SUSSEX BANCORP
Form 10QSB
November 14, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 2001

or

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________ to ______________

Commission file number 0-29030

SUSSEX BANCORP
(Exact name of registrant as specified in its charter)

New Jersey	22-3475473
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
399 Route 23, Franklin, New Jersey	07416
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number, including area code) (973) 827-2914

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities and Exchange Act of 1934 during the preceding 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___

As of November 9, 2001 there were 1,656,004 shares of common stock, no par value, outstanding.

SUSSEX BANCORP
FORM 10-QSB

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

SUSSEX BANCORP
CONSOLIDATED BALANCE SHEETS
(in Thousands, Except Share Data)
(Unaudited)

ASSETS	September 30, 2001	December
Cash and Due from Banks	$ 5,784	$
Federal Funds Sold	25,270	
Interest Bearing Deposits	0	
Total Cash and Cash Equivalents	31,054	1
Time Deposits in Other Banks	6,100	
Securities available for sale, at estimated fair value	50,288	3
Securities held to maturity, estimated fair value of $6,393,000 in 2000	0	

Total Securities	50,288	3
Loans Held for Sale	0	
Loans (Net of Unearned Income)	102,497	10
Less: Allowance for Possible Loan Losses	1,081	
Net Loans	101,416	10
Other Real Estate Owned	185	
Premises and Equipment, Net	4,867	
Federal Home Loan Bank Stock	685	
Intangible Assets	472	
Accrued Interest Receivable	1,085	
Other Assets	1,798	
Total Assets	$ 197,950	$ 16

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:		
Deposits:		
Demand	$ 24,546	$ 2
Savings	82,274	6
Time	50,306	4
Time of $100,000 and over	17,634	
Total Deposits	174,760	14
Federal Home Loan Bank Advances	10,000	1
Other Liabilities	873	
Total Liabilities	185,633	15
Stockholders' Equity:		
Common Stock, No Par Value Authorized 5,000,000 Shares, Issued 1,669,712 in 2001 and 1,511,567 in 2000	7,703	
Retained Earnings	4,421	
Treasury Stock, 13,708 Shares in 2001 and 13,166 Shares in 2000	(127)	
Accumulated Other Comprehensive Income, Net of Income Tax	320	
Total Stockholders' Equity	12,317	1
Total Liabilities and Stockholders' Equity	$ 197,950	$ 16

See Notes to Consolidated Financial Statements

SUSSEX BANCORP
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands Except Share Data)

(Unaudited)

	Three Months Ended September 30, 2001	2000
INTEREST INCOME		
Interest and Fees on Loans	$ 1,986	$ 1,946
Interest on Time Deposits	61	16
Interest on Securities:		
Taxable	574	530
Exempt from Federal Income Tax	65	75
Interest on Federal Funds Sold	219	81
Total Interest Income	2,905	2,648
INTEREST EXPENSE		
Interest on Deposits:	1,335	1,186
Interest Expense on Federal Funds Purchased	0	71
Interest Expense on FHLB Advances	127	0
Total Interest Expense	1,462	1,257
Net Interest Income	1,443	1,391
Provision for Possible Loan Losses	63	63
Net Interest Income After Provision for Loan Losses	1,380	1,328
NON-INTEREST INCOME		
Service charges on Deposit Accounts	142	114
Gain (loss) on Sale of Securities, Available for Sale	8	(6)
Other Income	184	112
Total Non-Interest Income	334	220
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	766	705
Occupancy Expense, Net	124	111
Furniture and Equipment Expense	140	130
Data Processing Expense	31	23
Stationary and Supplies	21	23
Advertising and Promotion	51	61
Audit and Exams	32	21
Amortization of Intangibles	21	21
Other Expenses	286	200
Total Non-Interest Expense	1,472	1,295
Income Before Provision for Income Taxes	242	253
Provision for Income Taxes	68	61
Net Income	$ 174	$ 192

Net Income Per Common Share-Basic	$ 0.11	$ 0.13
Net Income Per Common Share-Diluted	$ 0.10	$ 0.13
Weighted Average Shares Outstanding-Basic	1,652,244	1,494,467
Weighted Average Shares Outstanding-Diluted	1,671,890	1,505,681

See Notes to Consolidated Financial Statements

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SUSSEX BANCORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)
(Unaudited)

	Three Months Ended September 30, 2001	2000	20
Net Income	$174	$192	$6
Other Comprehensive Income, Net of Tax			
Unrealized Gain On Available for Sale Securities	200	202	5
Comprehensive Income	$374	$394	$1,

See Notes to Consolidated Financial Statements

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SUSSEX BANCORP
CONSOLIDATED STATEMENT OF CHANGES IN
STOCKHOLDERS' EQUITY
(In Thousands)
(Unaudited)

	Common Stock	Retained Earnings	Treasur Stock

Balance December 31, 2000	$ 6,385	$ 4,027	($ 122
Net Income for the Period	0	624	0
Cash Dividend	0	(230)	0
Sale of Common Stock	1162	0	0
Stock Options Exercized	43	0	0
Shares Issued Through Dividend Reinvestment Plan	113	0	0
Treasury Stock Purchased	0	0	(5
Change in Unrealized Gain on Securities, Available for Sale	0	0	0
Balance September 30, 2001	$ 7,703	$ 4,421	($ 127

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS
OF CASH FLOWS
(Unaudited)

	2001
Cash Flows from Operating Activities:	
Net Income	$ 6
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Depreciation and Amortization of Premises and Equipment	3
Amortization of Intangible Assets	
Premium Amortization of Securities, net	2
Provision for Possible Loan Losses	1
(Gain) Loss on Sale of Securities, Available for Sale	
(Amortization) of Loan Origination and Commitment Fees, net	(
Decrease in Loans Held for Sale	2
Deferred Federal Income Tax (Increase)	
Decrease (Increase) in Accrued Interest Receivable	(1
(Increase) in Cash Value of Life Insurance Policy	(
(Increase) in Other Assets	(3
Increase in Accrued Interest and Other Liabilities	2
Net Cash Provided by Operating Activities	$ 1,4
Cash Flow from Investing Activities:	
Securities Available for Sale:	
Proceeds from Maturities and Paydowns	9,7
Proceeds from Sales/Calls Prior to Maturity	14,2
Purchases	(34,8
Transfer From Held to Maturity	(5,5
Securities Held to Maturity:	
Proceeds from Maturities	1,3
Purchases	(5

Transfer to Available for Sale	5,5
Net (Purchases) Maturities of Time Deposits in Other Banks	(6,0
Net (Increase) in Loans Outstanding	(1,3
(Increase) in Other Real Estate Owned	(1
Capital Expenditures	(7
Net Cash (Used in) Investing Activities	($18,3
Cash Flows from Financing Activities:	
Net Increase in Total Deposits	33,8
Net Increase in Federal Funds Purchased	
Exercise of Stock Options	
Purchase of Treasury Stock	
Sale of Common Stock	1,1
Payment of Dividends Net of Reinvestment	(1
Net Cash Provided by Financing Activities	$ 34,9
Net Increase (Decrease) in Cash and Cash Equivalents	$ 18,1
Cash and Cash Equivalents, Beginning of Period	12,9
Cash and Cash Equivalents, End of Period	$ 31,0

See Notes to Consolidated Financial Statements

SUSSEX BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation

Sussex Bancorp ("the Company"), a one-bank holding company, was incorporated in January, 1996 to serve as the holding company for the Sussex Bank, formerly Sussex County State Bank ("the Bank"). The Bank is the only active subsidiary of the Company at September 30, 2001. The Bank operates eight banking offices all located in Sussex County and pursuant to an acquisition which was consummated on October 1, 2001, is the parent of Tri-State Insurance Agency, Inc., a full service insurance agency located in Sussex County, New Jersey. The Company is subject to the supervision and regulation of the Board of Governors of the Federal Reserve System (the "FRB"). The Bank's deposits are insured by the Bank Insurance Fund ("BIF") of the Federal Deposit Insurance Corporation ("FDIC") up to applicable limits. The operations of the Company and the Bank are subject to the supervision and regulation of the FRB, FDIC and the New Jersey Department of Banking and Insurance (the "Department").

The consolidated financial statements included herein have been prepared without audit in accordance with the rules and regulations of the Securities and Exchange Commission and reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results for interim periods. All adjustments made were of a normal recurring nature. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto that are included in the Company's Annual Report on Form 10-KSB for the fiscal period ended December 31, 2000.

2. Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks and federal funds sold. Generally, federal funds are sold for a one day period.

3. Securities

The amortized cost and approximate market value of securities are summarized as follows (in thousands):

	September 30, 2001		
	Amortized Cost	Market Value	A
Available For Sale			
US Treasury securities	$ 1,508	$ 1,540	$
Mortgage Backed Securities	34,888	35,270	
Corporate Bonds	5,215	5,306	
Obligations of State and Political subdivisions	7,293	7,357	
Equity Securities	850	815	
Total	$49,754	$50,288	$
Held to maturity			
Obligations of State and Political subdivisions	$ 0	$ 0	$
Total	$ 0	$ 0	$
Total Securities	$49,754	$50,288	$

4. Net Income Per Common Share

Basic net income per share of common stock is calculated by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted net income per share is calculated by dividing net income by the weighted average number of shares of common stock outstanding during the period plus the potential dilutive effect of outstanding stock options.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Three and Nine Months ended September 30, 2001 and September 30, 2000.

OVERVIEW

The Company realized net income of $174 thousand for the third quarter of 2001, a decrease of $18 thousand from the $192 thousand reported for the same period in 2000. Basic earnings per share decreased from $0.13 in the third quarter of 2000 to $0.11 for the third quarter of 2001. Diluted earnings per share decreased from $0.13 in the third quarter of 2000 to $0.10 per share in the quarter ended September 30, 2001. These decreases in earnings per share are reflective of both the increase in the weighted average shares outstanding in 2001 resulting from the Lakeland Bancorp stock purchase in January 2001 and the slight decline in earnings.

For the nine months ended September 30, 2001, net income was $624 thousand, an increase of $48 thousand from the $576 thousand reported for the same period in 2000. Basic and diluted earnings per share were $0.38 for the nine months ended September 30, 2001 compared to basic earnings per share of $0.39 and diluted earnings per share of $0.38 for the nine months ended September 30, 2000.

RESULTS OF OPERATIONS

Interest Income. Total interest income increased $257 thousand, or 9.7%, to $2.9 million for the quarter ended September 30, 2001 from $2.6 million for the same period in 2000. This increase was primarily attributable to an increase in average interest earning assets of $35.6 million, or 24.6%, from $144.7 million for the third quarter of 2000 to $180.3 million in the third quarter of 2001, partially offset by a decline in average yield. An increase of $183 thousand in interest earned on federal funds sold and time deposits and an increase of $44 thousand in interest earned on taxable investment securities were the largest components of the increase in interest income. The yield on average interest-earning assets on a fully taxable equivalent basis decreased 91 basis points from 7.35% for the third quarter of 2000 to 6.44% for the third quarter of 2001, reflecting both market changes in interest rates and larger average balances in lower yielding federal funds sold and time deposits in other banks.

For the nine months ended September 30, 2001, interest income increased $1.2 million, or 15.2%, to $8.8 million from the $7.6 million reported for the same period in 2000. This growth in interest income is the result of a $30.8 million, or 21.7% increase in the average balance of interest-earning assets over the comparable period last year. The average balance in other interest bearing assets increased $18.5 million and the loan portfolio increased $10.4 million during the first nine months of 2001 over the same period in 2000. As the result of declining market rates and growth in lower yielding earning assets, the average yield on interest earning assets on a fully taxable equivalent basis decreased 40 basis points from 7.27% from the first nine months of 2000 to 6.87% for the same period of 2001.

Interest Expense. The Company's interest expense for the third quarter of 2001 increased $205 thousand, or 16.3% to $1.5 million from $1.3 million for the third quarter of 2000, as the average balance of interest bearing liabilities increased $34.2 million, or 28.5% from the same period last year. Interest on time deposits, the largest component of the increase, increased $198 thousand, or 29.6% to $867 thousand in interest expense as the average balance in time deposits increased $18.2 million, or 37.1% in the third quarter of 2001 compared to the same period in 2000. NOW, savings and money market deposits combined showed an aggregate increase of $10.0 million, or 15.0%, in average balances during the third quarter of 2001 from the third quarter of 2000 and a net decrease in interest expense of $49 thousand to $468 thousand from $517 thousand during the same third quarter periods. These decreases in interest expense reflect the decrease in the market rates of interest between the two periods. As the average borrowed funds increased $7.0 million from third quarter 2000 compared to the third quarter of 2001, the Company's interest expense on borrowed funds increased $56 thousand, to $127 thousand for the quarter ended September 30, 2001 from $71 thousand for the third quarter ended September 30, 2000. The Company entered into three ten year callable Federal Home Loan Bank advances totaling $10 million in December 2000 compared to short term borrowed funds of $4.0 million in the third quarter of 2000. The FHLB advances were an investment strategy used to payoff short term borrowings and to have liquidity available to purchase investments. The Company's average cost of funds decreased 40 basis points to 3.76% for the third quarter of 2001 from 4.16% for the third quarter in 2000. This decrease in the average cost of funds was the result of the Company decreasing its rates of interest paid on all deposit accounts as market rates of interest fell during the third quarter of 2001 compared to the average rates paid in the third quarter of 2000 and the lower average rate paid on the average balance of $10 million in FHLB advances of 4.97% in 2001 compared to the 6.87% paid on an average third quarter balance of $4.0 million in short term borrowings during the third quarter of 2000.

For the nine months ended September 30, 2001 interest expense increased $907 thousand, or 25.8%, to $4.4 million from $3.5 million for the same period last year as the average balance of total interest bearing liabilities increased $29.3 million, or 24.8%, to $147.2 million during the comparative nine month periods and the Company's average rate paid on interest bearing deposits increased by 3 basis points. This increase in interest expense was largely due to an increase of $802 thousand, or 44.4%, in interest expense on time deposits from $1.8 million for the nine months of 2000 to $2.6 million during the same period in 2001. In the first nine months of 2001, the average balance in time deposit accounts increased $18.3 million, or 39.3%, over the average balance for the nine months ended September 30, 2000 and the average rate paid increased to 5.37% in the current period from 5.18% in the prior year period. The Company's borrowed funds increased $6.2 million from $3.8 million during the first nine months of 2000 to $10 million in the first nine months of 2001. As the Company moved from short term funding to long term funding, the average rate paid on these borrowed funds decreased 143 basis points. The average rate paid on total interest bearing liabilities increased 3 basis points from 3.99% in the first nine months of 2000 to 4.02% during the same period in 2001. The average balance of non-interest bearing demand deposits increased $1.7 million to $25.2 million for the first nine months of 2001 from $23.5 million for the same period in 2000.

The following table presents, on a tax equivalent basis, a summary of the Company's interest-earning assets and their average yields, and interest-bearing liabilities and their average costs and shareholders' equity for the nine months ended September 30, 2001 and 2000. The average balance of loans includes non-accrual loans, and associated yields include loan fees, which are considered adjustment to yields.

Comparative Average
Balance Sheets
Nine Months Ended September 30,

	2001			
	Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid	Averag Balanc
(Dollars in Thousands)				
Assets				
Interest Earning Assets:				
Taxable Loans (net of unearned income)	$101,928	$6,097	8.00%	$ 91,5
Tax Exempt Securities	6,495	253	5.21%	7,8
Taxable Investment Securities	38,952	1,698	5.83%	35,7
Other (1)	25,118	821	4.37%	6,6
Total Earning Assets	$172,493	$8,869	6.87%	$141,7
Non-Interest Earning Assets	$ 13,376			$ 10,3
Allowance for Possible Loan Losses	($1,026)			($8
Total Assets	$184,843			$151,2
Liabilities and Shareholders' Equity				
Interest Bearing Liabilities:				
NOW Deposits	$ 16,144	$ 162	1.34%	$ 14,1
Savings Deposits	49,048	1,125	3.07%	46,4
Money Market Deposits	7,092	156	2.94%	6,7
Time Deposits	64,879	2,608	5.37%	46,5
Borrowed Funds	10,000	376	4.96%	3,8
Total Interest Bearing Liabilities	$147,163	$4,427	4.02%	$117,8
Non-Interest Bearing Liabilities:				
Demand Deposits	$25,193			$23,5
Other Liabilities	807			6
Total Non-Interest Bearing Liabilities	$26,000			$24,1
Shareholders' Equity	$11,680			$9,1
Total Liabilities and Shareholders' Equity	$184,843			$151,2
Net Interest Differential		$4,442		
Net Interest Margin			2.85%	
Net Yield on Interest-Earning Assets			3.44%	

(1) Includes FHLB stock, federal funds sold, interest-bearing deposits, and time deposits

Net-Interest Income. The net interest income for the third quarter of 2001 increased $52 thousand over the same period last year. The net interest spread decreased, on a fully taxable equivalent basis, by 51 basis points to 2.68% and the net yield on interest-bearing assets declined by 63 basis points to 3.26% in the current quarter compared to the third quarter of 2000. These results show the effects of an increase in the average balance in lower yielding federal funds brought in through an increase in the average balance in time deposits. Due to the declining market rates of interest during the first nine months of 2001, the Company's anticipated increase in loan average balances has slowed as new loan originations have not kept the pace with loan payoffs.

Net interest income for the nine months ended September 30, 2001 increased $258 thousand, or 6.2%, compared to the third quarter of 2000. The net interest margin, on a fully taxable equivalent basis, decreased 43 basis points to 2.85% and the net yield on interest earning assets decreased 52 basis points to 3.44% in the current nine month period compared to the same period last year. This decrease was mostly due to a decrease in the average yield earned on interest earning assets. The funds brought in from the highly successful time deposit promotion were not immediately needed to fund loan demand, and are presently invested in lower yielding, more liquid, federal funds until invested in new loan demand or investment securities.

Provision for Loan Losses. For the three months ended September 30, 2001 and 2000, the provision for possible loan losses was $63 thousand. The provision for possible loan losses was $189 thousand for the nine months ended September 30, 2001 as compared to $174 thousand for the same period last year. The provision for loan losses over the three and nine month periods reflects management's judgment concerning the risks inherent in the Company's existing loan portfolio and the size of the allowance necessary to absorb the risks, as well as in the average balance of the portfolio over both periods. Management reviews the adequacy of its allowance on an ongoing basis and will provide for additional provision in future periods, as management may deem necessary.

Non-Interest Income. For the third quarter of 2001, total non-interest income increased $114 thousand, or 51.8%, from the same period in 2000. Service charges on deposit accounts increased $28 thousand in the third quarter of 2001 compared to the three months ended September 30, 2000. Other income increased $72 thousand, or 64.3%, in the third quarter of 2001 from the same period in 2000. This increase was mostly the result of an increase of $40 thousand in fees generated by the non-deposit investment products offered by our third party provider, IBFS, and an increase of $15 thousand in ATM/Debit card fee income in the third quarter of 2001 over the third quarter of 2000.

For the nine months ended September 30, 2001, non-interest income increased $309 thousand, or 49.9%, from the same period in 2000. Service charges on deposit accounts increased $64 thousand for the nine month period ending September 30, 2001 over the same period in 2000. This increase was largely due to increased fees charged on deposit accounts which became effective on April 1, 2001. Other income increased $222 thousand, or 75.3%, from September 30, 2000 to September 30, 2001. The components of this increase were an $89 thousand increase in the fees generated from non-deposit investment products offered through IBFS, a $50 thousand increase in commission income from Sussex Bancorp Mortgage Company, a $36 thousand increase in ATM/Debit card income due to the new debit card program which started late in 2000 and an increase of $30 thousand earned on an executive life insurance policy. In the first nine months of 2001, an $8 thousand gain on the sale of available for sale securities was recorded compared to a $14 thousand loss in available for sale securities during the first nine months of 2000.

Non-Interest Expense. For the quarter ended September 30, 2001, non-interest expense increased $177 thousand from the same period last year. Salaries and employee benefits increased $61 thousand, or 8.7%, as salaries increased $64 thousand and employee benefits decreased $3 thousand. This decrease in employee benefits was the result of a $25 thousand refund in medical claim expenses. Other increases from third quarter 2000 to third quarter 2001 were non-deposit investment department consulting fees of $24 thousand, legal and professional fees of $14 thousand, net occupancy expense of $13 thousand and director and committee fees of $13 thousand.

For the nine months ended September 30, 2001, non-interest expense increased $422 thousand, or 11.0%, from the same period last year. Salaries and employee benefits increased $210 thousand, or 10.2% and occupancy expense increased $39 thousand. Data processing expenses have increased $22 thousand, audits and exams increased $23 thousand and legal fees have increased $22 thousand during the first nine months of 2001 as compared to the first nine months of 2000. The addition of a non-deposit investment consultant in the second quarter of 2001 has increased other expenses by $28 thousand. Other increases in operating expenses reflect normal expenditures relative to the growth of the Company.

Income Taxes. Income tax expense increased $7 thousand to $68 thousand for the three months ended September 30, 2001 as compared to $61 thousand for the same period in 2000, due to a lower benefit from tax exempt income. Income taxes also increased for the nine months ended September 30, 2001 to $257 thousand as compared to $175 thousand for the nine months ended September 30, 2000. The increase in income taxes for the nine month periods resulted from a higher level of income before income taxes in combination with a reduced level of tax-exempt income in 2001 compared to 2000.

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FINANCIAL CONDITION

September 30, 2001 as compared to December 31, 2000

Total assets increased to $198.0 million at September 30, 2001, a $36.4 million increase from total assets of $161.6 million at December 31, 2000. Increases in total assets included increases of $18.1 million in cash and cash equivalents, $10.7 million in total securities and $6.0 million in time deposits in other banks and $1.3 million in total loans, net of unearned income. This net increase in assets was funded by an increase in total deposits of $33.9 million from $140.9 million at year-end 2000 to $174.8 million on September 30, 2001 and an increase in total stockholder's equity of $2.2 million from $10.1 million at December 31, 2000 to $12.3 million at September 30, 2001, reflecting both the Company's retained earnings for the first nine months of 2001 and the investment of $1.1 million in the Company's common stock by Lakeland Bancorp in January 2001.

Total loans at September 30, 2001 increased $1.3 million to $102.5 million from $101.2 million at year-end 2000. The Company is emphasizing the origination of commercial, industrial, and non-residential real estate loans to increase the yield in its loan portfolio and reduce its dependence on loans secured by 1-4 family properties. These factors are evident in the loan portfolio balances at September 30, 2001 compared to December 31, 2000. Residential real estate loans decreased $2.1million, construction loans decreased $2.3 million and consumer loans and other loans decreased $1.0 million, while commercial and industrial loans increased $2.9 million and non-residential real estate loans increased $3.8 million.

The following schedule presents the components of loans, net of unearned income, for each period presented:

	September 30 2001		December 31 2000	
	Amount	Percent	Amount	Percent
	(Dollars in Thousands)			
Commercial and industrial	$ 7,847	7.66%	$ 4,968	4.91%
Real Estate-Non Residential	31,309	30.55%	27,529	27.21%
Residential Properties (1-4 Family)	53,158	51.86%	55,229	54.59%
Construction	6,695	6.53%	8,960	8.86%
Consumer	2,547	2.48%	2,780	2.75%
Other Loans	941	0.92%	1,700	1.68%
Total Loans, Net of Unearned Income	$102,497	100.00%	$101,166	100.00%

Federal funds sold increased by $17.3 million to $25.3 million at September 30, 2001 from $8 million on December 31, 2000 and time deposits in other banks increased $6 million from $100 thousand at year-end 2000 to $6.1 million on September 30, 2001. Time deposits at September 30, 2001 increased $15.2 million from year end 2000, due primarily to the promotion of time deposits during the first quarter of 2001. Management desired to enhance its market share on deposits, and believed that additional funds would be needed to satisfy new loan demand. As deposits increased faster than investment opportunities in a declining rate environment, the excess funds were invested in short-term federal funds and time deposits in other banks. These funds will be used to fund future loan demand, with excess liquidity used to purchase investment securities.

Total investment securities increased $10.7 million, or 26.9%, from $39.6 million at year-end 2000 to $50.3 million on September 30, 2001. Securities, available for sale, at market value, increased $17.1 million, or 51.5%, from $33.2 million on December 31, 2000 to $50.3 million at September 30, 2001. The Company purchased $34.9 million in new securities in the first nine months of 2001 and $24.0 million in available for sale securities matured, were called and were repaid. In addition, the Company transferred its held to maturity portfolio of $5.6 million to available for sale during the third quarter of 2001. There were $834 thousand in recorded unrealized gains in the available of sale portfolio during the first nine months of 2001. With the transfer of the held to maturity portfolio in July of 2001, there were no held to maturity securities at September 30, 2001 compared to $6.4 million at year-end 2000. There were $532 thousand in held to maturity purchases and $1.4 million in maturing securities in the held to maturity portfolio during the first nine months of 2001.

Total year to date average deposits increased $23.9 million, or 17.3%, to $162.4 million during the first nine months of 2001 from the twelve-month average of $138.4 million for the year ended December 31, 2000. Average time deposits increased by $17.2 million, savings deposits increased by $3.2 million, NOW deposits increased by $1.9 million, demand deposits increased by $1.2 million and money market deposits increased by $463 thousand. As discussed earlier, the increase in time deposits was due to an aggressive promotion of higher yielding time deposits during the first quarter of 2001 and the Company's decision to compete for the deposits on the basis of rate. Management continues to monitor the shift in deposits through its Asset/Liability Committee.

The following schedule presents the components of deposits, for each period presented.

	Nine Months Ended September 30, 2001 Average Balance	Percent of Total	Twelve Months Ended December 31, 2000 Average Balance	Percent of Total
Total Deposits:				
NOW Deposits	$ 16,144	9.94%	$ 14,261	10.30%
Savings Deposits	49,048	30.21%	45,853	33.13%
Money Market Deposits	7,092	4.37%	6,629	4.79%
Time Deposits	64,879	39.96%	47,656	34.43%
Demand Deposits	25,193	15.52%	24,015	17.35%
Total Deposits	$162,356	100.00%	$138,414	100.00%

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ASSET QUALITY

At September 30, 2001, non-performing loans increased $972 thousand to $1.5 million, as compared to $552 thousand at December 31, 2000. One construction credit with a value of $1.2 million was transferred to non-accrual during the third quarter of 2001. The credit represents a loan participation secured by seventeen completed condominium units located in Piermont, New York. The Bank is negotiating with the lead bank for the loan on the allocation of future payments. Management believes the Bank is adequately collateralized regarding this credit and does not anticipate a material loss.

The following table provides information regarding risk elements in the loan portfolio:

	September 30 2001	December 31 2000
Non-accrual loans	$ 1,524	$ 552
Non-accrual loans to total loans	1.49%	0.55%
Non-performing loans to total assets	0.86%	0.34%
Allowance for possible loan losses as a percentage of non-performing loans	70.93%	176.27%
Allowance for possible loan losses to total loans	1.05%	0.96%

ALLOWANCE FOR POSSIBLE LOAN LOSSES

The allowance for possible loan losses is maintained at a level considered adequate to provide for potential loan losses. The level of the allowance is based on management's evaluation of potential losses in the portfolio, after consideration of risk characteristics of the loans and prevailing and anticipated economic conditions. The allowance for possible loan losses is increased by provisions charged to expense and reduced by charge-offs, net of recoveries. Although management strives to maintain an allowance it deems adequate, future economic changes, deterioration of borrowers' credit worthiness, and the impact of examinations by regulatory agencies all could cause changes to the Company's allowance for possible loan losses.

At September 30, 2001, the allowance for possible loan losses was $1.1 million, up 11.1% from the $973 thousand at year-end 2000. There were $81 thousand in charge offs and $1 thousand in recoveries reported in the first nine months of 2001. The allowance for possible loan losses as a percentage of total loans was 1.05% at September 30, 2001 compared to 0.96% on December 31, 2000.

LIQUIDITY MANAGEMENT

At September 30, 2001, the amount of liquid assets remained at a level management deemed adequate to ensure that contractual liabilities, depositors' withdrawal requirements, and other operational and customer credit needs could be satisfied.

At September 30, 2001, liquid investments totaled $31.1 million, and all mature within 30 days.

It is management's intent to fund future loan demand primarily with deposits. In addition, the Bank is a member of the Federal Home Loan Bank of New York and as of September 30, 2001, had the ability to borrow a total of $24.2 million against its one to four family mortgages as collateral for long term advances. The Bank also has available an overnight line of credit in the amount of $7.8 million. In December of 2000 the Company borrowed against its one to four family mortgages and entered into three long term FHLB advances totaling $10 million. The three borrowings, which have an average interest rate of 4.96%, mature on December 21, 2010, but are callable beginning in December 2001, 2002 and 2003, respectively. These borrowings were used to restructure maturing short-term debt of $4 million and make available funds to purchase higher yielding investments.

CAPITAL RESOURCES

Total stockholders' equity increased $2.2 million to $12.3 million at September 30, 2001 from the $10.1 million at year-end 2000. The increase was due to the sale of common stock of $1.3 million, net income of $624 thousand, shares issued through the dividend reinvestment plan of $113 thousand, stock options exercised of $43 thousand and an increase in the net unrealized gain on securities available for sale of $500 thousand. Decreases to stockholders' equity were cash dividends of $230 thousand and purchases of $5 thousand in treasury stock. On January 17, 2001 the Company sold 9.9% of its outstanding stock to Lakeland Bancorp, a New Jersey based bank holding company, at a price of $8.50 per share. Lakeland purchased 139,906 shares for approximately $1.1 million. As of September 30, 2001 Lakeland Bancorp's stock holdings represented 8.4% of the Company's outstanding stock.

At September 30, 2001, each of the Company and the Bank exceeded each of the regulatory capital requirements applicable to it. The table below presents the capital ratios at September 30, 2001 for both the Company and the Bank as well as the minimum regulatory requirements.

	Amount	Ratio	Amount	Minimum Ratio
The Company				
Leverage Capital	$11,504	5.98%	$ 7,695	4%
Tier 1 - Risk Based	11,504	10.39%	4,430	4%
Total Risk-Based	12,585	11.36%	8,860	8%
The Bank				
Leverage Capital	10,517	5.47%	7,693	4%

Tier 1 Risk-Based	10,517	9.51%	4,422	4%
Total Risk-Based	11,598	10.49%	8,843	8%

NEW ACCOUNTING PRONOUNCEMENTS

The adoption of SFAS No. 138 on January 1, 2001, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133" did not have a material impact on the financial condition or results of operations of the Company.

On June 29, 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, Business Combinations, which supersedes APB Opinion No. 16, Business Combinations, and FASB Statement No. 38, Accounting for Preacquisition Contingencies of Purchased Enterprises. All business combinations in the scope of this Statement are to be accounted for using the purchase method of accounting. The provisions of this Statement apply to all business combinations initiated after June 30, 2001. The Company will apply this new pronouncement on a prospective basis.

On June 29, 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets. This Statement supersedes APB Opinion No. 17, Intangible Assets. Under the new standard goodwill will no longer be subject to amortization over its estimated useful life. Rather goodwill will be subject to at least an annual assessment for impairment by applying a fair value test. An acquired intangible asset would be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged regardless of the acquirers intent to do so. All of the provisions of this Statement should be applied in fiscal years beginning after December 15, 2001, to all goodwill and other intangible assets recognized in an entity's statement of financial position at the beginning of that fiscal year, regardless of when those previously recognized assets were initially recognized. The Company does not expect that the adoption of this new pronouncement will have a material impact on its financial position or results of operations.

Part II Other Information

Item 1. Legal Proceedings

The Company and the Bank are periodically involved in various legal proceedings as a normal incident to their businesses. In the opinion of management, no material loss is expected from any such pending lawsuit.

Item 2. Changes in Securities

Not applicable

Item 3. Defaults Upon Served Securities

Not applicable

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

Not applicable

Item 5. Other Information

Effective October 1, 2001, the Company completed an acquisition of all of the outstanding stock of Tri-State Insurance Agency, Inc. ("Tri-State"), a full-service insurance agency located in Augusta, New Jersey. The Company intends to operate Tri-State as a wholly owned subsidiary of Sussex Bank.

The purchase price paid by the Company for Tri-State is comprised of an upfront payment of $350,000 at closing, and deferred payments on the first, second and third anniversaries of the closing.

On each of the first, second, and third anniversaries of the closing, the shareholders of Tri-State will be entitled to an aggregate payment of $700,000, to be satisfied through a mix of cash and common stock of the Company. The deferred payments are subject to adjustment based upon the net income of Tri-State as a subsidiary of Sussex Bank. In Tri-State's first year of operation after the acquisition, it must produce a minimum net pretax profit of $175,000, or the shareholders of Tri-State will receive a dollar for dollar reduction in their deferred payments (i.e., in Year 1, the aggregate payment may be reduced to $525,000 in the event Tri-State produces no profit). In the second year, the targeted net pretax profit is $192,500, and in Year 3 it is $210,000.

The estimated number of shares to be issued to the former principals of Tri-State on the first three anniversaries of the acquisition will be deemed outstanding for purposes of calculating the Company's diluted earnings per share in future periods, although they will not be deemed outstanding until issued for purposes of calculating the Company's basic earnings per share. The estimated number of shares to be issued for purposes of the Company's diluted earnings per share will be calculated based upon Tri-State's earnings to date at the time of calculation and the Company's then current stock price. The actual number of shares issued by the Company to the former principals of Tri-State may vary significantly from these estimates, and will not be known until such time as the shares are actually issued.

As part of the acquisition, each of the principals of Tri-State have entered into an employment agreement providing for their employment by Tri-State for a period of at least five years. After the initial five-year term, the employment agreement will automatically renew for additional three-year periods unless twelve months prior to the end of the initial term either party provides notice of its intention not to renew.

Item 6. Exhibits and Report on form 8-K

(a). Exhibits

None

(b). Reports on Form 8-K

Filing Date	Item Number	Description

July 21, 2001	Item 5	Reporting Company's second quarter 2001 results

SIGNATURE

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.

SUSSEX BANCORP

Date:

By: /s/ Candace A. Leatham

CANDACE A. LEATHAM
Senior Vice President and
Chief Financial Officer