

1st Constitution Bancorp FCCY (NAS)

Last Close	Industry	Sector
7.16 USD	Regional - Northeast Banks	Financial Services

Profile

Pricing data through 05 Nov 2009

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Morningstar Equity Research
+1 (312) 696-6869
equityresearchsales@morningstar.com

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1st Constitution Bancorp is a bank holding company for 1st Constitution Bank, which engages in the business of commercial and retail banking. As a community bank, the bank offers services to individuals, small businesses and not-for-profit organizations. Its principal market area consists of Middlesex, Mercer, and Somerset Counties, New Jersey.

The bank accepts interest bearing deposits, including money market and negotiable order of withdrawal accounts, savings accounts, certificates of deposits, and non-interest bearing demand deposits.

The company's loan portfolio consists of residential consumer and non-consumer lending, commercial loans, including term loans, lines of credit, and loans secured by equipment and receivables. It also offers secured and unsecured short to medium-term commercial loans to businesses for the purposes of expansion or the purchase of equipment and machinery. It offers construction loans to real estate companies for the development and construction of residential subdivisions. The bank's portfolio also includes fixed and adjustable rate residential first mortgage loans, construction loans, second mortgage home improvement loans, deposit account secured loans, and loans for automobiles.

Other banking products include services offered through telephone, automated teller machines, and internet services including online banking and online bill payment. It also offers 24 hour business mac, wire transfers, bank-by-mail, night and direct deposit, lock boxes, merchant credit card services, automated clearinghouse services, collection and investment services, and client escrow.

1st Constitution Bancorp FCCY

Sales USD Mil 21 **Mkt Cap USD Mil** 31 **Industry** Regional - Northeast Banks **Sector** Financial Services

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.

2650 Route 130 P.O. Box 634
Cranbury, NJ 08512
Phone: 1 609 655-4500
Website: <http://www.firstconstitutionbank.com>

Employees: 119

Growth Rates	Compound Annual				
	1 Yr	3 Yr	5 Yr	10 Yr	
Revenue %	-3.2	3.1	9.7	—	
Operating Income %	—	—	—	—	
Earnings/Share %	-51.9	-16.8	-4.0	—	
Dividends %	—	—	—	—	
Book Value/Share %	7.2	12.7	11.6	—	
Stock Total Return %	-16.5	-21.8	-11.3	3.1	
+/- Industry	-3.8	-7.9	-5.1	1.5	
+/- Market	-28.4	-13.9	-9.5	5.8	

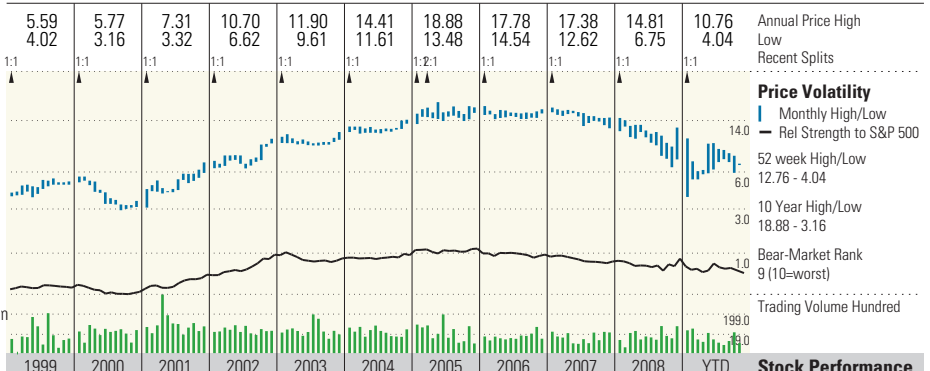
Profitability Analysis	Current	5 Yr Avg	Ind	Mkt
	Return on Equity %	5.2	13.7	-3.8
Return on Assets %	0.4	1.2	-0.3	6.0
Revenue/Employee USD K	173.1	184.6	—	918.1
Compensation Exp/Rev	0.4	0.3	—	—
Operating Margin %	—	—	—	15.4
Net Margin %	10.9	23.6	-7.5	6.9
Free Cash Flow/Rev %	—	—	—	0.0

Financial Position	12-08 USD Mil	06-09 USD Mil
	Loans (Gross)	383
Less: Allowances	4	4
Net Loans	379	424
Securities	130	125
Trading Assets	—	—
Intangibles	—	—
Other	37	69
Total Assets	546	618
Deposits	415	506
Short-Term Debt	—	19
Long-Term Debt	31	31
Other	45	6
Total Liabilities	491	562
Preferred Stock	11	11
Total Equity	56	57

Valuation Analysis	Current	5 Yr Avg	Ind	Mkt
	Price/Earnings	14.2	14.3	-7.5
Forward P/E	8.9	—	—	16.0
Price/Free Cash Flow	—	—	-5.5	17.5
Dividend Yield %	—	—	2.5	2.1
Price/Book	0.7	1.8	1.2	2.1
Price/Sales	1.6	3.3	2.3	1.2
PEG Ratio	0.6	—	—	1.8

Morningstar Rating — **Last Price** 7.16 **Fair Value** — **Uncertainty** — **Economic Moat™** — **Stewardship Grade** —

per share prices in USD



Stock Performance	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	YTD	
Total Return %	27.8	-30.5	100.9	42.7	14.2	19.5	21.8	-2.5	-14.8	-33.1	-25.6	Total Return %
+/- Market	8.3	-20.4	113.9	66.1	-12.2	10.5	18.8	-16.1	-18.3	5.4	-43.7	+/- Market
+/- Industry	33.4	-73.3	102.1	50.2	-21.5	19.5	23.6	-16.1	-4.8	-4.1	-19.5	+/- Industry
Dividend Yield %	—	—	—	—	—	—	—	—	—	—	0.0	Dividend Yield %
Market Cap USD Mil	—	—	29	42	46	58	70	70	60	40	31	Market Cap USD Mil

Financials	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	
Net Interest Inc USD Mil	—	—	8	9	10	12	15	18	18	16	17	Net Interest Inc USD Mil
Fee Income	—	—	2	2	2	3	3	3	3	3	4	Fee Income
Oper Income USD Mil	—	—	—	—	—	—	—	—	—	—	—	Oper Income USD Mil
Net Income USD Mil	—	—	2	3	3	4	5	5	5	3	2	Net Income USD Mil
Earnings Per Share USD	—	—	0.52	0.63	0.76	0.91	1.08	1.27	1.29	0.62	0.51	Earnings Per Share USD
Dividends USD	—	—	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	Dividends USD
Shares Mil	—	—	4	4	4	4	4	4	4	4	4	Shares Mil
Book Value Per Share USD	—	—	4.35	5.22	6.09	6.54	7.36	8.49	9.83	10.54	10.61	Book Value Per Share USD
Assets USD Mil	—	—	223	269	293	336	373	393	429	546	618	Assets USD Mil
Total Equity USD Mil	—	—	17	21	24	27	30	35	41	56	57	Total Equity USD Mil
Free Cash Flow	—	—	—	-1	1	1	2	0	0	-12	-13	Free Cash Flow

Profitability	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	
Return on Assets %	—	—	1.0	1.1	1.1	1.2	1.3	1.4	1.3	0.6	0.4	Return on Assets %
Return on Equity %	—	—	12.3	14.0	14.5	15.2	16.1	16.4	14.3	6.5	5.2	Return on Equity %
Net Margin %	—	—	22.5	12.4	26.0	25.5	25.4	26.2	26.7	14.0	10.9	Net Margin %
Asset Turnover	—	—	0.04	0.09	0.04	0.05	0.05	0.05	0.05	0.04	0.04	Asset Turnover
Financial Leverage	—	—	12.8	12.8	12.4	12.5	12.5	11.2	10.5	12.4	13.7	Financial Leverage

Financial Health	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	06-09	
Net Loans USD Mil	—	—	131	161	178	219	238	276	291	379	424	Net Loans USD Mil
Long-Term Debt USD Mil	—	—	16	18	21	30	34	41	54	31	31	Long-Term Debt USD Mil
Deposits USD Mil	—	—	184	219	245	277	306	313	329	415	506	Deposits USD Mil

Valuation	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	
Price/Earnings	—	—	14.2	16.5	15.7	15.6	16.1	13.3	11.2	15.5	14.2	Price/Earnings
P/E vs. Market	—	—	0.6	0.8	0.7	0.8	0.9	0.8	0.7	1.4	0.7	P/E vs. Market
Price/Sales	—	—	3.2	2.0	4.1	4.0	4.1	3.5	3.0	2.2	1.6	Price/Sales
Price/Book	—	—	1.7	2.0	2.0	2.2	2.4	2.0	1.5	0.9	0.7	Price/Book

Quarterly Results	USD Mil			
	Sep 08	Dec 08	Mar 09	Jun 09
Revenue	5.2	4.9	5.0	5.5
Most Recent Period	5.2	5.1	4.8	4.8
Prior Year Period	—	—	—	—
Rev Growth %	Sep 08	Dec 08	Mar 09	Jun 09
	0.0	-3.7	5.4	13.5
Most Recent Period	-2.1	1.0	-6.1	-2.8
Prior Year Period	—	—	—	—
Earnings Per Share USD	Sep 08	Dec 08	Mar 09	Jun 09
	0.18	0.08	0.07	0.08
Most Recent Period	0.36	0.23	0.19	0.17
Prior Year Period	—	—	—	—

Industry Peers by Market Cap	Mkt Cap USD Mil			
	Rev USD Mil	P/E	ROE%	
1st Constitution Ban	31	21	14.2	5.2
Bank of America Corp	130899	103833	12.8	2.1
Bank of America Corp	130899	103833	12.8	2.1

Major Fund Holders	% of shares	
	Holder	% of shares
DFA US Micro Cap I	0.33	
DFA US Small Cap Value I	0.24	
DFA US Core Equity 2 I	0.06	

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
MANGANO ROBERT F	Chief Executive Officer, President, Director	232,654	05 Aug 2009	-
RUE WILLIAM M	Director	120,289	01 Jun 2009	-
KNAPP EDWARD D	Director	26,633	11 Feb 2005	-
REARDON JOSEPH M	Treasurer, Senior Vice President	16,816	05 Aug 2009	-
CROW CHARLES S III	Director	14,614	01 Jun 2009	-
WALSH FRANK E III	Director	12,099	01 Jun 2009	-
REED DAVID C	Director	7,498	01 Jun 2009	-

*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	0.33	0.00	0	30 Jun 2009
DFA US Small Cap Value I	QQQ	0.24	0.00	0	30 Jun 2009
DFA US Core Equity 2 I	QQQ	0.06	0.00	0	30 Jun 2009
DFA US Vector Equity I	QQ	0.05	0.00	0	30 Jun 2009
DFA US Small Cap I	QQQ	0.04	0.00	0	30 Jun 2009

Concentrated Holders

NA	NA	NA	NA	NA
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Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
NA		NA	NA	NA	NA

Top 5 Sellers

NA	NA	NA	NA	NA
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Industry Focus: US Regional Banks

Our Outlook for Regional Banks

01 June 2009

Jim Sinegal
Stock Analyst

A new normal or
back to the future?

Following the conclusion of the Supervisory Capital Assessment Program stress tests and the resulting infusions of new capital into many banks, investors' focus has shifted from the banks' ability to survive the current downturn to their potential earnings power on the other side. Some sources of profits, such as securitization, already appear to be relics of the distant past. Similarly, excessive leverage is unlikely to return for at least a decade, and the need for major changes in the regulatory system is painfully obvious. Although the specific changes to come are difficult to predict, we think some helpful generalizations can be made after a simple examination of banking industry dynamics.

Competition Is Here to Stay

In our opinion, regional banking is very much a commodity industry. Competition is generally intense, and there are few barriers to entry, aside from the approval of regulators. While financial innovations like CDOs, credit derivatives, and other products temporarily boosted profitability, nothing prevented industry participants from competing away excess profits resulting from these new products--in fact, a strong case can be made that competitive forces led to the demise of several financial companies and virtually the entire "shadow banking" system. This comes as no surprise--any student in a freshman microeconomics course knows that excess profits unprotected by an economic moat will eventually be competed away. Similarly, when industry profits decrease below cost of capital, firms will exit through failure, acquisition, or other means. We therefore believe profits across the banking industry should once again approximate costs of capital once the crisis is resolved.

As in all commodity industries, companies that excel at controlling costs--operating, credit, and funding--should be able to continue earning excess profits. Wells Fargo's WFC extremely low cost of deposits is a perfect example

of this, as is the company's history of superior underwriting. In other cases, banks benefit from high-return businesses other than banking. PNC Financial PNC has a profitable fund servicing business, US Bancorp USB owns a payment processing operation, and both have profitable wealth management arms. The low capital requirements of these service businesses tend to boost overall returns as well, and their relative stability helps to keep these banks from venturing too far afield in search of higher returns. It's therefore not surprising that these narrow-moat banks have fared better than most in recent months. We don't believe the advantages developed by these companies over many years are likely to disappear anytime soon, and we expect that these banks are likely to continue producing returns well in excess of their cost of capital.

Regulation Will Not Affect All Participants Equally

Much has been made of the prospects for increased regulation of the banking industry, and for good reason. Lax regulation of subprime mortgages, derivatives, and other areas of the financial system no doubt contributed to the mess plaguing the financial system.

Some industry observers have put forth the possibility that banking could begin to resemble a utility in the future, rather than the profitable growth industry it has been over the past few decades. In our opinion, this comparison is tenuous at best. As Josh Peters, equities strategist and editor of Morningstar DividendInvestor points out in "The Ultimate Dividend Playbook", utilities are naturally endowed with a substantial economic moat. In most cases, a particular utility is the sole supplier to a geographic area. Additionally, utilities are capital intensive, creating a sizable barrier to entry. It should be obvious that the banking business has neither of these features. Utility regulation is meant to limit profitability and protect customers--the banking industry suffered from the opposite problem. It is now obvious that the banking sector's problem was not excess returns, but in fact the inability to generate acceptable returns without taking on unacceptable risk.

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Industry Focus: US Regional Banks

Furthermore, any attempts by regulators to control pricing in the banking industry are likely to end in disaster. On the other hand, regulation meant to reduce leverage and excessive risk-taking is almost a certainty. In assessing the effects of this change on a particular bank, it is important to identify the source of past returns. In the case of banks like Flagstar Bancorp FBC, excessive leverage and overreliance on new financial products undoubtedly were the factors responsible for the 20%-plus returns on equity it achieved earlier in the decade. However, Wells Fargo was earning 20% returns on equity in the 1980s, long before irrational exuberance took hold across the lending industry, and the superior economic characteristics of the business outlined above are still in place. In our opinion, banks like Wells are therefore less likely to suffer from a regulatory crackdown.

Furthermore, as leverage is reduced across the industry, the irresistible forces of competition will eventually drive industry returns back to an appropriate level, as firms react to the new operating environment. In fact, lending spreads are already the highest they have been in years, as rational competition has returned to the market. New regulatory policies could also benefit banks--higher capital and loan loss reserve requirements should help smooth the boom/bust cycle that periodically plagues the banking industry. Making the banking system safer will not necessarily reduce profitability--the pharmaceutical industry is heavily regulated for safety, yet quite profitable. Finally, regulators must also consider the second-order effects of overly harsh new requirements. If profitability is artificially limited, investors will be reluctant to provide the capital necessary to keep the financial system--and the economy--functioning. From a macroeconomic perspective, growth is likely to be muted as the economy deleverages, but how will the system recover if future growth and profitability are hampered by regulation?

It's Not Time to Swing for the Fences

The implications of the coming changes are most serious for the weakest banks. Those that struggled to achieve their

cost of capital during the boom years will face enormous pressures as the recession continues, and many will likely exit or be acquired at distressed prices, as assets are transferred to more productive uses. The mismanaged assets of Washington Mutual and National City are no doubt better off in the hands of J.P. Morgan Chase JPM and PNC, and we expect this trend to continue for some time. Banks that could not achieve satisfactory returns in the boom years will surely fare even worse without the tail winds provided by excessive leverage, perfect credit, and structured products. While a few of these weaker banks are likely to survive and perhaps experience a spectacular increase in stock price from current levels, we place these types of bets firmly in the category of speculation. Some of these players will surely not make it.

Stick to the High Ground, and Focus on Moats

On the other hand, the strongest regional and superregional banks--those with established economic moats--could benefit from the changes to come. The ability to cheaply acquire assets and market share from weakened or failed competitors could result in a nice boost to short-term growth, and the reputational benefits from passing through the crisis relatively unscathed could last for a long time, further strengthening competitive advantages where they already exist. Though Warren Buffett popularized the concept of economic moats, our own research also suggests that moats are a key factor in achieving investment success. In a highly competitive industry like banking, where truly durable competitive advantages are rare, moats are often even more important. For this reason, we recommend that investors focus their attentions on banks with narrow or wide moats and strong management teams, leaving the low-priced lottery tickets in the industry for others.