SUSSEX BANCORP
Form 10QSB
August 10, 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 June 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 August 6, 2001 there were 1,649,209 shares of common stock, no par value, outstanding.

SUSSEX BANCORP
FORM 10-QSB

INDEX

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

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

	June 30, 2001	December 31,
ASSETS		
Cash and Due from Banks	$ 6,475	$ 4
Federal Funds Sold	14,545	8
Interest Bearing Deposits	0	
Total Cash and Cash Equivalents	21,020	12
Time Deposits in Other Banks	7,100	
Securities available for sale, at estimated fair value	42,795	33
Securities held to maturity, estimated fair value of $5,800 in 2001 and $6,393 in 2000	5,733	6

Total Securities	48,528	39
Loans Held for Sale	136	
Loans (Net of Unearned Income)	100,566	101
Less: Allowance for Possible Loan Losses	1,030	
Net Loans	99,536	100
Other Real Estate Owned	185	
Premises and Equipment, Net	4,778	4
Federal Home Loan Bank Stock	693	
Intangible Assets	493	
Accrued Interest Receivable	1,045	
Other Assets	1,772	1
Total Assets	$ 185,286	$ 161
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand	$ 25,086	$ 24
Savings	70,861	63
Time	49,269	42
Time of $100 and over	17,245	9
Total Deposits	162,461	140
Federal Home Loan Bank Advances	10,000	10
Other Liabilities	809	
Total Liabilities	173,270	151
Stockholders' Equity:		
Common Stock, No Par Value Authorized 5,000,000 Shares, Issued 1,662,896 in 2001 and 1,511,567 in 2000	7,640	6
Retained Earnings	4,362	4
Treasury Stock, 13,687 Shares in 2001 and 13,216 in 2000	(126)	
Accumulated other comprehensive income (loss), net of income tax	140	
Total Stockholders' Equity	12,016	10
Total Liabilities and Stockholders' Equity	$ 185,286	$ 161

See Notes to Consolidated Financial Statements

1

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

	Three Months Ended June 30,		Six
	2001	2000	2001
INTEREST INCOME			
Interest and Fees on Loans	$ 2,037	$ 1,829	$ 4,1
Interest on Time Deposits	46	20	
Interest on Securities:			
Taxable	595	544	11
Exempt from Federal Income Tax	66	75	1
Interest on Federal Funds Sold	220	54	4
Total Interest Income	2,964	2,522	5,9
INTEREST EXPENSE			
Interest on Deposits:	1,356	1,091	2,7
Interest Expense on Federal Funds Purchased	0	49	
Interest Expense on FHLB Advances	125	0	2
Total Interest Expense	1,481	1,140	2,9
Net Interest Income	1,483	1,382	2,9
Provision for Possible Loan Losses	63	63	1
Net Interest Income After Provision for Loan Losses	1,420	1,319	2,8
NON-INTEREST INCOME			
Service charges on Deposit Accounts	139	114	2
Other Income	206	95	3
Total Non-Interest Income	345	209	5
NON-INTEREST EXPENSE			
Salaries and Employee Benefits	755	673	14
Occupancy Expense, Net	112	113	2
Furniture and Equipment Expense	129	138	2
Data Processing Expense	29	20	
Stationary and Supplies	28	23	
Advertising and Promotion	57	40	1
Audit and Exams	32	26	
Amortization of Intangibles	21	21	
Other Expenses	255	234	4
Total Non-Interest Expense	1,418	1,288	2,7
Income Before Provision for Income Taxes	347	240	6
Provision for Income Taxes	107	56	1
Net Income	$ 240	$ 184	$ 4
Net Income Per Common Share-Basic	$ 0.15	$ 0.13	$ 0.
Net Income Per Common Share-Diluted	$ 0.14	$ 0.12	$ 0.
Weighted Average Shares Outstanding-Basic	1,645,443	1,494,298	1,631,5

Weighted Average Shares Outstanding-Diluted	1,663,374	1,504,241	1,649,5

See Notes to Consolidated Financial Statements

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

	Three Months Ended June 30,		Six M J
	2001	2000	2001
Net Income	$ 240	$ 184	$ 450
Other comprehensive income, net of tax			
Unrealized gain (loss) on available for sale securities	54	(30)	320
Comprehensive income (loss)	$ 294	$ 154	$ 770

See Notes to Consolidated Financial Statements

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

	Common Stock	Retained Earnings	Treasury Stock
Balance December 31, 2000	$ 6,385	$ 4,027	($ 122)
Net Income for the Period		450	
Cash Dividend		(115)	
Sale of Common Stock	1160		
Stock Options Exercised	24		
Shares Issued Through Dividend Reinvestment Plan	71		
Treasury Stock Purchased			(4)
Change in Unrealized Gain on Securities, Available for Sale			

Balance June 30, 2001	$ 7,640	$ 4,362	($ 126)

See Notes to Consolidated Financial Statements

4

CONSOLIDATED STATEMENTS
OF CASH FLOWS
(Unaudited)

	Six
	2001
Cash Flows from Operating Activities:	
Net Income	$ 45
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Depreciation and Amortization of Premises and Equipment	21
Amortization of Intangible Assets	4
Premium Amortization of Securities, net	9
Provision for Possible Loan Losses	12
Loss on Sale of Securities, Available for Sale	
Amortization of Loan Origination and Commitment Fees, net	(2
Decrease in Loans Held for Sale	16
Increase in Deferred Federal Income Tax	
(Increase) Decrease in Accrued Interest Receivable	(6
Increase in Cash Value of Life Insurance Policy	(2
Increase in Other Assets	(18
Increase (Decrease) in Accrued Interest and Other Liabilities	15
Net Cash (Used In) Provided by Operating Activities	$ 93
Cash Flow from Investing Activities:	
Securities Available for Sale:	
Proceeds from Maturities and Paydowns	6,78
Proceeds from Sales/Calls Prior to Maturity	6,27
Purchases	(22,20
Securities Held to Maturity:	
Proceeds from Maturities	1,21
Purchases	(53
(Purchases) Maturities of Time Deposits on Other Banks	(7,00
Net (Increase) Decrease in Loans Outstanding	55
Increase in Other Real Estate Owned	(18
Capital Expenditures	(47
Net Cash (Used In) Investing Activities	($15,57
Cash Flows from Financing Activities:	
Net Increase in Total Deposits	21,60

Net Increase in Federal Funds Purchased	
Exercise of Stock Options	2
Purchase of Treasury Stock	(
Sale of Common Stock	1,16
Payment of Dividends Net of Reinvestment	(4
Net Cash Provided by Financing Activities	$ 22,73
Net Increase (Decrease) in Cash and Cash Equivalents	$ 8,10
Cash and Cash Equivalents, Beginning of Period	12,92
Cash and Cash Equivalents, End of Period	$ 21,02

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 County State Bank ("the Bank"). The Bank is the only active subsidiary of the Company at June 30, 2001. The Bank operates eight banking offices all located in Sussex County. 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):

	June 30, 2001 Amortized Cost	June 30, 2001 Market Value	December 31, 2000 Amortized Cost	December 31, 2000 Market Value
Available For Sale				
US Treasury securities	$ 2,014	$ 2,049	$ 4,043	$ 4,033
US Government Mortgage Backed	36,062	36,245	25,116	24,880
Corporate Bonds	3,631	3,691	3,477	3,469
Equity Securities	850	810	850	804
Total	$42,557	$42,795	$33,486	$33,186
Held to maturity				
Obligations of State and Political subdivisions	$ 5,733	$ 5,800	$ 6,431	$ 6,393
Total	$ 5,733	$ 5,800	$ 6,431	$ 6,393
Total Securities	$48,290	$48,595	$39,917	$39,579

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. On June 21, 2000 the Company declared a 5% stock dividend. Share and per share information for 2000 has therefore been restated.

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

RESULTS OF OPERATIONS

Three and Six Months ended June 30, 2001 and June 30, 2000.

OVERVIEW

The Company realized net income of $240 thousand for the second quarter of 2001, an increase of $56 thousand over the $184 thousand reported for the same period in 2000. Basic earnings per share increased from $0.13 in the second quarter of 2000 to $0.15 for the second quarter of 2001. Diluted earnings per share increased from $0.12 in the second quarter of 2000 to $0.14 per share in the quarter ended June 30, 2001.

For the six months ended June 30, 2001, net income was $450 thousand, an increase of $66 thousand from the $384 thousand reported for the same period in 2000. Basic and diluted earnings per share were $.26 for the six months ended June 30, 2000 compared to basic earnings per share of $0.28 and diluted earnings per share of $0.27 for the six months ended June 30, 2001.

RESULTS OF OPERATIONS

Interest Income. Total interest income increased $442 thousand, or 17.5%, to $3.0 million for the quarter ended June 30, 2001 from $2.5 million for the same period in 2000. This increase was primarily attributable to an increase in average interest earning assets of $34.3 million, or 24.5%, from $139.9 million for the second quarter of 2000 to $174.2 million in the second quarter of 2001. An increase in interest and fees on loans of $208 thousand and an increase of $166 thousand in interest earned on federal funds sold were the largest components of this change. The yield on average interest-earning assets on a fully taxable equivalent basis decreased 44 basis points from 7.31% for the second quarter of 2000 to 6.87% for the second 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 six months ended June 30, 2001, interest income increased $908 thousand, or 18.2%, to $5.9 million from the $5.0 million reported for the same period in 2000. This growth in interest income is the result of a $28.3 million, or 20.2% increase in the average balance of interest-earning assets over the comparable period last year. The average balance in the loan portfolio increased $13.3 million and other interest bearing assets increased $14.8 million during the first six months of 2001 over the same period in 2000. As the result of changing market rates and growth in earning assets, the average yield on interest earning assets on a fully taxable equivalent basis decreased 13 basis points from 7.24% from the first half of 2000 to 7.11% for the same period of 2001.

Interest Expense. The Company's interest expense for the second quarter of 2001 increased $341 thousand, or 29.9% to $1.5 million from $1.2 million as the average balance of interest bearing liabilities increased $32.2 million, or 27.7% from the same period last year. The largest component of the increase was in time deposits, which increased $20.7 million, or 45.4% in the second quarter of 2001 compared to the same period in 2000. The Company had promoted higher yielding time deposits during the first three months of 2001 to meet anticipated loan demand. The Company's average borrowed funds increased $7.0 million from second quarter 2000 compared to the second quarter of 2001. The Company entered into three ten year callable Federal Home Loan Bank advances totaling $10 million in December 2000 compared to overnight borrowed funds of $3.0 million in the second quarter of 2000. The FHLB advances were an investment strategy used to payoff overnight borrowings and to have liquidity available to purchase investments. Money market, savings and NOW deposits combined showed an aggregate increase of $4.4 million, or 6.5%, in average balances during the second quarter of 2001 from the second quarter of 2000. The Company's average cost of funds increased 6 basis points to 4.01% for the second quarter of 2001 from 3.95% for the second quarter in 2000. This net increase in the average cost of funds was the combination of the Company decreasing its rates of interest paid on NOW, savings and money market accounts offset by a higher cost of funds on time deposits from the Company's first quarter promotion.

For the six months ended June 30, 2001 interest expense increased $702 thousand, or 31.0%, to $3.0 million from $2.3 million for the same period last year. This increase was largely due to an increase in interest expense on time deposits of $603 thousand, or 53.0%, from $1.1 million for the first half of 2000 to $1.7 million during the same period in 2001. In the first six months of 2001, the average balance in time deposit accounts increased $18.3 million, or 40.4%, over the average balance for the six months ended June 30, 2000. The Company's borrowed funds increased $6.3 million from $3.7 million during the first six months of 2000 to $10 million in the first six months of 2001. As the Company moved from overnight funding to long term funding, the average rate paid on these borrowed funds decreased 117 basis points. The average rate paid on the additional $18.3 million in time deposits increased 47 basis points from 5.04% for the six months ending June 30, 2000 to 5.51% for the six months ending June 30, 2001. The average rate paid on total interest bearing liabilities increased 27 basis points from 3.90% in the first six months of 2000 to 4.17% during the same period in 2001. The average balance of non-interest bearing demand deposits increased by $1.8 million to $24.8 million for the first six months of 2001 from $23.0 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 six months ended June 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.

7

Comparative Average
Balance Sheets
Six Months Ended June 30,

	2001			
	Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid	Av Ba
			(Dollars in Thous	
Assets				
Interest Earning Assets:				
Taxable Loans (net of unearned income)	$ 102,519	$ 4,111	8.09%	$
Tax Exempt Securities	6,596	170	5.20%	
Taxable Investment Securities	38,155	1,134	5.99%	
Other (1)	21,278	530	5.02%	
Total Earning Assets	$ 168,548	$ 5,945	7.11%	$ 1
Non-Interest Earning Assets	$ 13,119			$
Allowance for Possible Loan Losses	($ 1,010)			($
Total Assets	$ 180,657			$ 1

Liabilities and Shareholders' Equity				
Interest Bearing Liabilities:				
NOW Deposits	$ 15,113	$ 104	1.39%	$
Savings Deposits	47,178	754	3.22%	
Money Market Deposits	7,542	118	3.16%	
Time Deposits	63,683	1,740	5.51%	
Borrowed Funds	10,000	249	4.96%	
Total Interest Bearing Liabilities	$ 143,516	$ 2,965	4.17%	$ 1
Non-Interest Bearing Liabilities:				
Demand Deposits	$ 24,832			$
Other Liabilities	819			
Total Non-Interest Bearing Liabilities	$ 25,651			$
Shareholders' Equity	$ 11,490			$
Total Liabilities and Shareholders' Equity	$ 180,657			$ 1
Net Interest Differential		$ 2,980		
Net Interest Margin			2.95%	
Net Yield on Interest-Earning Assets			3.57%	

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

8

Net-Interest Income. The net interest income for the second quarter of 2001 increased $101 thousand, or 7.3%, compared to the second quarter of 2000. The net interest margin, on a fully taxable equivalent basis, decreased 50 basis points and the net yield on interest earning assets decreased 58 basis points from the same period last year. This decrease was due to an increase in the cost of funds on interest bearing liabilities from the time deposit promotion and a decrease in the average yield earned on interest bearing assets. The funds brought in from the time deposit promotion were not immediately needed to fund loan demand, and are presently invested in lower yielding federal funds. Although new loan demand remains strong, loan payoffs have exceeded expectations in the current declining interest rate environment.

Net interest income for the six months ended June 30, 2001 increased $702 thousand, or 31.0%, over the same period last year. The net interest spread decreased, on a fully taxable equivalent basis, 39 basis points and the net yield on interest-bearing assets declined by 42 basis points between the first six month periods of 2000 and 2001. This comparison displays an increase 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 six months of 2001, the Company's anticipated increase in loan average balances has slowed down as new loan originations have not kept the pace with loan payoffs.

Provision for Loan Losses. For the three months ended June 30, 2001 and 2000, the provision for possible loan losses was $63 thousand. The provision for possible loan losses was $126 thousand for the six months ended June 30, 2001 as compared to $111 thousand for the same period last year. The provision for loan losses over the three and six 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 second quarter of 2001, total non-interest income increased $136 thousand, or 65.1%, from the same period in 2000. Service charges on deposit accounts increased $25 thousand in the second quarter of 2001 compared to the three months ended June 30, 2000. Other income increased $111 thousand, or 116.8%, in the second quarter of 2001 from the same period in 2000. This increase was mostly the result of an increase of $32 thousand in fees generated by the non-deposit investment products offered by our third party provider, IBFS, and an increase of $42 thousand in commission income from Sussex Bancorp Mortgage Company, our mortgage banking subsidiary in the second quarter of 2001 over the second quarter of 2000.

For the six months ended June 30, 2001, non-interest income increased $195 thousand, or 48.9%, from the same period in 2000. Service charges on deposit accounts increased $37 thousand for the six month period ending June 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 $158 thousand, or 90.3%, from June 30, 2000 to June 30, 2001. The components of this increase were a $50 thousand increase in commission income from Sussex Bancorp Mortgage Company, a $49 thousand increase in the fees generated from non-deposit investment products offered through IBFS and other increases of $55 thousand cumulatively collected from various other services. In the first six months of 2001, a $4 thousand gain on the sale of fixed assets was recorded compared to an $8 thousand loss in available for sale securities during the first six months of 2000.

Non-Interest Expense. For the quarter ended June 30, 2001, non-interest expense increased $130 thousand from the same period last year. Salaries and employee benefits increased $82 thousand, or 12.2%, as salaries increased $66 thousand and employee benefits increased $16 thousand, with a $10 thousand increase in medical claim expenses. Other larger notable increases from second quarter 2000 to second quarter 2001 were data processing expenses of $9 thousand, advertising and promotions of $17 thousand and audits and exams of $6 thousand.

For the six months ended June 30, 2001, non-interest expense increased $245 thousand, or 9.7%, from the same period last year. Salaries and employee benefits increased $149 thousand, or 11.1%, occupancy expense increased $26 thousand, or 11.8%, while furniture and fixture expense decreased $16 thousand, or 5.9%. Data processing expenses have increased $14 thousand, advertising and promotions increased $16 thousand and audits and exams increased $12 thousand during the first six month of 2001 as compared to the first six months of 2000. These increases in operating expenses reflect normal expenditures relative to the growth of the Company.

Income Taxes. Income tax expense increased $51 thousand to $107 thousand for the three months ended June 30, 2001 as compared to $56 thousand for the same period in 2000. Income taxes also increased for the six months ended June 30, 2001 to $189 thousand as compared to $114 thousand for the six months ended June 30, 2000. The increase in income taxes resulted from a higher level of income before income taxes in combination with a reduced level of tax-exempt income.

FINANCIAL CONDITION

June 30, 2001 as compared to December 31, 2000

Total assets increased to $185.3 million at June 30, 2001, a $23.7 million increase from total assets of $161.6 million at December 31, 2000. Increases in total assets included increases of $8.1 million in cash and cash equivalents, $8.9 million in total securities and $7.0 million in time deposits in other banks, while total loans, net of unearned income, decreased $600 thousand. This net increase in assets was funded by an increase in total deposits of $21.6 million from $140.9 million at year-end 2000 to $162.5 million on June 30, 2001 and an increase in total stockholder's equity of $1.9 million from $10.1 million at December 31, 2000 to $12.1 million at June 30, 2000, reflecting both the Company's retained earnings for the first six 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 June 30, 2001 decreased $600 thousand to $100.6 million from year-end 2000. The decrease reflects loan payoffs in excess of new originations during a period of declining market rates. The Company operates in a highly competitive market, and must frequently compete with larger institutions. These competitors often devote greater resources to marketing and customer acquisition than can the Company. In addition, the Company is emphasizing the origination of commercial, industrial, and construction 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 June 30, 2001 compared to December 31, 2000. Residential real estate loans decreased $3.2 million, other loans decreased $477 thousand and consumer loans decreased $84 thousand, while commercial and industrial loans, increased $2.2 million, construction loans increased $490 thousand and non-residential real estate loans increased $443 thousand.

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

	June 30 2001		December 31 2000	
	Amount	Percent	Amount	Percent
	(Dollars in Thousands)			
Commercial and industrial	$ 7,159	7.12%	$ 4,968	4.91%
Real Estate-Non Residential	27,972	27.81%	27,529	27.21%
Residential Properties (1-4 Family)	52,066	51.77%	55,229	54.59%
Construction	9,450	9.40%	8,960	8.86%
Consumer	2,696	2.68%	2,780	2.75%
Other Loans	1,223	1.22%	1,700	1.68%
Total Loans, Net of Unearned Income	$100,566	100.00%	$101,166	100.00%

Federal funds sold increased by $6.5 million to $14.5 million at June 30, 2001 from $8 million on December 31, 2000 and time deposits in other banks increased $7 million from $100 thousand at year-end 2000 to $7.1 million on June 30, 2001. Due to the promotion of time deposits during the first quarter of 2001, time deposits at June 30, 2001 increased $13.8 million to $66.5 million from $52.7 million at year end 2000. As deposits increased faster than investment opportunities, 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 $8.9 million, or 22.5%, from $39.6 million at year-end 2000 to $48.5 million on June 30, 2001. Securities, available for sale, at market value, increased $9.6 million, or 29.0%, from $33.2 million on December 31, 2000 to $42.8 million on June 30, 2001. The Company purchased $22.2 million in new securities in the first six months of 2001 and $13.1 million in available for sale securities matured, were called and were repaid. There were $538 thousand in recorded unrealized gains in the available of sale portfolio during the first six months of 2001. Held to maturity securities decreased to $5.7 million at June 30, 2001 from $6.4 million at year-end 2000. There were $532 thousand in held to maturity purchases and $1.2 million in maturing securities in the held to maturity portfolio during the first six months of 2001.

Total year to date average deposits increased $19.9 million, or 14.4%, to $158.3 million during the first half of 2001 from the twelve-month average of $138.4 million for the year ended December 31, 2000. Average time deposits increased by $16.0 million, savings deposits increased by $1.3 million, money market deposits increased by $913 thousand, NOW deposits increased by $852 thousand and demand deposits increased by $817 thousand. As discussed earlier, the increase in time deposits was due to an aggressive promotion of higher yielding time deposits 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.

	Six Months Ended June 30, 2001		Twelve Months Ended December 31, 2000	
	Average Balance	Percent of Total	Average Balance	Percent of Total
Deposits:				
NOW Deposits	$ 15,113	9.54%	$ 14,261	10.30%
Savings Deposits	47,178	29.79%	45,853	33.13%
Money Market Deposits..	7,542	4.76%	6,629	4.79%
Time Deposits	63,683	40.22%	47,656	34.43%
Demand Deposits	24,832	15.68%	24,015	17.35%
Total Deposits .	$158,348	100.00%	$138,414	100.00%

ASSET QUALITY

At June 30, 2001, non-performing loans decreased $174 thousand to $377 thousand, as compared to $552 thousand at December 31, 2000. Management continues to monitor the Company's asset quality.

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

	June 30 2001	December 31 2000
Non-accrual loans	$ 377	$ 552
Non-accrual loans to total loans	0.38%	0.55%
Non-performing loans to total assets	0.30%	0.34%
Allowance for possible loan losses as a percentage of non-performing loans	272.49%	176.27%
Allowance for possible loan losses to total loans	1.02%	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 June 30, 2001, the allowance for possible loan losses was $1.0 million, up 5.6% from the $973 thousand at year-end 2000. There were $68 thousand in charge offs and no recoveries reported in the first half of 2001. The allowance for possible loan losses as a percentage of total loans was 1.02% at June 30, 2001 compared to 0.96% on December 31, 2000.

LIQUIDITY MANAGEMENT

At June 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 June 30, 2001, liquid investments totaled $21 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 June 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 $1.9 million to $12.0 million at June 30, 2001 from the $10.1 million at year-end 2000. The increase was due to the sale of common stock of $1.2 million, net income of $450 thousand, shares issued through the dividend reinvestment plan of $71 thousand, stock options exercised of $24 thousand and an increase in the net unrealized gain on securities available for sale of $320 thousand. Decreases to stockholders' equity were a cash dividend of $115 thousand and purchases of $4 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 June 30, 2001 Lakeland Bancorp's stock holdings represented 8.5% of the Company's outstanding stock.

At June 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 June 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	$11,356	6.11%	$ 7,432	4%
Tier 1 - Risk Based	11,356	10.81%	4,201	4%
Total Risk-Based	12,386	11.79%	8,401	8%
The Bank				
Leverage Capital	10,418	5.61%	7,429	4%
Tier 1 Risk-Based	10,418	9.94%	4,194	4%
Total Risk-Based	11,448	10.92%	8,387	8%

11

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

On April 25, 2001, the Registrant held its annual meeting of shareholders to elect members of the Company's Board of Directors whose terms expired. Nominees for election to the Board of Directors received the following votes:

Nominees:	For	Withhold Authority
Irvin Ackerson	1,399,325	17,736
William E. Kulsar	1,396,538	20,522
Terry H. Thompson	1,399,325	17,736

Approval of the Sussex Bancorp 2001 Stock Option Plan:

For	Against
938,322	129,055

Item 5. Other Information

Not applicable.

Item 6. Exhibits and Report on form 8-K

(a). Exhibits

None

(b). Reports on Form 8-K

Filing Date	Item Number	Description
April 6, 2001	4	The Registrant announced that it had replaced Radics & Co., LLC as its independent auditors with Arthur Andersen, LLP.

12

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934,m 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

13