

1ST CONSTITUTION BANCORP
Form 10-K
March 23, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(Mark One)

ANNUAL REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file Number: 000-32891

1ST CONSTITUTION BANCORP
(Exact Name of Registrant as Specified in Its Charter)

New Jersey
(State or Other Jurisdiction of
Incorporation or Organization)

22-3665653
IRS Employer Identification
Number)

2650 Route 130, P.O. Box 634, Cranbury, NJ 08512
(Address of Principal Executive Offices, including Zip
Code)

(609) 655-4500
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Common Stock, No Par Value
Stock Purchase Rights Relating to Common Stock, No Par
Value

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Yes No

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 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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="radio"/>

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the registrant’s common stock held by non-affiliates of the registrant, computed by reference to the price at which the common stock was last sold, or the average bid and asked price of such common stock, as of the last business day of the registrant’s most recently completed second quarter, is \$30,426,038.

As of March 22, 2012, 5,094,235 shares of the registrant’s common stock were outstanding.

Portions of the registrant’s definitive Proxy Statement for its 2012 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

FORM 10-K

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Forward-Looking Statements

This Annual Report on Form 10-K contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 relating to, without limitation, our future economic performance, plans and objectives for future operations, and projections of revenues and other financial items that are based on our beliefs, as well as assumptions made by and information currently available to us. The words “may,” “will,” “anticipate,” “should,” “would,” “believe,” “contemplate,” “could,” “project,” “predict,” “expect,” “estimate,” “continue,” and “intend,” as well as other similar expressions of the future, are intended to identify forward-looking statements.

These forward-looking statements generally relate to our plans, objectives and expectations for future events and include statements about our expectations, beliefs, plans, objectives, intentions, assumptions and other statements that are not historical facts. These statements are based upon our opinions and estimates as of the date they are made. Although we believe that the expectations reflected in these forward-looking statements are reasonable, such forward-looking statements are subject to known and unknown risks and uncertainties that may be beyond our control, which could cause actual results, performance and achievements to differ materially from results, performance and achievements projected, expected, expressed or implied by the forward-looking statements.

Examples of events that could cause actual results to differ materially from historical results or those anticipated, expressed or implied include, without limitation, changes in the overall economy and interest rate changes; inflation, market and monetary fluctuations; the ability of our customers to repay their obligations; the accuracy of our financial statement estimates and assumptions, including the adequacy of the estimate made in connection with determining the adequacy of the allowance for loan losses; increased competition and its effect on the availability and pricing of deposits and loans; significant changes in accounting, tax or regulatory practices and requirements; changes in deposit flows, loan demand or real estate values; legislation or regulatory changes, including the Dodd-Frank Act; changes in monetary and fiscal policies of the U.S. Government; changes in loan delinquency rates or in our levels of non-performing assets; our ability to declare and pay dividends; changes in the economic climate in the market areas in which we operate; the frequency and magnitude of foreclosure of our loans; changes in consumer spending and saving habits; the effects of the health and soundness of other financial institutions, including the FDIC’s need to increase the Deposit Insurance Fund assessments; technological changes; the effect of harsh weather conditions, including hurricanes and man-made disasters; the economic impact of any future terrorist threats and attacks, acts of war or threats thereof and the response of the United States to any such threats and attacks; other risks described from time to time in our filings with the Securities and Exchange Commission (the “SEC”); and our ability to manage the risks involved in the foregoing. Although management has taken certain steps to mitigate any negative effect of the aforementioned items, significant unfavorable changes could severely impact the assumptions used and have an adverse effect on profitability. Additional information concerning the factors that could cause actual results to differ materially from those in the forward-looking statements is contained in Item 1. “Business”, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, and elsewhere in this Annual Report on Form 10-K and in our other filings with the SEC. However, other factors besides those listed in Item 1A. Risk Factors or discussed in this Annual Report also could adversely affect our results and you should not consider any such list of factors to be a complete list of all potential risks or uncertainties. Any forward-looking statements made by us or on our behalf speak only as of the date they are made. We undertake no obligation to publicly revise any forward-looking statements or cautionary factors, except as required by law.

PART I

Item 1. Business.

1st Constitution Bancorp

1st Constitution Bancorp (the “Company”) is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. The Company was organized under the laws of the State of New Jersey in February 1999 for the purpose of acquiring all of the issued and outstanding stock of 1st Constitution Bank (the “Bank”) and thereby enabling the Bank to operate within a bank holding company structure. The Company became an active bank holding company on July 1, 1999. As of December 31, 2011, the Company has two employees, both of whom are full-time. The Bank is a wholly-owned subsidiary of the Company. Other than its investment in the Bank, the Company currently conducts no other significant business activities.

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The main office of the Company and the Bank is located at 2650 Route 130 North, Cranbury, New Jersey 08512, and the telephone number is (609) 655-4500.

1st Constitution 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 principally 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 thirteen additional branch offices in downtown Cranbury, Hamilton Square, Hightstown, Hillsborough, Hopewell, Jamesburg, Lawrenceville, Perth Amboy, Plainsboro, Skillman, West Windsor, Fort Lee and Princeton, New Jersey. The Bank's deposits are insured up to applicable legal limits by the Federal Deposit Insurance Corporation ("FDIC"). As of December 31, 2011, the Bank had 148 employees, of which 132 were full-time employees.

Management efforts focus on positioning the Bank to meet the financial needs of the communities in Middlesex, Mercer and Somerset Counties and the Fort Lee area of Bergen County and to provide financial services to individuals, families, institutions and small businesses. To achieve this goal, the Bank is focusing its efforts on:

- personal service;
- expansion of its branch network;
- innovative product offerings; and
- technological advances and e-commerce.

Personal Service

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.

Expansion of Branch Network

On March 25, 2011, the Bank acquired certain deposit and other liabilities, real estate and related assets of the Rocky Hill, Hillsborough and Hopewell, New Jersey branch banking offices from another financial institution for a purchase price of \$9.85 million (the "March 2011 Acquisition"). The March 2011 Acquisition was completed pursuant to the terms and conditions of the Branch Purchase and Assumption Agreement and Agreement for Purchase dated as of December 30, 2010, which was previously disclosed on a Current Report on Form 8-K filed by the Company with the SEC on January 3, 2011.

As a result of the March 2011 Acquisition, the three branches became branches of the Bank. Included in the March 2011 Acquisition were the assumption of deposit liabilities of \$111.9 million, primarily consisting of demand deposits, and the acquisition of cash of approximately \$101.5 million, fixed assets of approximately \$4.6 million, which includes, without limitation, ownership of the real estate and improvements upon which the branches are

situated, and loans of \$862,000. The Bank recorded goodwill of approximately \$3.2 million and a core deposit intangible asset of approximately \$1.7 million as a result of the March 2011 Acquisition.

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.

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Innovative Product Offerings

The Bank's Mortgage Warehouse Unit provides a revolving line of credit that is available to licensed mortgage banking companies (the "Warehouse Line of Credit") and that has been successful since inception in 2008. The Warehouse Line of Credit is used by the mortgage banker to originate one-to-four family residential mortgage loans that are pre-sold to the secondary mortgage market, which includes state and national banks, national mortgage banking firms, insurance companies and government-sponsored enterprises, including the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and others. On average, an advance under the Warehouse Line of Credit remains outstanding for a period of less than 30 days, with repayment coming directly from the sale of the loan into the secondary mortgage market. Interest (the spread between our borrowing cost and the rate charged to the client) and a transaction fee are collected by the Bank at the time of repayment. Additionally, customers of the Warehouse Lines of Credit are required to maintain deposit relationships with the Bank that, on average, represent 10% to 15% of the loan balances. The Bank had outstanding Warehouse Line of Credit advances of \$249,345,831 at December 31, 2011.

Technological Advances and e-Commerce

The Bank recognizes that customers want to receive service via their most convenient delivery channel, be it the traditional branch office, by telephone, ATM, or the internet. For this reason, the Bank continues to enhance its e-commerce capabilities. At www.1stconstitution.com, customers have easy access to online banking, including account access, and to the Bank's bill payment system. Consumers can apply online for loans and interact with senior management through the e-mail system. Business customers have access to cash management information and transaction capability through the Bank's online Cash Manager product which permits business customers to make deposits, originate ACH payments, initiate wire transfers, retrieve account information and place "stop payment" orders. This overall expansion in electronic banking offers the Bank's customers means to access the Bank's services easily and at their own convenience.

Competition

The Bank experiences substantial competition in attracting and retaining deposits and in making loans. In attracting deposits and borrowers, the Bank competes with commercial banks, savings banks, and savings and loan associations, as well as regional and national insurance companies and non-bank financial institutions, regulated small loan companies and local credit unions, regional and national issuers of money market funds and corporate and government borrowers. Within the direct market area of the Bank, there are a significant number of offices of competing financial institutions. In New Jersey generally, and in the Bank's local market specifically, the Bank's most direct competitors are large commercial banks including Bank of America, PNC Bank, Wells Fargo and Sovereign Bank, as well as savings banks and savings and loan associations, including Provident Savings Bank and Hudson City Savings Bank.

The Bank is at a competitive disadvantage compared with these larger national and regional commercial and savings banks. By virtue of their larger capital, asset size or reserves, many of such institutions have substantially greater lending limits (ceilings on the amount of credit a bank may provide to a single customer that are linked to the institution's capital) and other resources than the Bank. Many such institutions are empowered to offer a wider range of services, including trust services, than the Bank and, in some cases, have lower funding costs (the price a bank must pay for deposits and other borrowed monies used to make loans to customers) than the Bank. In addition to having established deposit bases and loan portfolios, these institutions, particularly large national and regional commercial and savings banks, have the financial ability to finance extensive advertising campaigns and to allocate considerable resources to locations and products perceived as profitable.

In addition, non-bank financial institutions offer services that compete for deposits with the Bank. For example, brokerage firms and insurance companies offer such instruments as short-term money market funds, corporate and government securities funds, mutual funds and annuities. It is expected that competition in these areas will continue to increase. Some of these competitors are not subject to the same degree of regulation and supervision as the Company and the Bank and therefore may be able to offer customers more attractive products than the Bank.

However, management of the Bank believes that loans to small and mid-sized businesses and professionals, which represent the main commercial loan business of the Bank, are not always of primary importance to the larger banking institutions. The Bank competes for this segment of the market by providing responsive personalized services, making timely local decisions, and acquiring knowledge of its customers and their businesses.

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Lending Activities

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 has established disciplined and systematic procedures for approving and monitoring loans that vary depending on the size and nature of the loan.

Commercial Lending

The Bank offers a variety of commercial loan services, including term loans, lines of credit, and loans secured by equipment and receivables. A broad range of short-to-medium term commercial loans, both secured and unsecured, are made available to businesses for working capital (including inventory and receivables), business expansion (including acquisition and development of real estate and improvements), and the purchase of equipment and machinery. The Bank also makes construction loans to real estate developers for the acquisition, development and construction of residential subdivisions.

Commercial loans are granted based on the borrower's ability to generate cash flow to support its debt obligations and other cash related expenses. A borrower's ability to repay commercial loans is substantially dependent on the success of the business itself and on the quality of its management. As a general practice, the Bank takes as collateral a security interest in any available real estate, equipment, inventory, receivables or other personal property of its borrowers, although occasionally the Bank makes commercial loans on an unsecured basis. Generally, the Bank requires personal guaranties of its commercial loans to offset the risks associated with such loans.

Residential Consumer Lending

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. Home mortgage lending is unique in that a broad geographic territory may be serviced by originators working from strategically placed offices either within the Bank's traditional banking facilities or from affordable storefront locations in commercial buildings. The Bank also offers construction loans, second mortgage home improvement loans and home equity lines of credit.

The Bank finances the construction of individual, owner-occupied houses on the basis of written underwriting and construction loan management guidelines. First mortgage construction loans are made to contractors and are secured by real estate that is both a pre-sold and a "speculation" basis. Such loans are also made to qualified individual borrowers and are generally supported by a take-out commitment from a permanent lender. The Bank makes residential construction loans to individuals who intend to erect owner occupied housing on a purchased parcel of real estate. The construction phase of these loans has certain risks, including the viability of the contractor, the contractor's ability to complete the project and changes in interest rates.

In most cases, the Bank will sell its mortgage loans with terms of 15 years or more in the secondary market. The sale to the secondary market allows the Bank to hedge against the interest rate risks related to such lending operations. This brokerage arrangement allows the Bank to accommodate its clients' demands while eliminating the interest rate risk for the 15- to 30- year period generally associated with such loans.

The Bank in most cases requires borrowers to obtain and maintain title, fire, and extended casualty insurance, and, where required by applicable regulations, flood insurance. The Bank maintains its own errors and omissions insurance policy to protect against loss in the event of failure of a mortgagor to pay premiums on fire and other hazard

insurance policies. Mortgage loans originated by the Bank customarily include a “due on sale” clause, which gives the Bank the right to declare a loan immediately due and payable in certain circumstances, including, without limitation, upon the sale or other disposition by the borrower of the real property subject to a mortgage. In general, the Bank enforces due on sale clauses. Borrowers are typically permitted to refinance or repay loans at their option without penalty.

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Non-Residential Consumer Lending

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. The Bank also conducts various indirect lending activities through established retail companies in its market areas. Non-residential consumer loans are attractive to the Bank because they typically have a shorter term and carry higher interest rates than are charged on other types of loans. Non-residential consumer loans, however, do pose additional risk of collectibility when compared to traditional types of loans, such as residential mortgage loans.

Consumer loans are granted based on employment and financial information solicited from prospective borrowers as well as credit records collected from various reporting agencies. The stability of the borrower, willingness to pay and credit history are the primary factors to be considered. The availability of collateral is also a factor considered in making such a loan. The Bank seeks collateral that can be assigned and has good marketability with a clearly adequate margin of value. The geographic area of the borrower is another consideration, with preference given to borrowers in the Bank's primary market areas.

Supervision and Regulation

Banking is a complex, highly regulated industry. The primary goals of the bank regulatory scheme are to maintain a safe and sound banking system and to facilitate the conduct of monetary policy. In furtherance of those goals, Congress has created several largely autonomous regulatory agencies and enacted a myriad of legislation that governs banks, bank holding companies and the banking industry. This regulatory framework is intended primarily for the protection of depositors and not for the protection of the Company's shareholders or creditors. Descriptions of, and references to, the statutes and regulations below are brief summaries thereof, and do not purport to be complete. The descriptions are qualified in their entirety by reference to the specific statutes and regulations discussed.

State and Federal Regulations

The Company is a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended (the "BHCA"). As a bank holding company, the Company is subject to inspection, examination and supervision by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") and is required to file with the Federal Reserve Board an annual report and such additional information as the Federal Reserve Board may require pursuant to the BHCA. The Federal Reserve Board may also make examinations of the Company and its subsidiaries. The Company is subject to capital standards similar to, but separate from, those applicable to the Bank.

Under the BHCA, bank holding companies that are not financial holding companies generally may not acquire the ownership or control of more than 5% of the voting shares, or substantially all of the assets, of any company, including a bank or another bank holding company, without the Federal Reserve Board's prior approval. The Company has not applied to become a financial holding company but did obtain such approval to acquire the shares of the Bank. A bank holding company that does not qualify as a financial holding company is generally limited in the types of activities in which it may engage to those that the Federal Reserve Board had recognized as permissible for bank holding companies prior to the date of enactment of the Gramm-Leach-Bliley Financial Services Modernization Act of 1999. For example, a holding company and its banking subsidiary are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit or lease or sale of any property or the furnishing of services. At present, the Company does not engage in any significant activity other than owning the Bank.

In addition to federal bank holding company regulation, the Company is registered as a bank holding company with the New Jersey Department of Banking and Insurance (the "Department"). The Company is required to file with the Department copies of the reports it files with the federal banking and securities regulators.

On October 27, 2010, the Company repurchased from the United States Department of the Treasury (the “Treasury”) all of the outstanding shares of the Company’s Fixed Rate Cumulative Perpetual Preferred Stock, Series B (“Preferred Stock Series B”) that were issued to the Treasury pursuant to the Troubled Asset Relief Program (“TARP”) Capital Purchase Program (the “CPP”) under the Emergency Economic Stabilization Act of 2008 (“EESA”) . During the period in which the Preferred Stock Series B was outstanding, the Company was subject to restrictions contained in the agreement between the Treasury and the Company related to the sale of the Preferred Stock Series B which, among other things, restricted the payment of cash dividends, the making of other distributions by the Company on its common stock and the repurchase of its shares of common stock or other capital stock or other equity securities of any kind of the Company or any of its or its affiliates’ trust preferred securities without approval of the Treasury, with certain exceptions. Further, the Company was prohibited by the terms of the Preferred Stock Series B from paying dividends on the common stock of the Company or redeeming or otherwise acquiring its common stock or certain other of its equity securities unless all dividends on the Preferred Stock Series B were declared and either paid in full or set aside, with certain limited exceptions.

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In addition, during the period in which the Preferred Stock Series B was outstanding, EESA, as amended by The American Recovery and Reinvestment Act of 2009 (the “Stimulus Package Act”), and guidance issued by the Treasury with respect to this legislation limited executive compensation, required the reporting of information to the Treasury and others, limited the deductibility for Federal income tax purposes of compensation paid to certain executives in excess of \$500,000 per year, limited the payment of certain severance and change in control payments to certain executives, limited the type and amount of compensation paid to our highest paid executive (our chief executive officer) of the Company or the Bank, imposed a claw back of certain compensation paid to certain executives of the Company or the Bank and imposed new corporate governance requirements on the Company, including the inclusion of a non-binding “say on pay” proposal in the Company’s annual proxy statement.

The Federal Reserve Board has issued a supervisory letter to bank holding companies that contains guidance on when the board of directors of a bank holding company should eliminate or defer or severely limit dividends including, for example, when net income available for shareholders for the past four quarters net of previously paid dividends paid during that period is not sufficient to fully fund the dividends. The letter also contains guidance on the redemption of stock by bank holding companies which urges bank holding companies to advise the Federal Reserve of any such redemption or repurchase of common stock for cash or other value which results in the net reduction of a bank holding company’s capital at the beginning of the quarter below the capital outstanding at the end of the quarter.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”). The Dodd-Frank Act has and will continue to have a broad impact on the financial services industry, including significant regulatory and compliance changes such as, among other things, (i) enhanced resolution authority of troubled and failing banks and their holding companies; (ii) increased capital and liquidity requirements; (iii) increased regulatory examination fees; (iv) changes to assessments to be paid to the FDIC for federal deposit insurance; and (v) numerous other provisions designed to improve supervision and oversight of, and strengthen safety and soundness for, the financial services sector. Additionally, the Dodd-Frank Act established a new framework for systemic risk oversight within the financial system to be distributed among new and existing federal regulatory agencies, including the Financial Stability Oversight Council, the Federal Reserve, the Office of the Comptroller of the Currency, and the FDIC.

Effective in July 2011, the Dodd-Frank Act eliminated federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. This significant change to existing law has not had an adverse impact on our net interest margin for the year ended December 31, 2011.

The Dodd-Frank Act also changed the base for FDIC deposit insurance assessments. Assessments are now based on average consolidated total assets less tangible equity capital of a financial institution, rather than on deposits. The Dodd-Frank Act also increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per account, retroactive to January 1, 2008, and non-interest bearing transaction accounts and Interest on Lawyer Trust Accounts (IOLTAs) where the accrued interest is paid to state bar associations or other organizations to fund legal assistance programs have unlimited deposit insurance through December 31, 2012. The legislation also increased the required minimum reserve ratio for the Deposit Insurance Fund, from 1.15% to 1.35% of insured deposits, and directed the FDIC to offset the effects of increased assessments on depository institutions with less than \$10 billion in assets, including the Bank.

The Dodd-Frank Act requires publicly traded companies to give their stockholders a non-binding vote on executive compensation (“say on pay”) and so-called “golden parachute” payments. It also provides that the listing standards of the national securities exchanges shall require listed companies to implement and disclose “clawback” policies mandating the recovery of incentive compensation paid to executive officers in connection with accounting restatements. Because the Company qualifies as a “smaller reporting company” under the rules of the Securities and Exchange Commission, the “say on pay” requirement is not applicable to the Company until 2013.

The Dodd-Frank Act creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than \$10 billion in assets, which authority does not extend to the Bank at this time since we do not meet the asset threshold.

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The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws. The Dodd-Frank Act requires minimum leverage (Tier 1) and risk based capital requirements for bank and savings and loan holding companies, which exclude certain instruments that previously have been eligible for inclusion by bank holding companies as Tier 1 capital, such as trust preferred securities; however, bank holding companies with assets of less than \$15 billion as of December 31, 2009 are permitted to include trust preferred securities that were issued before May 19, 2010 as Tier 1 capital and bank holding companies with assets of less than \$500 million are permitted to continue to issue trust preferred securities and have them count as Tier 1 capital.

It is difficult to predict at this time what specific impact the Dodd-Frank Act and certain yet to be written implementing rules and regulations will have on community banks. However, it is expected that at a minimum, they will increase our operating and compliance costs and could increase our interest expense.

Capital Adequacy

The Company is required to comply with minimum capital adequacy standards established by the Federal Reserve Board. There are two basic measures of capital adequacy for bank holding companies and the depository institutions that they own: a risk based measure and a leverage measure. All applicable capital standards must be satisfied for a bank holding company to be considered in compliance.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) required each federal banking agency to revise its risk-based capital standards to ensure that those standards take adequate account of interest rate risk, concentration of credit risk and the risks of non-traditional activities. In addition, pursuant to FDICIA, each federal banking agency has promulgated regulations, specifying the levels at which a bank would be considered “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” or “critically undercapitalized,” and to take certain mandatory and discretionary supervisory actions based on the capital level of the institution.

The regulations implementing these provisions of FDICIA provide that a bank will be classified as “well capitalized” if it (i) has a total risk-based capital ratio of at least 10.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 6.0 percent, (iii) has a Tier 1 leverage ratio of at least 5.0 percent, and (iv) meets certain other requirements. A bank will be classified as “adequately capitalized” if it (i) has a total risk-based capital ratio of at least 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 4.0 percent, (iii) has a Tier 1 leverage ratio of (a) at least 4.0 percent, or (b) at least 3.0 percent if the bank was rated 1 in its most recent examination and is not experiencing or anticipating significant growth, and (iv) does not meet the definition of “well capitalized.” A bank will be classified as “undercapitalized” if it (i) has a total risk-based capital ratio of less than 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 4.0 percent, or (iii) has a Tier 1 leverage ratio of (a) less than 4.0 percent, or (b) less than 3.0 percent if the bank was rated 1 in its most recent examination and is not experiencing or anticipating significant growth. A bank will be classified as “significantly undercapitalized” if it (i) has a total risk-based capital ratio of less than 6.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 3.0 percent, or (iii) has a Tier 1 leverage ratio of less than 3.0 percent. An institution will be classified as “critically undercapitalized” if it has a tangible equity to total assets ratio that is equal to or less than 2.0 percent. An insured depository institution may be deemed to be in a lower capitalization category if the FDIC has determined (i) that the insured depository institution is in unsafe or unsound condition or (ii) that, in the most recent examination of the insured depository institution, the insured depository institution received and has not corrected a less-than-satisfactory rating for any of the categories of asset quality, management, earnings, or liquidity.

As of December 31, 2011, the Bank’s capital ratios exceed the requirements to be considered a “well capitalized” institution under these regulations.

The risk-based capital guidelines for bank holding companies such as the Company currently require a minimum ratio of total capital to risk-weighted assets (including off-balance sheet activities, such as standby letters of credit) of 8%. At least half of the total capital is required to be Tier 1 capital, consisting principally of common shareholders' equity, non-cumulative perpetual preferred stock, a limited amount of cumulative perpetual preferred stock and minority interest in the equity accounts of consolidated subsidiaries, less goodwill. The remainder of the total capital (Tier 2 capital) may consist of a limited amount of subordinated debt and intermediate-term preferred stock, certain hybrid capital instruments and other debt securities, perpetual preferred stock and a limited amount of the general loan loss allowance. At December 31, 2011, the Company maintained a Tier 1 capital ratio of 11.27% and total qualifying capital ratio of 12.22%.

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In addition to the risk-based capital guidelines, the federal banking regulators established minimum leverage ratio (Tier 1 capital to total assets) guidelines for bank holding companies. These guidelines provide for a minimum leverage ratio of 3% for those bank holding companies which have the highest regulatory examination ratings and are not contemplating or experiencing significant growth or expansion. All other bank holding companies are required to maintain a leverage ratio of at least 1% to 2% above the 3% stated minimum. The Company's leverage ratio at December 31, 2011 was 8.82%.

The current risk-based capital guidelines are based upon the 1988 capital accord of the International Basel Committee on Banking Supervision, a committee of central banks and bank supervisors and regulators from the major industrialized countries that develops broad policy guidelines for use by each country's supervisors in determining the supervisory policies they apply. A new international accord, referred to as Basel II, became mandatory for large or "core" international banks outside the U.S. in 2008 (total assets of \$250 billion or more or consolidated foreign exposures of \$10 billion or more) and emphasizes internal assessment of credit, market and operational risk, as well as supervisory assessment and market discipline in determining minimum capital requirements. It is optional for other banks. In December 2010, the Group of Governors and Heads of Supervisors of the Basel Committee on Banking Supervision, the oversight body of the Basel Committee, published its "calibrated" capital standards for major banking institutions, referred to as Basel III. Under these standards, when fully phased-in on January 1, 2019, banking institutions will be required to maintain heightened Tier 1 common equity, Tier 1 capital, and total capital ratios, as well as maintaining a "capital conservation buffer." The Tier 1 common equity and Tier 1 capital ratio requirements will be phased-in incrementally between January 1, 2013 and January 1, 2015; the deductions from common equity made in calculating Tier 1 common equity will be phased-in incrementally over a four-year period commencing on January 1, 2014; and the capital conservation buffer will be phased-in incrementally between January 1, 2016 and January 1, 2019. The Basel Committee also announced that a countercyclical buffer of 0% to 2.5% of common equity or other fully loss-absorbing capital will be implemented according to national circumstances as an extension of the conservation buffer.

On May 30, 2006, the Company established 1st Constitution Capital Trust II, a Delaware business trust and wholly-owned subsidiary of the Company ("Trust II"), for the sole purpose of issuing \$18 million of trust preferred securities (the "Capital Securities"). Trust II utilized the \$18 million proceeds along with \$557,000 invested in Trust II by the Company to purchase \$18,557,000 of floating rate junior subordinated debentures issued by the Company and due to mature on June 15, 2036. The Capital Securities were issued in connection with a pooled offering involving approximately 50 other financial institution holding companies. All of the Capital Securities were sold to a single pooling vehicle. The floating rate junior subordinated debentures are the only asset of Trust II and have terms that mirror the Capital Securities. These debentures are redeemable in whole or in part prior to maturity after June 15, 2011. Trust II is obligated to distribute all proceeds of a redemption of these debentures, whether voluntary or upon maturity, to holders of the Capital Securities. The Company's obligation with respect to the Capital Securities and the debentures, when taken together, provide a full and unconditional guarantee on a subordinated basis by the Company of the obligations of Trust II to pay amounts when due on the Capital Securities. Interest payments on the floating rate junior subordinated debentures flow through Trust II to the pooling vehicle.

On December 23, 2008, pursuant to the TARP CPP under EESA, the Company entered into a Letter Agreement, including the Securities Purchase Agreement – Standard Terms, with the Treasury, pursuant to which the Company issued and sold, and the Treasury purchased (i) 12,000 shares of the Company's Preferred Stock Series B and (ii) a ten-year warrant to purchase up to 200,222 shares of the Company's common stock, no par value, at an initial exercise price of \$8.99 per share, for aggregate cash consideration of \$12 million. As a result of the declarations of stock dividends to holders of common stock since the issuance of the warrant, the shares of common stock underlying the warrant have been adjusted to 243,371 shares and the initial exercise price was adjusted to \$7.396 per share. On October 27, 2010, the Company repurchased all of the outstanding shares of the Preferred Stock Series B from the Treasury, and the warrant was sold by the Treasury on November 23, 2011. As of the date hereof, the warrant

remains outstanding.

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The Preferred Stock Series B paid quarterly cumulative dividends at a rate of 5% per year for the first five years and thereafter at a rate of 9% per year and had a liquidation preference of \$1,000 per share. The warrant provides for the adjustment of the exercise price and the number of shares of the Company's common stock issuable upon exercise pursuant to customary anti-dilution provisions, such as upon stock splits or distributions of securities or other assets to holders of the Company's common stock, and upon certain issuances of the Company's common stock at or below a specified price relative to the initial exercise price. The warrant is immediately exercisable and expires in December 2018.

Restrictions on Dividends

The primary source of cash to pay dividends, if any, to the Company's shareholders and to meet the Company's obligations is dividends paid to the Company by the Bank. Dividend payments by the Bank to the Company are subject to the New Jersey Banking Act of 1948 (the "Banking Act") and the Federal Deposit Insurance Act (the "FDIA"). Under the Banking Act and the FDIA, the Bank may not pay any dividends if after paying the dividend, it would be undercapitalized under applicable capital requirements. In addition to these explicit limitations, the federal regulatory agencies are authorized to prohibit a banking subsidiary or bank holding company from engaging in an unsafe or unsound banking practice. Depending upon the circumstances, the agencies could take the position that paying a dividend would constitute an unsafe or unsound banking practice.

It is the policy of the Federal Reserve Board that bank holding companies should pay cash dividends on common stock only out of income available over the immediately preceding year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividend that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiary. A bank holding company may not pay dividends when it is insolvent.

The Company has never paid a cash dividend and the Company's Board of Directors has no plans to pay a cash dividend in the foreseeable future. In addition, please refer to the discussion above of the Preferred Stock Series B under the heading "State and Federal Regulations" for additional restrictions on cash dividends that applied to the Company when those shares were outstanding.

The Bank paid a stock dividend every year from 1993 until 1999, when it was acquired by the Company. The Company has paid a stock dividend every year since its formation in 1999. From 1999 through 2006, the Company paid a 5% stock dividend each year. In 2006 and 2007, the Company declared a 6% stock dividend. In 2008, 2009, 2010, and 2011, the Company declared a 5% stock dividend. The Company also declared a two-for-one stock split on January 20, 2005, which was paid on February 28, 2005 to shareholders of record as of the close of business on February 10, 2005. All share and per share data has been retroactively adjusted for the stock split and stock dividends.

Priority on Liquidation

The Company is a legal entity separate and distinct from the Bank. The rights of the Company as the sole shareholder of the Bank, and therefore the rights of the Company's creditors and shareholders, to participate in the distributions and earnings of the Bank when the Bank is not in bankruptcy, are subject to various state and federal law restrictions as discussed above under the heading "Restrictions on Dividends." In the event of a liquidation or other resolution of an insured depository institution such as the Bank, the claims of depositors and other general or subordinated creditors are entitled to a priority of payment over the claims of holders of an obligation of the institution to its shareholders (the Company) or any shareholder or creditor of the Company. The claims on the Bank by creditors include obligations in respect of federal funds purchased and certain other borrowings, as well as deposit liabilities.

Financial Institution Legislation

The Gramm-Leach-Bliley Financial Modernization Act of 1999 (the “Modernization Act”) became effective in early 2000. The Modernization Act:

- allows bank holding companies meeting management, capital and Community Reinvestment Act standards to engage in a substantially broader range of non-banking activities than is permissible for a bank holding company, including insurance underwriting and making merchant banking investments in commercial and financial companies; if a bank holding company elects to become a financial holding company, it files a certification, effective in 30 days, and thereafter may engage in certain financial activities without further approvals;

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- allows banks to establish subsidiaries to engage in certain activities which a financial holding company could engage in, if the bank meets certain management, capital and Community Reinvestment Act standards;
- allows insurers and other financial services companies to acquire banks and removes various restrictions that currently apply to bank holding company ownership of securities firms and mutual fund advisory companies; and establishes the overall regulatory structure applicable to financial holding companies that also engage in insurance and securities operations.

The Modernization Act modified other laws, including laws related to financial privacy and community reinvestment.

The Modernization Act also amended the BHCA and the Bank Merger Act to require the federal banking agencies to consider the effectiveness of a financial institution's anti-money laundering activities when reviewing an application under these acts.

Additional proposals to change the laws and regulations governing the banking and financial services industry are frequently introduced in Congress, in state legislatures and before the various bank regulatory agencies. The likelihood and timing of any such changes and the impact such changes might have on the Company cannot be determined at this time.

The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act"), which became law on July 30, 2002, added new legal requirements affecting corporate governance, accounting and corporate reporting for companies with publicly traded securities.

The Sarbanes-Oxley Act provides for, among other things:

- a prohibition on personal loans made or arranged by the issuer to its directors and executive officers (except for loans made by a bank subject to Regulation O of the Federal Reserve Board);
 - independence requirements for audit committee members;
- disclosure of whether at least one member of the audit committee is a "financial expert" (as such term is defined by the Securities and Exchange Commission ("SEC") and if not, why not;
 - independence requirements for outside auditors;
- a prohibition by a company's registered public accounting firm from performing statutorily mandated audit services for the company if the company's chief executive officer, chief financial officer, comptroller, chief accounting officer or any person serving in equivalent positions had been employed by such firm and participated in the audit of such company during the one-year period preceding the audit initiation date;
- certification of financial statements and annual and quarterly reports by the principal executive officer and the principal financial officer;
- the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement due to corporate misconduct;
 - disclosure of off-balance sheet transactions;

- two-business day filing requirements for insiders filing Forms 4;
- disclosure of a code of ethics for financial officers and filing a Form 8-K for a change or waiver of such code;

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- “real time” filing of periodic reports;
- posting of certain SEC filings and other information on the company’s website;
- the reporting of securities violations “up the ladder” by both in-house and outside attorneys;
 - restrictions on the use of non-GAAP financial measures;
 - the formation of a public accounting oversight board; and
- various increased criminal penalties for violations of securities laws.

Additionally, Section 404 of the Sarbanes-Oxley Act requires that a public company subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), include in its annual report (i) a management’s report on internal control over financial reporting assessing the company’s internal controls, and (ii) if the company is an “accelerated filer” or a “large accelerated filer”, an auditor’s attestation report, completed by the registered public accounting firm that prepares or issues an accountant’s report which is included in the company’s annual report, attesting to the effectiveness of management’s internal control assessment.

Each of the national stock exchanges, including the Nasdaq Global Market where the Company’s common stock is listed, have in place corporate governance rules, including rules requiring director independence, and the adoption of charters for the nominating, corporate governance, and audit committees. These rules are intended to, among other things, make the board of directors independent of management and allow shareholders to more easily and efficiently monitor the performance of companies and directors. These burdens increase the Company’s legal and accounting fees and the amount of time that the Board of Directors and management must devote to corporate governance issues.

Section 302(a) of Sarbanes-Oxley requires the Company’s principal executive officer and principal financial officer to certify that the Company’s Quarterly and Annual Reports do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of circumstances under which they were made, not misleading. The rules have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of the Company’s disclosure controls and procedures and internal control over financial reporting; they have made certain disclosures to the Company’s auditors and the audit committee of the Board of Directors about the Company’s internal control over financial reporting; and they have included information in the Company’s Quarterly and Annual Reports about their evaluation of disclosure controls and procedures and whether there have been significant changes in the Company’s internal controls over financial reporting.

As part of the USA Patriot Act, signed into law on October 26, 2001, Congress adopted the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (the “Act”). The Act authorizes the Secretary of the Treasury, in consultation with the heads of other government agencies, to adopt special measures applicable to financial institutions such as banks, bank holding companies, broker-dealers and insurance companies. Among its other provisions, the Act requires each financial institution: (i) to establish an anti-money laundering program; (ii) to establish due diligence policies, procedures and controls that are reasonably designed to detect and report instances of money laundering in United States private banking accounts and correspondent accounts maintained for non-United States persons or their representatives; and (iii) to avoid establishing, maintaining, administering, or managing correspondent accounts in the United States for, or on behalf of, a foreign shell bank that does not have a physical presence in any country. In addition, the Act expands the circumstances under which funds in a bank account may be forfeited and requires covered financial institutions to respond under certain circumstances to requests for information from federal banking agencies within 120 hours.

The Department of Treasury has issued regulations implementing the due diligence requirements. These regulations require minimum standards to verify customer identity and maintain accurate records, encourage cooperation among financial institutions, federal banking agencies, and law enforcement authorities regarding possible money laundering or terrorist activities, prohibit the anonymous use of “concentration accounts,” and require all covered financial institutions to have in place an anti-money laundering compliance program.

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As a New Jersey-chartered commercial bank, the Bank is subject to supervision and examination by the New Jersey Department of Banking and Insurance. The Bank is also subject to regulation by the FDIC, which is its principal federal bank regulator.

The Bank must comply with various requirements and restrictions under federal and state law, including the maintenance of reserves against deposits, restrictions on the types and amounts of loans that may be granted and the interest that may be charged thereon, limitations on the types of investments that may be made and the services that may be offered, and restrictions on dividends as described in the preceding section. Consumer laws and regulations also affect the operations of the Bank. In addition to the impact of regulation, commercial banks are affected significantly by the actions of the Federal Reserve Board which influence the money supply and credit availability in the national economy.

Community Reinvestment Act

Under the Community Reinvestment Act (“CRA”), as implemented by FDIC regulations, a bank has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods. CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution’s discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with CRA. CRA requires the FDIC to assess an institution’s record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by the applicable institution. The CRA requires public disclosure of an institution’s CRA rating and requires that the FDIC provide a written evaluation of an institution’s CRA performance utilizing a four-tiered descriptive rating system. An institution’s CRA rating is considered in determining whether to grant charters, branches and other deposit facilities, relocations, mergers, consolidations and acquisitions. Performance less than satisfactory may be the basis for denying an application. At its last CRA examination, the Bank was rated “satisfactory” under CRA.

FIRREA

Under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (“FIRREA”), a depository institution insured by the FDIC can be held liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC in connection with (i) the default of a commonly controlled FDIC-insured depository institution or (ii) any assistance provided by the FDIC to a commonly controlled FDIC-insured depository institution in danger of default. These provisions have commonly been referred to as FIRREA’s “cross guarantee” provisions. Further, under FIRREA, the failure to meet capital guidelines could subject a bank to a variety of enforcement remedies available to federal regulatory authorities.

FIRREA also imposes certain independent appraisal requirements upon a bank’s real estate lending activities and further imposes certain loan-to-value restrictions on a bank’s real estate lending activities. The bank regulators have promulgated regulations in these areas.

Insurance of Deposits

The Bank’s deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. Due to the recent difficult economic conditions, deposit insurance per account owner was raised to \$250,000. That limit was made permanent by the Dodd-Frank Act. The FDICIA is applicable to depository institutions and deposit insurance. The FDICIA requires the FDIC to establish a risk-based assessment system for all insured depository institutions. Under this legislation, the FDIC is required to establish an insurance premium assessment system based upon: (i) the probability that the insurance fund will incur a loss with respect to the institution, (ii) the likely amount of the loss,

and (iii) the revenue needs of the insurance fund. In compliance with this mandate, the FDIC has developed a matrix that sets the assessment premium for a particular institution in accordance with its capital level and overall rating by the primary regulator. Under the matrix as currently in effect, the assessment rate ranges from 0 to 27 basis points of assessed deposits. The FDIC's Transaction Account Guarantee Program (the "TAG Program"), one of two components of the Temporary Liquidity Guarantee Program (the "TLG Program"), provides participating depository institutions full federal deposit insurance coverage for non-interest bearing transaction deposit accounts, regardless of dollar amount.

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Under the TAG Program, effective December 5, 2008, insured depository institutions that have not opted out of the TAG Program are subject to a 0.10% surcharge applied to non-interest bearing transaction deposit account balances in excess of \$250,000, which surcharge will be added to the institution's existing risk-based deposit insurance assessments. The Bank opted in the TAG Program, which was initially set to expire on December 31, 2009. On August 26, 2009, the FDIC extended the program until June 30, 2010, and revised the annualized assessment rate charged for the guarantee to between 15 and 25 basis points, depending on the institution's risk category, on balances in noninterest-bearing transaction accounts that exceed the existing deposit insurance limit of \$250,000. On April 13, 2010, the FDIC announced a second extension of the program until December 31, 2010. The Bank opted into the extensions.

The Dodd-Frank Act provides that non-interest bearing transaction accounts have unlimited deposit insurance coverage from December 31, 2010 through December 31, 2012. This temporary unlimited deposit insurance coverage replaced the TAG Program that expired on December 31, 2010 and does not apply to all accounts covered under the TAG Program. It covers only noninterest-bearing transaction accounts and Interest on Lawyer Trust Accounts (IOLTAs) where the accrued interest is paid to state bar associations or other organizations to fund legal assistance programs. Beginning January 1, 2011, low-interest consumer checking accounts (NOW Accounts) and all other fiduciary accounts maintained by attorneys or other entities are no longer eligible for the unlimited deposit insurance coverage. Unlike the TAG Program, which allowed banks to opt in, the temporary unlimited insurance coverage applies at all FDIC-insured institutions and is no longer funded by separate premiums.

The second component of the Temporary Liquidity Guarantee Program, the Debt Guarantee Program, guarantees certain senior unsecured debt of participating organizations. The Bank opted not to participate in this component of the Temporary Liquidity Guarantee Program.

In February 2011, the FDIC adopted final rules to implement changes required by the Dodd-Frank Act with respect to the FDIC assessment rules. In particular, the definition of an institution's deposit insurance assessment base is being changed from total deposits to total assets less tangible equity. In addition, the FDIC is revising the deposit insurance assessment rates down. The changes were effective April 1, 2011. The new initial base assessment rates range from 5 to 9 basis points for Risk Category I banks to 35 basis points for Risk Category IV banks. Risk Category II and III banks will have an initial base assessment rate of 14 or 23 basis points, respectively. The new rates and assessment base have reduced our current FDIC insurance assessment for 2011 compared to 2010. However, if the risk category of the Bank changes adversely, our FDIC insurance premiums could increase.

Item 1A. Risk Factors.

The following are some important factors that could cause the Company's actual results to differ materially from those referred to or implied in any forward-looking statement. These are in addition to the risks and uncertainties discussed elsewhere in this Annual Report on Form 10-K and the Company's other filings with the SEC.

A prolonging of the economic downturn or the return of negative developments in the financial services industry could negatively impact our operations.

The global and U.S. economic downturn has resulted in uncertainty in the financial markets in general with the possibility of a slow recovery or a fall back into recession. The Federal Reserve, in an attempt to help the overall economy, has kept interest rates low through its targeted federal funds rate, the purchase of mortgage-backed securities and the purchase of the Treasury securities. If the Federal Reserve increases the federal funds rate, overall interest rates will likely rise which may negatively impact the housing markets and the U.S. economic recovery. A prolonging of the economic downturn or the return of negative developments in the financial services industry could

negatively impact our operations by causing an increase in our provision for loan losses and a deterioration of our loan portfolio. Such a downturn may also adversely affect our ability to originate or sell loans. The occurrence of any of these events could have an adverse impact our financial performance.

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A prolonging or worsening of the downturn affecting the economy and/or the real estate market in our primary market area would adversely affect our loan portfolio and our growth potential.

Much of the Company's lending is in northern and central New Jersey. As a result of this geographic concentration, a further continued significant broad-based deterioration in economic conditions in the New Jersey metropolitan area could have a material adverse impact on the quality of the Company's loan portfolio, results of operations and future growth potential. A prolonged decline in economic conditions in our market area could restrict borrowers' ability to pay outstanding principal and interest on loans when due, and consequently, adversely affect the cash flows and results of operation of the Company's business.

The Company's loan portfolio is largely secured by real estate collateral located in the State of New Jersey. Conditions in the real estate markets in which the collateral for the Company's loans are located strongly influence the level of the Company's non-performing loans and results of operations. A continued decline in the New Jersey real estate markets could adversely affect the Company's loan portfolio. Decreases in local real estate values would adversely affect the value of property used as collateral for our loans. Adverse changes in the economy also may have a negative effect on the ability of our borrowers to make timely repayments of their loans, which would have an adverse impact on our earnings.

The Company faces significant competition.

The Company faces significant competition from many other banks, savings institutions and other financial institutions which have branch offices or otherwise operate in the Company's market area. Non-bank financial institutions, such as securities brokerage firms, insurance companies and money market funds, engage in activities which compete directly with traditional bank business, which has also led to greater competition. Many of these competitors have substantially greater financial resources than the Company, including larger capital bases that allow them to attract customers seeking larger loans than the Company is able to accommodate and the ability to aggressively advertise their products and to allocate considerable resources to locations and products perceived as profitable. There can be no assurance that the Company and the Bank will be able to successfully compete with these entities in the future.

The Company is subject to interest rate risk.

The Company's earnings are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond the Company's control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, could influence not only the interest the Company receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) the Company's ability to originate loans and obtain deposits, (ii) the fair value of the Company's financial assets and liabilities, and (iii) the average duration of the Company's mortgage-backed securities portfolio. If the spread between the interest rates paid on deposits and other borrowings and the interest rates received on loans and other investments narrows, the Company's net interest income, and therefore earnings, could be adversely affected. This also includes the risk that interest-earning assets may be more responsive to changes in interest rates than interest-bearing liabilities, or vice versa (repricing risk), the risk that the individual interest rates or rate indices underlying various interest-earning assets and interest bearing liabilities may not change in the same degree over a given time period (basis risk), and the risk of changing interest rate relationships across the spectrum of interest-earning asset and interest-bearing liability maturities (yield curve risk).

Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on the Company's results of operations, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on the Company's financial condition and results of operations.

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The Company is subject to risks associated with speculative construction lending.

The risks associated with speculative construction lending include the borrower's inability to complete the construction process on time and within budget, the sale of the project within projected absorption periods, the economic risks associated with real estate collateral, and the potential of a rising interest rate environment. Such loans may include financing the development and/or construction of residential subdivisions. This activity may involve financing land purchase, infrastructure development (i.e. roads, utilities, etc.), as well as construction of residences or multi-family dwellings for subsequent sale by developer/builder. Because the sale of developed properties is integral to the success of developer business, loan repayment may be especially subject to the volatility of real estate market values. Management has established underwriting and monitoring criteria to minimize the inherent risks of speculative commercial real estate construction lending. Further, management concentrates lending efforts with developers demonstrating successful performance on marketable projects within the Bank's lending areas.

Our mortgage warehouse lending business represents a significant portion of our overall lending activity and is subject to numerous risks.

Our primary lending emphasis is the origination of commercial and commercial real estate loans and mortgage warehouse lines of credit. Based on the composition of our loan portfolio, the inherent primary risks are deteriorating credit quality, a decline in the economy, and a decline in New Jersey real estate market values. Any one, or a combination, of these events may adversely affect the loan portfolio and may result in increased delinquencies, loan losses and increased future provision levels.

A significant portion of our loan portfolio consists of the mortgage warehouse lines of credit. Risks associated with these loans include, without limitation, (i) credit risks relating to the mortgage bankers that borrow from us, (ii) the risk of intentional misrepresentation or fraud by any of such mortgage bankers, (iii) changes in the market value of mortgage loans originated by the mortgage banker, the sale of which is the expected source of repayment of the borrowings under a warehouse line of credit, due to changes in interest rates during the time in warehouse, or (iv) unsalable or impaired mortgage loans so originated, which could lead to decreased collateral value and the failure of a purchaser of the mortgage loan to purchase the loan from the mortgage banker.

The impact of interest rates on our mortgage warehouse business can be significant. Changes in interest rates can impact the number of residential mortgages originated and initially funded under mortgage warehouse lines of credit and thus our mortgage warehouse related revenues. A decline in mortgage rates generally increases the demand for mortgage loans. Conversely, in a constant or increasing rate environment, we would expect fewer loans to be originated. Although we use models to assess the impact of interest rates on mortgage related revenues, the estimates of net income produced by these models are dependent on estimates and assumptions of future loan demand, prepayment speeds and other factors which may overstate or understate actual subsequent experience. Further, the concentration of our loan portfolio on loans originated through our mortgage warehouse business increases the risk associated with our loan portfolio because of the concentration of loans in a single line of business, namely one-to-four family residential mortgage lending, and in a particular segment of that business, namely mortgage warehouse lending.

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings could decrease.

We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loan and delinquency experience, and we evaluate economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to

our allowance. Material additions to our allowance would materially decrease our net income.

In addition, bank regulators periodically review our loan portfolio and our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs or reclassify loans. Any increase in our allowance for loan losses or loan charge-offs or loan reclassifications as required by these regulatory authorities might have a material adverse effect on our financial condition and results of operations.

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Federal and state government regulation impacts the Company's operations.

The operations of the Company and the Bank are heavily regulated and will be affected by present and future legislation and by the policies established from time to time by various federal and state regulatory authorities. In particular, the monetary policies of the Federal Reserve Board have had a significant effect on the operating results of banks in the past and are expected to continue to do so in the future. Among the instruments of monetary policy used by the Federal Reserve Board to implement its objectives are changes in the discount rate charged on bank borrowings. It is not possible to predict what changes, if any, will be made to the monetary policies of the Federal Reserve Board or to existing federal and state legislation or the effect that such changes may have on the future business and earnings prospects of the Company.

The Company and the Bank are subject to examination, supervision and comprehensive regulation by various federal and state agencies. Compliance with the rules and regulations of these agencies may be costly and may limit growth and restrict certain activities, including payment of dividends, investments, loans and interest rate charges, interest rates paid on deposits, and locations of offices. The Bank is also subject to capitalization guidelines set forth in federal legislation and regulations.

The laws and regulations applicable to the banking industry could change at any time, and we cannot predict the impact of these changes on our business and profitability. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies, the cost of compliance could adversely affect the Company's result of operations.

Legislative and regulatory reforms may materially adversely impact our financial condition, results of operation, liquidity, or stock price.

The Dodd-Frank Act restructures the regulation of depository institutions. The Dodd-Frank Act contains various provisions designed to enhance the regulation of depository institutions and prevent the recurrence of a financial crisis such as occurred in 2008-2009. Also included was the creation of the Consumer Financial Protection Bureau, a new federal agency administering consumer and fair lending laws, a function that was previously performed by the depository institution regulators. The federal preemption of state laws currently accorded federally chartered depository institutions has been reduced as well. We expect that many of the requirements called for in the Dodd-Frank Act will be implemented over time, and most will be subject to implementing regulations over the course of several years. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies and through regulations, the full extent of the impact such requirements will have on financial institutions' operations is unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage ratio requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make necessary changes in order to comply with new statutory and regulatory requirements.

In addition, international banking industry regulators have largely agreed upon significant changes in the regulation of capital required to be held by banks and their holding companies to support their businesses. The new international rules, known as Basel III, generally increase the capital required to be held and narrow the types of instruments which will qualify as providing appropriate capital and impose a new liquidity measurement. The Basel III requirements are complex and will be phased in over many years.

The Basel III rules do not apply to U.S. banks or holding companies automatically. Among other things, the Dodd-Frank Act requires U.S. regulators to reform the system under which the safety and soundness of banks and other financial institutions, individually and systemically, are regulated. That reform effort will include the regulation

of capital and liquidity. It is not known whether or to what extent the U.S. regulators will incorporate elements of Basel III into the reformed U.S. regulatory system, but it is expected that the U.S. reforms will include an increase in capital requirements, a narrowing of what qualifies as appropriate capital, and impose a new liquidity measurement. One likely effect of a significant tightening of U.S. capital requirements would be to increase our cost of capital, among other things. Any permanent significant increase in our cost of capital could have significant adverse impacts on the profitability of many of our products, the types of products we could offer profitably, our overall profitability, and our overall growth opportunities, among other things. Although most financial institutions would be affected, these business impacts could be felt unevenly, depending upon the business and product mix of each institution. Other potential effects could include less ability to repurchase our common shares, higher dilution of common shareholders, and a higher risk that we might fall below regulatory capital thresholds in an adverse economic cycle.

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The price of our common stock may fluctuate.

The price of our common stock on the NASDAQ Global Market constantly changes and recently, given the uncertainty in the financial markets, has fluctuated widely. From the beginning of fiscal year 2010 through the end of fiscal year 2011, our stock price fluctuated between a high of \$9.04 per share and a low of \$4.83 per share. We expect that the market closing price of our common stock will continue to fluctuate. Consequently, the current market price of our common stock may not be indicative of future market prices, and we may be unable to sustain or increase the value of an investment in our common stock.

Our common stock price can fluctuate as a result of a variety of factors, many of which are beyond our control. These factors include:

- quarterly fluctuations in our operating and financial results;
- operating results that vary from the expectations of management, securities analysts and investors;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- events negatively impacting the financial services industry which result in a general decline in the market valuation of our common stock;
 - announcements of material developments affecting our operations or our dividend policy;
 - future sales of our equity securities;
 - new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
 - changes in accounting standards, policies, guidance, interpretations or principles; and
 - general domestic economic and market conditions.

In addition, recently the stock market generally has experienced extreme price and volume fluctuations, and industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to decrease regardless of our operating results.

The Company is subject to liquidity risk.

Liquidity risk is the potential that the Company will be unable to meet its obligations as they become due, capitalize on growth opportunities as they arise, or pay regular dividends because of an inability to liquidate assets or obtain adequate funding in a timely basis, at a reasonable cost and within acceptable risk tolerances.

Liquidity is required to fund various obligations, including credit commitments to borrowers, mortgage and other loan originations, withdrawals by depositors, repayment of borrowings, dividends to shareholders, operating expenses and capital expenditures.

Liquidity is derived primarily from retail deposit growth and retention; principal and interest payments on loans; principal and interest payments; sale, maturity and prepayment of investment securities; net cash provided from operations and access to other funding sources.

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Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us. Our ability to borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole. If we become unable to obtain funds when needed, it could have a material adverse effect on our business and in turn, our consolidated financial condition and results of operations.

Future growth, operating results or regulatory requirements may require us to raise additional capital but that capital may not be available.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. To the extent our future operating results erode capital or we elect to expand through loan growth or acquisition, we may be required to raise additional capital. Our ability to raise capital will depend on conditions in the capital markets, which are outside of our control, and on our financial performance. Accordingly, we cannot be assured of our ability to raise capital when needed or on favorable terms. If we cannot raise additional capital when needed, we will be subject to increased regulatory supervision and the imposition of restrictions on our growth and business. These actions could negatively impact our ability to operate or further expand our operations and may result in increases in operating expenses and reductions in revenues that could have a material effect on our consolidated financial condition and results of operations.

Higher FDIC deposit insurance premiums and assessments could adversely affect our financial condition.

In February 2011, the FDIC adopted final rules to implement changes required by the Dodd-Frank Act with respect to the FDIC assessment rules. In particular, the definition of an institution's deposit insurance assessment base is being changed from total deposits to total assets less tangible equity. In addition, the FDIC is revising the deposit insurance assessment rates down. The changes were effective April 1, 2011. The new initial base assessment rates range from 5 to 9 basis points for Risk Category I banks to 35 basis points for Risk Category IV banks. Risk Category II and III banks will have an initial base assessment rate of 14 or 23 basis points, respectively. The new rates and assessment base have reduced our current FDIC insurance assessment for 2011 compared to 2010. However, if the risk category of the Bank changes adversely, our FDIC insurance premiums could increase.

Recent insured depository institution failures, as well as deterioration in banking and economic conditions, have significantly increased the loss provisions of the FDIC, resulting in a decline in the designated reserve ratio of the Deposit Insurance Fund to historical lows. Effective January 1, 2011, the FDIC increased the designated reserve ratio from 1.25 to 2.00. In addition, the Dodd-Frank Act permanently increased the deposit insurance limit on FDIC deposit insurance coverage to \$250,000 per insured depositor, retroactive to January 1, 2008, which may result in even larger losses to the Deposit Insurance Fund.

The FDIC may further increase or decrease the assessment rate schedule in order to manage the Deposit Insurance Fund to prescribed statutory target levels. An increase in the risk category for the Bank or in the assessment rates could have an adverse effect on the Bank's earnings. The FDIC may terminate deposit insurance if it determines the institution involved has engaged in or is engaging in unsafe or unsound banking practices, is in an unsafe or unsound condition, or has violated applicable laws, regulations or orders.

Future offerings of debt or other securities may adversely affect the market price of our stock.

In the future, we may attempt to increase our capital resources or, if our or the Bank's capital ratios fall below the required minimums, we or the Bank could be forced to raise additional capital by making additional offerings of debt

or preferred equity securities, including medium-term notes, trust preferred securities, senior or subordinated notes and preferred stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive distributions of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing shareholders or reduce the market price of our common stock, or both. Holders of our common stock are not entitled to preemptive rights or other protections against dilution.

The Company may lose lower-cost funding sources.

Checking, savings, and money market deposit account balances and other forms of customer deposits can decrease when customers perceive alternative investments, such as the stock market, as providing a better risk/return tradeoff. If customers move money out of bank deposits and into other investments, the Company could lose a relatively low-cost source of funds, increasing its funding costs and reducing the Company's net interest income and net income.

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There may be changes in accounting policies or accounting standards.

The Company's accounting policies are fundamental to understanding its financial results and condition. Some of these policies require the use of estimates and assumptions that may affect the value of the Company's assets or liabilities and financial results. The Company identified its accounting policies regarding the allowance for loan losses, security impairment, goodwill and other intangible assets, and income taxes to be critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain. Under each of these policies, it is possible that materially different amounts would be reported under different conditions, using different assumptions, or as new information becomes available.

From time to time the Financial Accounting Standards Board and the SEC change the financial accounting and reporting standards that govern the form and content of the Company's external financial statements. Recently, FASB has proposed new accounting standards related to fair value accounting and accounting for leases that could materially change the Company's financial statements in the future. In addition, accounting standard setters and those who interpret the accounting standards (such as the FASB, SEC, banking regulators and the Company's independent auditors) may change or even reverse their previous interpretations or positions on how these standards should be applied. Changes in financial accounting and reporting standards and changes in current interpretations may be beyond the Company's control, can be hard to predict and could materially impact how the Company reports its financial results and condition. In certain cases, the Company could be required to apply a new or revised standard retroactively or apply an existing standard differently (also retroactively) which may result in the Company restating prior period financial statements in material amounts.

The Company encounters continuous technological change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. The Company's future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Company's operations. Many of the Company's competitors have substantially greater resources to invest in technological improvements. The Company may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on the Company's business and, in turn, the Company's financial condition and results of operations.

The Company is subject to operational risk.

The Company faces the risk that the design of its controls and procedures, including those to mitigate the risk of fraud by employees or outsiders, may prove to be inadequate or are circumvented, thereby causing delays in detection of errors or inaccuracies in data and information. Management regularly reviews and updates the Company's internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Company's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company may also be subject to disruptions of its systems arising from events that are wholly or partially beyond its control (including, for example, computer viruses or electrical or telecommunications outages), which may give rise to losses in service to customers and to financial loss or liability. The Company is further exposed to the risk that

its external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees as is the Company) and to the risk that the Company's (or its vendors') business continuity and data security systems prove to be inadequate.

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The Company's performance is largely dependent on the talents and efforts of highly skilled individuals. There is intense competition in the financial services industry for qualified employees. In addition, the Company faces increasing competition with businesses outside the financial services industry for the most highly skilled individuals. The Company's business operations could be adversely affected if it were unable to attract new employees and retain and motivate its existing employees.

There may be claims and litigation.

From time to time as part of the Company's normal course of business, customers make claims and take legal action against the Company based on actions or inactions of the Company. If such claims and legal actions are not resolved in a manner favorable to the Company, they may result in financial liability and/or adversely affect the market perception of the Company and its products and services. This may also impact customer demand for the Company's products and services. Any financial liability or reputation damage could have a material adverse effect on the Company's business, which, in turn, could have a material adverse effect on its financial condition and results of operations.

Severe weather, acts of terrorism and other external events could significantly impact our business.

A significant portion of our primary markets are located near coastal waters which could generate naturally occurring severe weather, or in response to climate change, that could have a significant impact on our ability to conduct business. Additionally, surrounding areas, including New Jersey, may be central targets for potential acts of terrorism against the United States. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause us to incur additional expenses. Although we have established disaster recovery policies and procedures, the occurrence of any such event in the future could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

We currently operate 14 branch offices in New Jersey, which includes the Bank's main office in Cranbury, New Jersey. In addition, we have a Mortgage Warehousing Funding Office which we lease in Somerset, New Jersey and an Operations Center which we lease in Cranbury, New Jersey. The following table provides certain information with respect to our offices as of December 31, 2011:

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	Location	Leased or Owned	Original Year Leased or Acquired	Year of Lease Expiration
Main Office	2650 Route 130 Cranbury, New Jersey	Leased	1989	2017
Village Office	74 North Main Street Cranbury, New Jersey	Owned	2005	---
Plainsboro Office	Plainsboro Village Center 11 Shalks Crossing Road Plainsboro, New Jersey	Leased	1998	2021
Hamilton Office	3659 Nottingham Way Hamilton, New Jersey	Leased	1999	2014
Princeton Office	The Windrows at Princeton Forrestal 2000 Windrow Drive Princeton, New Jersey	Leased	2001	2016
Perth Amboy Office	145 Fayette Street Perth Amboy, New Jersey	Leased	2003	2018
Jamesburg Office	1 Harrison Street Jamesburg, New Jersey	Owned	2002	---
West Windsor Office	44 Washington Road Princeton Jct, New Jersey	Leased	2004	2019
Fort Lee Office	180 Main Street Fort Lee, New Jersey	Leased	2006	2014
Hightstown Office	140 Mercer Street Hightstown, New Jersey	Leased	2007	2014
Mortgage Warehouse Funding Office	285 Davidson Avenue Somerset, New Jersey	Leased	2009	2015

Lawrenceville Property	146 Lawrenceville-Pennington Road, Lawrenceville, New Jersey	Owned	2009	---
South River Operations Center	1246 South River Road, Bldg. 2 Cranbury, New Jersey	Leased	2010	2015
Rocky Hill Office	995 Route 518 Skillman, New Jersey	Owned	2011	
Hopewell Office	86 East Broad Street Hopewell, New Jersey	Owned	2011	
Hillsborough Office	32 New Amwell Road Hillsborough, New Jersey	Owned	2011	

Management believes the foregoing facilities are suitable for the Company's and the Bank's present and projected operations.

Item 3. Legal Proceedings.

The Company may, in the ordinary course of business, become a party to litigation involving collection matters, contract claims and other legal proceedings relating to the conduct of its business. Management is not aware of any material pending legal proceedings against the Company which, if determined adversely, would have a material adverse effect on the Company's financial position or results of operations.

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Item 4. Mine Safety Disclosures.

Not applicable

PART II

Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities.

The common stock of the Company trades on the Nasdaq Global Market under the trading symbol “FCCY”. The following are the high and low sales prices per share for each quarter during 2011 and 2010, as reported on the Nasdaq Global Market.

	2011(1)		2010(1)	
	High	Low	High	Low
First Quarter	\$ 9.04	\$ 7.76	\$ 7.90	\$ 4.83
Second Quarter	\$ 8.24	\$ 6.90	\$ 8.10	\$ 5.83
Third Quarter	\$ 8.09	\$ 5.74	\$ 7.21	\$ 5.52
Fourth Quarter	\$ 6.67	\$ 5.24	\$ 7.75	\$ 5.58

(1) Prices have been retroactively adjusted for the 5% stock dividend declared December 15, 2011 and paid February 2, 2012 to shareholders of record on January 17, 2012.

As of March 23, 2012, there were approximately 295 record holders of the Company’s common stock.

The Company paid 5% stock dividends on February 2, 2012, February 2, 2011, and February 3, 2010.

The Company has never paid a cash dividend on its common stock and there are no plans to pay a cash dividend on its common stock at this time. In addition, please refer to the discussion under the heading “Shareholders’ Equity and Dividends” under Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for additional restrictions on cash dividends.

Issuer Purchases of Equity Securities

On July 21, 2005, the Board of Directors authorized a stock repurchase program under which the Company may repurchase in open market or privately negotiated transactions up to 5% of its common shares outstanding at that date. The Company undertook this repurchase program in order to increase shareholder value. The following table provides common stock repurchases made by or on behalf of the Company during the three months ended December 31, 2011, which purchases were made under the stock repurchase program.

Issuer Purchases of Equity Securities (1)

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased	Maximum Number of Shares That May Yet be
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					As Part of Publicly Announced Plan or Program	Purchased Under the Plan or Program
Beginning	Ending					
October 1, 2011	October 31, 2011	105	\$	6.90	105	178,628
November 1, 2011	November 30, 2011	-		-	-	178,628
December 1, 2011	December 31, 2011	-		-	-	178,628
	Total	105	\$	6.90	105	178,628

(1) The Company's common stock repurchase program covers a maximum of 215,070 shares of common stock of the Company, representing 5% of the outstanding common stock of the Company on July 21, 2005, as adjusted for subsequent stock dividends.

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Item 6. Selected Financial Data.

Not required.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

This discussion should be read in conjunction with the consolidated financial statements, notes and tables included elsewhere in this report. Throughout the following sections, the "Company" refers to 1st Constitution Bancorp and, as the context requires, its wholly-owned subsidiary, 1st Constitution Bank (the "Bank") and the Bank's wholly-owned subsidiaries, 1st Constitution Investment Company of Delaware, Inc., 1st Constitution Investment Company of New Jersey, Inc., FCB Assets Holdings, Inc., 1st Constitution Title Agency, LLC, 204 South Newman Street Corp. and 249 New York Avenue, LLC. 1st Constitution Capital Trust II ("Trust II"), a subsidiary of the Company, is not included in the Company's consolidated financial statements as it is a variable interest entity and the Company is not the primary beneficiary. The purpose of this discussion and analysis is to assist in the understanding and evaluation of the Company's financial condition, changes in financial condition and results of operations.

Critical Accounting Policies and Estimates

"Management's Discussion and Analysis of Financial Condition and Results of Operation" is based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Note 1 to the Company's Consolidated Financial Statements for the year ended December 31, 2011 contains a summary of the Company's significant accounting policies. Management believes the Company's policies with respect to the methodologies for the determination of the allowance for loan losses and for determining other-than-temporary security impairment involve a higher degree of complexity and requires management to make difficult and subjective judgments which often require assumptions or estimates about highly uncertain matters. Changes in these judgments, assumptions or estimates could materially impact results of operations. These critical policies and their application are periodically reviewed with the Audit Committee and the Board of Directors. The provision for loan losses is based upon management's evaluation of the adequacy of the allowance, including an assessment of known and inherent risks in the portfolio, giving consideration to the size and composition of the loan portfolio, actual loan loss experience, level of delinquencies, detailed analysis of individual loans for which full collectibility may not be assured, the existence and estimated net realizable value of any underlying collateral and guarantees securing the loans, and current economic and market conditions. Although management uses the best information available to it, the level of the allowance for loan losses remains an estimate which is subject to significant judgment and short-term change. Various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to make additional provisions for loan losses based upon information available to them at the time of their examination. Furthermore, the majority of the Company's loans are secured by real estate in the State of New Jersey. Accordingly, the collectibility of a substantial portion of the carrying value of the Company's loan portfolio is susceptible to changes in local market conditions and may be adversely affected should real estate values decline or should the Central New Jersey area experience an adverse economic shock. Future adjustments to the allowance for loan losses may be necessary due to economic, operating, regulatory and other conditions beyond the Company's control.

Real estate acquired through foreclosure, or a deed-in-lieu of foreclosure, is recorded at fair value less estimated selling costs at the date of acquisition or transfer, and subsequently at the lower of its new cost or fair value less estimated selling costs. Adjustments to the carrying value at the date of acquisition or transfer are charged to the allowance for loan losses. The carrying value of the individual properties is subsequently adjusted to the extent it exceeds estimated fair value less estimated selling costs, at which time a provision for losses on such real estate is

charged to operations. Appraisals are critical in determining the fair value of the other real estate owned amount. Assumptions for appraisals are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly affect the valuation of a property. The assumptions supporting such appraisals are carefully reviewed by management to determine that the resulting values reasonably reflect amounts realizable.

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Management utilizes various inputs to determine the fair value of its investment portfolio. To the extent they exist, unadjusted quoted market prices in active markets (level 1) or quoted prices on similar assets (level 2) are utilized to determine the fair value of each investment in the portfolio. In the absence of quoted prices, valuation techniques would be used to determine fair value of any investments that require inputs that are both significant to the fair value measurement and unobservable (level 3). Valuation techniques are based on various assumptions, including, but not limited to cash flows, discount rates, rate of return, adjustments for nonperformance and liquidity, and liquidation values. A significant degree of judgment is involved in valuing investments using level 3 inputs. The use of different assumptions could have a positive or negative effect on consolidated financial condition or results of operations.

Management must periodically evaluate if unrealized losses (as determined based on the securities valuation methodologies discussed above) on individual securities classified as held to maturity or available for sale in the investment portfolio are considered to be other-than-temporary. The analysis of other-than-temporary impairment requires the use of various assumptions, including, but not limited to, the length of time an investment's book value is greater than fair value, the severity of the investment's decline, as well as any credit deterioration of the investment. If the decline in value of an investment is deemed to be other-than-temporary, the investment is written down to fair value and a non-cash impairment charge is recognized in the period of such evaluation.

Acquisition of Three Branches in 2011

On March 25, 2011, the Bank acquired certain deposit and other liabilities, real estate and related assets of the Rocky Hill, Hillsborough and Hopewell, New Jersey banking offices from another financial institution for a purchase price of \$9.85 million (the "March 2011 Acquisition"). The March 2011 Acquisition was completed pursuant to the terms and conditions of the Branch Purchase and Assumption Agreement and Agreement for Purchase dated as of December 30, 2010, which was previously disclosed on a Current Report on Form 8-K filed by the Company with the SEC on January 3, 2011.

As a result of the March 2011 Acquisition, the three branches became branches of the Bank. Included in the March 2011 Acquisition were the assumption of deposit liabilities of \$111.9 million, primarily consisting of demand deposits, and the acquisition of cash of approximately \$101.5 million, fixed assets of approximately \$4.6 million, which includes, without limitation, ownership of the real estate and improvements upon which the branches are situated, and loans of \$862,000. The Bank recorded goodwill of approximately \$3.2 million and a core deposit intangible asset of approximately \$1.7 million as a result of the March 2011 Acquisition.

Results of Operations

The Company reported net income for the year ended December 31, 2011 of \$3,931,443, an increase of 18.9% from the \$3,307,791 reported for the year ended December 31, 2010. The increase was due primarily to an increase in net interest income, partially offset by increases in non-interest expenses and income taxes during the year ended December 31, 2011 compared to the prior year. Net income available to common shareholders increased by 72.0% to \$3,931,443 for the year ended December 31, 2011 from \$2,286,053 for the year ended December 31, 2010, primarily due to the redemption of the preferred stock in 2010, as the 2011 amount did not include dividends and discount accretion on preferred stock while the 2010 amount did include such dividends and discount accretion.

Diluted net income per common share was \$0.77 for the year ended December 31, 2011 compared to \$0.45 reported for the year ended December 31, 2010. Basic net income per common share for the year ended December 31, 2011 was \$0.78 as compared to \$0.46 reported for the year ended December 31, 2010. As a result of the redemption of the preferred stock in 2010, no preferred stock dividends or discount accretion was recorded in 2011. The recording of preferred stock dividends and discount accretion during the year ended December 31, 2010 served to reduce diluted earnings per share by \$0.21. All share information has been restated for the effect of a 5% stock dividend declared on

December 15, 2011 and paid on February 2, 2012 to shareholders of record on January 17, 2012.

Return on average assets (“ROA”) and return on average equity (“ROE”) were 0.54% and 7.60%, respectively, for the year ended December 31, 2011, compared to 0.50% and 5.78%, respectively, for the year ended December 31, 2010 and 0.41% and 4.52%, respectively, for the year ended December 31, 2009. Key performance ratios improved for the 2011 fiscal year as compared to the prior year due to the higher net income for the year ended December 31, 2011 as compared to the year ended December 31, 2010.

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The Bank's results of operations depend primarily on net interest income, which is primarily affected by the market interest rate environment, the shape of the U.S. Treasury yield curve, and the difference between the yield on interest-earning assets and the rate paid on interest-bearing liabilities. Other factors that may affect the Bank's operating results are general and local economic and competitive conditions, government policies and actions of regulatory authorities. The net interest margin for the year ended December 31, 2011 was 3.55% as compared to the 3.27% net interest margin recorded for the year ended December 31, 2010, an increase of 28 basis points. The Company will continue to closely monitor the mix of earning assets and funding sources to maximize net interest income during this challenging interest rate environment.

Net Interest Income

Net interest income, the Company's largest and most significant component of operating income, is the difference between interest and fees earned on loans and other earning assets, and interest paid on deposits and borrowed funds. This component represented 83.63% of the Company's net revenues for the year ended December 31, 2011. Net interest income also depends upon the relative amount of average interest earning assets, average interest-bearing liabilities, and the interest rate earned or paid on them, respectively.

The following tables set forth the Company's consolidated average balances of assets and liabilities and shareholders' equity as well as interest income and expense on related items, and the Company's average yield or rate for the years ended December 31, 2011, 2010 and 2009. The average rates are derived by dividing interest income and expense by the average balance of assets and liabilities, respectively.

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Average Balance Sheets with Resultant Interest and Rates

(yields on a tax-equivalent basis)	2011			2010			
	Average Balance	Interest	Average Yield	Average Balance	Interest	Average Yield	Average Balance
Assets:							
Federal Funds Sold/Short-Term Investments							
	\$49,462,259	\$126,729	0.26%	\$18,009,601	\$45,023	0.25%	\$39,676,8
Investment Securities:							
Taxable	200,218,556	5,422,190	2.71%	197,134,646	4,782,984	2.43%	136,588,
Tax-exempt (4)	45,377,934	2,208,221	4.87%	11,961,266	670,657	5.61%	12,483,0
Total	245,596,490	7,630,411	3.11%	209,095,912	5,453,641	2.61%	149,071,
Loan Portfolio (1):							
Construction	60,260,579	3,865,334	6.41%	71,590,569	4,373,609	6.11%	89,202,4
Residential Real Estate	11,323,077	705,087	6.23%	10,866,758	635,681	5.85%	10,834,4
Home Equity	12,194,011	698,822	5.73%	13,500,060	786,419	5.83%	14,722,6
Commercial and Commercial Real Estate	134,446,807	10,153,005	7.55%	139,672,655	10,456,470	7.49%	140,449,
Mortgage Warehouse Lines	131,955,449	6,459,208	4.89%	139,430,511	6,707,820	4.81%	114,749,
Installment	452,504	31,342	6.93%	523,354	39,409	7.53%	770,169
All Other Loans	24,052,479	903,288	3.76%	30,644,358	1,020,458	3.33%	32,843,8
Total	374,684,906	22,816,086	6.09%	406,228,265	24,019,866	5.91%	403,573,
Total Interest-Earning Assets	669,743,655	30,573,226	4.56%	633,333,778	29,518,530	4.66%	592,321,
Allowance for Loan Losses	(5,959,591)			(5,249,095)			(4,155,4
Cash and Due From Banks	13,136,295			9,468,512			18,414,3
Other Assets	44,527,891			29,680,680			21,030,3
Total Assets	\$721,448,250			\$667,233,875			\$627,621,
Liabilities and Shareholders' Equity:							
Interest-Bearing Liabilities:							
Money Market and NOW Accounts							
	\$172,790,166	\$1,703,342	0.99%	\$121,849,620	\$1,705,233	1.40%	\$105,526,
Savings Accounts	179,903,197	1,387,585	0.77%	177,605,496	1,896,323	1.07%	154,261,
Certificates of Deposit under \$100,000	73,470,718	1,260,946	1.72%	87,523,084	1,525,160	1.74%	84,121,3
Certificates of Deposit of \$100,000 and Over	79,898,632	1,308,249	1.64%	73,573,668	1,521,153	2.07%	93,913,1
Other Borrowed Funds	18,400,493	444,185	2.41%	35,883,534	1,100,354	3.07%	29,526,5
Trust Preferred Securities	18,557,000	683,057	3.68%	18,557,000	1,071,275	5.69%	18,557,0
Total Interest-Bearing Liabilities	543,020,206	6,787,364	1.25%	514,992,402	8,819,498	1.71%	485,906,
Net Interest Spread (2)			3.31%			2.95%	

Demand Deposits	117,876,295	87,482,143	78,588,7
Other Liabilities	8,800,907	7,497,664	6,480,12
Total Liabilities	669,697,408	609,972,209	570,975,
Shareholders' Equity	51,750,842	57,261,666	56,635,2
Total Liabilities and Shareholders' Equity	\$721,448,250	\$667,233,875	\$627,610,
Net Interest Margin (3)	\$23,785,862	3.55%	\$20,699,032 3.27%

- (1) Loan origination fees are considered an adjustment to interest income. For the purpose of calculating loan yields, average loan balances include nonaccrual loans with no related interest income. Please refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation under the heading "Non-Performing Assets" for a discussion of the Bank's policy with regard to non-accrual loans.
- (2) The interest rate spread is the difference between the average yield on interest earning assets and the average rate paid on interest bearing liabilities.
- (3) The net interest margin is equal to net interest income divided by average interest earning assets.
- (4) Tax equivalent basis.

Changes in net interest income and margin result from the interaction between the volume and composition of interest earning assets, interest bearing liabilities, related yields, and associated funding costs. The Rate/Volume Table demonstrates the impact on net interest income of changes in the volume of interest earning assets and interest bearing liabilities and changes in interest rates earned and paid.

The Company's net interest income increased on a tax equivalent basis by \$3,086,830, or 14.9%, to \$23,785,862 for the year ended December 31, 2011, from the \$20,699,032 reported for the year ended December 31, 2010. As indicated in the Rate/Volume Table, the principal factor contributing to the increase in net interest income for the year ended December 31, 2011 was a decrease in the interest expense of \$2,032,134, resulting from decreased rates on the interest-bearing liability components, and an increase in interest income from investment securities.

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The Company's net interest income increased on a tax-equivalent basis by \$2,584,671, or 14.3%, to \$20,699,032 for the year ended December 31, 2010, from the \$18,114,361 reported for the year ended December 31, 2009. As indicated in the Rate/Volume Table, the principal factor contributing to the increase in net interest income for the year ended December 31, 2010 was a decrease in the interest expense of \$3,435,850, resulting from decreased rates on the interest bearing liability components. This was partially offset by a decrease in interest income resulting from decreases in the rates of the earning assets components.

Rate/Volume Table (Tax-equivalent basis)	Volume	Amount of Increase (Decrease)			
		2011 versus 2010 Due to Change in:		2010 versus 2009 Due to Change in:	
		Rate	Total	Volume	Rate
Interest Income:					
Loans:					
Construction	\$ (707,655)	\$ 199,380	\$ (508,275)	\$ (1,105,300)	\$ (279,783)
Residential Real Estate	27,403	42,003	69,406	1,699	(41,482)
Home Equity	(75,120)	(12,477)	(87,597)	(71,794)	(11,318)
Commercial and Commercial Real Estate	(389,342)	85,877	(303,465)	(57,661)	(83,245)
Mortgage Warehouse Lines	(359,853)	111,241	(248,612)	1,173,719	125,997
Installment	(5,131)	(2,936)	(8,067)	(19,011)	(2,153)
All Other Loans	(234,225)	117,055	(117,170)	(70,366)	70,296
Total Loans	(1,743,923)	540,143	(1,203,780)	(148,715)	(221,689)
Investment Securities :					
Taxable	81,084	558,122	639,206	1,876,372	(2,236,510)
Tax-exempt	1,750,376	(212,812)	1,537,564	(29,863)	(19,727)
Total Investment Securities	1,831,460	345,310	2,176,770	1,846,509	(2,256,237)
Federal Funds Sold / Short-Term Investments	433,110	(351,404)	81,706	176,019	(247,066)
Total Interest Income	520,647	534,049	1,054,696	1,873,813	(2,724,992)
Interest Expense :					
Money Market and NOW Accounts	605,430	(607,321)	\$ (1,891)	265,680	(547,715)
Savings Accounts	24,332	(533,070)	(508,738)	338,634	(1,349,753)
Certificates of Deposit under \$100,000	(248,115)	(16,099)	(264,214)	81,443	(1,010,519)
Certificates of Deposit of \$100,000 and Over	117,195	(330,099)	(212,904)	(480,295)	(478,636)
Other Borrowed Funds	(478,034)	(178,135)	(656,169)	241,933	(495,067)
Trust Preferred Securities	0	(388,218)	(388,218)	0	(1,552)
Total Interest Expense	20,808	(2,052,942)	(2,032,134)	447,394	(3,883,244)
Net Interest Income	\$ 499,839	\$ 2,586,991	\$ 3,086,830	\$ 1,426,419	\$ 1,158,252

Average interest earning assets increased by \$36,409,877, or 5.7%, to \$669,743,655 for the year ended December 31, 2011 from \$633,333,778 for the year ended December 31, 2010. The average total loan portfolio decreased by \$31,543,359, or 7.8%, to \$374,684,906 for the year ended December 31, 2011 from \$406,228,265 for the year ended December 31, 2010. Due to a marginal increase in the level of market interest rates during 2011, loan yields averaged 6.09% for the year ended December 31, 2011, 18 basis points higher than for the year ended December 31, 2010. The average investment securities portfolio increased 17.5%, while the yield on that portfolio increased 50 basis points for the year ended December 31, 2011 compared to the year ended December 31, 2010. Overall, the yield on interest earning assets decreased 10 basis points to 4.56% in the year ended December 31, 2011 from 4.66% in the year ended

December 31, 2010.

Average interest earning assets increased by \$41,012,448, or 6.9%, to \$633,333,778 for the year ended December 31, 2010 from \$592,321,330 for the year ended December 31, 2009. Led by the mortgage warehouse lines component, the average total loan portfolio increased by \$2,655,155, or 0.7%, to \$406,228,265 for the year ended December 31, 2010 from \$403,573,110 for the year ended December 31, 2009. Due to the low level of market interest rates during 2010, loan yields averaged 5.91% for the year ended December 31, 2010, 13 basis points lower than for the year ended December 31, 2009. The average investment securities portfolio increased 40.3%, while the yield on that portfolio decreased 132 basis points for the year ended December 31, 2010 compared to the year ended December 31, 2009. Overall, the yield on interest earning assets decreased 47 basis points to 4.66% in the year ended December 31, 2010 from 5.13% in the year ended December 31, 2009.

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Interest expense decreased by \$2,032,134, or 23.0%, to \$6,787,364 for the year ended December 31, 2011, from \$8,819,498 for the year ended December 31, 2010. This decrease in interest expense was principally attributable to higher levels of interest-bearing liabilities priced at a significantly lower market interest rate level. Money market and NOW accounts, increased on average by \$50,940,546 in 2011, or 41.8%, as compared to 2010, contributing to the funding of investment portfolio growth. The cost on these deposits decreased 41 basis points in 2011 as compared to 2010. Average interest bearing liabilities rose 5.4% in 2011 from 2010. The cost of total interest-bearing liabilities decreased 46 basis points to 1.25% in 2011 from 1.71% in 2010.

Interest expense decreased by \$3,435,850, or 28%, to \$8,819,498 for the year ended December 31, 2010, from \$12,255,348 for the year ended December 31, 2009. This decrease in interest expense was principally attributable to higher levels of interest-bearing liabilities priced at a significantly lower market interest rate level. Savings accounts, helped by higher FDIC deposit insurance limits, increased on average by \$23,344,079 in 2010, or 15.1%, as compared to 2009, contributing to the funding of loan portfolio growth. The cost on these deposits decreased 81 basis points in 2010 as compared to 2009. Average interest bearing liabilities rose 6.0% in 2010 from 2009. The cost of total interest-bearing liabilities decreased 81 basis points to 1.71% in 2010 from 2.52% in 2009.

Average non-interest bearing demand deposits increased by \$30,394,152, or 34.7%, to \$117,876,295 for the year ended December 31, 2011 from \$87,482,143 for the year ended December 31, 2010. The primary reason for this increase in 2011 was the requirement for customers of the Warehouse Line of Credit to maintain deposit relationships with the Bank that, on average, represent 10% to 15% of the loan balances.

Provision for Loan Losses

Management considers a complete review of the following specific factors in determining the provisions for loan losses: historical losses by loan category, non-accrual loans, and problem loans as identified through internal classifications, collateral values, and the growth and size of the loan portfolio. In addition to these factors, management takes into consideration current economic conditions and local real estate market conditions. Using this evaluation process, the Company's provision for loan losses was \$2,558,328 for the year ended December 31, 2011 and \$2,325,000 for the year ended December 31, 2010. The increased provision for 2011 was the result of the \$63,444,432, or 15.4%, increase in the loan portfolio and the need to replenish the allowance as a result of the \$2,786,590 in the net loan charge-offs during 2011.

Non-Interest Income

Non-interest income increased by \$278,819, or 6.6%, to \$4,516,250 for the year ended December 31, 2011 from \$4,237,431 for the year ended December 31, 2010. A significant portion of the increase in total non-interest income and its major components when compared with non-interest income for the prior year was attributable to the March 2011 Acquisition.

Service charges on deposit accounts increased by \$160,255 to \$891,499 for the year ended December 31, 2011 compared to \$731,244 for the year ended December 31, 2010. This component of non-interest income represented 19.7% and 17.3% of the total non-interest income for the years ended December 31, 2011 and 2010, respectively. The increase was primarily due to the increase in the number of deposit accounts subject to service charges that resulted from the March 2011 Acquisition.

Gains on sales of loans held for sale increased by \$140,251, or 8.6%, to \$1,776,154 for the year ended December 31, 2011 from \$1,635,903 for the year ended December 31, 2010. The Bank sells both residential mortgage loans and Small Business Administration loans in the secondary market. During the second quarter of 2011, the Bank revised its pricing on mortgage loan sales and now requires a 160 basis point return on sale transactions compared to the 110

basis point return requirement that existed in the year ended December 31, 2010.

There were no sale of securities for the years ended December 31, 2011 and 2010.

Non-interest income also includes income from bank-owned life insurance (“BOLI”) which amounted to \$404,338 for the year ended December 31, 2011 compared to \$405,588 for the year ended December 31, 2010. The Bank purchased tax-free BOLI assets to partially offset the cost of employee benefit plans and reduce the Company’s overall effective tax rate.

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The Bank also generates non-interest income from a variety of fee-based services. These include safe deposit rentals, wire transfer service fees and Automated Teller Machine fees for non-Bank customers. A decline in demand for these services contributed to the marginal decrease in the other income component of non-interest income to \$1,444,259 for the year ended December 31, 2011 as compared to \$1,464,696 for the year ended December 31, 2010.

Non-Interest Expenses

Non-interest expenses increased by \$1,985,907, or 11.1%, to \$19,805,030 for the year ended December 31, 2011 from \$17,819,123 for the year ended December 31, 2010. The following table presents the major components of non-interest expenses for the years ended December 31, 2011 and 2010.

Non-interest Expenses	2011	2010
Salaries and employee benefits	\$ 11,219,439	\$ 10,087,569
Occupancy expense	2,391,281	1,903,702
Equipment expense	737,043	657,905
Telephone	365,218	320,076
Marketing	183,467	140,975
Data processing services	1,171,136	1,121,519
Regulatory, professional and consulting fees	931,339	1,087,314
Office expense	730,362	657,430
FDIC deposit insurance	646,365	816,125
Directors' fees	93,910	104,375
Other real estate owned expenses	732,693	336,307
Amortization of intangible assets	210,154	36,712
Other expenses	392,623	549,114
Total	\$ 19,805,030	\$ 17,819,123

Salaries and employee benefits, which represent the largest portion of non-interest expenses, increased by \$1,131,870, or 11.2%, to \$11,219,439 for the year ended December 31, 2011 compared to \$10,087,569 for the year ended December 31, 2010. The increase in salaries and employee benefits for the year ended December 31, 2011 was a result of an increase in the number of employees, regular merit increases and increased health care costs. Staffing levels overall increased to 148 full-time equivalent employees as of December 31, 2011 compared to 135 full-time equivalent employees at December 31, 2010. The primary cause of the increased employee count is the additional branch employees required as a result of the March 2011 Acquisition.

Occupancy expenses increased by \$487,579, or 25.6%, to \$2,391,281 for the year ended December 31, 2011 compared to \$1,903,702 for the year ended December 31, 2010. In addition to the operating costs of the three new branches acquired in the March 2011 Acquisition, the increase in occupancy expenses was primarily attributable to increased depreciation, property taxes and maintenance costs in maintaining the Bank's branch properties. In addition, the Bank's Lawrenceville, New Jersey branch office opened in May 2010 and twelve months of operating expenses for the branch office were included in 2011 whereas 2010 included only seven months of expenses.

The cost of data processing services increased by \$49,617, or 4.4%, to \$1,171,136 for the year ended December 31, 2011 from \$1,121,519 for the year ended December 31, 2010, as additional expenses were incurred to convert and maintain the three new branch offices acquired in the March 2011 Acquisition to the Bank's data systems.

Equipment expense increased by \$79,138, or 12.0%, to \$737,043 for the year ended December 31, 2011 compared to \$657,905 for the year ended December 31, 2010 primarily due to increased costs associated with the number of maintenance contracts on equipment in the three newly acquired branch offices as compared with the prior period.

Office expenses increased by \$72,932, or 11.1%, to \$730,362 for the year ended December 31, 2011 compared to \$657,430 for the year ended December 31, 2010. The increase in office expenses was primarily attributable to the March 2011 Acquisition.

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Regulatory, professional and other fees decreased by \$155,975, or 14.3%, to \$931,339 for the year ended December 31, 2011. For the prior year, the Company incurred a higher level of legal fees in connection with the recovery of non-performing asset balances. The Bank also incurred additional professional fees in connection with examinations performed in 2010 by independent consultants to access the effectiveness of the Bank's systems of internal controls.

FDIC insurance expense decreased to \$646,365 for the year ended December 31, 2011 compared to \$816,125 for the year ended December 31, 2010 as a result of the changes required by the Dodd-Frank Act with respect to FDIC assessment rules.

Other real estate owned expenses increased by \$396,386 to \$732,693 for the year ended December 31, 2011 compared to \$336,307 for the year ended December 31, 2010 as the Company recorded \$147,178 in loss provisions during 2011 and incurred maintenance and other holding costs on more properties held as other real estate owned during 2011 as compared to 2010.

Amortization of intangible assets expense increased to \$210,153 for the year ended December 31, 2011 compared to \$36,712 for the year ended December 31, 2010 as the expense for 2011 included amortization of the \$1.7 million core deposit intangible asset resulting from the March 2011 Acquisition.

All other expenses decreased by \$79,322 to \$1,035,218 for the year ended December 31, 2011 compared to \$1,114,540 for the year ended December 31, 2010. Current year decreases occurred in correspondent bank fees, maintenance agreements and ATM operating expenses. All other expenses were comprised of a variety of operating expenses and fees as well as expenses associated with lending activities.

An important financial services industry productivity measure is the efficiency ratio. The efficiency ratio is calculated by dividing total operating expenses by net interest income plus non-interest income. An increase in the efficiency ratio indicates that more resources are being utilized to generate the same or greater volume of income, while a decrease would indicate a more efficient allocation of resources. The Company's efficiency ratio decreased to 71.8% for the year ended December 31, 2011 compared to 72.1% for the year ended December 31, 2010.

Income Taxes

Pre-tax income increased to \$5,222,574 for the year ended December 31, 2011 compared to \$4,574,829 for the year ended December 31, 2010.

The Company had income tax expense of \$1,291,131 for the year ended December 31, 2011 compared to income tax expense of \$1,267,038 for year ended December 31, 2010. The increase in the income tax expense for the year ended December 31, 2011 compared with the year ended December 31, 2010 was primarily due to the \$647,745 increase in pre-tax income for 2011 compared to 2010. The Company's effective tax rate decreased to 24.7% in 2011 from 27.7% in 2010 due to increased levels of income from tax-exempt securities.

Financial Condition

Cash and Cash Equivalents

At December 31, 2011 cash and cash equivalents totaled \$15,195,259 compared to \$17,710,501 at December 31, 2010. Cash and cash equivalents at December 31, 2011 consisted of cash and due from banks of \$15,183,853 and federal funds sold/short-term investments of \$11,406. The corresponding balances at December 31, 2010 were \$17,699,103 and \$11,398, respectively. The decrease was due primarily to timing of cash flows related to the Bank's

business activities. To the extent that the Bank did not utilize the funds for loan originations or securities purchases, the cash inflows accumulated in cash and cash equivalents.

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Investment Securities

The investment securities portfolio amounted to \$236,158,197, or 29.8% of total assets, at December 31, 2011 compared to \$167,360,888, or 26.0% of total assets, at December 31, 2010. Proceeds from maturities and prepayments for the year ended December 31, 2011 totaled \$98,035,397 while security purchases totaled \$167,277,411 during this period. On an average balance basis, the investment securities portfolio represented 36.7% and 33.0%, respectively, of average interest-earning assets for each of the years ended December 31, 2011 and 2010. The average yield earned on the portfolio, on a fully tax-equivalent basis, was 3.11% for the year ended December 31, 2011, an increase of 50 basis points from 2.61% earned for the year ended December 31, 2010.

Securities available for sale are investments that may be sold in response to changing market and interest rate conditions or for other business purposes. Activity in this portfolio is undertaken primarily to manage liquidity and interest rate risk and to take advantage of market conditions that create economically more attractive returns. At December 31, 2011, available-for-sale securities amounted to \$93,683,774, an increase from \$85,470,993 at December 31, 2010.

Amortized cost, gross unrealized gains and losses, and the estimated fair value by security type are as follows:

2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale-				
U. S. Treasury securities and obligations of U.S. Government sponsored corporations (“GSE”) and agencies				
	\$ 19,400,856	\$ 71,833	\$ 0	\$ 19,472,689
Residential collateralized mortgage obligations- GSE	13,421,544	476,589	0	13,898,133
Residential collateralized mortgage obligations- non GSE	4,177,115	143,480	(20,151)	4,300,444
Residential mortgage backed securities - GSE	40,655,157	2,032,059	(7)	42,687,209
Obligations of State and Political subdivisions				
Trust preferred debt securities	5,366,145	339,747	(5,378)	5,700,514
Corporate debt securities	2,463,296	0	(712,055)	1,751,241
Restricted stock	1,443,762	0	(7,818)	1,435,944
Mutual fund	4,412,600	0	0	4,412,600
	25,000	0	0	25,000
	\$ 91,365,475	\$ 3,063,708	\$ (745,409)	\$ 93,683,774

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	Amortized Cost	Other-Than- Temporary Impairment Recognized In Accumulated Other Comprehensive Income	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity-						
U. S. Treasury securities and obligations of U.S. Government sponsored corporations (“GSE”) and agencies	\$ 11,118,649	\$ 0	\$ 11,118,649	\$ 59,571	\$ 0	\$ 11,178,220
Residential collateralized mortgage obligations – GSE	24,705,415	0	24,705,415	1,007,737	0	25,713,152
Residential collateralized mortgage obligations-non-GSE	14,386,327	0	14,386,327	704,792	0	15,091,119
Residential mortgage backed securities – GSE	20,260,354	0	20,260,354	801,882	0	21,062,236
Obligations of State and Political subdivisions	46,820,985	0	46,820,985	2,848,587	(2,507)	49,667,065
Trust preferred debt securities - pooled	646,574	(500,944)	145,630	0	(142,122)	3,508
Corporate debt securities	25,037,063	0	25,037,063	85,701	(216,784)	24,905,980
	\$ 142,975,367	\$ (500,944)	\$ 142,474,423	\$ 5,508,270	\$ (361,413)	\$ 147,621,280

2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale-				
U. S. Treasury securities and obligations of U.S. Government sponsored corporations (“GSE”) and agencies	\$ 34,299,374	\$ 60,189	\$ 0	\$ 34,359,563
Residential collateralized mortgage obligations - GSE	18,653,850	483,908	0	19,137,758
Residential collateralized mortgage obligations – non- GSE	5,677,577	113,496	(29,751)	5,761,322
Residential mortgage backed securities – GSE	16,963,589	1,206,146	0	18,169,735
Obligations of State and Political subdivisions	3,110,145	23,768	(112,485)	3,021,428

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Trust preferred debt securities	2,460,380	0	(602,877)	1,857,503
Corporate debt securities	1,495,438	4,973	(1,827)	1,498,584
Restricted stock	1,640,100	0	0	1,640,100
Mutual fund	25,000	0	0	25,000
	\$ 84,325,453	\$ 1,892,480	\$ (746,940)	\$ 85,470,993

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	Amortized Cost	Other-Than- Temporary Impairment Recognized In Accumulated Other Comprehensive Loss	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity-						
U.S. Treasury securities and obligations of U.S. Government sponsored corporations ("GSE")	\$23,170,741	\$0	\$23,170,741	\$93,600	\$(50,721)	\$23,213,620
Residential collateralized mortgage obligations – GSE	2,520,690	0	2,520,690	84,253	0	2,604,943
Residential mortgage backed securities – GSE	9,344,517	0	9,344,517	131,443	(41,711)	9,434,249
Obligations of State and Political subdivisions	19,467,404	0	19,467,404	245,290	(352,534)	19,360,160
Trust preferred debt securities - pooled	642,478	(500,944)	141,534	0	(137,361)	4,173
Corporate debt securities	27,245,009	0	27,245,009	67,696	(217,846)	27,094,859
	\$82,390,839	\$(500,944)	\$81,889,895	\$622,282	\$(800,173)	\$81,470,993

Proceeds from maturities and prepayments of securities available for sale amounted to \$62,413,278 for the year ended December 31, 2011 and \$158,903,787 for the year ended December 31, 2010. At December 31, 2011, the portfolio had net unrealized gains of \$2,318,299 compared to net unrealized gains of \$1,145,540 at December 31, 2010. These unrealized gains are reflected net of tax in shareholders' equity as a component of accumulated other comprehensive income.

Securities held to maturity, which are carried at amortized historical cost, are investments for which there is the positive intent and ability to hold to maturity. At December 31, 2011, securities held to maturity were \$142,474,423, an increase of \$60,584,528 from \$81,889,895 at December 31, 2010. The fair value of the held-to-maturity portfolio at December 31, 2011 was \$147,621,280.

The amortized cost, estimated fair value and weighted average yield of investment securities at December 31, 2011, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Federal Home Loan Bank stock is included in "Available for Sale - Due in one year or less."

	Amortized Cost	Fair Value	Weighted Average Yield*
Available for sale-			
Due in one year or less	\$ 5,453,147	\$ 5,445,795	4.22%
Due after one year through five years	13,962,795	14,061,773	1.46%
Due after five years through ten years	11,964,053	12,372,620	3.64%
Due after ten years	59,985,480	61,803,586	3.62%

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Total	\$ 91,365,475	\$ 93,683,774	3.33%
Held to maturity-			
Due in one year or less	\$ 10,833,313	\$ 10,793,913	1.52%
Due after one year through five years	28,753,581	28,822,708	1.96%
Due after five years through ten years	31,578,816	33,187,158	4.10%
Due after ten years	71,808,957	74,817,501	3.91%
Total	\$ 142,975,367	\$ 147,621,280	3.37%

* computed on a tax equivalent basis.

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The Company regularly reviews the composition of the investment securities portfolio, taking into account market risks, the current and expected interest rate environment, liquidity needs, and its overall interest rate risk profile and strategic goals.

On a quarterly basis, management evaluates each security in the portfolio with an individual unrealized loss to determine if that loss represents other-than-temporary impairment. During the fourth quarter of 2009, management determined that it was necessary, following other-than-temporary impairment requirements, to write down the cost basis of the Company's only pooled trust preferred security. This trust preferred debt security was issued by a two issuer pool (Preferred Term Securities XXV, Ltd. co-issued by Keefe, Bruyette and Woods, Inc. and First Tennessee ("PreTSL XXV")), consisting primarily of financial institution holding companies. During 2009, the Company recognized an other-than-temporary impairment charge of \$864,727, of which \$363,783 was determined to be a credit loss and charged to operations and \$500,944 was recognized in other comprehensive income (loss) component of shareholders' equity. No other-than-temporary impairment losses were recorded during 2011 and 2010. See Note 3 to the consolidated financial statements for additional information.

Loans Held for Sale

Loans held for sale at December 31, 2011 amounted to \$19,234,111 compared to \$21,219,230 at December 31, 2010. As indicated in the Consolidated Statements of Cash Flows, the amount of loans originated for sale was \$139,478,341 for 2011 compared with \$153,818,323 for 2010.

Loans

The loan portfolio, which represents our largest asset, is a significant source of both interest and fee income. Elements of the loan portfolio are subject to differing levels of credit and interest rate risk. The Bank's primary lending focus continues to be mortgage warehouse lines, construction loans, commercial loans, owner-occupied commercial mortgage loans and tenanted commercial real estate loans. Total loans averaged \$374,684,906 for the year ended December 31, 2011, a decrease of \$31,543,359, or 7.8%, compared to an average of \$406,228,265 for the year ended December 31, 2010. At December 31, 2011, total loans amounted to \$475,431,772 compared to \$411,987,339 at December 31, 2010, an increase of \$63,444,433. The average yield earned on the loan portfolio was 6.09% for the year ended December 31, 2011 compared to 5.91% for the year ended December 31, 2010, an increase of 18 basis points. This increase was primarily due to the marginal increase in the interest rate environment that occurred in mid-2011.

The following table represents the components of the loan portfolio for the dates indicated.

	2011		2010		December 31, 2009		2008		2007
	Amount	%	Amount	%	Amount	%	Amount	%	Amount
Construction loans	\$ 49,285,783	10%	\$ 67,890,703	16%	\$ 79,805,278	21%	\$ 94,163,997	25%	\$ 132,735,920
Residential real estate loans	12,885,352	3%	10,435,038	3%	10,253,895	3%	11,078,402	3%	10,088,515
Commercial business	50,784,674	11%	54,733,172	13%	57,925,392	15%	57,528,879	15%	57,232,295
Commercial real estate	99,636,976	21%	95,277,814	23%	96,306,097	25%	90,904,418	24%	77,896,347

Mortgage warehouse lines	249,345,831	52%	169,575,899	41%	119,382,078	32%	106,000,231	28%	-
Loans to individuals	12,219,640	3%	13,349,036	3%	15,554,027	4%	16,797,194	5%	16,324,817
Deferred loan costs	1,017,959	0%	543,753	0%	489,809	0%	647,673	0%	302,818
All other loans	255,556	0%	181,924	0%	229,159	0%	227,622	0%	180,006
Total	\$ 475,431,771	100%	\$ 411,987,339	100%	\$ 379,945,735	100%	\$ 377,348,416	100%	\$ 294,760,718

Commercial and commercial real estate loans averaged \$134,446,807 for the year ended December 31, 2011, a decrease of \$5,225,848, or 3.7%, compared to \$139,672,655 for the year ended December 31, 2010. Commercial loans consist primarily of loans to small and middle market businesses and are typically working capital loans used to finance inventory, receivables or equipment needs. These loans are generally secured by business assets of the commercial borrower. The average yield on the commercial and commercial real estate loan portfolio increased 6 basis points to 7.55% for 2011 from 7.49% for 2010.

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Construction loans averaged \$60,260,579 for the year ended December 31, 2011, a decrease of \$11,329,990, or 15.8%, compared to \$71,590,569 for the year ended December 31, 2010. Generally, these loans represent owner-occupied or investment properties and usually complement a broader commercial relationship between the bank and the borrower. Construction loans are structured to provide for advances only after work is completed and inspected by qualified professionals. The average yield on the construction loan portfolio increased 30 basis points to 6.41% for 2011 from 6.11% for 2010.

During 2008, the Bank's Mortgage Warehouse Unit introduced a revolving line of credit that is available to licensed mortgage banking companies (the "Warehouse Line of Credit") and that has been successful since inception. The Warehouse Line of Credit is used by the mortgage banker to originate one-to-four family residential mortgage loans that are pre-sold to the secondary mortgage market, which includes state and national banks, national mortgage banking firms, insurance companies and government-sponsored enterprises, including the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and others. On average, an advance under the Warehouse Line of Credit remains outstanding for a period of less than 30 days, with repayment coming directly from the sale of the loan into the secondary mortgage market. Interest (the spread between our borrowing cost and the rate charged to the client) and a transaction fee are collected by the Bank at the time of repayment. Additionally, customers of the Warehouse Lines of Credit are required to maintain deposit relationships with the Bank that, on average, represent 10% to 15% of the loan balances. The Bank had outstanding Warehouse Line of Credit advances of \$249,345,831 at December 31, 2011 and \$169,575,899 at December 31, 2010. During 2010 and 2011, Warehouse Lines of Credit averaged \$131,955,449 and \$139,430,511, respectively, and yielded 4.89% and 4.81%, respectively. During 2011, the number of active mortgage banking customers increased from 41 to 44 plus the average usage across all active lines increased due to purchase and refinance activity attributed to historically low mortgage interest rates in all of 2011.

The following table provides information concerning the interest rate sensitivity of the commercial and commercial real estate loans and construction loans at December 31, 2011.

As of December 31, 2011:

Type	Maturity Range			Total
	Within One Year	After One But Within Five Years	After Five Years	
Commercial & Commercial Real Estate	\$ 28,465,113	\$ 34,305,928	\$ 87,650,609	\$ 150,421,650
Construction Loans	42,832,980	6,452,803	-	49,285,783
Total	\$ 71,298,093	\$ 40,758,731	\$ 87,650,609	\$ 199,707,433
Fixed rate loans	\$ 6,013,454	\$ 19,909,943	\$ 12,933,946	\$ 38,857,343
Floating rate loans	65,284,639	20,848,788	74,716,663	160,850,090
Total	\$ 71,298,093	\$ 40,758,731	\$ 87,650,609	\$ 199,707,433

Non-Performing Assets

Non-performing assets consist of non-performing loans and other real estate owned. Non-performing loans are composed of (1) loans on a non-accrual basis, (2) loans which are contractually past due 90 days or more as to interest and principal payments but have not been classified as non-accrual, and (3) loans whose terms have been restructured to provide a reduction or deferral of interest and/or principal because of a deterioration in the financial position of the borrower.

The Bank's policy with regard to non-accrual loans is that generally, loans are placed on a non-accrual status when they are 90 days past due, unless these loans are well secured and in the process of collection or, regardless of the past due status of the loan, when management determines that the complete recovery of principal or interest is in doubt. Consumer loans are generally charged off after they become 120 days past due. Subsequent payments on loans in non-accrual status are credited to income only if collection of principal is not in doubt.

Non-performing loans decreased by \$5,817,697 to \$2,991,470 at December 31, 2011, from \$8,809,167 at December 31, 2010 as the disruptions in the financial system and the real estate market during the past few years required the Bank to charge-off \$2,799,482 of loans during 2011 compared to charge-offs of \$1,081,555 during 2010. The Bank recorded recoveries on previously charged-off loans of \$12,892 and \$13,880 during 2011 and 2010, respectively. The major segments of non-accrual loans consist of commercial loans, commercial real estate loans and SBA loans which are in the process of collection and residential real estate which is either in foreclosure or under contract to close after December 31, 2011. The table below sets forth non-performing assets and risk elements in the Bank's portfolio for the years indicated.

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As the table demonstrates, non-performing loans to total loans decreased to 0.63% at December 31, 2011 from 2.14% at December 31, 2010. Loan quality is still considered to be sound. This was accomplished through quality loan underwriting, a proactive approach to loan monitoring and aggressive workout strategies.

Non-performing assets increased by \$1,740,686 to \$15,400,671 at December 31, 2011 from \$13,659,985 at December 31, 2010. Other real estate owned increased by \$7,558,383 to \$12,409,201 at December 31, 2011 from \$4,850,818 at December 31, 2010. During 2011, the Bank was able to successfully dispose of properties with an aggregate carrying value of \$2,982,939 for a net loss of \$48,459 and the Bank was able to secure the title for other properties totaling \$9,954,598 at December 31, 2011 which will help to facilitate their disposal by sale process.

Non-performing assets represented 1.95% of total assets at December 31, 2011 and 2.12% at December 31, 2010.

Non-Performing Assets and Loans	2011	2010	December 31, 2009	2008	2007
Non-Performing loans:					
Loans 90 days or more past due and					
still accruing	\$ 0	\$ 0	\$ 145,898	\$ 0	\$ 0
Non-accrual loans	2,991,470	8,809,167	4,161,628	3,351,777	2,036,858
Total non-performing loans	2,991,470	8,809,167	4,307,526	3,351,777	2,036,858
Other real estate owned:	12,409,201	4,850,818	1,362,621	4,296,536	2,960,727
Total non-performing assets	\$ 15,400,671	\$ 13,659,985	\$ 5,670,147	\$ 7,648,313	\$ 4,997,585
Non-performing loans to total loans	0.63%	2.14%	1.13%	0.89%	0.67%
Non-performing loans to total loans excluding warehouse lines	1.32%	3.63%	1.65%	1.24%	0.67%
Non-performing assets to total assets	1.95%	2.12%	0.84%	1.40%	1.16%
Non-performing assets to total assets excluding mortgage warehouse lines	2.84%	2.88%	1.02%	1.74%	1.16%

At December 31, 2011, the Bank had eight loans totaling \$1,692,000 which were troubled debt restructurings. Four of these loans totaling \$918,000 are included in the above table as non-accrual loans; the remaining four loans totaling \$774,000 are considered performing. The Bank did not have any loans classified as troubled debt restructurings at the earlier dates included in the table.

Management takes a proactive approach in addressing delinquent loans. The Company's President meets weekly with all loan officers to review the status of credits past-due ten days or more. An action plan is discussed for delinquent loans to determine the steps necessary to induce the borrower to cure the delinquency and restore the loan to a current status. Also, delinquency notices are system generated when loans are five days past-due and again at 15 days

past-due.

In most cases, the Company's collateral is real estate and when the collateral is foreclosed upon, the real estate is carried at the lower of fair market value less the estimated selling costs or the initially recorded amount. The amount, if any, by which the recorded amount of the loan exceeds the fair market value of the collateral less estimated selling costs is a loss which is charged to the allowance for loan losses at the time of foreclosure or repossession. Resolution of a past-due loan can be delayed if the borrower files a bankruptcy petition because a collection action cannot be continued unless the Company first obtains relief from the automatic stay provided by the bankruptcy code.

Allowance for Loan Losses and Related Provision

The allowance for loan losses is maintained at a level sufficient to absorb estimated credit losses in the loan portfolio as of the date of the financial statements. The allowance for loan losses is a valuation reserve available for losses incurred or inherent in the loan portfolio and other extensions of credit. The determination of the adequacy of the allowance for loan losses is a critical accounting policy of the Company.

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The Company's primary lending emphasis is the origination of commercial and commercial real estate loans and mortgage warehouse lines of credit. Based on the composition of the loan portfolio, the inherent primary risks are deteriorating credit quality, a decline in the economy, and a decline in New Jersey real estate market values. Any one, or a combination, of these events may adversely affect the loan portfolio and may result in increased delinquencies, loan losses and increased future provision levels.

All, or part, of the principal balance of commercial and commercial real estate loans and construction loans are charged off against the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Consumer loans are generally charged off no later than 120 days past due on a contractual basis, earlier in the event of bankruptcy, or if there is an amount deemed uncollectible. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The following table presents, for the years indicated, an analysis of the allowance for loan losses and other related data.

Allowance for Loan
Losses

	2011	2010	2009	2008	2007
Balance, beginning of year	\$ 5,762,712	\$ 4,505,387	\$ 3,684,764	\$ 3,348,080	\$ 3,228,360
Provision charged to operating expenses	2,558,328	2,325,000	2,553,000	640,000	130,000
Loans charged off:					
Construction loans	(2,361,783)	(450,000)	(1,226,754)	(53,946)	-
Residential real estate loans	-	-	-	(31,865)	-
Commercial and commercial real estate loans	(437,699)	(609,468)	(511,791)	(220,565)	(88,891)
Loans to individuals	-	(22,087)	(1,973)	-	(1,614)
Lease financing	-	-	-	-	(478)
All other loans	-	-	-	-	-
	(2,799,482)	(1,081,555)	(1,740,518)	(306,376)	(90,983)
Recoveries:					
Construction loans	8,951	-	-	-	75,000
Residential real estate loans	-	-	-	-	-
Commercial and commercial real estate loans	3,941	13,880	2,575	3,060	-
Loans to individuals	-	-	5,566	-	5,703
Lease financing	-	-	-	-	-
All other loans	-	-	-	-	-
	12,892	13,880	8,141	3,060	80,703
Net (charge offs) / recoveries	(2,786,590)	(1,067,675)	(1,732,377)	(303,316)	(10,280)

Balance, end of period	\$ 5,534,450	\$ 5,762,712	\$ 4,505,387	\$ 3,684,764	\$ 3,348,080
Loans:					
At year end	\$ 475,431,771	\$ 411,987,339	\$ 379,945,735	\$ 377,348,416	\$ 294,760,718
Average during the year	362,289,390	387,575,677	384,314,052	340,666,744	281,176,955
Net charge offs to average loans outstanding	(0.77%)	(0.28%)	(0.45%)	(0.09%)	(0.00%)
Allowance for loan losses to:					
Total loans at year end	1.16%	1.40%	1.19%	0.98%	1.14%
Total loans at year end excluding Mortgage warehouse lines	1.95%	2.06%	1.52%	1.18%	1.14%
Non-performing loans	185.01%	65.42%	104.59%	109.93%	164.37%

The Company's provision for loan losses was \$2,558,328 for the year ended December 31, 2011 and \$2,325,000 for the year ended December 31, 2010. While the risk profile of the loan portfolio was reduced by a change in its composition via a \$18,604,920 reduction in higher risk construction loans, net loan charge-offs increased by \$1,718,915 and the total loan portfolio grew by \$63,444,432 from December 31, 2010 to December 31, 2011. This increase in both the loan portfolio and net loan charge-offs as well as the adverse economic conditions that resulted in depreciation of collateral values securing construction and commercial loans necessitated the recorded provision.

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At December 31, 2011, the allowance for loan losses was \$5,534,450 compared to \$5,762,712 at December 31, 2010, a decrease of \$228,262, or 4.0%. The ratio of the allowance for loan losses to total loans at December 31, 2011 and 2010 was 1.16% and 1.40%, respectively. The allowance for loan losses as a percentage of non-performing loans was 185.01% at December 31, 2011 compared to 65.42% at December 31, 2010. Management believes that the quality of the loan portfolio remains sound considering the economic climate and economy in the State of New Jersey and that the allowance for loan losses is adequate in relation to credit risk exposure levels.

The following table describes the allocation of the allowance for loan losses among the various categories of loans and certain other information as of the dates indicated. The allocation is made for analytical purposes and is not necessarily indicative of the categories in which future losses may occur. The total allowance is available to absorb losses from any segment of loans.

Allocation of the Allowance for Loan Losses

	December 31, 2011		December 31, 2010		December 31, 2009		December 31, 2008		December 31, 2007	
	Amount	% of loans in each category to total	Amount	% of loans in each category to total	Amount	% of loans in each category to total	Amount	% of loans in each category to total	Amount	% of loans in each category to total
Balance at end of period applicable to:										
Domestic:										
Commercial and commercial real estate loans	\$ 2,532,344	32%	\$ 2,695,859	36%	\$ 1,486,659	41%	\$ 1,477,550	39%	\$ 1,671,059	46%
Construction loans	1,054,695	10%	1,744,068	16%	1,739,332	21%	1,478,520	25%	1,308,651	45%
Mortgage warehouse lines	1,122,056	52%	763,092	41%	537,219	31%	477,001	28%	-	0%
Residential real estate loans	91,076	3%	67,828	3%	72,718	3%	71,087	3%	104,326	3%
Loans to individuals	189,729	3%	194,367	3%	145,542	4%	149,386	5%	154,437	6%
Unallocated	544,550		297,498		523,917		31,220		109,607	
	\$ 5,534,450	100%	\$ 5,762,712	100%	\$ 4,505,387	100%	\$ 3,684,764	100%	\$ 3,348,080	100%

Deposits

Deposits, which include demand deposits (interest bearing and non-interest bearing), savings deposits and time deposits, are a fundamental and cost-effective source of funding. The flow of deposits is influenced significantly by general economic conditions, changes in market interest rates and competition. The Bank offers a variety of products designed to attract and retain customers, with the Bank's primary focus being on the building and expanding of long-term relationships. Deposits in the year ended December 31, 2011 averaged \$623,939,008, an increase of \$75,904,997, or 13.9%, compared to \$548,034,011 in the year ended December 31, 2010. At December 31, 2011, total deposits were \$623,862,485, an increase of \$80,127,336, or 14.7%, from \$543,735,149 at December 31, 2010. The Bank's non-interest bearing demand deposits increased by \$13,447,420, or 14.6%, at December 31, 2011 compared to December 31, 2010. The average rate paid on the Bank's interest-bearing deposit balances for 2011 was 1.12%, a decrease from the 1.44% average rate for 2010. Average interest bearing deposits increased by \$45,510,845, or 9.9%, to \$506,062,713 for 2011 from \$460,551,868 for 2010.

Time deposits consist primarily of retail certificates of deposit and certificates of deposit of \$100,000 or more. Time deposits at December 31, 2011 were \$140,205,284, a decrease of \$16,259,133, or 10.4%, from \$156,454,417 at December 31, 2010. The retail certificates of deposit component of time deposits decreased by \$14,052,366, or 16.1%, to an average of \$73,470,718 for 2011 from an average of \$87,523,084 for 2010. The average cost of these deposits remained stable at 1.76% for 2011 and 1.74% for 2010. Certificates of deposit of \$100,000 or more increased by \$6,324,964 to an average of \$79,898,632 for 2011 from an average of \$73,573,668 for 2010. Certificates of deposit of \$100,000 or more are a less stable funding source and are used primarily as an alternative to other sources of borrowed funds. For information concerning time deposits of \$100,000 or more by time remaining until maturity, see Note 10 of the Notes to Consolidated Financial Statements.

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Average non-interest bearing demand deposits increased by \$30,394,152, or 34.7%, to \$117,876,295 for the year ended December 31, 2011 from \$87,482,143 for the year ended December 31, 2010. At December 31, 2011, non-interest bearing demand deposits totaled \$105,470,543, an increase of 14.6% compared to \$92,023,123 at December 31, 2010. Non-interest bearing demand deposits made up 16.9% of total deposits at December 31, 2011 and 2010, respectively, and represent a stable, interest-free source of funds.

Savings accounts increased by \$10,810,343, or 6.5%, to \$176,148,907 at December 31, 2011 from \$165,388,564 at December 31, 2010. The average balance of savings accounts for 2011 increased by \$2,297,701 to \$179,903,197 compared to an average balance of \$177,605,496 for 2010.

Interest bearing demand deposits, which include interest-bearing checking, money market and the Bank's premier money market product, 1st Choice account, increased by \$50,940,546, or 41.8%, to an average of \$172,790,166 for 2011 from an average of \$121,849,620 in 2010. The average cost of interest bearing demand deposits decreased 41 basis points to 0.99% for 2011 compared to 1.40% for 2010.

The following table illustrates the components of average total deposits for the dates indicated.

Average Deposit Balances

2011		2010		2009	
Average Balance	Percentage of Total	Average Balance	Percentage of Total	Average Balance	Percentage of Total