, such shares shall be deemed to include any shares which may be issuable pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants, options or otherwise and which are deemed to be beneficially owned by such Person pursuant to the foregoing provisions of this Paragraph (3) above.

4. Business Combination. A "Business Combination" means:

(a) The sale, exchange, lease, transfer or other disposition to or with a Related Person or any Affiliate or Associate of such Related Person by the Corporation or any of its Subsidiaries (in a single transaction or a series of related transactions) of all or substantially all, or any substantial part, or its or their assets or businesses including, without limitation, any securities issued by a Subsidiary;

(b) The purchase, exchange, lease or other acquisition by the Corporation or any of its Subsidiaries (in a single transaction or a series of related transactions) of all or substantially all, or any Substantial Part, of the assets or business of a Related Person or any Affiliate or Associate of such Related Person;

(c) With respect to any shares which are Beneficially Owned within the meaning of (a) or (b) of this Paragraph (3) above by any other Person with which such first-mentioned Person or any of its Affiliates or Associates has any agreement, arrangement or understanding, written or oral, with respect to acquiring, holding or disposing of any shares of stock of the Corporation or any Subsidiary of the Corporation or acquiring or holding or disposing of all or substantially all, or any substantial part, of the assets or businesses of the Corporation or a Subsidiary of the Corporation.

(d) Any reclassification of securities, recapitalization or other transaction (other than a redemption in accordance with the terms of the security redeemed) which has the effect, directly or indirectly, of increasing the proportionate amount of shares of the Corporation or any Subsidiary thereof which are Beneficially Owned by a Related Person, or any partial or complete liquidation, spinoff, splitoff or splitup of the Corporation or Subsidiary thereof which has the effect, directly or indirectly, of increasing the proportionate amount of shares of the Corporation or any subsidiary thereof which are Beneficially Owned by a Related Person; or

(e) The acquisition upon the issuance thereof of Beneficial Ownership by a Related Person of voting shares or securities convertible into voting shares or any voting securities or securities convertible into voting securities of any Subsidiary of the Corporation, or the acquisition upon the issuance thereof of Beneficial Ownership by a Related

Person of any rights, warrants or options to acquire any of the foregoing or any combination of the foregoing voting shares or voting securities of a Subsidiary.

As used herein a 'series of related transactions' shall be deemed to include not only a series of transactions with the same Related Person but also a series of separate transactions with a Related Person or any Affiliate or Associate of such Related Person.

(f) Notwithstanding the foregoing, the term "Business Combination" shall not mean the formation of the Corporation or the acquisition by it of South Branch Valley National Bank, a national banking association, with its principal banking offices located in Moorefield, West Virginia.

5. Corporation. "Corporation" shall mean South Branch Valley Bancorp,

Inc., a West Virginia business corporation.

6. Date of Determination. The term 'Date of Determination' means (a) the

date on which a binding agreement (except for the fulfillment of conditions precedent, including, without limitation, votes of shareholders to approve such transaction) is entered into by this Corporation, as authorized by its board of directors, and another corporation, person or other entity providing for any merger or consolidation of this Corporation or any sale, lease, exchange or disposition of all or substantially all of the assets of this Corporation; or, (b) if such an agreement as referred to in item (a) is amended so as to make it less favorable to this Corporation and its shareholders, the date on which such amendment is approved by the board of directors of this Corporation, or, (c) in cases where neither items (a) nor item (b) shall be applicable, the record date for the determination of shareholders of this Corporation entitled to notice of and to vote upon the transaction in question. The board of directors of this Corporation shall have the power and duty to determine for the purposes hereof the Date of Determination as to any transaction. Any such determination by the board of directors made in good faith shall be conclusive and binding for any and all purposes.

7. Person. The term "Person" shall mean any person, partnership,

corporation, group or other entity (other than the Corporation, any Subsidiary of the Corporation, or a trustee holding stock for the benefit of the employees of the Corporation or its Subsidiaries, or any one of them, pursuant to one or more employee benefit plans or arrangements). When two or more Persons act as a partnership, limited partnership, syndicate, association or other group for the purpose of acquiring, holding or disposing of shares of stock, such partnerships, syndicate, association or group shall be deemed a "Person".

8. Related Person. "Related Person" means any Person which is the

Beneficial Owner as of the Date of Determination or immediately prior to the consummation of a Business Combination, or both, of twenty-five (25) percent or more of the voting shares of the Corporation or any Person who at any time within two (2) years preceding the Date of Determination was the Beneficial Owner of twenty-five (25) percent or more of the then outstanding voting shares of the Corporation.

9. Subsidiary. "Subsidiary" shall mean South Branch Valley National Bank,

a national banking association as of the effective date of the acquisition of said bank by this corporation and any other corporation, bank, banking association or other entity at least a majority of which is owned by South Branch Valley Bancorp, Inc.

10. Capacity to Make Certain Determinations. A majority of the directors

of the Corporation shall have the power to determine for the purposes hereof on the basis of information known to them: (i) the number of voting shares of the Corporation of which any Person is the Beneficial Owner, (ii) whether a Person is an Affiliate of Associate of another, (iii) whether a Person has an agreement, arrangement or understanding with another as to the matters referred to in the definition of 'Beneficial Owner' as hereinabove defined, (iv) whether the assets subject to any Business Combination constitute a substantial part of total assets, (v) whether two or more transactions constitute a 'series of related transactions' as hereinabove defined, and (vi) such other matters with respect to which a determination is required hereunder.

A Related Person shall be deemed to have acquired a share of the Corporation at the time when such Related Person became the Beneficial Owner thereof. With respect to shares owned by Affiliates, Associates or other Persons whose ownership is attributed to a Related Person under the foregoing definition of Beneficial Owner, if the price paid by such Related Person for such shares is not determinable, the price so paid shall be deemed to be the higher of (i) the price paid upon acquisition thereof by the Affiliate, Associate or other Person or (ii) the market price of the shares in question (as determined by a majority of the board of directors of the Corporation) at the time when the Related Person became the Beneficial Owner thereof.

B. Voting Requirements for Merger, Consolidation or Sale of Assets.

Subject to any other requirements provided for by law and in this charter or any amendment thereto, in order for any merger or consolidation of this Corporation with another corporation or any sale, lease or exchange by liquidation or otherwise of all or substantially all of the assets of this Corporation to be approved by the shareholders of this Corporation, not less than sixty-six and two-thirds percent (66 2/3%) of the authorized, issued and outstanding voting shares of the Corporation must vote

in favor of such action unless the Business Combination has been previously approved by at least sixty-six and two-thirds percent (66 2/3%) of the board of directors of the Corporation in which case only a simple majority vote of the shareholders shall be required.

C. Fair Price Requirement. Neither the Corporation or any of its

Subsidiaries shall become party to any Business Combination unless all of the following conditions are satisfied:

(1) The ratio of (i) the aggregate amount of the cash and the fair market value of other consideration to be received per share of common stock of the Corporation in such Business Combination by holders of common stock other than the Related Person involved in such Business Combination, to (ii) the market price per share of the common stock immediately prior to the announcement of the proposed Business Combination, is at least as great as the ratio of (x) the highest per share price (including brokerage commissions, transfer taxes and soliciting dealers' fees) which such Related Person has theretofore paid in acquiring any common stock of the Corporation prior to such Business Combination, to (y) the market price per share of common stock of the Corporation immediately prior to the initial acquisition by such related person of any shares of common stock of the corporation; and

(2) The aggregate amount of the cash and the fair market value of other consideration to be received per share of common stock of the Corporation in such Business Combination by holders of common stock of the Corporation, other than the Related Person involved in such Business Combination, (i) is not less than the highest per share price (including brokerage commissions, transfer taxes and soliciting dealers' fees) paid by such Related Person in acquiring any of its holdings of common stock of the Corporation, and (ii) is not less than the earnings per share of common stock of the Corporation for the four full consecutive fiscal quarters of the Corporation immediately preceding the Date of Determination of such Business Combination multiplied by the then price/earnings multiple (if any) of such Related Person as customarily computed and reported in the financial community; provided, that for the purposes of this clause (ii), if more than one Person constitutes the Related Person involved in the Business Combination, the price/earnings multiple (if any) of the Person having the highest price/earnings multiple shall be used for the computation in this clause, (ii); and

(3) The consideration (if any) to be received in such Business Combination by holders of common stock of the Corporation other than the Related Person involved shall, except to the extent that a stockholder agrees otherwise as to all or part of the shares which he or she owns, be in the same form and of the same kind as the consideration paid by the Related Person in acquiring common stock of the Corporation already owned by it.

D. Evaluation of Acquisition of this Corporation by Another Corporation.

In connection with the exercise of its judgment in determining what is in the best interest of the Corporation and its stockholders when evaluating an acquisition of this Corporation by another corporation or a tender or exchange offer for control of this Corporation, the board of directors of the Corporation shall, in addition to considering the adequacy of the amount to be paid in connection with any such transaction, consider all of the following factors and any other factors which it deems relevant: (i) the social and economic effects of the transaction on the Corporation and its Subsidiaries, employees, depositors, loan and other customers, creditors and other elements of the communities in which the Corporation and its Subsidiaries operate or are located; (ii) the business and financial conditions and earnings prospects of the acquiring entity or entities, including, but not limited to, debt service and other existing or likely financial obligations of the acquiring Person or Persons, and the possible effect of such conditions upon the Corporation and its Subsidiaries operate or are located; and (iii) the competence, experience, and integrity of the acquiring entity or entities and its or their management.

E. Classified Board of Directors. At the first annual meeting of the

shareholders, after the effective date of the acquisition of South Branch Valley National Bank as a bank subsidiary, the board of directors shall be divided into three classes, designated Class I, Class II and Class III, consisting of an equal number of directors per class. The term of office of directors of one class shall expire at each annual meeting of stockholders, and as to each director until his or her successor shall be elected and shall qualify, or until his or her earlier resignation, removal from office, death or incapacity. Additional directorships resulting from an increase in number of directors shall be apportioned among the classes as equally as possible. A decrease in the number of directors by death, resignation or removal may but shall not be required to be filled by the remaining board members. The initial term of office of directors of Class I shall expire at the first annual meeting of stockholders, that of Class II shall expire at the second annual meeting, and that of Class III shall expire at the third annual meeting, and in all cases as to each director until his or her successor shall be elected and shall qualify, or until his or her earlier resignation, removal from office, death or incapacity. At each annual meeting of stockholders the number of directors equal to the number of directors of the class whose term expires at the time of such meeting (or, if less, the number of directors properly nominated and qualified for election) shall be elected to hold office until the third succeeding annual meeting of the stockholders after their election.

The directors remaining in office acting by a majority vote, or a sole remaining director, although less than a quorum, are hereby expressly delegated the power to fill any vacancies in the board of directors, however occurring, whether by an increase in the number of directors, death, resignation, retirement, disqualification, removal from office, or otherwise, and any director so chosen shall hold office until the next election of the class for which such director shall have been chosen and until his or her successor shall have been elected and qualified, or until his or her earlier resignation, removal from office, death or incapacity.

The total number of directors of this Corporation shall be not less than nine nor more than twenty-one as from time to time fixed by the board of directors.

F. Nomination of Directors. Nominations for election to the board of

directors may be made by the board of directors or by any shareholder entitled to vote for the election of directors. Nominations, other than those made by or on behalf of the existing management of the Corporation, must be made in writing and delivered or mailed to the President of the Corporation not less than thirty (30) days prior to any meeting of shareholders called for the election of directors; provided, however, that if less than thirty (30) days notice of the meeting is given to shareholders, such nomination shall be mailed or delivered to the President of the Corporation not later than the fifth (5th) day following the day on which the notice of meeting was mailed. Such notification shall contain the following information to the extent known by the shareholder: (i) the name and address of each nominee, (ii) the principal occupation of each nominee, (iii) the name and address of the notifying shareholder, and (iv) the number of shares of the Corporation's stock owned by the notifying shareholder. Nominations not made in accordance herewith, may, in the discretion of the chairman of the meeting, be disregarded, and upon his instruction, the votes cast for each such nominee shall be disregarded.

G. Removal of a Director for Cause Only. The removal from office of any

director must be for cause as set forth herein. Except as may otherwise be provided by law, cause for removal shall be construed to exist only if:

(1) the director whose removal is proposed has been convicted, or where a director was granted immunity to testify where another has been convicted, of a felony by a court of competent jurisdiction and such conviction is no longer subject to direct appeal; (2) such director has been adjudicated by a court of competent jurisdiction to be liable for negligence, or misconduct, in the performance of his duty to the Corporation and such adjudication is no longer subject to direct appeal; (3) such director has become mentally incompetent, whether or not so adjudicated, which mental incompetency directly affects his or her ability as a director of the Corporation; (4) such director

ceases to fulfill the qualification requirements for a director of a West Virginia bank holding company; or (5) such director's actions or failure to act have been determined by a majority of the board of directors to be in derogation of the director's duties.

Removal for cause, as cause is defined in (1) and (2) above, must be brought within one year of such conviction or adjudication. For purposes of (5) above, the total number of directors as to which a majority is required will not include the director who is the subject of the removal determination, nor will such director be entitled to vote thereon except in his or her shareholder capacity.

H. Anti-Greenmail Provision. The Corporation shall not engage, directly or -----
indirectly, in any Stock Repurchase (as hereinafter defined) from an Interested Stockholder (as hereinafter defined) or an Affiliate (as previously defined) or Associate (as previously defined) of an Interested Stockholder (as hereinafter defined) who has beneficially acquired any shares of voting stock of the Corporation within a period of less than two (2) years immediately prior to the date of such proposed Stock Repurchase (or the date of an agreement in respect thereof) without the affirmative vote of not less than a majority of the votes entitled to be cast by the holders of all then outstanding shares of voting stock of the Corporation which are Beneficially Owned (as previously defined) by persons other than such Interested Stockholder, voting together as a single class. Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that a lesser percentage or separate class vote may be specified, by law or otherwise.

The provisions of this Article shall not be applicable to any particular Stock Repurchase from an Interested Stockholder, and such Stock Repurchase shall require only such affirmative vote, if any, as is required by law if the conditions specified in either of the following Paragraphs 1 or 2 are met:

1. The Stock Repurchase is made pursuant to a tender offer or exchange offer for a class of common stock made available on the same basis to all holders of such class of common stock.

2. The Stock Repurchase is made pursuant to an open market purchase program approved by a majority of the directors of the Corporation provided that such repurchase is effected on the open market and is not the result of a privately negotiated transaction.

For purposes hereof:

1. The term "Stock Repurchase" shall mean any repurchase (or any agreement to repurchase), directly or indirectly, by the Corporation or any Subsidiary of any shares of common stock at a price greater than the Fair Market Value of such shares.

2. The term "Interested Stockholder" shall mean any person (other than this Corporation or any Subsidiary and other than any profit-sharing, employee stock ownership or other employee benefit plan of this Corporation or any Subsidiary or any trustee of or fiduciary with respect to any such plan when acting in such capacity) who (1) is the Beneficial Owner of voting stock of the Corporation representing ten percent (10%) or more of the votes entitled to be cast by the holders of all then outstanding shares of voting stock of the Corporation; and (b) acquired at least one-half of such shares at any time within the two year period immediately prior to the date in question.

3. The term 'Fair Market Value' means (a) in the case of a cash purchase, the amount of such cash, (b) in the case of a stock exchange, the fair market value on the date in question of a share of such offered stock as determined in good faith by a majority of the directors; and (c) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined in good faith by a majority of the directors.

The board of directors shall have the power and duty to determine for the purposes hereof, on the basis of information known to then after reasonable inquiry, (a) whether a person is an Interested Stockholder, (b) the number of shares of common stock or other securities beneficially owned by any person, (c) whether a person is an Affiliate or Associate of another and (d) whether the consideration to be paid in any Stock Repurchase has an aggregate Fair Market Value in excess of the then Fair Market Value of the shares of common stock being repurchased. Any such determination made in good faith shall be binding and conclusive on all parties.

Nothing contained herein shall be construed to relieve any Interested Stockholder from any fiduciary obligation imposed by law.

1. Director and Officer Indemnification. Unless otherwise prohibited by

law, each director and officer of the corporation now or hereafter serving as such, and each director and officer of any majority or wholly owned subsidiary of the corporation that has been designated as entitled to indemnification by resolution of the board of directors of the corporation as may be from time to time determined by said board, shall be indemnified by the corporation against any and all claims and liabilities (other than an action by or in the right of the corporation or any majority or wholly owned subsidiary of the corporation) including expenses of defending such claim of liability to which he or she has or shall become subject by reason of any action alleged to have been taken, omitted, or neglected by him or her as such director or officer provided the director or officer acted in good faith and in a manner which the director or officer reasonably believed to be in or not opposed to the best interests of the corporation. With respect to any criminal proceeding, a director or officer shall be entitled to indemnification if such person had no reasonable cause to believe his or her conduct was unlawful. The corporation shall reimburse each such person as provided above in connection with any claim or liability brought or arising by or in the right of the corporation or any majority or wholly owned subsidiary of the corporation provided, however, that such person shall be not indemnified in connection with, any claim or liability brought by or in the right of the corporation or any majority or wholly owned subsidiary of the corporation as to which the director or officer shall have been adjudged to be liable for negligence or misconduct in the performance of his or her duty to the corporation or any

majority or wholly owned subsidiary of the Corporation unless and only to the extent that the court in which such action or proceeding was brought shall determine upon application that, despite the adjudication of liability but in view of all circumstances of the case, such person is fairly and reasonably entitled to indemnify for such expenses which such court shall deem proper.

The determination of eligibility for indemnification shall be made by those board members not party to the action or proceeding or in the absence of such board members by a panel of independent shareholders appointed for such purpose by a majority of the shareholders of the corporation or in any other manner provided by law.

The right of indemnification hereinabove provided for shall not be exclusive or any rights to which any director or officer of the corporation may otherwise be entitled by law.

The board of directors may be by resolution, by law or other lawful manner from time to time as it shall determine extend the indemnification provided herein to agents and employees of the corporation, to directors, officers, agents or employees of other corporations or entities owned in whole or in part by the corporation. The corporation may purchase and maintain insurance for the purposes hereof.

J. Voting Requirements for Charter Amendments. Any amendment, change or

repeal of this Article X or any other amendment of these Articles of Incorporation, which would have the effect of modifying or permitting circumvention of any provision of these Articles of Incorporation, shall require the affirmative vote, at a meeting of stockholders of the Corporation, of holders of at least sixty-six and two-thirds percent (66 2/3%) of the then outstanding voting shares of the Corporation; provided, however, that this provision shall not apply to, and such vote shall not be required for, any such amendment, change or repeal recommended to stockholders by the favorable vote of not less than sixty-six and two-thirds percent (66 2/3%) of the directors of the Corporation and any such

amendment, change or repeal so recommended shall require only a simple majority vote of the shareholders to be approved.

WE, THE UNDERSIGNED, for the purpose of forming a corporation under the laws of the State of West Virginia, do make and file in duplicate these ARTICLES OF INCORPORATION, and we have accordingly hereunto set our hands this 3rd day of March, 1987.

/s/ Oscar M. Bean

Oscar M. Bean

/s/ Donald W. Biller

Donald W. Biller

/s/ Thomas J. Hawse

Thomas J. Hawse

/s/ Phoebe F. Heishman

Phoebe F. Heishman

/s/ Ed A. Leatherman, Jr.

Ed A. Leatherman, Jr.

/s/ Aleck Welton

J. Aleck Welton

/s/ Renick C. Williams

Renick C. Williams

/s/ Michael T. Wilson

Michael T. Wilson

/s/ Harry C. Welton

Harry C. Welton

/s/ A. Clyde Ours, Jr.

A. Clyde Ours, Jr.

/s/ E.E. Hott

E.E. Hott

SOUTH BRANCH VALLEY BANCORP, INC.
1998 OFFICER STOCK OPTION PLAN

Witnesseth this _____ 1998 OFFICER STOCK OPTION PLAN dated as of the ____ day of _____, 1998, by SOUTH BRANCH VALLEY BANCORP, INC. ("Corporation"), a West Virginia corporation:

1. PURPOSE OF PLAN. The purpose of this 1998 Officer Stock Option Plan ("Plan") is to further the success of the Corporation and its subsidiaries by making stock of the Corporation available for purchase by officers of the Corporation or its subsidiaries through stock option grants. The Plan provides an additional incentive to such officers to continue in the Corporation's service and give them a greater interest as stockholders in the success of the Corporation.
2. REFERENCE, CONSTRUCTION, AND DEFINITIONS. Unless otherwise indicated, all references made in this Plan shall be to articles, sections and subsection of this Plan. This Plan shall be construed in accordance with the laws of the state of West Virginia. The headings and subheadings in this Plan have been inserted for convenience of reference only and are to be ignored in construction of the provision of this Plan. In the construction of this Plan, the masculine shall include the feminine and singular the plural, wherever appropriate. The following terms shall have the meanings set forth opposite such terms:
 - (a) "Board" means the Board of Directors of the Corporation.
 - (b) "Business Day" means each Monday, Tuesday, Wednesday, Thursday and Friday on which the Corporation's Common Stock is available for purchase or sale.
 - (c) "Change of Control" means (a) a report is filed with the Securities and Exchange Commission (the "SEC") on Schedule 13D or Schedule 14D-1 (or any successor schedule, form or report), each as promulgated pursuant to the Exchange Act, disclosing that any "person", as such term is used in section 13(d) and Section 14(d)(2) of the Exchange Act, other than the company or any company employee benefit plan, is or has become a beneficial owner, directly or indirectly, of securities of the Company representing twenty-five percent (25%) or more of the combined voting power of the Company's then outstanding securities; (b) the Company files a report or proxy statement with the SEC pursuant to the Exchange Act disclosing in response to Item 1 of Form 8-K thereunder or Item 6(e) of Schedule 14A thereunder that a Change in Control of the Company has or may have occurred or will or may occur in the future pursuant to any then-existing contract or transaction; (c) the Company is merged or consolidated with another corporation and, as a result thereof, securities representing less than fifty percent (50%) of the combined voting power of the surviving or resulting corporation's securities (or of the securities of a parent corporation in case of a merger in which the surviving or resulting corporation becomes a wholly owned subsidiary of the parent corporation) are owned in the aggregate by holders of the Company's securities immediately prior to such merger or consolidation; (d) all or substantially all of the assets of the Company are sold in a single transaction or a series of related transactions to a single purchaser or a group of affiliated purchasers; or (e) during any period of twenty-four (24) consecutive months, individuals who were Directors of the Company at the beginning of such period cease to constitute at least a majority of the Company's board unless the election, or nomination for election by the Company's shareholders, of more than one-half of any new Directors of the Company was approved by a vote of at least two-thirds of the Directors of the Company then still in office who were Directors of the Company at the beginning of such twenty-four (24) month period, either actually or by prior operation of this clause (e). A Change in Control shall not include any transaction described in the definition of Change in Control in connection with which the Corporation executes a letter of intent or similar agreement with another company within one year from the effective date of the Plan. The date of a Change of Control shall be deemed to be the date of the earlier of the date of (i) consummation of the transaction involving the Change in Control, or (ii) the execution of a definitive agreement by the Corporation involving a transaction deemed to be a Change in Control; .

- (d) "Code" means the Internal Revenue Code of 1986, as amended from time to time.
- (e) "Committee" means the Committee of the Board appointed by the Board to administer the Plan as constituted from time to time in accordance with Section 4(a); provided, however, that if the Committee shall not be in existence, the term "Committee" shall mean the Board.
- (f) "Common Stock" means the common stock (\$2.50 par value) of the Corporation.
- (g) "Corporation" means South Branch Valley Bancorp, Inc., a West Virginia banking corporation.
- (h) "Date of Grant" means the date on which an option is granted under the Plan.
- (i) "Effective Date" means the date on which the Plan is approved and adopted by the shareholders of the Corporation.
- (j) "Fair Market Value" means the value of Common Stock (i) if listed on an established stock exchange, based on its price on such exchange at the close of business on the date in question; (ii) if traded on a reasonably active basis but not listed on an established stock exchange, based on its price as reflected on the NASDAQ Inter-dealer Quotation System of the National Association of Securities Dealers, Inc. at the close of business on the date in question; (iii) if the Common Stock is not traded on any United States securities exchange but is traded on any formal over-the-counter quotation system in general use in the United States, the value per share shall be the mean of the closing prices reported on the last five (5) Business Days on which the common stock traded prior to the date of grant.
- (k) "Non Qualified Stock Option" means an Option which is not of the type described in Section 422(b) or 423(b) of the Code.
- (l) "Option" means an option to purchase a share or shares of the Corporation's par value Common Stock.
- (m) "Option Agreement" means the written agreement to be entered into by the Corporation and the Participant, as provided in Section 6 hereof.
- (n) "Participant" means any officer of the Corporation or its subsidiaries designated by the Committee and approved by the Board to receive a stock option grant pursuant to this Plan.
- (o) "Plan" means this 1998 Officer Stock Option Plan.
- (p) "Retirement" shall mean termination of employment by the Participant (i) at the age of 65 or more, or (ii) after twenty-five years of service with the Corporation.
- (q) "Term" means the period during which a particular Option may be exercised in accordance with Section 8(b) hereof.
- (r) "Vest" or "Vesting" means the date, event, or act prior to which an Option, in whole or in part, is not exercisable, and as a consequence of which the Option, in whole or in part, becomes exercisable for the first time.

3. STOCK SUBJECT TO PLAN. Subject to the provisions of Sections 6, 7, and 8, there shall be reserved for issuance or transfer upon the exercise of Options to be granted from time to time under the Plan an aggregate of one hundred twenty thousand (120,000) shares of Common Stock, which shares may be in whole or in part, as the Board shall from time to time determine, authorized and unissued shares of Common Stock, or issued shares of Common Stock which shall have been reacquired by the Corporation. If any Option granted under the Plan shall expire, terminate, or be canceled for any reason without having been exercised in full, the unpurchased shares subject thereto shall again be available for the purpose of the Plan.

4. ADMINISTRATION.

- (a) The Plan shall be administered by the Committee. Actions by the Committee for purposes of this Plan shall be by not less than a majority of its members. Any decision or determination reduced to writing and signed by all Committee members shall be fully as effective as if it had been made by a majority vote at a meeting duly called and held. The Committee shall report all action taken by it to the Board.
- (b) The Board may authorize the Committee to administer the Plan. In the event the Board elects to administer the Plan, the Board shall have the power and authority otherwise delegated to the Committee in the Plan documents and all acts performed by the Committee under the Plan shall be performed by the Board.
- (c) The Committee shall have authority in its discretion, but subject to the express provisions of the Plan:
 - (1) to determine Participants to whom Option may be granted;
 - (2) to determine the time or times when Option may be granted;
 - (3) to determine the purchase price of the Common Stock covered by each Option grant;
 - (4) to determine the number of shares of Common Stock to be subject to each Option;
 - (5) to determine when an Option can be exercised and whether in whole or in installments as the result of a Vesting schedule triggered by the passage of time or the attainment of performance goals set by the Committee and approved by the Board;
 - (6) to prescribe, amend, or rescind rules and regulations relating to the Plan;
 - (7) to determine any other terms and provisions and any related amendments to the individual Option Agreements, which need not be identical for each Participant, including such terms and provisions and amendments as shall be required in the judgement of the Committee to conform to any change in any law or regulation applicable thereto, and with particular regard to any changes in or effect of the Code and the regulations thereunder; and
 - (8) to make all other determinations deemed necessary or advisable for the administration of the Plan.

5. PARTICIPATION. Options may be granted to officers employed by the Corporation or its subsidiaries. In determining the officers to whom Options may be granted and the number of shares to be covered by each grant, the Committee may take into account the nature of the services rendered by the respective officers, their present and potential contributions to the Corporation's success, and such other factors as the Committee in its discretion shall deem relevant. Options may be granted to officers who currently hold Corporate stock or who hold or have held Options under this Plan.

6. OPTION GRANTS AND LIMITS.

- (a) Nothing contained in this Plan or in any resolution adopted or to be adopted by the Board shall constitute the granting of any Option hereunder. The granting of an Option pursuant to the Plan shall take place only when a written Option Agreement shall have been duly executed and delivered by or on behalf of the Corporation and the officer (or his duly authorized attorney-in-fact) in whom such Option is to be granted.
- (b) During the Participant's lifetime, any Option granted under this Plan shall be exercisable only by the Participant or any guardian or legal representation of the Participant, and the Option shall not be transferable except, in case of the death of the death of the Participant, by will or the laws of descent and distribution, nor shall the Option be subject to attachment, execution, or other similar process. In the event of (i) any attempt by the Participant to alienate, assign, pledge, hypothecate, or otherwise

dispose of the Option, except as provided in this Plan, or (ii) the levy of any attachment, execution, or similar process upon the rights or interests conferred by the Option, the Corporation may terminate the Option by notice to the Participant and upon such notice the Option shall become null and void.

(c) Each Option Agreement shall include a Vesting schedule describing the date, event, or act upon which an Option shall Vest, in whole or in part, with respect to all or a specified portion of the shares covered by such Option. This condition shall not impose upon the Corporation any obligation to retain the Participant in its employ for any period.

(d) Options shall be limited to Non Qualified Stock Options.

7. **OPTION PRICES.** The Option price to be paid by the Participants to the Corporation for each share purchased upon the exercise of the Option shall be not less than the Fair Market Value of the share on the date the Option is granted. In no event may an Option be granted under the Plan if the Option price per share is less than the par value of a share.

8. **EXERCISE OF OPTIONS.**

(a) A Participant may exercise any Option granted under this Plan with respect to all or any part of the number of shares then exercisable under the terms of this written Option Agreement by giving the Committee written notice of intent to exercise. The notice of exercise shall specify the number of shares to be purchased under the Option and the date of exercise.

(b) Each Option granted under the Plan shall be exercisable only during a Term established by the Committee as set forth in the applicable Option Agreement. In no event shall the Term of the Option extend beyond ten (10) years from the date of grant of the Option.

(c) Full payment of the option price for the shares purchased shall be made by the Participant on or before the exercise date specified in the notice of exercise. Payment of the purchase price of any shares with respect to which the Option is being exercised shall be (i) cash, (ii) certified check to the order of the Corporation, or (iii) shares of Common Stock of the Corporation valued at the Fair Market Value on such Business Day as the Option or portion thereof is exercised.

(d) The Corporation shall not be required to deliver certificates for such shares until full payment of the Option price has been made. On or as soon as is practicable after the exercise date specified in the Participant's notice and upon full payment of the Option price, the Corporation shall cause to be delivered to the Participant a certificate or certificates for the shares then being purchased (out of previously unissued Common Stock or reacquired Common Stock, as the Corporation may elect). The exercise of the Option and the resulting obligation of the Corporation to deliver Common Stock shall, however, be subject to the condition that the listing, registration, or qualification of the Option or the shares upon any securities exchange or under any state or federal law, or the consent, or approval of any governmental regulatory body shall have been effected or obtained free of any conditions not acceptable to the Committee.

(e) If the Participant fails to pay for any of the shares specified in such notice or fails to accept delivery of the shares, his right to purchase such shares may be terminated by the Corporation. The date specified in the Participant's notice as the date of exercise shall be deemed the date of exercise of the Option, provided that payment in full for the shares to be purchased upon such exercise shall have been received by such date.

(f) The holder of an Option shall not have any of the rights of a stockholder with respect to the shares subject to the Option until such shares shall be issued or transferred to him upon the exercise of his Option.

(g) Notwithstanding the foregoing, any shares that may be purchased as of the Effective Date, pursuant to the terms of any Option granted prior to the Effective Date, shall continue thereafter to be purchasable pursuant to the exercise of such Option.

9. TERMINATION, DISABILITY, OR DEATH OF OPTION HOLDER. The ability to exercise Options under this Plan shall be conditioned as follows:

- (a) Exercise During and After Employment. Unless otherwise provided in the terms of an Option, an Option may be exercised by the Participant while he is an employee and has maintained since the date of the grant of the Option continuous status as an employee.

In the event of termination of the employment of a Participant by either the Participant or the Corporation to whom an Option has been granted under the Plan, other than a termination by reason of retirement, permanent disability, or death (all as more fully described below), the Participant may (unless otherwise provided in his or her Option Agreement) exercise his or her option at any time within six months after such termination, or such other time as the Committee may authorize, but in no event after ten years from the date of the granting thereof, with respect to, the number of shares covered by his or her Option which were Vested at the date of termination of employment.

- (b) Exercise Upon Retirement. Unless otherwise provided in the terms of an Option, if a Participant's continuous employment shall terminate by reason of his retirement, at a retirement date authorized by the Committee, from the Corporation or its subsidiaries, a retired Participant shall be come one hundred percent (100%) Vested in any Option he has been granted under the Plan as of that date, and he may exercise the otherwise exercisable Option anytime within one year of his retirement date.

- (c) Exercise Upon Permanent Disability. Unless otherwise provided in the terms of an Option, if a Participant's continuous employment shall terminate by reason of a permanent disability (as determined by the Participant's establishing to the Committee his disability as defined in Code Section 22(e))(3) of the Code, as amended from time to time), then such Option of the disabled Participant may be exercised with respect to the number of shares covered by the Participant's Option that were Vested immediately prior to that disability. Such Option of the permanently disabled Participant may be exercised during the period the Option would have been exercisable if the permanently disabled Participant had not been permanently disabled and had remained in employment.

- (d) Exercise Upon Death. Unless otherwise provided in the terms of an Option, if a Participant's continuous employment shall terminate by reason of his death, then to the extent that the Participant would have been entitled to exercise the Option immediately prior to his death. Such Option of the deceased Participant may be exercised during the period the Option would have been exercisable if the deceased Participant had not died and had remained in employment, by the person or persons (including his estate) to whom his rights under such Option shall have passed by will or by laws of descent and distribution.

10. ADJUSTMENTS.

- (a) In the event that the outstanding shares of Common Stock are hereafter increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Corporation or of another corporation, by reason of a recapitalization, reclassification, stock split-up, combination of shares or dividend or other distribution payable in capital stock, appropriate adjustment shall be made by the Committee in the number and kind of shares for which Options may be granted under the Plan. In addition, the Committee shall make appropriate adjustment in the number and kind of shares as to which outstanding Options, or portions thereof then unexercised, shall be exercisable, to the end that the proportionate interest of the holder of the Option shall, to the extent practicable, be maintained as before the occurrence of such

event. Such adjustment in outstanding Options shall be

made without change in the total price applicable to the unexercised portion of the Option but with a corresponding adjustment in the Option price per share.

(b) In the event of a Change in Control, any Option under the Plan shall terminate as of a date to be fixed by the Committee, provided that not less than ninety (90) days' written notice of the date so fixed shall be given to each Participant, and each such Participant shall have the right during such period to exercise any of his or her Options as to all or any part of the shares covered thereby including shares as to which such Options would not otherwise be exercisable by reason of any insufficient lapse of time.

(c) Adjustment and determinations under this Section 10 shall be made by the Committee, whose decisions as to what adjustments or determinations shall be made, and the extent thereof, shall be final, binding, and conclusive.

11. CHANGE OF CONTROL. Notwithstanding any other Plan provisions or grant term, in the event of a Change of Control, all Options granted hereunder shall become Vested and exercisable regardless of the number of years that have passed since the Date of Grant.

12. AMENDMENT AND TERMINATION. Unless the Plan shall theretofore have been terminated as hereinafter provided, it shall terminate on, and no Option shall be granted thereunder after the tenth (10th) anniversary of the Effective Date. The Board may terminate the Plan or make such modifications or amendments thereof as it shall deem advisable, or to conform to any change in any law or regulation applicable thereto, including (a) increasing the maximum number of shares to which Options may be granted under the Plan, subject to shareholder approval, (b) changing the class of employees eligible to be granted or Options may be exercised, or (d) providing for the administration of the Plan in a manner which may avoid, without the consent of the Participant to whom any Option shall theretofore have been granted, adversely affecting the rights of such Participant under such grant.

13. RESTRICTIONS ON ISSUING SHARES. The transfer of a share of Common Stock upon the exercise of each Option shall be subject to the condition that if at any time the Corporation shall determine in its discretion that the satisfaction of withholding tax or other withholding liabilities, or that the listing, registration or qualification of any shares otherwise deliverable upon any securities exchange or under any state or federal law, or that the consent or approval of such regulatory body, is necessary or desirable as a condition, of, or in connection with, such transfer of shares pursuant thereto, then in any such event, such transfer shall not be effective unless such withholding, listing, registration, qualification, consent, or approval shall have been effected or obtained under conditions acceptable to the Corporation.

14. USE OF PROCEEDS. The proceeds received from the sale of Common Stock pursuant to the exercise of Options granted under the Plan shall be added to the Corporation's general funds and used for general corporate purposes.

15. INDEMNIFICATION OF COMMITTEE. In addition to such other rights of indemnification as they may have as members of the Board or as members of the Committee, the members of the Committee shall be indemnified by the Corporation against all costs and expenses reasonable incurred by them in connection with any action, suit, or proceeding to which they or any of them may be party by reason of any action taken or failure to act under or in connection with the Plan, or any Option and against all amounts paid by them in settlement thereof (provided such settlement is approved by legal counsel selected by the Corporation) or paid by them in satisfaction of a judgment in any such action, suit, or proceeding, except a judgment based upon a finding of bad faith. Upon the institution of any such action, suit, or proceeding, a Committee member shall notify the Corporation in writing, giving an opportunity, at its own expense, to handle and defend the same before such Committee member undertakes to handle it on his own behalf.

16. EFFECTIVENESS OF THE PLAN. The Plan shall become effective as of the Effective Date. Options may be granted to Participants prior to such date, but the ability to exercise all such Options from such grant shall be conditioned upon such approval and advice.

17. MISCELLANEOUS.

- (a) Employment Not Affected. Neither the granting of an Option nor its exercise shall be construed as granting to the Participant any right with respect to continuance of his employment with the Corporation or its subsidiaries. Except as may otherwise be limited by a written agreement between the Corporation or its subsidiaries and the Participant, the right of the Corporation or its subsidiaries to terminate at will the Participant's employment with it at any time (whether by dismissal, discharge, retirement, or otherwise) is specifically reserved by the Corporation or its subsidiaries as the employer or on behalf of the employer (whichever the case may be) and acknowledged by the Participant.
- (b) Notice. Any notice to the Corporation provided for in this instrument shall be addressed to it in care of its President at its principal office in West Virginia, and any notice to the Participant shall be addressed to the Participant at the current address shown on the payroll records of the Corporation. Any notice shall be deemed to be duly given if and when properly addressed and posed by registered or certified mail, postage prepaid.

SOUTH BRANCH VALLEY BANCORP, INC.

By:

H. Charles Maddy, III
President

Attest:

Title:

SOUTH BRANCH VALLEY NATIONAL BANK

6-MOS
 DEC-31-1998
 JAN-01-1998
 JUN-30-1998
 3,660,346
 1,166,000
 1,142,915
 0
 38,404,373
 0
 0
 129,398,006
 (1,248,619)
 182,742,125
 142,860,253
 5,927,892
 1,626,585
 8,966,545
 0
 0
 1,501,018
 21,859,832
 182,742,125
 5,135,590
 1,086,633
 133,588
 6,355,811
 2,791,855
 3,250,658
 3,105,153
 120,000
 4,131
 2,067,764
 1,204,044
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 0
 797,897
 .69
 .69
 4.30
 139,000
 54,000
 54,440
 1,278,246
 935,938
 71,623
 32,625
 1,248,619
 1,318,619
 0
 70,000