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SUSSEX BANCORP
Form 10QSB
May 11, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 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 April 24, 2001 there were 1,623,454 shares of common stock, no par value,
outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

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

| | March 31, 2001 | Decem |
|--|-----------------|-------|
| ASSETS | ----- | ----- |
| Cash and Due from Banks | \$4,840 | |
| Federal Funds Sold | 19,025 | |
| Interest Bearing Deposits | 1,096 | |
| Total Cash and Cash Equivalent | ----- 24,961 | |
| Time Deposits in Other Banks | 1,100 | |
| Securities available for sale, at estimated fair value | 41,182 | |
| Securities held to maturity, estimated fair value of \$5,800,000 in 2001 and \$6,393,000 in 2000 | 5,740 | |
| Total Securities | ----- 46,922 | |

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| | |
|--|-----------|
| Loans Held for Sale | 297 |
| Loans (Net of Unearned Income) | 102,786 |
| Less: Allowance for Possible Loan Losses | 1,036 |
| | ----- |
| Net Loans | 101,750 |
| Premises and Equipment, Net | 4,721 |
| Federal Home Loan Bank Stock | 693 |
| Intangible Assets, Primarily Core Deposit Premiums | 514 |
| Accrued Interest Receivable | 997 |
| Other Assets | 1,592 |
| | ----- |
| Total Assets | \$183,547 |
| | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | |
| Liabilities: | |
| Deposits: | |
| Demand | \$25,101 |
| Savings | 69,173 |
| Time | 49,368 |
| Time of \$100,000 and over | 17,340 |
| | ----- |
| Total Deposits | 160,982 |
| Federal Home Loan Bank Advances | 10,000 |
| Other Liabilities | 779 |
| | ----- |
| Total Liabilities | 171,761 |
| Stockholders' Equity: | |
| Common Stock, No Par Value Authorized 5,000,000 Shares, Issued 1,643,925 in 2001 and 1,511,567 in 2000. | 7,585 |
| Retained Earnings | 4,237 |
| Treasury Stock, 13,116 Shares in 2000 and 1999 | (122) |
| Accumulated other comprehensive income, net of income tax | 86 |
| | ----- |
| Total Stockholders' Equity | 11,786 |
| Total Liabilities and Stockholders' Equity | \$183,547 |
| | ===== |

See Notes to Consolidated Financial Statements

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

Three Months Ended
March 31,

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| | 2001 ---- | 2000 ---- |
|---|--------------|--------------|
| INTEREST INCOME | | |
| Interest and Fees on Loans | \$2,074 | \$1,731 |
| Interest on Time Deposits | 13 | 33 |
| Interest on Securities: | | |
| Taxable | 575 | 571 |
| Exempt from Federal Income Tax | 67 | 87 |
| Interest on Federal Funds Sold | 216 | 57 |
| | ----- | ----- |
| Total Interest Income | 2,945 | 2,479 |
| INTEREST EXPENSE | | |
| Interest on Deposits: | 1360 | 1056 |
| Interest Expense on Federal Funds Purchased | 0 | 67 |
| Interest Expense on FHLB Advances | 124 | 0 |
| | ----- | ----- |
| Total Interest Expense | 1,484 | 1,123 |
| Net Interest Income | 1,461 | 1,356 |
| Provision for Possible Loan Losses | 63 | 48 |
| | ----- | ----- |
| Net Interest Income After Provision for Loan Losses | 1,398 | 1,308 |
| NON-INTEREST INCOME | | |
| Service charges on Deposit Accounts | 122 | 110 |
| Other Income | 127 | 80 |
| | ----- | ----- |
| Total Non-Interest Income | 249 | 190 |
| NON-INTEREST EXPENSE | | |
| Salaries and Employee Benefits | 739 | 672 |
| Occupancy Expense, Net | 135 | 108 |
| Furniture and Equipment Expense | 125 | 132 |
| Data Processing Expense | 27 | 22 |
| Stationary and Supplies | 26 | 27 |
| Advertising and Promotion | 43 | 44 |
| Audit and Exams | 31 | 25 |
| Amortization of Intangibles | 21 | 21 |
| Other Expenses | 208 | 189 |
| | ----- | ----- |
| Total Non-Interest Expense | 1,355 | 1,240 |
| Income Before Provision for Income Taxes | 292 | 258 |
| Provision for Income Taxes | 82 | 58 |
| | ----- | ----- |
| Net Income | \$210 | \$200 |
| | ===== | ===== |
| Net Income Per Common Share-Basic | \$0.13 | \$0.13 |
| | ===== | ===== |
| Net Income Per Common Share-Diluted | \$0.13 | \$0.13 |
| | ===== | ===== |
| Weighted Average Shares Outstanding-Basic | 1,617,571 | 1,493,776 |
| Weighted Average Shares Outstanding-Diluted | 1,635,683 | 1,504,330 |

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See Notes to Consolidated Financial Statements

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

| | Three Months Ended March 31, | |
|---|---------------------------------|-------|
| | 2001 | 2000 |
| | ---- | ---- |
| Net Income | \$210 | \$200 |
| Other Comprehensive Income, Net of Tax | | |
| Unrealized Gain (Loss) on Available for Sale Securities | 266 | (68) |
| | ----- | ----- |
| Comprehensive Income | \$476 | \$132 |
| | ===== | ===== |

See Notes to Consolidated Financial Statements

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

| | Common Stock | Retained Earnings | Treasury Stock | U Ga Avai |
|--|-----------------|----------------------|-------------------|-----------------|
| | ----- | ----- | ----- | ----- |
| Balance December 31, 2000 | \$ 6,385 | \$ 4,027 | (\$ 122) | |
| Net Income for the Period | | 210 | | |
| Sale of Common Stock | 1,160 | | | |
| Shares Issued Through Dividend Reinvestment Plan | 40 | | | |
| Change in Unrealized Gain on Securities, Available for Sale | | | | |
| | ----- | ----- | ----- | |
| Balance March 31, 2001 | \$ 7,585 | \$ 4,237 | (\$ 122) | |

=====

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS
OF CASH FLOWS
(Unaudited)

| | Three |
|---|-----------|
| | 2001 |
| | ---- |
| Cash Flows from Operating Activities: | |
| Net Income | \$210 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | |
| Depreciation and Amortization of Premises and Equipment | 112 |
| Amortization of Intangible Assets | 21 |
| Premium Amortization of Securities, net | 16 |
| Provision for Possible Loan Losses | 63 |
| (Amortization) of Loan Origination and Commitment Fees, net | (17) |
| (Increase) in Loans Held for Sale | 0 |
| Deferred Federal Income Tax (Increase) | (1) |
| Decrease (Increase) in Accrued Interest Receivable | (16) |
| (Increase) in Cash Value of Life Insurance Policy | (13) |
| Decrease (Increase) in Other Assets | 21 |
| Increase in Accrued Interest and Other Liabilities | 121 |
| | ----- |
| Net Cash Provided by Operating Activities | \$517 |
| | ----- |
| Cash Flow from Investing Activities: | |
| Securities Available for Sale: | |
| Proceeds from Maturities and Paydowns | 1,188 |
| Proceeds from Sales/Calls Prior to Maturity | 5,745 |
| Purchases | (14,494) |
| Securities Held to Maturity: | |
| Proceeds from Maturities | 1,215 |
| Purchases | (532) |
| Purchases of Time Deposits on Other Banks | (1,000) |
| Net Increase in Loans Outstanding | (1,602) |
| Capital Expenditures | (317) |
| | ----- |
| Net Cash (Used In) Provided by Investing Activities | (\$9,797) |
| | ----- |
| Cash Flows from Financing Activities: | |
| Net Increase (Decrease) in Total Deposits | 20,121 |
| Net Increase in Federal Funds Purchased | 0 |
| Exercise of Stock Options | 16 |

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| | |
|--|----------|
| Purchase of Stock | 1,144 |
| Payment of Dividends Net of Reinvestment | 40 |
| | ----- |
| Net Cash Provided by Financing Activities | \$21,321 |
| | ----- |
| Net Increase in Cash and Cash Equivalents | \$12,041 |
| Cash and Cash Equivalents, Beginning of Period | 12,920 |
| | ----- |
| Cash and Cash Equivalents, End of Period | \$24,961 |
| | ===== |

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 March 31, 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):

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| | March 31, 2001 | | December 31, |
|--|-------------------|-----------------|-------------------|
| | Amortized Cost | Market Value | Amortized Cost |
| | ----- | ----- | ----- |
| Available For Sale | | | |
| US Treasury securities | \$ 2,267 | \$ 2,299 | \$ 4,043 |
| US Government Mortgage Backed | 34,286 | 34,393 | 25,116 |
| Corporate Bonds | 3,636 | 3,679 | 3,477 |
| Equity Securities | 850 | 811 | 850 |
| | ----- | ----- | ----- |
| Total | \$41,039 | \$41,182 | \$33,486 |
| | ===== | ===== | ===== |
| Held to maturity | | | |
| Obligations of State and Political subdivisions | \$ 5,740 | \$ 5,800 | \$ 6,431 |
| | ----- | ----- | ----- |
| Total | \$ 5,740 | \$ 5,800 | \$ 6,431 |
| | ===== | ===== | ===== |
| | ----- | ----- | ----- |
| Total Securities | \$46,779 | \$46,982 | \$39,917 |
| | ===== | ===== | ===== |

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, therefore share information for 2000 has been restated.

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

RESULTS OF OPERATIONS

Three Months ended March 31, 2001 and March 31, 2000.

OVERVIEW

The Company realized net income of \$210 thousand for the first quarter of 2001, an increase of \$10 thousand over the \$200 thousand reported for the same period in 2000. Basic and diluted earnings per share remained constant at \$0.13 from March 31, 2000 to March 31, 2001.

RESULTS OF OPERATIONS

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Interest Income. Total interest income increased \$466 thousand, or 18.8%, to \$2.9 million for the quarter ended March 31, 2001 from \$2.5 million for the same period in 2000. This increase was primarily attributable to an increase in interest and fees on loans of \$343 thousand and an increase of \$159 thousand in interest earned on federal funds sold. Offsetting these increases was a decrease in interest earned on securities of \$35 thousand from the first quarter of 2000 to the first quarter of 2001. This net increase in interest income is attributable to a \$22.2 million increase in average interest earning assets, primarily in the loan portfolio. The yield on average interest-earning assets on a fully taxable equivalent basis increased 22 basis points from 7.16% for the first quarter of 2000 to 7.38% for the first quarter of 2001, reflecting both market changes in interest rates and the first results of the Company's emphasis on originating commercial and industrial loans, which generally have higher yields than other assets.

Interest Expense. The Company's interest expense for the first quarter of 2001 increased \$361 thousand, or 32.1% to \$1.5 million from \$1.1 million as the average balance of interest bearing liabilities increased \$21.3 million, or 18.1%, from the same period last year. The largest component of the increase was in time deposits, which increased \$15.9 million, or 35.3% in the first quarter of 2001 compared to the same period in 2000. This increase was primarily due to the promotion of higher yielding time deposits during the first quarter of 2001. The Company's average borrowed funds increased \$5.5 million from first quarter 2000 compared to the first quarter of 2001, as the Company entered into three ten year Federal Home Loan Bank advances totaling \$10 million in December 2000 compared to overnight borrowed funds of \$4.5 million in the first quarter of 2000. Money market and savings deposits combined showed a decrease of \$919 thousand, or 1.7%, in their average balance during the first quarter of 2001 from first quarter of 2000, while NOW deposits increased \$856 thousand over the same period. The Company's average cost of funds increased 46 basis points to 4.34% for the first quarter of 2001 from 3.88% for the first quarter in 2000. This increase in the average cost of funds was mainly the result of competing for higher interest rates paid on time deposits.

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 three months ended March 31, 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
Three Months Ended March 31,

| | | 2001 | Average Rates | |
|--------------------------|-------|--------------------------------|------------------|--------------|
| Average Balance | ----- | Interest Income/ Expense | Earned/ Paid | Aver Bala |
| ----- | ----- | ----- | ----- | ----- |
| (Dollars in Thousand) | | | | |
| Assets | | | | |
| Interest Earning Assets: | | | | |

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| | | | | |
|--|-----------|---------|-------|-------|
| Taxable Loans (net of unearned income) | \$102,668 | \$2,074 | 8.19% | \$86 |
| Tax Exempt Securities | 6,605 | 85 | 5.22% | 8 |
| Taxable Investment Securities | 36,246 | 551 | 6.17% | 37 |
| Other (1) | 17,299 | 253 | 5.93% | 7 |
| | ----- | ----- | ----- | ----- |
| Total Earning Assets | \$162,818 | \$2,963 | 7.38% | \$140 |
| Non-Interest Earning Assets | \$13,064 | | | \$9 |
| Allowance for Possible Loan Losses | (\$1,005) | | | (\$ |
| | ----- | | | ----- |
| Total Assets | \$174,877 | | | \$149 |
| | ===== | | | ===== |
| Liabilities and Shareholders' Equity | | | | |
| Interest Bearing Liabilities: | | | | |
| NOW Deposits | \$15,203 | \$55 | 1.47% | \$14 |
| Savings Deposits | 45,763 | 391 | 3.47% | 46 |
| Money Market Deposits | 6,825 | 60 | 3.57% | 7 |
| Time Deposits | 60,997 | 854 | 5.68% | 45 |
| Borrowed Funds | 10,000 | 124 | 4.96% | 4 |
| | ----- | ----- | ----- | ----- |
| Total Interest Bearing Liabilities | \$138,788 | \$1,484 | 4.28% | \$117 |
| Non-Interest Bearing Liabilities: | | | | |
| Demand Deposits | \$24,111 | | | \$22 |
| Other Liabilities | 767 | | | |
| | ----- | | | ----- |
| Total Non-Interest Bearing Liabilities | \$24,878 | | | \$22 |
| Shareholders' Equity | \$11,211 | | | \$9 |
| | ----- | | | ----- |
| Total Liabilities and Shareholders' Equity | \$174,877 | | | \$149 |
| | ===== | | | ===== |
| Net Interest Differential | | \$1,479 | | |
| Net Interest Margin | | | 3.04% | |
| Net Yield on Interest-Earning Assets | | | 3.68% | |

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

Net-Interest Income. The net effect of the changes in interest income and interest expense for the first quarter of 2001 was an increase in net interest income of \$105 thousand, or 7.8%, compared to the first quarter of 2000. The net interest margin, on a fully taxable equivalent basis, decreased 24 basis points and the net yield on interest earning assets decreased 30 basis points from the same period last year. This decrease was largely attributable to the increase in the average balance of higher yielding time deposits. The average rate paid on time deposits increased 73 basis points from 4.95% during the first three months of 2000 to 5.68% for the same period in 2001.

Provision for Loan Losses. For the three months ended March 31, 2001, the provision for possible loan losses was \$63 thousand compared to the \$48 thousand

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provision for the same period last year. The increase in the provision for loan losses over the three-month period reflects management's judgement 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 first quarter of 2001, total non-interest income increased \$59 thousand, or 31.1%, from the same period in 2000. Service charges on deposit accounts increased \$12 thousand in the first quarter of 2001 compared to the three months ended March 31, 2000. Other income increased \$47 thousand, or 58.8%, in the first quarter of 2001 from the same period last year. This increase was the result of an increase of \$34 thousand in fees generated by the non-deposit investment products offered by our third party provider, IBFS, and commission income from Sussex Bancorp Mortgage Company, our mortgage banking subsidiary in the first quarter of 2001 over the first quarter of 2000.

Non-Interest Expense. For the quarter ended March 31, 2001, non-interest expense increased \$115 thousand from the same period last year. Branch expansion, combined with continued growth in our existing locations, contributed to the increase in non-interest expense. Salaries and employee benefits increased \$67 thousand, or 10.0%, as salaries increased \$45 thousand and employee benefits increased \$22 thousand, with an \$18 thousand increase in medical claim expenses. Occupancy expenses increased \$27 thousand, or 25.0%, largely due to the addition of our eighth location in February of 2000. Furniture and equipment expense decreased \$7 thousand as a result of a decrease in depreciation expense, while other expenses increased by \$19 thousand from first quarter 2000 to first quarter 2001.

Income Taxes. Income taxes expense increased \$24 thousand to \$82 thousand for the three months ended March 31, 2001 as compared to \$58 thousand for the same period in 2000. The increase in income taxes resulted from a lower percentage of tax-exempt income in 2001.

FINANCIAL CONDITION

March 31, 2001 as compared to December 31, 2000

Total assets increased to \$183.5 million at March 31, 2001, a \$21.9 million increase from total assets of \$161.6 million at December 31, 2000. Increases in total assets included increases of \$12.0 million in cash and cash equivalents, \$7.3 million in total securities, \$1.6 million in total loans and \$1.0 million in time deposits in other banks. These increases in assets were funded by an increase in total deposits of \$20.1 million from \$140.9 million at year-end 2000 to \$161.0 million on March 31, 2001.

Total loans at March 31, 2001 increased \$1.6 million to \$102.7 million from year-end 2000. The components of the increase in total loans were an increase of \$1.8 million in commercial and industrial loans, a \$1.1 million increase in construction loans, a \$136 thousand increase in non-residential real estate loans and a \$17 thousand increase in consumer loans. These increases were offset by a decrease of \$1.1 million in residential real estate loans and a \$284 thousand decrease in other loans. During 2001, the Company intends to continue to emphasize 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.

The following schedule presents the components of loans for each period

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presented:

| | March 31 2001 | | December 31 2000 | |
|-------------------------------------|------------------|-----------------------------------|---------------------|-------------|
| | Amount | Percent (Dollars in Thousands) | Amount | Percent |
| Commercial and industrial | \$ 6,746 | 6.57% | \$ 4,968 | 4.92% |
| Real Estate-Non Residential | 27,665 | 26.94% | 27,529 | 27.23% |
| Residential Properties (1-4 Family) | 54,009 | 52.59% | 55,138 | 54.54% |
| Construction | 10,046 | 9.78% | 8,960 | 8.86% |
| Consumer | 2,797 | 2.72% | 2,780 | 2.75% |
| Other Loans | 1,434 | 1.40% | 1,718 | 1.70% |
| Total Loans | \$102,697 | 100.00% | \$101,093 | 100.00% |

Federal funds sold increased by \$11 million to \$19 million at March 31, 2001 from \$8 million on December 31, 2000. Due to the promotion of time deposits during the first quarter of 2001, time deposits increased \$14 million. As deposits increased faster than investment opportunities, the excess funds were invested in short-term federal funds. These funds will be used to fund future loan demand, with excess liquidity used to purchase investment securities.

Time deposits in other banks increased \$1 million from \$100 thousand at year-end 2000 to \$1.1 million on March 31, 2001.

Total securities increased \$7.3 million, or 18.4%, from \$39.6 million at year-end 2000 to \$46.9 million on March 31, 2001. Securities, available for sale, at market value, increased \$8 million, or 24.1%, from \$33.2 million on December 31, 2000 to \$41.2 million on March 31, 2001. The Company purchased \$14.5 million in new securities in the first three months of 2001 and \$6.9 million in available for sale securities matured, were called and were repaid. There were \$444 thousand in recorded unrealized gains in the available for sale portfolio during the first three months of 2001. Held to maturity securities decreased to \$5.7 million on March 31, 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 three months of 2001.

Total year to date average deposits increased \$14.5 million, or 10.5% during the first quarter of 2001 from the twelve-month average of \$138.4 million at December 31, 2000 to \$152.9 million for the three months ended March 31, 2001. Average time deposits increased by \$13.3 million, NOW deposits increased by \$942 thousand and demand deposits increased by \$96 thousand. These increases were offset by decreases in money market deposits of \$196 thousand and savings deposits of \$90 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.

Three Months Ended
March 31, 2001

Twelve Months Ended
December 31, 2000

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| | Average Balance | Percent of Total | Average Balance | Percent of Total |
|-----------------------|--------------------|---------------------|--------------------|---------------------|
| Deposits: | | | | |
| NOW Deposits | \$ 15,203 | 9.94% | \$ 14,261 | 10.30% |
| Savings Deposits | 45,763 | 29.93% | 45,853 | 33.13% |
| Money Market Deposits | 6,825 | 4.46% | 6,629 | 4.79% |
| Time Deposits | 60,997 | 39.90% | 47,656 | 34.43% |
| Demand Deposits | 24,111 | 15.77% | 24,015 | 17.35% |
| | ----- | ----- | ----- | ----- |
| Total Deposits | \$152,899 | 100.00% | \$138,414 | 100.00% |
| | ===== | ===== | ===== | ===== |

ASSET QUALITY

At March 31, 2001, non-performing loans decreased \$50 thousand to \$502 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:

| | March 31 2001 ---- | December 31 2000 ---- |
|---|--------------------------|-----------------------------|
| Non-accrual loans | \$502 | \$552 |
| Non-accrual loans to total loans | 0.49% | 0.55% |
| Non-performing loans to total assets | 0.27% | 0.34% |
| Allowance for possible loan losses as a percentage of non-performing loans | 206.37% | 176.27% |
| Allowance for possible loan losses to total loans | 1.01% | 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 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 March 31, 2001, the allowance for possible loan losses was \$1.0 million, up 6.5% from the \$973 thousand at year-end 2000. There were no charge offs or recoveries reported in the first quarter of 2001. The allowance for possible loan losses as a percentage of total loans was 1.01% at March 31, 2001 compared to .96% on December 31, 2000.

LIQUIDITY MANAGEMENT

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At March 31, 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 March 31, 2001, liquid investments totaled \$25 million, and all mature within 30 days.

It is management's intent to fund future loan demand primarily with deposit growth. In addition, the Bank is a member of the Federal Home Loan Bank of New York and as of March 31, 2001, had the ability to borrow \$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 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 \$1.7 million to \$11.8 million at March 31, 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 \$210 thousand and shares issued through the dividend reinvestment plan of \$40 thousand and an increase in the net unrealized gain on securities available for sale of \$266 thousand. 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.

At March 31, 2000, 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 March 31, 2001 for both the Company and the Bank as well as the minimum regulatory requirements.

| | Amount | Ratio | Amount | Minimum Ratio |
|---------------------|----------|--------|---------|---------------|
| The Company | | | | |
| Leverage Capital | \$11,163 | 6.40% | \$6,977 | 4% |
| Tier 1 - Risk Based | 11,163 | 10.63% | 4,202 | 4% |
| Total Risk-Based | 12,199 | 11.61% | 8,404 | 8% |
| The Bank | | | | |
| Leverage Capital | 10,233 | 5.87% | 6,975 | 4% |
| Tier 1 Risk-Based | 10,233 | 9.75% | 4,200 | 4% |
| Total Risk-Based | 11,269 | 10.73% | 8,400 | 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.

Part II Other Information

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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

Not applicable.

Item 6. Exhibits and Report on form 8-K

(a). Exhibits

| Number ----- | Description ----- |
|-----------------|-------------------------|
| 27 | Financial Data Schedule |

(b). Reports on Form 8-K

On January 26, 2001 the Company filed a Form 8K to report results for the year ending December 31, 2000.

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

