

1st Constitution Bancorp FCCY (NAS)

Last Close	Industry	Sector
8.54 USD	Banks - Regional - US	Financial Services

Profile

Pricing data through 10 Feb 2012

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1st Constitution Bancorp was organized under the laws of the State of New Jersey in February 1999. It is a bank holding company of 1st Constitution Bank (the Bank). The Bank is a commercial bank formed under the laws of the State of New Jersey and engages in the business of commercial and retail banking. As a community bank, the Bank offers a wide range of services (including demand, savings and time deposits and commercial and consumer/installment loans) to individuals, small businesses and not-for-profit organizations mainly in the Fort Lee area of Bergen County and in Middlesex, Mercer and Somerset Counties, New Jersey. The Bank conducts its operations through its main office located in Cranbury, New Jersey, and operates ten additional branch offices in downtown Cranbury, Hamilton Square, Hightstown, Jamesburg, Montgomery, Perth Amboy, Plainsboro, West Windsor, Fort Lee and Princeton, New Jersey. The Bank provides a wide range of commercial and consumer banking services to individuals, families, institutions and small businesses in central New Jersey and the Fort Lee area of Bergen County. The Bank's focus is to understand the needs of the community and the customers and tailor products, services and advice to meet those needs. The Bank seeks to provide a high level of personalized banking services, emphasizing quick and flexible responses to customer demands. The Bank continually evaluates opportunities for branch bank expansion, either mini branches or full service branches, to continue to grow and meet the needs of the community. The Bank's lending activities include both commercial and consumer loans. Loan originations are derived from a number of sources including real estate broker referrals, mortgage loan companies, direct solicitation by the Bank's loan officers, existing depositors and borrowers, builders, attorneys, walk-in customers and, in some instances, other lenders. The Bank offers a variety of commercial loan services, including term loans, lines of credit, and loans secured by equipment and receivables. A portion of the Bank's lending activities consists of the origination of fixed and adjustable rate residential first mortgage loans secured by owner-occupied property located in the Bank's primary market areas. Non-residential consumer loans made by the Bank

include loans for automobiles, recreation vehicles, and boats, as well as personal loans (secured and unsecured) and deposit account secured loans. Banking is a complex, highly regulated industry.

1st Constitution Bancorp FCCY

Sales USD Mil 27 **Mkt Cap USD Mil** 43 **Industry** Banks **Sector** Financial Services
- Regional - US

Headquartered in central New Jersey, 1st Constitution is a small community bank with just 11 branch locations. Principally concentrated in construction and commercial lending, the bank has approximately \$383 million in loans and \$415 million in deposits.

Morningstar Rating **Last Price** **Fair Value** **Uncertainty** **Economic Moat™** **Stewardship Grade**
- 8.54 - - - - -
per share prices in USD

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Website: <http://www.firstconstitutionbank.com>

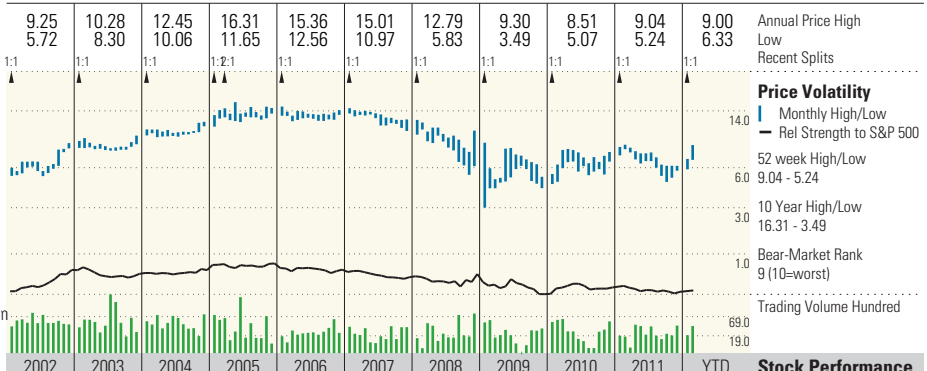
Employees: 137

Growth Rates	Compound Annual				
	1 Yr	3 Yr	5 Yr	10 Yr	
Revenue %	10.4	6.7	6.6	11.9	
Operating Income %	—	—	—	—	
Earnings/Share %	29.1	-25.6	-13.2	2.3	
Dividends %	—	—	—	—	
Book Value/Share %	12.1	5.1	9.2	—	
Stock Total Return %	-1.5	16.4	-9.4	1.8	
+/- Industry	12.3	-1.1	2.9	3.3	
+/- Market	-3.1	-1.1	-8.0	0.3	

Profitability Analysis	Current	5 Yr Avg	Ind	Mkt
	Return on Equity %	6.3	9.2	—
Return on Assets %	0.5	0.8	—	9.5
Revenue/Employee USD K	193.8	175.0	—	1049.9
Compensation Exp/Rev	0.4	0.4	—	—
Operating Margin %	—	—	33.3	16.7
Net Margin %	12.3	16.9	29.9	11.2
Free Cash Flow/Rev %	39.3	—	—	0.1

Financial Position	12-10 USD Mil	09-11 USD Mil
	Loans (Gross)	433
Less: Allowances	6	6
Net Loans	427	431
Securities	167	249
Trading Assets	—	—
Intangibles	—	—
Other	50	62
Total Assets	644	742
Deposits	544	645
Short-Term Debt	19	19
Long-Term Debt	26	19
Other	6	5
Total Liabilities	595	688
Preferred Stock	0	—
Total Equity	50	54

Valuation Analysis	Current	5 Yr Avg	Ind	Mkt
	Price/Earnings	11.6	13.6	18.8
Forward P/E	7.8	—	—	13.5
Price/Free Cash Flow	4.2	—	18.7	16.9
Dividend Yield %	—	—	1.5	2.0
Price/Book	0.8	0.9	0.9	2.0
Price/Sales	1.6	1.9	1.8	1.2
PEG Ratio	—	—	—	1.4



2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	YTD	Stock Performance
42.7	14.2	20.1	21.1	-2.2	-15.1	-33.1	-35.0	43.8	-14.4	28.5	Total Return %
66.1	-12.2	11.1	18.1	-15.8	-18.6	5.4	-58.4	31.0	-14.4	21.7	+/- Market
36.4	-12.4	6.9	20.9	-18.9	4.6	-1.0	-29.3	33.0	5.5	15.3	+/- Industry
—	—	—	—	—	—	—	—	—	—	0.0	Dividend Yield %
42	48	59	70	70	60	40	28	39	34	43	Market Cap USD Mil

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Financials
8	9	10	12	15	18	18	16	18	20	22	Net Interest Inc USD Mil
2	2	2	3	3	3	3	3	5	4	5	Fee Income
—	—	—	—	—	—	—	—	—	—	—	Oper Income USD Mil
2	3	3	4	5	5	5	3	2	2	3	Net Income USD Mil
—	0.55	0.65	0.79	0.93	1.09	1.11	0.53	0.35	0.46	0.64	Earnings Per Share USD
—	—	—	—	—	—	—	—	—	—	—	Dividends USD
—	5	5	5	5	5	5	5	5	5	5	Shares Mil
4.51	5.01	5.65	6.36	7.34	8.49	9.56	9.22	9.85	10.75	10.75	Book Value Per Share USD
223	269	293	336	373	393	429	546	678	644	742	Assets USD Mil
17	21	24	27	30	35	41	56	57	50	54	Total Equity USD Mil
0	-1	1	1	2	0	0	-12	1	11	10	Free Cash Flow

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Profitability
—	1.1	1.1	1.2	1.3	1.4	1.3	0.6	0.3	0.3	0.5	Return on Assets %
—	14.0	14.5	15.2	16.1	16.4	14.3	6.5	4.1	4.8	6.3	Return on Equity %
22.5	24.4	26.0	25.5	25.4	26.2	26.7	14.0	8.2	9.3	12.3	Net Margin %
—	0.04	0.04	0.05	0.05	0.05	0.05	0.04	0.04	0.04	0.04	Asset Turnover
—	12.8	12.4	12.5	12.5	11.2	10.5	12.4	14.8	13.0	13.7	Financial Leverage

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	09-11	Financial Health
131	161	178	219	254	276	302	379	397	427	431	Net Loans USD Mil
16	18	21	30	34	41	54	70	23	26	19	Long-Term Debt USD Mil
184	219	245	277	306	313	329	415	572	544	645	Deposits USD Mil

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Valuation
16.5	15.7	15.7	16.1	13.4	11.2	15.5	15.2	17.0	9.0	11.6	Price/Earnings
—	—	—	—	—	—	—	—	—	0.5	0.8	P/E vs. Market
4.0	4.1	4.0	4.1	3.5	3.0	2.2	1.3	1.6	1.3	1.6	Price/Sales
2.0	2.0	2.2	2.4	2.0	1.5	0.9	0.6	0.8	0.6	0.8	Price/Book

Quarterly Results		Revenue USD Mil			
		Dec 10	Mar 11	Jun 11	Sep 11
Most Recent Period		6.9	6.2	6.3	7.1
Prior Year Period		6.3	5.4	5.9	6.5
Rev Growth %		Dec 10 Mar 11 Jun 11 Sep 11			
Most Recent Period		10.3	14.8	8.4	8.1
Prior Year Period		27.9	6.7	7.1	17.2
Earnings Per Share USD		Dec 10 Mar 11 Jun 11 Sep 11			
Most Recent Period		0.09	0.15	0.16	0.24
Prior Year Period		0.13	0.11	0.13	0.14

Industry Peers by Market Cap				
	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
1st Constitution Ban	43	27	11.6	6.3
Bank of America Corp	81796	90964	—	-1.5
PNC Financial Serv	31393	14680	9.2	10.4

Major Fund Holders		% of shares
		—
		—
		—

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.



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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
ROBERT F. MANGANO	CEO/President/Director/CEO, Subsidiary/President, Subsidiary, Director	302,272	15 Dec 2011	-
MR. JOHN P. COSTAS	Director	164,612	30 Nov 2011	7,161
WILLIAM M. RUE	Director	134,679	27 May 2011	-
EDWARD D. KNAPP	Director	26,633	10 Feb 2005	-
CHARLES S. CROW, III	Director	20,571	27 May 2011	-
JOSEPH M. REARDON	CFO/Chief Accounting Officer/Senior VP/Senior VP, Subsidiary/Treasurer	19,906	15 Dec 2011	-
FRANK E. WALSH, III	Director	13,745	27 May 2011	-

*Report date represents the date on which the owner's common shares held was audited.

Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
DFA US Micro Cap I	QQQ	0.31	0.00	0	30 Nov 2011
DFA U.S. Small Cap Value II		0.29	0.00	1	30 Nov 2011
Vanguard Extended Market Idx Inv	QQQQ	0.14	0.00	0	30 Sep 2011
DFA US Core Equity 2 I	QQQ	0.06	0.00	0	30 Nov 2011
DFA US Vector Equity I	QQ	0.05	0.00	0	30 Nov 2011
Concentrated Holders					
DFA Global Equity I	QQQ	0.01	0.00	0	30 Nov 2011
DFA Global 60/40 I	QQQ	0.00	0.00	0	30 Nov 2011
Vanguard Instl Ttl Stk Mkt Idx Instl Pls	QQQQ	0.00	0.00	0	30 Sep 2011
Vanguard US Total Market Shares (AU) ETF		0.01	0.00	0	30 Sep 2011

Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
DFA U.S. Small Cap Value II		0.29	0.00	1	30 Nov 2011
Vanguard Total Stock Mkt Idx		0.01	0.00	1	30 Sep 2011
DFA Global 60/40 I	QQQ	0.00	0.00	0	30 Nov 2011
DFA Global Equity I	QQQ	0.01	0.00	0	30 Nov 2011
Scotia Nasdaq Index	QQQQ	0.00	0.00	0	28 Feb 2011
Top 5 Sellers					
NA		NA	NA	NA	NA

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Industry Focus: Banks

Wilshire Will Reward Those Banking on Its Turnaround

08 February 2012

Michael Kon, CFA
Senior Stock Analyst

The market is discounting this firm's improving credit quality and attractive business model.

Wilshire Bancorp (WIBC) is one of our favorite turnaround plays in regional banking. With a new management team at the helm, plenty of reserves for loan losses, and a record level of capital, Wilshire is positioned to return to high profitability. While its focus on the Korean-American market isolates it from the competitive pressures of mainstream banks, its low-cost operating model serves it well when competing with other ethnic banks. The stock trades nearly 40% below our fair value estimate, an unwarranted discount considering Wilshire's successful turnaround and the quality of its franchise.

Wilshire entered the financial crisis and the Great Recession in a slightly better shape than most California banks of a similar size. The bank had more capital and fewer problem loans than many peers and in June 2009 was even chosen by the FDIC to acquire the failed Mirae Bank, a privilege reserved only for banks that score high on periodic regulatory reviews.

However, in early 2009, the bank's nonperforming loans began to creep up and by 2010, the level of nonperforming loans exceeded that of most peers. While Mirae Bank came with a sizable portfolio of nonperforming loans, Wilshire's legacy loans also started to weaken, becoming a major cause for concern. What exacerbated the problem, in our view, was management's lack of action in light of the worsening credit quality. While Wilshire's peers were selling bad credit and jettisoning weak assets at market prices, management stayed put and failed to introduce a credible loan workout plan.

As a result of management's neglect to address the bank's problem loans, during the second half of 2009 and through 2010 nonperforming loans trended well above its ethnic peers and other California banks. Even more troubling was management's failure in managing the bank's capital. Despite the mounting credit problems, Wilshire's

management ignored the bank's growing need to raise capital and continued to argue that capital wasn't an issue because regulatory capital ratios were still above the official requirements. While nonperforming loans were rising, the bank's common equity plunged almost 40%.

To make matters worse, Wilshire was bleeding capital when most of its California peers were building their own. By the first quarter of 2011, Wilshire's tangible common equity deteriorated to half of the level reported by most peers, reaching 3.9% of total tangible assets--a troubling level, in our view. The bank's regulators noticed the deterioration in Wilshire's financial health and slapped it with a memorandum of understanding, a regulatory action reserved for banks that exhibit financial weakness.

Despite Credit Woes, Wilshire's Business Model Was Never Broken

Despite its credit woes, we think Wilshire still has a viable and attractive business model. Underwriting practices aside, Wilshire's focus on the Korean-American population in Southern California provides it with several advantages over mainstream banks: Unlike the general population, the bank's clients value the relationship with an ethnic bank and usually don't shop around for the best available rate. Wilshire's clients tend to be more entrepreneurial than the general population; the rate of small-business owners among the bank's clients is double the U.S. average. Most of the bank's clients live in proximity to one another, reducing the need to build many branches. The Korean-American population is more educated than the general U.S. population, which leads to a higher saving rate (double the U.S. average) among the bank's clients; since clients tend to keep a sizable portion of their savings in CDs, the bank benefits from a stable deposit base. Serving the Korean-American population enables Wilshire to benefit from trade with South Korea, America's sixth-largest trading partner. We think these advantages led Wilshire to earn higher returns on assets during the period that preceded the financial crisis and could help it return to profitability once credit issues are fully resolved.

Turnaround Efforts Bear Fruit

After sitting on its hands during 2010, Wilshire's board

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Industry Focus: Banks

finally woke up in early 2011 and launched an aggressive turnaround program to resolve its credit issues. In February, Wilshire replaced its CEO. Jae Whan Yoo joined Wilshire after successfully leading one of its largest competitors through a similar credit turnaround. In May, the bank raised \$100 million by issuing new shares to the public. This doubled the bank's common equity and boosted its capital ratios to record levels. In September, the bank appointed Jack Choi as its new chief credit officer.

Also during 2011, Wilshire changed its credit risk management: It separated the loan production and underwriting functions, established an enterprise risk management department, created a cross-team credit task force to improve credit quality and reduce problem assets, and increased its in-house lending limit to single borrowers. With these actions, Wilshire scrapped its previous underwriting practices and adopted a more robust credit culture. We think this had an immediate impact on the bank's performance. Nonperforming loans in the following quarters declined and the flow of new problem loans began to ebb.

While nonperforming loans dropped 50% from their peak, reserves for loan losses actually increased 33% during the same period and exceeded the level reported by peer ethnic banks and other competitors in California in the second half of 2011. Thanks to management's turnaround efforts, Wilshire ended the third quarter of 2011 with more capital, more reserves, and fewer problem loans than most of its main peers.

Wilshire still has work to do, as its nonperforming assets remain above 3%, higher than its historical levels, and returns on assets and equity still trend below past levels. That said, we believe the bank's comeback in 2011 will make the hurdles ahead of it seem not as hard to overcome.

While bank stocks came under pressure on fears of another recession and a spillover from the European sovereign debt crisis, Wilshire's stock cratered more than 50%. Ironically, this sell-off occurred as the bank's financial health strengthened and performance started to improve. We believe the market is ignoring Wilshire's successful turnaround and prospects. We value the stock at \$6 per share, while it trades around \$3.80--a decent discount,

especially given the successful credit turnaround and the quality of the bank's franchise.