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 March 31, 1999

Commission File Number 0-16587

South Branch Valley Bancorp, Inc.
(Exact name of small business issuer as specified in its charter)

West Virginia 55-0672148
(State or other jurisdiction of (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 X No ___

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

591,292 common shares were outstanding as of May 10, 1998

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

This report contains 25 pages.

South Branch Valley Bancorp, Inc. and Subsidiaries

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South Branch Valley Bancorp, Inc. and Subsidiaries

Consolidated Balance Sheets

	March 31, 1999 (unaudited)	December 31, 1998 (*)
ASSETS		
Cash and due from banks	$ 3,822,396	$ 4,239,721
Interest bearing deposits with other banks	770,000	770,000
Federal funds sold	1,385,334	4,842,745
Securities available for sale	41,700,028	31,409,924
Loans, net	148,634,548	142,770,127
Bank premises and equipment, net	5,202,583	5,170,858
Accrued interest receivable	1,206,686	1,059,990
Other assets	3,071,932	2,735,672
Total assets	$ 205,793,507	$ 192,999,037
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Non interest bearing	$ 11,419,678	$ 11,455,674
Interest bearing	139,149,706	134,917,518
Total deposits	150,569,384	146,373,192
Short-term borrowings	11,369,475	4,644,143
Long-term borrowings	17,886,647	16,468,875
Other liabilities	1,541,386	1,367,698
Total liabilities	181,366,892	168,853,908
Commitments and Contingencies		
Shareholders' Equity		
Common stock, $2.50 par value; authorized 2,000,000 shares; issued 600,407 shares	1,501,018	1,501,018
Capital surplus	9,611,774	9,611,774
Retained earnings	13,551,134	13,103,264
Less cost of 8,115 shares acquired for the treasury	(384,724)	(384,724)
Accumulated other comprehensive income	147,413	313,797
Total shareholders' equity	24,426,615	24,145,129
Total liabilities and shareholders' equity	$ 205,793,507	$ 192,999,037

(*) - December 31, 1998 financial information has been extracted from audited consolidated financial statements

See Notes to Consolidated Financial Statements

South Branch Valley Bancorp, Inc. and Subsidiaries

Consolidated Statements of Income (unaudited)

	Three Months Ended	
	March 31, 1999	March 31, 1998
Interest income		
Interest and fees on loans	$ 3,154,807	$ 2,204,688
Interest on securities		
Taxable	492,070	393,480
Tax-exempt	80,087	78,097
Interest on Federal funds sold	22,368	49,132
Total interest income	3,749,332	2,725,397
Interest expense		
Interest on deposits	1,590,508	1,162,201
Interest on short-term borrowings	65,195	64,835
Interest on long-term borrowings	238,920	167,121
Total interest expense	1,894,623	1,394,157
Net interest income	1,854,709	1,331,240
Provision for loan losses	77,500	45,000
Net interest income after provision for loan losses	1,777,209	1,286,240
Other income		
Insurance commissions	11,398	23,455
Service fees	118,080	88,778
Securities gains (losses)	-	-
Other	24,154	18,075
Total other income	153,632	130,308
Other expense		
Salaries and employee benefits	634,966	468,822
Net occupancy expense	84,056	50,619
Equipment rentals, depreciation and maintenance	109,070	81,032
Federal deposit insurance premiums	4,418	3,260
Other	384,261	250,339
Total other expense	1,216,771	854,072
Income before income taxes	714,070	562,476
Income tax expense	266,200	176,685
Net income	$ 447,870	$ 385,791
Basic earnings per common share	$ 0.76	$ 0.93
Diluted earnings per common share	$ 0.76	$ 0.93
Dividends per common	$ -	$ -

See Notes to Consolidated Financial Statements

South Branch Valley Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (unaudited)

	Three Months Ended	
	March 31, 1999	March 31, 1998
Cash Flows from Operating Activities		
Net income	$ 447,870	$ 385,791
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	94,441	64,958
Provision for loan losses	77,500	45,000
Deferred income tax (benefit) expense	83,600	(8,015)
(Gain) on disposal of other assets	-	(1,660)
Amortization of securities premiums (accretion of discounts), net	5,916	(28,426)
Amortization of goodwill and purchase accounting adjustments, net	29,731	9,294
(Increase) decrease in accrued interest receivable	(146,696)	(24,489)
(Increase) decrease in other assets	(292,601)	(18,687)
Increase (decrease) in other liabilities	194,247	20,924
Net cash provided by operating activities	494,008	444,690
Cash Flows from Investing Activities		
Proceeds from maturities of interest bearing deposits with other banks	-	90,000
Proceeds from maturities and calls of securities available for sale	1,500,000	2,325,000
Principal payments received on securities available for sale	829,667	600,047
Purchases of securities available for sale	(12,893,932)	(4,292,235)
Purchase of common stock of affiliate	-	(90,465)
Net (increase) decrease in Federal funds sold	3,457,411	5,081,317
Net loans made to customers	(6,028,466)	(3,713,886)
Purchases of Bank premises and equipment	(127,582)	(7,638)
Proceeds from sales of other assets	-	14,410
Net cash provided by (used in) investing activities	(13,262,902)	6,550
Cash Flows from Financing Activities		
Net increase (decrease) in demand deposit, NOW and savings accounts	4,130,480	436,091
Net increase (decrease) in time deposits	77,985	(493,495)
Net increase (decrease) in short-term borrowings	6,725,332	(1,429,375)
Proceeds from long-term borrowings	1,500,000	-
Repayment of long-term borrowings	(82,228)	(66,391)
Net cash provided by financing activities	12,351,569	(1,553,170)
Increase (decrease) in cash and due from banks	(417,325)	(1,101,930)
Cash and due from banks:		
Beginning	4,239,721	3,945,099
Ending	$ 3,822,396	$ 2,843,169

(Continued)

See Notes to Consolidated Financial Statements

South Branch Valley Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows - continued (unaudited)

	Three Months Ended	
	March 31, 1999	March 31, 1998
Supplement Disclosures of Cash Flow Information		
Cash payments for:		
Interest	$ 1,899,396	$ 1,365,665
Income taxes	$ -	$ -
Supplemental Schedule of Noncash Investing and Financing Activities		
Other assets acquired in settlement of loans	$ 88,000	$ 30,520

See Notes to Consolidated Financial Statements

South Branch Valley Bancorp, Inc. and Subsidiaries

Consolidated Statements of Shareholders' Equity (unaudited)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Compre-hensive Income	Total Share-holders' Equity
Balance, December 31, 1998	$1,501,018	$9,611,774	$13,103,264	$(384,724)	$313,797	$24,145,129
Three Months Ended March 31, 1999						
Comprehensive income:						
Net income	-	-	447,870	-	-	447,870
Other comprehensive income, net of tax:						
Net unrealized (loss) on securities of ($166,384), net of reclassification adjustment for gains(losses) included in net income of $ -	-	-	-	-	(166,384)	(166,384)
Total comprehensive income	-	-	-	-	-	281,486
Balance, March 31, 1999	$1,501,018	$9,611,774	$13,551,134	$(384,724)	$ 147,413	$ 24,426,615
Balance, December 31, 1997	$1,042,355	$2,089,709	$11,898,420	$(166,970)	$ 197,038	$ 15,060,552
Three Months Ended March 31, 1998						
Comprehensive income:						
Net income	-	-	385,791	-	-	385,791
Other comprehensive income, net of tax:						
Net unrealized (loss) on securities of ($6,492), net of reclassification adjustment for gains (losses) included in net income of $ -	-	-	-	-	(6,492)	(6,492)
Total comprehensive income	-	-	-	-	-	379,299
Balance, March 31, 1998	$1,042,355	$2,089,709	$12,284,211	$(166,970)	$ 190,546	$ 15,439,851

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 months ended March 31, 1999 are not necessarily indicative of the results to be expected for the full year. The consolidated financial statements and notes included herein should be read in conjunction with the Company's 1998 audited financial statements and Annual Report on Form 10-KSB.

Note 2. Earnings per Share

Basic earnings per common share is computed based upon the weighted average shares outstanding. The weighted average shares outstanding for the three month periods ended March 31, 1999 and 1998 were 591,292 and 412,827, respectively.

In accordance Financial Accounting Standards Board Statement No. 128, Earning per Share, diluted earnings per share amounts assume the conversion, exercise or issuance of all potential common stock instruments unless the effect is to reduce the loss or increase the income per common share from continuing operations. At March 31, 1999, options totaling 7,500 shares of the Company's common stock had been granted under the Company's 1998 Officer Stock Option Plan. As of March 31, 1999, none of these options are vested.

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 March 31, 1999. 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)			
	Three Month Period Ended March 31, 1999		Three Month Period Ended March 31, 1998	
	As Reported	Pro Forma	As Reported	Pro Forma
Total interest income	$ 3,749	$ 3,749	$ 2,725	$ 3,459
Total interest expense	$ 1,894	$ 1,894	$ 1,394	$ 1,784
Net interest income	$ 1,855	$ 1,855	$ 1,331	$ 1,675
Net income	$ 448	$ 448	$ 386	$ 390
Basic earnings per common share	$ 0.76	$ 0.76	$ 0.93	$ 0.66

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 March 31, 1999 and December 31, 1998 are summarized as follows:

	March 31, 1999		
	Amortized	Unrealized	Estimated Fair

	Cost	Gains	Losses	Value
Available for Sale				
Taxable:				
U. S. Treasury securities	$ 2,991,539	$ 44,836	$ -	$ 3,036,375
U. S. Government agencies and corporations	11,196,164	44,711	14,997	11,225,878
Small Business Administration guaranteed loan participation certificates	850,073	5,890	2,882	853,081
Mortgage-backed securities - U. S. Government agencies and corporations	18,125,406	76,400	135,046	18,066,760
Corporate debt securities	249,949	176	-	250,125
Federal Reserve Bank stock	44,300	-	-	44,300
Federal Home Loan Bank stock	1,447,300	-	-	1,447,300
Other equity securities	306,625	-	-	306,625
Total taxable	35,211,356	172,013	152,925	35,230,444
Tax-exempt:				
State and political subdivisions	6,244,876	228,856	8,248	6,465,484
Federal Reserve Bank stock	4,100	-	-	4,100
Total tax-exempt	6,248,976	228,856	8,248	6,469,584
Total	$41,460,332	$400,869	$161,173	$41,700,028

	December 31, 1998			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Available for Sale				
Taxable:				
U. S. Treasury securities	$ 2,990,294	$ 68,354	$ -	$ 3,058,648
U. S. Government agencies and corporations	12,698,092	82,796	11,404	12,769,484
Small Business Administration guaranteed loan participation certificates	973,127	21,119	-	994,246
Mortgage-backed securities - U. S. Government agencies and corporations	6,334,380	86,483	-	6,420,863
Corporate debt securities	249,724	1,214	-	250,938
Federal Reserve Bank stock	44,300	-	-	44,300
Federal Home Loan Bank stock	1,052,300	-	-	1,052,300
Other equity securities	306,625	-	-	306,625
Total taxable	24,648,842	259,966	11,404	24,897,404
Tax-exempt:				
State and political subdivisions	6,246,745	268,525	6,850	6,508,420
Federal Reserve Bank stock	4,100	-	-	4,100
Total tax-exempt	6,250,845	268,525	6,850	6,512,520
Total	$30,899,687	$528,491	$18,254	$31,409,924

The maturites, amortized cost and estimated fair values of securities at March 31, 1999, are summarized as follows:

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 8,027,047	$ 8,063,860
Due from one to five years	17,440,503	17,520,632
Due from five to ten years	12,014,735	12,044,635
Due after ten years	2,175,722	2,268,576
Equity securities	1,802,325	1,802,325
	$41,460,332	$41,700,028

Note 5. Loans

Loans are summarized as follows:

	March 31, 1999	December 31, 1998
Commercial, financial and agricultural	$ 46,438,148	$ 41,956,586
Real estate - construction	1,076,862	1,801,317
Real estate - mortgage	75,693,176	73,885,892
Installment	26,913,042	26,579,782
Other	345,461	409,382
Total loans	150,466,689	144,632,959
Less unearned income	449,330	490,946
Total loans net of unearned income	150,017,359	144,142,013
Less allowance for loan losses	1,382,811	1,371,886
Loans, net	$148,634,548	$142,770,127

The following presents loan maturities at March 31, 1999:

	Within 1 Year	After 1 but within 5 Years	After 5 Years
Commercial, financial and agricultural	$ 11,553,903	$ 9,165,339	$ 25,718,906
Real estate - construction	999,327	-	77,535
Real estate - mortgage	3,566,639	15,131,830	56,994,742
Installment	3,390,614	19,704,622	3,817,772
Other	312,866	32,594	-
Total	19,823,349	44,034,385	86,608,955

Loans due after one year with:	
Variable rates	41,389,148
Fixed rates	89,254,192
	$ 130,643,340

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

Note 6. Allowance for Loan Losses

An analysis of the allowance for loan losses for the nine month periods ended March 31, 1999 and 1998, and for the year ended December 31, 1998, is as follows: .

	Three Months Ended March 31,		Year Ended December 31,
	1999	1998	1998
Balance, beginning of period	$1,371,886	$ 895,281	$ 895,281
Losses:			
Commercial, financial & agricultural	14,357	-	4,063
Real estate - mortgage	30,488	-	-
Installment	28,711	19,235	124,103
Other	-	506	24,638
Total	73,556	19,741	152,804
Recoveries:			
Commercial, financial & agricultural	-	1,575	2,830
Real estate - mortgage	450	6,750	21,969
Installment	4,883	6,972	60,797
Other	1,648	101	2,011
Total	6,981	15,398	87,607
Net losses	66,575	4,343	65,197
Allowance of purchased subsidiary	-	-	271,802
Provision for loan losses	77,500	45,000	270,000
Balance, end of period	$1,382,811	$ 935,938	$1,371,886

Note 7. Deposits

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

	March 31, 1999	December 31, 1998
Demand deposits, interest bearing	$ 30,788,845	$ 27,510,717
Savings deposits	15,637,277	14,748,928
Certificates of deposit	83,927,494	83,319,247
Individual retirement accounts	8,796,091	9,338,626
Total	$139,149,707	$134,917,518

The following is a summary of the maturity distribution of certificates of deposit and Individual Retirement Accounts in denominations of $100,000 or more as of March 31, 1999:

	Amount	Percent
Three months or less	$ 5,712,746	24.8%
Three through six months	4,822,510	20.9%
Six through twelve months	6,927,305	30.0%
Over twelve months	5,609,784	24.3%
Total	$23,072,345	100.0%

A summary of the scheduled maturities for all time deposits as of March 31, 1999 is as follows:

1999	$51,730,716
2000	25,540,584
2001	6,529,132
2002	3,219,712
2003	3,661,080
Thereafter	2,042,361
	$92,723,585

Note 8. Restrictions on Capital

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

Quantitative measures established by regulation to ensure capital adequacy require South Branch and each of its subsidiaries to maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of March 31, 1999, that South Branch and each of its subsidiaries met all capital adequacy requirements to which they were subject.

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

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

	Actual		Minimum Required Regulatory Capital		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of March 31, 1999						
Total Capital (to risk weighted assets)						
South Branch	$25,138	19.1%	$10,512	8.0%	$13,140	10.0%
SBVNB	13,989	13.9%	8,072	8.0%	10,091	10.0%
CSB	8,996	41.0%	1,753	8.0%	2,192	10.0%
Tier I Capital (to risk weighted assets)						
South Branch	22,370	17.0%	5,256	4.0%	7,884	6.0%
SBVNB	12,945	12.8%	4,036	4.0%	6,054	6.0%
CSB	8,722	39.8%	877	4.0%	1,315	6.0%
Tier I Capital (to average assets)						
South Branch	22,370	11.5%	5,832	3.0%	9,719	5.0%
SBVNB	12,945	9.0%	4,319	3.0%	7,198	5.0%
CSB	8,722	17.5%	1,499	3.0%	2,498	5.0%
As of December 31, 1998						
Total Capital (to risk weighted assets)						
South Branch	$23,309	18.4%	$10,126	8.0%	$12,658	10.0%
SBVNB	13,510	14.0%	7,721	8.0%	9,652	10.0%
CSB	8,976	30.5%	2,356	8.0%	2,945	10.0%
Tier I Capital (to risk weighted assets)						
South Branch	21,937	17.3%	5,063	4.0%	7,595	6.0%
SBVNB	12,468	12.9%	3,861	4.0%	5,791	6.0%
CSB	8,646	29.4%	1,178	4.0%	1,767	6.0%
Tier I Capital (to average assets)						
South Branch	21,937	11.5%	5,702	3.0%	9,504	5.0%
SBVNB	12,468	8.7%	4,289	3.0%	7,148	5.0%
CSB	8,646	17.7%	1,464	3.0%	2,441	5.0%

Note 9. Branch Acquisitions and New Subsidiary

On December 23, 1998, a subsidiary of the Company, Capital State Bank, Inc. entered into an agreement to purchase three branch banking facilities located in Greenbrier County, West Virginia. The transaction was completed on April 22, 1999, and includes the branches' facilities and associated loan and deposit accounts. Total deposits assumed approximated $47.2 million and total loans acquired approximated $8.8 million as of the transaction's closing. The total consideration paid approximated $3.4 million and was based upon the total deposits assumed plus the seller's net book value of the branch offices and equipment at closing.

During 1998, the Company applied for and on January 25, 1999 received preliminary approval from the Office of the Comptroller of the Currency to begin organizing a new subsidiary bank, Shenandoah Valley National Bank, to be located in Winchester, Virginia. This newly chartered institution will be initially capitalized with $4 million, to be funded by a special dividend in the amount of $3 million from the Company's subsidiary bank, South Branch Valley National Bank, and from a $1 million term loan from an unaffiliated bank. Shenandoah Valley National Bank is expected to open in May 1999.

Note 10. Pending Merger

On March 22, 1999, the Company entered into a letter of intent ("Letter") to affiliate with Potomac Valley Bank ("Potomac") in Petersburg, West Virginia. Under the terms of the Letter, South Branch and Potomac propose a merger whereby the shareholders of Potomac would exchange all of their outstanding shares of common stock for shares of South Branch common stock at a book-for-book exchange based on the respective book values of South Branch and Potomac as of the closing date. At December 31, 1998, the exchange ratio would have been 3.2143 shares of South Branch common stock for each share of Potomac's 90,000 outstanding shares of common stock. The terms of the Letter also include, among others, that the merger is subject to negotiation of a definitive merger agreement, South Branch changing its name to a name mutually agreeable to both parties, and approval of the transaction by all applicable regulatory authorities and the shareholders of South Branch and Potomac. It is expected that the transaction will be accounted for using the pooling of interests method of accounting. As of December 31, 1998, Potomac's assets, loans, deposits and shareholders' equity totaled $94,297,000, $50,393,000, $81,968,000 and $11,813,000, respectively.

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

INTRODUCTION

The following is a discussion and analysis focused on significant changes in the financial condition and results of operations of South Branch Valley Bancorp, Inc. ("Company" or "South Branch") and its wholly owned subsidiaries, South Branch Valley National Bank ("SBVNB") and Capital State Bank, Inc. ("Capital State"), for the periods indicated. This discussion and analysis should be read in conjunction with the Company's 1998 audited financial statements and Annual Report on Form 10-KSB. This discussion may also contain forward-looking statements based on management's expectations, and actual results may differ materially.

ACQUISITION

At the close of business March 31, 1998, South Branch acquired 60% of the outstanding common stock of Capital State, a Charleston, West Virginia state chartered bank with total assets approximating $44 million at the time of acquisition, in exchange for 183,465 shares of South Branch's common stock. South Branch had previously acquired 40% of Capital State's outstanding common stock during 1997. This acquisition was accounted for using the purchase method of accounting, and accordingly, the assets and liabilities and results of operations of Capital State are reflected in the Company's consolidated financial statements beginning April 1, 1998. Refer to Note 3 of the accompanying consolidated financial statements for additional information regarding this acquisition.

RESULTS OF OPERATIONS

Earnings Summary

The Company reported net income of $448,000 for the three months ended March 31, 1999 compared to $386,000 for the first quarter of 1998, representing a 16.1% increase. The improvement in earnings for the quarter resulted primarily due to higher net interest income and non-interest income, which more than offset increased non-interest expense.

Basic and diluted earnings per common share were $0.76 for the quarter ended March 31,1999 compared to the $0.93 reported for the first quarter of 1998. The decline in earnings per share is attributable to the dilution arising from the acquisition of Capital State. The dilutive effect of this acquisition is expected to be offset in the future by improved earnings performance of Capital State resulting from its continued growth.

Net Interest Income

The Company's net interest income on a fully tax-equivalent basis totaled $1,895,000 for the three month period ended March 31, 1999 compared to $1,371,000 for the same period of 1998, representing an increase of $524,000 or 38.2%. This increase resulted from growth in the volume of earning assets as result of the acquisition of Capital State and as a result of continued solid loan growth. South Branch's net yield on interest earning assets decreased slightly to 4.1% for the three month period ended March 31, 1999, compared to 4.3% for the same period in 1998. Growth in net interest income is expected to continue due to anticipated continued growth in volumes of interest earning asset, principally loans, over the near term. Conversely, the Company's net yield on earning assets is anticipated to continue to contract slightly over the balance of 1999, primarily due to competitive pressures on interest rates for new loans within the Company's primary market area.

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 (in thousands of dollars)

	March 31, 1999			March 31, 1998		
	Average Balance	Earnings Expense	Yield/ Rate	Average Balance	Earnings Expense	Yield/ Rate
Interest earning assets						
Loans, net of unearned income	$146,881	$3,155	8.6%	$ 94,235	$2,205	9.4%
Securities						
Taxable	29,860	492	6.6%	22,671	393	6.9%
Tax-exempt (1)	6,246	121	7.7%	5,987	118	7.9%
Federal funds sold	2,053	22	4.3%	3,332	49	5.9%
Total interest earning assets	185,040	3,790	8.2%	126,225	2,765	8.8%
Noninterest earning assets						
Cash & due from banks	3,842			3,083		
Bank premises and equipment	5,664			3,048		

Other assets	2,573			6,791		
Allowance for loan losses	(1,386)			(920)		
Total assets	$195,733			$138,227		
Interest bearing liabilities						
Interest bearing demand deposits	$ 28,371	$ 225	3.2%	$ 17,379	$ 131	3.0%
Savings deposits	15,075	105	2.8%	13,973	113	3.2%
Time deposits	92,521	1,261	5.5%	64,591	918	5.7%
Short-term borrowings	6,275	65	4.1%	5,959	54	3.6%
Long-term borrowings	17,893	239	5.3%	10,358	178	6.9%
Total interest bearing liabilities	160,135	1,895	4.7%	112,260	1,394	5.0%
Noninterest bearing liabilities and shareholders' equity						
Demand deposits	11,375			9,490		
Other liabilities	1,766			1,136		
Shareholders'equity	22,457			15,341		
Total liabilities and shareholders' equity	$195,733			$138,227		
Net interest earnings		$1,895			$1,371	
Net yield on interest earning assets			4.1%			4.3%

(1) - Interest income on tax-exempt securities has been adjusted assuming an effective tax rate of 34% for both periods presented. The tax equivalent adjustment resulted in an increase in interest income of $41,000 and $40,000 for the periods ended March 31, 1999 and 1998, respectively.

Credit Experience

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

The Company recorded a $78,000 provision for loan losses for the first three months of 1999, compared to $45,000 for the same period in 1998. This increase reflects the acquisition of Capital State and continued growth of the loan portfolio. Net loan charge offs for the first quarter of 1999 were $67,000, as compared to $4,000 over the same period of 1998. The increase in net loan charge offs is related primarily to losses, which had previously been provided for in the allowance for loan losses, were incurred on one commercial and one real estate loan during the first quarter of 1999. At March 31, 1999, the allowance for loan losses totaled $1,383,000 or 0.9% of loans, net of unearned income, compared to $1,372,000 or 1.0% of loans, net of unearned income at December 31, 1998. See Note 6 of the notes to the accompanying consolidated financial statements for an analysis of the activity in the Company's allowance for loan losses for the three month periods ended March 31, 1999 and 1998 and for the year ended December 31, 1998.

As illustrated in Table II below, the Company's non-performing assets and loans past due 90 days or more and still accruing interest have remained relatively 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)

	March 31, 1999	March 31, 1998	December 31, 1998
Loans contractually past due 90 days or more still accruing interest	$ 19	$ 120	$ 355
Non-performing assets:			
Non-accruing loans	275	154	297
Repossessed assets	-	31	12
Foreclosed properties	173	47	85
	$ 467	$ 352	$ 749
Percentage of total loans	0.3%	0.4%	0.5%

Noninterest Income and Expense

Total other income increased approximately $23,000 or 17.7% to $154,000 during the first quarter of 1999, as compared to the first three months of 1998. The most significant item contributing to this increase was service fee income, which increased $29,000 from approximately $89,000 to $118,000, or 32.6%. This resulted primarily from a change in South Branch's deposit fee structure and the acquisition of Capital State effective April 1, 1998.

Total noninterest expense increased approximately $363,000, or 42.5% to $1,217,000 during the first quarter of 1999 as compared to the same period in 1998. Substantially all of this increase resulted due to the noninterest expenses of Capital State.

FINANCIAL CONDITION

Total assets of the Company were $205,794,000 at March 31, 1999, compared to $192,999,000 at December 31, 1998, representing a 6.6% increase. Table III below serves to illustrate significant changes in the Company's financial position between December 31, 1998 and March 31, 1999.

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

	Balance December 31, 1998	Increase (Decrease) Amount	Increase (Decrease) Percentage	Balance March 31, 1999
Assets				
Federal funds sold	$ 4,843	$(3,458)	-71.4%	$ 1,385
Securities available for sale	31,410	10,290	32.8%	41,700
Loans, net of unearned income	144,142	5,875	4.1%	150,017
Liabilities				
Interest bearing deposits	$134,918	$ 4,232	3.1%	$139,150
Short-term borrowings	4,644	6,725	144.8%	11,369
Long-term borrowings	16,469	1,418	8.6%	17,887

The increase in securities available for sale resulted primarily from the purchase of GNMA mortgage backed securities during the first quarter of 1999. Purchases of these securities were made as part of South Branch's ongoing asset/liability management strategy, which strives to minimize interest rate risk while enhancing the financial position of the Company. These securities purchases were funded by the reduction in Federal funds sold and the increase in short-term borrowings under the Company's line of credit with the Federal Home Loan Bank ("FHLB").

The growth in loans during the first three months of 1999, occurring principally in the commercial and real estate portfolios, was funded by increased interest bearing deposits and long-term borrowings from the FHLB.

In conjunction with the Company's acquisition of three branch banks in Greenbrier County, West Virginia in April 1999 (see Note 9 of the accompany consolidated financial statements), the Company realized approximately $36 million in investable funds. These funds were used to repay all the short-term FHLB borrowings used to fund the first quarter 1999 securities purchases discussed above, and were invested in government agency securities and Federal funds sold.

Refer to Notes 4, 5 and 7 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 March 31, 1999 and December 31, 1998.

LIQUIDITY

Liquidity reflects the Company's ability to ensure the availability of adequate funds to meet loan commitments and deposit withdrawals, as well as provide for other transactional requirements. Liquidity is provided primarily by funds invested in cash and due from banks, Federal funds sold, securities and interest bearing deposits with other banks maturing within one year, and lines of credit with FHLB which totaled approximately $37.1 million at March 31, 1999 versus $45.1 million at December 31, 1998. Further enhancing the Company's liquidity is the availability as of March 31, 1999 of additional securities totaling $33.4 million classified as available for sale in response to an unforeseen need for liquidity.

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

CAPITAL RESOURCES

Maintenance of a strong capital position is a continuing goal of Company management. Through management of its capital resources, the Company seeks to provide an attractive financial return to its shareholders while retaining sufficient capital to support future growth. Shareholders' equity at March 31, 1999 totaled $24,427,000 compared to $24,145,000 at December 31, 1998, representing an increase of 1.2% which resulted primarily from net retained earnings of the Company during the first quarter of 1999.

See Note 8 of the notes to the accompanying consolidated financial statements for information regarding regulatory restrictions on the Company's and its subsidiaries' capital.

YEAR 2000

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

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

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

South Branch's estimated progress as of March 31, 1999 towards meeting the Plan's goals for both IT and Non-IT systems by phase are as follows:

Phase	Estimated Percent Complete	Estimated Completion Date
Mission Critical		
Awareness	100%	06/30/1998
Assessment	100%	09/30/1998
Renovation	98%	06/30/1999
Testing/Validation	98%	06/30/1999
Implementation	95%	06/30/1999
Non-mission Critical		
Awareness	100%	06/30/1998
Assessment	100%	09/30/1998
Renovation	95%	06/30/1999
Testing/Validation	95%	06/30/1999
Implementation	95%	06/30/1999

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

Identifiable costs for the Company's Year 2000 project during 1999 approximated $20,000, substantially all of which were capital expenditures for the replacement of computers and other date dependent electronic devices. The cost to complete the Plan is not expected to exceed $50,000.

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

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

PART II. OTHER INFORMATION

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

Exhibit 11. Statement re: Computation of Earnings per Share

Exhibit 27. Financial Data Schedule - electronic filing only

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

On January 4, 1999, South Branch Valley Bancorp, Inc. announced it will acquire three branch banking facilities located in Greenbrier County, West Virginia and the related loans and deposits from another financial institution.

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: May 17, 1999

EXHIBIT 11.

Statement re: Computation of Earnings per Share

	Three Months Ended March 31,	
	1999	1998
Numerator:		
Net Income	$ 447,870	$ 385,791
Denominator:		
Denominator for basic earnings per share -- weighted average common shares outstanding	591,292	412,827
Effect of dilutive securities:		
Employee stock option plan	26	-
Denominator for diluted earnings per share -- weighted average common shares outstanding and assumed conversions	591,318	412,827
Basic earnings per share	$ 0.76	$ 0.93
Diluted earnings per share	$ 0.76	$ 0.93

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South Branch Valley Bancorp, Inc.

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