SUSSEX BANCORP
Form 10QSB
May 01, 2002

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 March 31, 2002

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 30, 2002 there were 1,653,637 shares of common stock, no par value, outstanding.

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	March 31, 2002	December
Cash and Due from Banks	$7,644	$6
Federal Funds Sold	27,195	34
Total Cash and Cash Equivalents	34,839	41
Time Deposits in Other Banks	7,100	3
Securities available for sale, at estimated fair value	48,045	42
Loans (Net of Unearned Income)	104,656	106
Less: Allowance for Possible Loan Losses	1,217	1
Net Loans	103,439	105

Other Real Estate Owned	190	
Premises and Equipment, Net	4,851	4
Federal Home Loan Bank Stock	685	
Goodwill and Intangible Assets	2,437	2
Accrued Interest Receivable	1,038	
Other Assets	2,455	2
Total Assets	$205,079	$203
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand	$26,222	$26
Savings	92,703	89
Time	45,240	48
Time of $100,000 and over	16,201	14
Total Deposits	180,366	178
Federal Home Loan Bank Advances	10,000	10
Other Liabilities	2,528	2
Total Liabilities	192,894	191
Stockholders' Equity:		
Common Stock, No Par Value Authorized 5,000,000 Shares, Issued 1,677,374 in 2002 and 1,672,765 in 2001	7,771	7
Retained Earnings	4,639	4
Treasury Stock, 23,708 Shares in 2002 13,708 Shares in 2001	(232)	(
Accumulated other comprehensive income, net of income tax	7	
Total Stockholders' Equity	12,185	12
Total Liabilities and Stockholders' Equity	$205,079	$203

See Notes to Consolidated Financial Statements

SUSSEX BANCORP
CONSOLIDATED
STATEMENTS OF INCOME

(In Thousands Except Share Data)

(Unaudited)

	Three Months En March 31,
	2002
INTEREST INCOME	
Interest and Fees on Loans	$1,917
Interest on Time Deposits	17
Interest on Securities:	
Taxable	448
Exempt from Federal Income Tax	100
Interest on Federal Funds Sold	125
Total Interest Income	2,607
INTEREST EXPENSE	
Interest on Deposits:	829
Interest Expense on Federal Funds Purchased	124
Total Interest Expense	953
Net Interest Income	1,654
Provision for Possible Loan Losses	75
Net Interest Income After Provision for Loan Losses	1,579
NON-INTEREST INCOME	
Service charges on Deposit Accounts	141
Gain on Sale of Loans Held for Sale	18
Investment Brokerage Fees	72
Insurance Commissions and Fees	428
Other Income	106
Total Non-Interest Income	765
NON-INTEREST EXPENSE	
Salaries and Employee Benefits	1,091
Occupancy Expense, Net	147
Furniture and Equipment Expense	216
Stationary and Supplies	38
Advertising and Promotion	111
Audit and Exams	36
Amortization of Intangibles	33
Other Expenses	348
Total Non-Interest Expense	2,020
Income Before Provision for Income Taxes	324
Provision for Income Taxes	93
Net Income	$231
Net Income Per Common Share-Basic	$0.14

Net Income Per Common Share-Diluted	$0.13
	=====
Weighted Average Shares Outstanding-Basic	1,658,741
Weighted Average Shares Outstanding-Diluted	1,733,057

See Notes to Consolidated Financial Statements

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

	Three Months Ended March 31, 2001	Three Months Ended March 31, 2000
Net Income	$231	$210
Other Comprehensive Income, Net of Tax		
Unrealized Gain (Loss) on Available for Sale Securities	(116)	266
Comprehensive Income	$115	$476

See Notes to Consolidated Financial Statements

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

	Common Stock	Retained Earnings	Treasury Stock	Accumul Othe Comprehe Incom

Balance December 31, 2001	$7,732	$4,509	($127)	$1
Net Income for the Period		231		
Cash Dividend		(101)		
Purchase of Treasury Shares			(105)	
Stock Options Exercized	10			
Shares Issued Through Dividend Reinvestment Plan	29			
Change in Unrealized Loss in Securities, Available for Sale				(1
Balance March 31, 2002	$7,771	$4,639	($232)	

See Notes to Consolidated Financial Statements

SUSSEX BANCORP
CONSOLIDATED STATEMENTS
OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31, 2002	2001
Cash Flows from Operating Activities:		
Net Income	$ 231	$ 2
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization of Premises and Equipment	150	1
Amortization of Intangible Assets	33	
Premium Amortization of Securities, net	117	
Provision for Possible Loan Losses	75	
Amortization of Loan Origination and Commitment Fees, net	(10)	(
Deferred Federal Income Tax (Increase)	(171)	
Increase in Accrued Interest Receivable	(74)	(
Increase in Cash Value of Life Insurance Policy	(14)	(
Decrease in Other Assets	74	
Increase (Decrease) in Accrued Interest and Other Liabilities	(24)	1
Net Cash Provided by Operating Activities	387	5
Cash Flow from Investing Activities:		
Securities Available for Sale:		
Proceeds from Maturities and Paydowns	6,142	1,1
Proceeds from Sales/Calls Prior to Maturity	1,000	5,7
Purchases	(12,786)	(14,4
Securities Held to Maturity:		
Proceeds from Maturities	0	1,2
Purchases	0	(5

Net Purchases of Time Deposits in Other Banks	(4,000)	(1,0
Net Decrease (Increase) in Loans Outstanding	1,501	(1,6
Capital Expenditures	(82)	(3
Net Increase in Other Real Estate	(3)	
Net Cash (Used In) Investing Activities	(8,228)	(9,7
Cash Flows from Financing Activities:		
Net Increase in Total Deposits	1,812	20,1
Purchase of Treasury Stock	(105)	
Sale of Common Stock	0	1,1
Exercise of Stock Options	10	
Payment of Dividends Net of Reinvestment	(72)	
Net Cash Provided by Financing Activities	1,645	21,3
Net Increase (Decrease) in Cash and Cash Equivalents	($ 6,196)	$ 12,0
Cash and Cash Equivalents, Beginning of Period	41,035	12,9
Cash and Cash Equivalents, End of Period	$ 34,839	$ 24,9

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 March 31, 2002. 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, 2001.

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):

	March 31, 2002		December 31
	Amortized Cost	Market Value	Amortized Cost
Available For Sale:			
US Treasury securities and Obligations of US Government Corporations and Agencies	$30,339	$30,450	$29,292
Corporate Bonds	6,702	6,678	4,605
Obligations of State and Political subdivisions	10,096	10,065	7,714
Equity Securities	899	852	899
Total Available for Sale Securities	$48,036	48,045	$42,510

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 October 1, 2001, the Company, through its Sussex Bank subsidiary, acquired Tri-State Insurance Agency, Inc. The purchase price paid by the Company for Tri-State was comprised of an upfront cash payment at closing, and deferred payments on the first, second and third anniversaries of the closing. These deferred payments will be satisfied through a mix of cash and common stock of the Company, with the number of shares issued based, in part, upon the then-current market price of the Company's common stock. The deferred payments are subject to downward adjustment based upon the net income of Tri-State as a subsidiary of Sussex Bank. 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.

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

RESULTS OF OPERATIONS

Three Months ended March 31.2002 and March 31,2001

OVERVIEW

The Company realized net income of $231 thousand for the first quarter of 2002, an increase of $21 thousand from the $210 thousand reported for the same period in 2001. Basic earnings per share increased from $0.13 in the first quarter of 2001 to $0.14 for the first quarter of 2002. Diluted earnings per share were $0.13 in the first quarter of both 2002 and 2001. The results reflect a substantial decrease in interest expense due to declining market rates of interest, partially offset by a decrease in interest income, coupled with an increase in non-interest income earned through Tri-State Insurance Agency, Inc. ("Tri-State"). The Company did not acquire Tri-State until October 1, 2001, and so Tri-State's results are not included in the quarter ended March 31, 2001.

RESULTS OF OPERATIONS

Interest Income. Total interest income decreased $338 thousand, or 11.5%, to $2.6 million for the quarter ended March 31, 2002 from $2.9 million for the same period in 2001. This decrease was primarily attributable to a 163 basis point decrease in average rate earned, on a fully taxable equivalent basis, from 7.38% during the first quarter of 2001 to 5.75% in the first quarter of 2002. Offsetting the rate decrease was an increase of $23.4 million in average first quarter balances from $162.8 million in 2001 to $186.6 million in 2002. The effect of the rate decline exceeded the volume increases in average balances. The largest impact of the rate decline was in other assets, which include federal funds sold, time deposits, and FHLB stock dividends. While the average rate earned with other assets decreased to 1.76% in the first quarter of 2002 from 5.93% during the first quarter of 2001, its average balance increased 98.5% to $34.3 million from $17.3 million during the same periods, resulting in a decrease in interest earned on other assets of $104 from $253 thousand in the first three months of 2001 to $149 thousand in the first quarter of 2002. The same scenario exits in the loan portfolio where the average rate earned on loans decreased 86 basis points to 7.33% from 8.19% and average loan balance increased 3.3% from $102.7 million to $106.1 million from first quarter 2001 to first quarter 2002. Loan interest income declined by $157 thousand to $1.9 million in the first quarter of 2002 from $2.1 million in the first three months of 2001. Taxable investment securities average balances fell by $333 thousand and the average rate earned dropped by 119 basis points, lowering income by $110 thousand. However the average balance of tax exempt securities increased by $3.6 million from $6.6 million for the first quarter 2001 to $10.2 million during the first three months of 2002. The average rate earned increased by 22 basis points and interest income increased by $52 thousand over the three-month periods. The effects of both market changes in interest rates and larger average balances in lower yielding other assets resulted in lower interest income for the first quarter of 2002 compared to the first quarter if 2001.

Interest Expense. The Company's interest expense for the first quarter of 2002 decreased $531 thousand, or 35.8% to $1.0 million from $1.5 million in the first quarter of 2001, as the average balance of interest bearing liabilities increased $23.6 million, or 17.0% to $162.4 million during the first quarter of 2002 from $138.8 million in the same period of 2001. Interest expense on time deposits, the largest component of the decrease, decreased $311 thousand, or 36.4% to $543 thousand as the average balance in time deposits decreased $1.9 million, or 3.2% in the first quarter of 2002 compared to the same period in 2001. As a result of a large scale marketing promotion for low cost deposits which began in the fourth quarter of 2001, NOW deposit average balances have grown $16.5 million, or 108.6%, from $15.2 million during the first quarter 2001 to $31.7 million in the first quarter of 2002. The interest expense on NOW deposits increased $17 thousand from $55 thousand in the first quarter of 2001 to $72 thousand in the same period of 2002, while the average interest rate paid decreased 55 basis points from 1.47% to 0.92% during the same periods. Year to date average savings deposits reflect an increase of $12.3 million, or 26.9%, in average balances during the first quarter of 2002 from the first quarter of 2001 and a decrease in interest expense of $185 thousand to $206 thousand from $391 thousand during the same first quarter periods. Money market deposits saw a decline in average balances of $3.3 million, or 48.2%, from $6.8 million to $3.5 million from first quarter 2001 to first quarter 2002. Large municipal deposit balances were transferred from money market sweep deposit accounts to NOW deposit accounts during the first quarter of 2002, as the average rate paid on money market deposit accounts fell during the first quarter of 2002. The interest expense on money market deposits declined 265 basis points from 3.57% during the first quarter of 2001 to 0.92% in the same period in 2002. Average borrowed funds remained constant at $10 million from first quarter 2001 compared to the first quarter of 2002. The Company entered into three ten year callable Federal Home Loan Bank advances totaling $10 million in December 2000 at an average rate of 4.96% and quarterly interest expense of $124 thousand. 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 196 basis points to 2.38% for the first quarter of 2002 from 4.34% for the first quarter in 2001. 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 first quarter of 2002 compared to the average rates paid in the first quarter of 2001.

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, 2002 and 2001. 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,

2002		
Interest	Average	Rates

	Average Balance	Income/ Expense	Earned/ Paid	Average Balance
Assets			(Dollars in Thousands)	
Interest Earning Assets:				
Taxable Loans (net of unearned income)	$106,084	$1,917	7.33%	$102,668
Tax Exempt Securities	10,212	137	5.44%	6,605
Taxable Investment Securities	35,913	441	4.98%	36,246
Other (1)	34,340	149	1.76%	17,299
Total Earning Assets	$186,549	$2,644	5.75%	$162,818
Non-Interest Earning Assets	$18,247			$13,064
Allowance for Possible Loan Losses	($1,181)			($1,005)
Total Assets	$203,615			$174,877
Liabilities and Shareholders' Equity				
Interest Bearing Liabilities:				
NOW Deposits	$31,712	$72	0.92%	$15,203
Savings Deposits	58,090	206	1.44%	45,763
Money Market Deposits	3,534	8	0.92%	6,825
Time Deposits	59,064	543	3.73%	60,997
Borrowed Funds	10,000	124	4.96%	10,000
Total Interest Bearing Liabilities	$162,400	$953	2.38%	$138,788
Non-Interest Bearing Liabilities:				
Demand Deposits	$26,465			$24,111
Other Liabilities	2,413			767
Total Non-Interest Bearing Liabilities	$28,878			$24,878
Shareholders' Equity	$12,337			$11,211
Total Liabilities and Shareholders' Equity	$203,615			$174,877
Net Interest Differential		$1,691		
Net Interest Margin			3.37%	
Net Yield on Interest-Earning Assets			3.68%	

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

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Net-Interest Income. The net interest income for the first quarter of 2002 increased $212 thousand over the same period last year. This increase was the result of liabilities repricing faster and lower then earning assets in a declining market rate environment and the Company's ability to increase it's average balances of low cost interest bearing liabilities, thereby further reducing its cost of funds. The net interest margin increased, on a fully taxable equivalent basis, by 33 basis points to 3.37% and the net yield on interest-bearing assets remained constant at 3.68% in both first quarter periods.

Provision for Loan Losses. For the three months ended March 31, 2002 the provision for possible loan losses was $75 thousand compared to $63 thousand for the first quarter ended March 31, 2001. The provision for loan losses 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 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 2002, total non-interest income increased $516 thousand, or 235.6%, from the same period in 2001. On October 1, 2001 the Company acquired Tri-State and in the first quarter of 2002 the subsidiary contributed $428 thousand in insurance commission and fee income to non-interest income that was not present in the first quarter of 2001. Investment brokerage fee income increase by $38 thousand, or 111.8%, to $72 thousand for the period ending March 31, 2002 compared to $34 thousand earned during the first quarter of 2001. Service charges on deposit accounts increased $19 thousand to $141 thousand and other income increased $14 thousand to $106 thousand for the quarter ended March 31, 2002. These increases in service charges on deposit accounts and other income are credited to the growth in the Company as a result of the marketing promotion. The Company also earned $18 thousand on gains on the sale of loans held for sale during the first quarter of 2002 compared to a $1 thousand gain reported during the first three months of 2001.

Non-Interest Expense. For the quarter ended March 31, 2002, non-interest expense increased $665 thousand from the same period last year. The additional non-interest expense in the first quarter 2002 attributed to Tri-State totaled $366 thousand. Net of Tri-State's salaries and employee benefits, the Company's salaries and employee benefits increased $123 thousand, or 16.6%, as salaries increased $113 thousand and employee benefits increased $10 thousand from the addition of six full time and one part time position since the end of the quarter ended March 31, 2001. Other non-interest expense increases from first quarter 2001 to first quarter 2002, net of Tri-State's expenses, were advertising and promotion expense increase of $59 thousand due to the aggressive deposit promotion which began in the forth quarter of 2001, furniture and equipment expense of $44 thousand from computer network upgrades and costs associated with the Bank subsidiary name change from The Sussex County State Bank to Sussex Bank during forth quarter 2001, and other expenses increase of $60 thousand relative to normal expenditures attributed to the growth of the Company.

Income Taxes. Income tax expense increased $11 thousand to $93 thousand for the three months ended March 31, 2002 as compared to $82 thousand for the same period in 2001. The increase in income taxes resulted from a higher level of income before income taxes in 2002 compared to 2001.

FINANCIAL CONDITION

March 31, 2002 as compared to December 31, 2001

Total assets increased to $205.1 million at March 31, 2002, a $1.8 million increase from total assets of $203.3 million at December 31, 2001. Increases in total assets include net purchases of $5.3 million in securities available for sale and time deposits in other banks of $4.0 million. These asset increases were financed through a reduction in federal funds sold of $7.7 million and a decrease in net loans of $1.6 million. An increase in cash and due from banks of $1.5 million was funded by an increase in total deposits of $1.8 million from $178.6 million at year-end 2001 to $180.4 million on March 31, 2002. Total stockholder's equity remained the same at $12.2 million from December 31, 2001 to March 31, 2002, as the Company's net income for the three month period of $231 thousand was offset by payment of a cash dividend of $101 thousand and the purchase of treasury stock of $105 thousand.

Total loans at March 31, 2002 decreased $1.5 million to $104.6 million from $106.1 million at year-end 2001. 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. The balance in construction loans decreased $1.5 million from $8.5 million at December 31, 2001 to $7.0 million on March 31, 2002 as a result of a payoff of one construction loan with a balance of $1.4 million and which did not roll over into permanent financing with the Company. Other minor shifts in ending balances occurred between December 31, 2001 and March 31, 2002 according to loan demand.

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

	March 31, 2002		December 31,
	Amount	Percent	Amount
	(Dollars In Thousands)		
Commercial and Industrial	$8,566	8.19%	$8,065
Real Estate-Non Residential Properties	34,477	32.94%	34,811
Residential Properties (1-4 Family)	51,700	49.40%	51,433
Construction	7,012	6.70%	8,515
Loans to Individuals	2,253	2.15%	2,245
Other Loans	648	0.62%	1,079
Total Loans	$104,656	100.00%	$106,148

Federal funds sold decreased by $7.7 million to $27.2 million at March 31, 2001 from $34.9 million on December 31, 2001 and time deposits on other banks increased by $4 million at March 31, 2002 from December 31, 2001. Despite the decline in the period end balances for federal funds sold, the average balance in other earning assets, which includes federal funds sold and time deposits, for the first quarter of 2002 was $34.3 million, an increase of $17.0 million, an over the average balance of other earning assets for the first quarter of 2001. During 2001 in a declining rate environment, deposits increased faster than investment opportunities and the excess funds were invested in short-term federal funds and time deposits in other banks, raising our federal funds sold to their present average level for the quarter. These funds will be used to fund future loan demand, with excess liquidity used to purchase investment securities. Four million dollars in federal funds sold was transferred to time deposits in other banks during the first quarter of 2002, accounting for the period end decline in federal funds sold and the increase in time deposits in other banks.

Securities, available for sale, at market value, increased $5.3 million, or 12.5%, from $42.7 million at year-end 2001 to $48.0 million on March 31, 2002. The Company purchased $12.8 million in new securities in the first three months of 2002 and $7.1 million in available for sale securities matured, were called and were repaid. There were $193 thousand in recorded unrealized losses in the available of sale portfolio during the first three months of 2002. There were no held to maturity securities at March 31, 2002 or at year-end 2001.

Total year to date average deposits increased $12.8 million, or 7.7%, to $178.9 million during the first three months of 2002 from the twelve-month average of $166.1 million for the year ended December 31, 2001. NOW deposits increased by $13.8 million, savings deposits increased by $7.8 million, and demand deposits increased by $1.1 million. Offsetting these increases were decreases in money market deposits of $3.5 million and time deposits of $6.4 million. As discussed earlier, the increase in NOW and savings deposits was due to an ongoing promotion of interest bearing deposits since the forth quarter of 2001. After aggressively pricing time deposits in the first quarter of 2001, many of those deposits repriced in the first quarter of 2002 at lower market rates of interest and the decrease in the average balance of time deposits reflects the withdrawal of matured time deposits. 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, 2002		Twelve Months Ended December 31, 2001	
	Average Balance	Percent of Total	Average Balance	Percent of Total
Deposits:				
NOW Deposits	$ 31,712	17.73%	$ 17,885	10.76%
Savings Deposits	58,090	32.48%	50,334	30.30%
Money Market Deposits	3,534	1.98%	7,029	4.23%
Time Deposits	59,064	33.02%	65,486	39.42%
Demand Deposits	26,465	14.79%	25,412	15.29%
Total Deposits	$178,865	100.00%	$166,146	100.00%

ASSET QUALITY

At March 31, 2002, non-performing loans decreased $342 thousand to $2.2 million, as compared to $2.5 million at December 31, 2001. One construction credit with a value of $1.5 million at December 31, 2001 was transferred to non-accrual during the third quarter of 2001. As of March 31, 2002 the construction credit has been reduced by $586 thousand to a remaining balance of $900 thousand. The credit represents a loan participation secured by seventeen completed condominium units located in Piermont, New York. The Bank has been negotiating with the lead bank for the loan on the allocation of 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:

	March 31 2002	December 31 2001
Non-accrual loans	$ 2,152	$ 2,494
Non-accrual loans to total loans	2.06%	2.35%
Non-performing loans to total assets	1.14%	1.32%
Allowance for possible loan losses as a percentage of non-performing loans	56.55%	45.83%
Allowance for possible loan losses to total loans................................	1.16%	1.08%

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 March 31, 2002, the allowance for possible loan losses was $1.2 million, up 6.5% from the $1.1 million at year-end 2001. There were $2 thousand in charge offs and $1 thousand in recoveries reported in the first three months of 2002. The allowance for possible loan losses as a percentage of total loans was 1.16% at March 31, 2002 compared to 1.08% on December 31, 2001.

LIQUIDITY MANAGEMENT

At March 31, 2002, 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, 2002, liquid investments totaled $34.8 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 March 31, 2002, had the ability to borrow a total of $22.6 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 $7.9 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 remained constant at $12.2 million at March 31, 2002 and year-end 2001. Activity in stockholder's equity consisted of a net increase in retained earnings of $130 thousand derived from $231 thousand in net income earned during the first three months of 2002, offset by a $101 thousand payment for cash dividends. Treasury stock purchases of $105 thousand and an unrealized loss on securities, available for sale of $116 thousand were decreases to stockholder's equity offset by $10 thousand in stock options exercised and $29 thousand for shares issued through the dividend reinvestment plan.

At March 31, 2002 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, 2002 for both, the Company and the Bank as well as the minimum regulatory requirements.

	Amount	Ratio	Amount	Minimum Ratio
The Company:				
Leverage Capital	$9,711	4.83%	$8,037	4%
Tier 1 - Risk Based	9,711	8.38%	4,637	4%
Total Risk-Based	10,928	9.43%	9,273	8%
The Bank:				
Leverage Capital	9,381	4.67%	8,036	4%
Tier 1 Risk-Based	9,381	8.11%	4,627	4%
Total Risk-Based	10,598	9.16%	9,254	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 adoption of this new pronouncement did not have a material impact on the Company's 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

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
March 1, 2002	5	Reporting the registrant's year-end results
April 23, 2002	4	The Registrant announced that it had replaced Arthur Andersen, as its independent auditors with Beard Miller Company, LLC.

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