1ST CONSTITUTION BANCORP
Form 10QSB
November 13, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 2002

or

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

For the transition period from _____ to _____

Commission File Number: 000-32891

1st Constitution Bancorp
(Exact name of registrant as specified in its charter)

New Jersey	22-3665653
(State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No)
2650 Route 130, P.O. Box 634, Cranbury, NJ	08512
(Address of principal executive officers)	(Zip Code)

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

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities 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 subjected to such filing requirements for the past 90 days.

[X] Yes [ ] No

As of October 29, 2002 there were 1,402,075 shares of common stock, no par value outstanding.

Transitional Small Business Disclosure Format

[ ] Yes [X] No

FORM 10-QSB

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1ST CONSTITUTION BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CONDITION
(UNAUDITED)

	September 30, 2002
ASSETS	
CASH AND DUE FROM BANKS	$ 10,571,156
FEDERAL FUNDS SOLD / SHORT-TERM INVESTMENTS	16,265,353
Total cash and cash equivalents	26,836,509
SECURITIES:	
Available for sale, at market value	80,596,847
Held to maturity (market value of $5,687,146 and $6,103,760 in 2002 and 2001, respectively)	5,367,030
Total securities	85,963,877
LOANS HELD FOR SALE	4,847,217
LOANS	140,443,133
Less- Allowance for loan losses	(1,607,260)
Net loans	138,835,873
PREMISES AND EQUIPMENT, net	1,261,199

ACCRUED INTEREST RECEIVABLE	1,165,530
OTHER ASSETS	456,539
Total assets	$ 259,366,744
LIABILITIES AND SHAREHOLDERS' EQUITY	
LIABILITIES:	
Deposits	
Non-interest bearing	$ 38,627,224
Interest bearing	171,530,464
Total deposits	210,157,688
SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE	4,140,846
OTHER BORROWINGS	15,500,000
COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED CAPITAL SECURITIES OF A SUBSIDIARY TRUST HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF THE COMPANY	5,000,000
ACCRUED INTEREST PAYABLE	1,271,367
ACCRUED EXPENSES AND OTHER LIABILITIES	2,378,088
Total liabilities	238,447,989
COMMITMENTS AND CONTINGENCIES	
SHAREHOLDERS' EQUITY:	
Common stock, no par value; 15,000,000 shares authorized; 1,410,532 and 1,404,895 shares issued and 1,402,275 and 1,398,395 outstanding as of September 30, 2002 and December 31, 2001, respectively	15,241,618
Retained earnings	4,226,499
Treasury Stock, shares at cost (8,257 shares and 6,500 shares at September 30, 2002 and December 31, 2001, respectively)	(125,663)
Accumulated other comprehensive income (loss)	1,576,301
Total shareholders' equity	20,918,755
Total liabilities and shareholders' equity	$ 259,366,744

See accompanying notes to consolidated financial statements.

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1ST CONSTITUTION BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Three months ended September 30,		Nine month Septem
INTEREST INCOME	2002	2001	2002
Interest on loans	$ 2,611,140	$ 2,690,416	$ 7,547,100
Interest on securities			

Taxable	974,799	950,996	2,761,187
Tax-exempt	37,952	39,841	113,114
Interest on Federal funds sold and short-term investments	53,720	87,573	171,361
Total interest income	3,677,611	3,768,826	10,592,762
INTEREST EXPENSE			
Interest on deposits	1,005,670	1,447,247	3,009,556
Interest on securities sold under agreement to repurchase and other borrowed funds	238,397	251,230	694,898
Interest on trust preferred securities	76,864	--	145,120
Total interest expense	1,320,931	1,698,477	3,849,574
Net interest income	2,356,680	2,070,349	6,743,188
Provision for loan losses	60,000	60,000	180,000
Net interest income after provision for loan losses	2,296,680	2,010,349	6,563,188
NON-INTEREST INCOME			
Service charges on deposit accounts	119,632	110,217	363,113
Gain on sale of loans held for sale	191,281	219,280	758,964
Gain on sale of securities	--	5,352	--
Other income	65,934	75,704	185,328
Total non-interest income	376,847	410,553	1,307,405
NON-INTEREST EXPENSE			
Salaries and employee benefits	842,752	773,020	2,544,921
Occupancy expense	183,815	189,720	552,840
Other operating expenses	536,391	551,314	1,742,668
Total non-interest expense	1,562,958	1,514,054	4,840,429
Income before income taxes	1,110,569	906,848	3,030,164
Income taxes	420,745	329,160	1,118,058
Net income	$ 689,824	$ 577,688	$ 1,912,106
NET INCOME PER SHARE			
Basic	$ 0.49	$ 0.41	$ 1.36
Diluted	$ 0.47	$ 0.40	$ 1.31
WEIGHTED AVERAGE SHARES OUTSTANDING			
Basic	1,402,510	1,398,351	1,400,896
Diluted	1,460,917	1,443,437	1,459,303

See accompanying notes to consolidated financial statements

1ST CONSTITUTION BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine months ended September	
	2002	2001
OPERATING ACTIVITIES:		
Net income	$ 1,912,106	$ 1,589,
Adjustments to reconcile net income to net cash provided by operating activities-		
Provision for loan losses	180,000	180,
Depreciation and amortization	239,915	166,
Net amortization on securities	219,638	8,
Gain on sale of loans held for sale	(758,964)	(498,
Originations of loans held for sale	(41,813,269)	(41,942,
Proceeds from sales of loans held for sale	44,883,966	40,198,
Increase in accrued interest receivable	117,860	96,
Decrease in other assets	1,703,750	292,
(Decrease) increase in accrued interest payable	(286,025)	112,
Increase in accrued expenses and other liabilities	1,757,940	288,
Net cash provided by operating activities	8,156,917	487,
INVESTING ACTIVITIES:		
Purchases of securities -		
Available for sale	(41,456,000)	(31,162,
Held to maturity	(305,523)	(2,829,
Proceeds from maturities and prepayments of securities -		
Available for sale	22,316,391	17,775,
Held to maturity	966,211	5,085,
Proceeds from sales of securities available for sale	--	2,898,
Net increase in loans	(15,492,886)	(14,061,
Capital expenditures	(502,370)	(177,
Net cash used in investing activities	(34,474,177)	(22,470,
FINANCING ACTIVITIES:		
Net increase in demand, savings and time deposits	25,892,892	34,467,
Net increase in securities sold under agreements to repurchase	332,663	5,291,
Proceeds from issuance of trust preferred securities	5,000,000	
Net cash provided by financing activities	31,225,555	39,759,
Increase in cash and cash equivalents	4,908,295	17,776,
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	21,928,214	7,539,
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 26,836,509	$ 25,316,

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for -		
Interest	$ 4,135,599	$ 5,073,
Income taxes	$ 1,193,980	$ 1,179,

See accompanying notes to consolidated financial statements.

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1ST CONSTITUTION BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2002 (UNAUDITED)

(1) BASIS OF PRESENTATION

The accompanying unaudited Consolidated Financial Statements herein have been prepared by 1st Constitution Bancorp (the "Company"), in accordance with accounting principles generally accepted in the United States of America and pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to such rules and regulations. These consolidated Financial Statements should be read in conjunction with the audited financial statements and the notes thereto.

In the opinion of the Company, all adjustments (consisting only of normal recurring accruals) which are necessary for a fair presentation of the operating results for the interim periods have been included. The results of operations for periods of less than a year are not necessarily indicative of results for the full year.

Certain reclassifications have been made to the prior years' financial statements to conform with the classifications used in 2002.

(2) NET INCOME PER COMMON SHARE

Basic net income per common share is computed by dividing net income by the weighted average number of shares outstanding during each period.

Diluted net income per common share is computed by dividing net income by the weighted average number of shares outstanding, as adjusted for the assumed exercise of potential common stock options, using the treasury stock method. Potential shares of common stock resulting from stock option agreements totaled 58,407 for the three-month and nine-month periods ended September 30, 2002 and 45,086 for the same periods at September 30, 2001, respectively. All share amounts have been restated for the effect of a 5% stock dividend declared in 2001.

(3) RECENT ACCOUNTING PRONOUNCEMENT

In October, 2002, the FASB issued Statement No. 147, Acquisitions of Certain Financial Institutions- an amendment to FASB Statements No. 72 and 144 and FASB Interpretation No. 9. This Statement removes acquisitions of financial institutions from the scope of both Statement 72 and Interpretation 9 and requires that those transactions be accounted for in accordance with FASB Statements No. 141, Business Combinations, and No.

142, Goodwill and Other Intangible Assets. The provisions of Statement No. 147 that relate to the application of the purchase method of accounting apply to all acquisitions of financial institutions, except transactions between two or more mutual enterprises.

Statement No. 147 clarifies that a branch acquisition that meets the definition of a business should be accounted for as a business combination, otherwise the transaction should be accounted for as an acquisition of net assets that does not result in the recognition of goodwill. The provisions of Statement No. 147 are effective October 1, 2002. Management does not anticipate that the adoption of SFAS 147 will have a significant impact on the Company's consolidated financial statements

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

The following discussion of the operating results and financial condition at September 30, 2002 is intended to help readers analyze the accompanying financial statements, notes and other supplemental information contained in this document. Results of operations for the three and nine-month periods ended September 30, 2002 are not necessarily indicative of results to be attained for any other period.

General

1st Constitution Bancorp (the "Company"), a bank holding company, was incorporated in February 1999 for the purpose of becoming the parent holding company of 1st Constitution Bank (the "Bank"), a full service commercial bank which began operations in August 1989. 1st Constitution Capital Trust I, a subsidiary of the Company, was created to issue trust preferred securities to assist the Company to raise additional regulatory capital. The Bank operates 6 branches and has 2 subsidiaries, 1st Constitution Investment Company, which manages an investment portfolio and FCB Assets Holdings, Inc., which is used by the Bank to manage and dispose of repossessed property/real estate.

Forward-Looking Statements

This report contains forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Such statements are not historical facts and include expressions about our confidence and strategies and our expectations about new and existing programs and products, relationships, opportunities, technology and market conditions. These statements may be identified by such forward-looking terminology as "expect", "believe", "anticipate", or by expressions of confidence such as "continuing" or "strong" or similar statements or variations of such terms. Such forward-looking statements involve certain risks and uncertainties. These include, but are not limited to, expected cost savings not being realized or not being realized within the expected time frame; income or revenues being lower than expected or operating costs higher; competitive pressures in the banking or financial services industries increasing significantly; business disruption related to program implementation or methodologies; weakening of general economic conditions nationally or in New Jersey; changes in legal and regulatory barriers and structures; and unanticipated occurrences delaying planned programs or initiatives or increasing their costs or decreasing their benefits, as well as other risks and uncertainties detailed from time to time in filings of the Company with the U.S. Securities and Exchange Commission. Actual results may differ materially from such forward-looking statements. The Company assumes no obligation for updating any such forward-looking statements at any time.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2002 AND SEPTEMBER 30, 2001

Summary

The Company realized net income of $689,824 for the three months ended September 30, 2002 as compared to $577,688 reported for the same period in 2001. Net income per diluted share was $0.47 for the three months ended September 30, 2002 compared to $0.40 per diluted share for the same period of the prior year.

EARNINGS ANALYSIS

Interest Income

Interest income for the quarter ended September 30, 2002 was $3,677,611, a decrease of $91,215 from the $3,768,826 reported in the same period of 2001. This decrease is primarily attributable to the declining interest rate environment that existed throughout 2001 and continued into the third quarter of 2002. For the three months ended September 30, 2002, average interest earning assets increased $29,718,891 or 14.5%, compared with the same period in 2001. For the three months ended September 30, 2002, the average yield on earning assets decreased 108 basis points to 6.23% from 7.31% for the same period last year.

Interest Expense

Interest expense for the quarter ended September 30, 2002 was $1,320,931, a decrease of $377,546 from $1,698,477 reported in the same period last year. The average cost of interest bearing liabilities decreased 126 basis points to 2.83% for the current quarter of 2002 from 4.09% for the same period last year, primarily as a result of a decrease in rates paid on deposits and short-term borrowed funds. Total average interest bearing liabilities increased by $20,298,218 for the current quarter of 2002 compared to the same period in 2001.

Net Interest Income

The net effect of the changes in interest income and interest expense for the three months ended September 30, 2002 compared to the prior year period was an increase of $286,331 in net interest income. For the three months ended September 30, 2002, the net interest margin, on a fully taxable equivalent basis, remained relatively stable, decreasing by 2 basis points from the same period last year. The stable net interest margin was primarily the result of management's ability to structure the Company's interest bearing liabilities to keep pace with the repricing of interest earning assets in the decreasing rate environment that has continued through the first nine months of 2002.

Provision for Loan Losses

For the three months ended September 30, 2002 and September 30, 2001, the provision for loan losses was $60,000. The comparable provisions were the result of stable loan portfolio growth combined with lower levels of non-performing loans. The amount of the loan loss provisions and the level of the allowance for loan losses are critical accounting policies of the Company and are based upon a number of factors including Management's evaluation of potential losses in the portfolio after consideration of appraised collateral values, financial conditions and past credit history of the borrowers as well as prevailing economic conditions.

Non-Interest Income

For the three months ended September 30, 2002, compared to the same period of 2001, total non-interest income decreased $33,706 or 8.2%, to $376,847 compared to $410,553. The decrease was due primarily to decreases of $27,999 in gains on sale of loans held for sale and $9,770 in other income. These decreases were partially offset by a modest increase in service charges on deposit accounts of $9,415. The declining interest rate environment that existed in 2001 and continued into the first nine months of 2002 greatly fueled the volume of mortgage loan originations and

subsequent secondary market mortgage loan sales. The volume of secondary market sales, although slightly lower than second quarter 2001 volume, remained strong in the first none months of 2002.

Non-Interest Expense

For the three months ended September 30, 2002, non-interest expense increased $48,904, or 3.2%, from the same period last year. Salaries and employee benefits increased $69,732 compared to the prior year period primarily due to increased staffing levels to manage the continuing growth of the Company plus normal salary increases. The Occupancy expense and Other operating expenses components remained at relatively consistent levels. Occupancy expense decreased $5,905 and other expenses also decreased $14,923 when compared to prior period balances.

An important industry productivity measure is the efficiency ratio. The efficiency ratio is calculated by dividing total operating expenses by net interest income and other 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 improved for the quarter ended September 30, 2002 to 57.2% compared to 61.0% for the quarter ended September 30, 2001.

NINE MONTHS ENDED SEPTEMBER 30, 2002 AND SEPTEMBER 30, 2001

Summary

The Company realized net income of $1,912,106 for the nine months ended September 30, 2002, an increase of 20.3% over the $1,589,047 for the same period in 2001. Net income per diluted share was $1.31 for the nine months ended September 30, 2002 compared to $1.10 per diluted share for the prior year.

EARNINGS ANALYSIS

Interest Income

For the first nine months of 2002, total interest income was $10,592,762, a decrease of 5.3% compared to total interest income of $11,187,671 for the same period in 2001. The following table sets forth the Company's consolidated average balances of assets, liabilities and shareholders' equity as well as interest income and expense on related items, and the Company's average rate for the nine month periods ended September 30, 2002 and 2001.

AVERAGE BALANCE SHEETS WITH RESULTANT INTEREST AND RATES

(yields on a tax-equivalent basis)	Nine months ended September 30, 2002			Nine months en	
	Average Balance	Interest	Average Rate	Average Balance	
ASSETS:					
Federal Funds Sold/Short-Term Investments	$ 12,665,594	$ 171,361	1.81%	$ 7,205,035	$
Securities:					
U.S. Treasury Bonds	--	--	0.00%	217,780	
Collateralized Mortgage Obligations/ Mortgage Backed Securities	73,087,700	2,761,187	5.04%	61,012,875	
States and Political Subdivisions	3,196,932	167,408	6.98%	3,3394904	
Total	76,284,632	2,928,595	5.12%	64,570,559	
Loan Portfolio:					
Commercial	26,587,012	1,591,525	8.00%	23,938,344	
Installment	14,165,768	841,878	7.95%	14,959,559	
Commercial Mortgages and Construction Wholesale	66,216,955	3,439,061	6.94%	56,037,293	
Residential Mortgages and Construction Retail	18,311,111	998,216	7.29%	19,760,471	
All Other Loans	7,941,081	676,421	10.90%	7,505,076	
Total	133,221,927	7,547,101	7.57%	122,200,743	
TOTAL INTEREST-EARNING ASSETS	222,172,153	10,647,057	6.41%	193,976,337	1
Allowance for Loan Losses	(1,524,801)			(1,230,194)	
Cash and Due From Bank	8,320,703			6,345,315	
Other Assets	3,197,888			3,055,933	
TOTAL ASSETS	$232,165,943			$202,147,391	
Interest-Bearing Liabilities:					
Money Market and NOW Accounts	$ 65,373,881	$ 725,325	1.48%	$ 35,394,744	$
Savings Accounts	12,861,217	142,760	1.48%	10,592,749	
Certificates of Deposit	55,555,309	1,652,680	3.98%	51,886,702	
Certificates of Deposit of $100,000 and Over	17,718,921	488,791	3.69%	24,415,922	
Federal Funds Purchased/Other Borrowed Funds	19,510,736	694,898	4.76%	31,795,081	
Trust Preferred Securities	3,168,498	145,120	6.02%	--	
TOTAL INTEREST-BEARING LIABILITIES	174,188,562	3,849,574	2.95%	154,085,198	
NET INTEREST SPREAD			3.45%		
Demand Deposits	36,165,237			29,534,199	
Other Liabilities	3,226,972			2,591,297	
Total Liabilities	213,580,771			186,210,694	
Shareholders' Equity	18,585,172			15,936,697	

TOTAL LIABILITIES AND SHAREHOLDERS'					
EQUITY	232,165,943			202,147,391	
	============			============	
NET INTEREST MARGIN		$6,797,483	4.09%		$
		==========	=======		=

The current year decrease in interest income was the result of lower yields earned on the securities and loan portfolios despite the higher current period average balances on these portfolios. Average loans increased $11,021,184, or 9.0% while the yield on the portfolio decreased 116 basis points to 7.57% from 8.73%. The lower loan yield reflected the lower interest rate environment that existed throughout 2001 and continued into the third quarter of 2002.

Average securities increased $11,714,073, or 18.1%, while the yield on the securities portfolio decreased 117 basis points to 5.12% from 6.29%.

Overall, the yield on the Company's total interest-earning assets decreased 134 basis points to 6.41% for the nine months ended September 30, 2002 from the 7.75% for the same period in 2001.

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Interest Expense

Total interest expense for the nine months ended September 30, 2002 was $3,849,574, a decrease of 25.8% compared to $5,186,167 for the same period in 2001. The decrease in interest expense for the current period resulted primarily from the impact of higher levels of interest-bearing liabilities priced at a significantly lower market interest rate level. The average rate paid on interest bearing liabilities for the nine months ended September 30, 2002 decreased 155 basis points to 2.95% from 4.50% for the same period of 2001.

Net Interest Income

The Company's net interest income for the nine month period ended September 30, 2002 was $6,743,188, an increase of 12.4% compared to $6,001,504 for the same period in 2001. For the first nine months of 2002, interest income decreased by $594,909 compared to the same period in 2001 while interest expense decreased by $1,336,593 compared to the same period in 2001. Although the loan and securities portfolios average balances increased during the first nine months of 2002, those assets earned lower rates of return in 2002 than during 2001.

The net interest margin (on a tax-equivalent basis), which is net interest income divided by average interest-earning assets, was 4.09% for the first nine months of 2002 compared to 4.18% for the same period in 2001. The principal factor causing the decline in the net interest margin was the lower interest rate environment that existed throughout 2001 and continued through the third quarter of 2002.

Provision for Loan Losses

The provision for loan losses for the nine months ended September 30, 2002 and 2001 was $180,000. The comparable provisions were the result of stable loan portfolio growth combined with lower levels of non-performing loans.

Non-Interest Income

Total non-interest income for the nine months ended September 30, 2002 was

$1,307,405, an increase of 28.4% over non-interest income of $1,018,341 for the same period in 2001. The increase was due primarily to increases in service charges on deposit accounts and gains on loans held for sale, partially offset by a decrease in other non-interest income.

Gain on sale of loans held for sale represents the largest single source on non-interest income. Gain on sale of loans held for sale for the nine months ended September 30, 2002 was $758,964 compared to $498,208 for the same period in 2001. The declining interest rate environment that existed in 2001 and continued in the first nine months of 2002 greatly fueled the volume of mortgage loan originations and subsequent secondary market mortgage loan sales.

Service charges on deposit accounts amounted to $363,113 for the nine months ended September 30, 2002 compared to $296,777 for the same period in 2001. Service charge income increased in 2002 principally due to increases in income from overdraft fees and wire transfer service fees.

The Company also generates non-interest income from a variety of other fee-based services. These fees are monitored closely by Management to reflect current charges amid the Company's competitive market.

Non-Interest Expense

Total non-interest expense for the nine months ended September 30, 2002 was $4,840,429, an increase of 11.3% compared to non-interest expense of $4,347,655 for the same period in 2001.

The following table presents the major components of non-interest expense for the nine months ended September 30, 2002 and 2001.

NON-INTEREST EXPENSES

	Nine months ended September 30	
	2002	2001
Salaries and employee benefits	$2,544,921	$2,288,604
Occupancy expenses	552,840	547,998
Equipment expense	336,230	222,472
Marketing	177,386	129,772
Computer services	382,626	359,219
Regulatory, professional and other fees	313,908	273,803
Office expense	215,595	242,594
All other expenses	316,923	283,193
	$4,840,429	$4,347,655

Salaries and employee benefits increased 11.2% to $2,544,921 for the nine months ended September 30, 2002 compared to $2,288,604 for the nine months ended September 30, 2001. This increase reflects the increase in staffing levels to manage the continuing growth of the Company, including the new Windrows branch that opened in February 2002.

The Company's ratio of non-interest expense to average assets decreased to 2.79%

for the nine months ended September 30, 2002 compared to 2.88% for the same period in 2001. The Company's efficiency ratio decreased to 60.1% for the first nine months of 2002 compared to a ratio of 61.9% for the first nine months of 2001.

FINANCIAL CONDITION

September 30, 2002 Compared with December 31, 2001

Total consolidated assets at September 30, 2002 totaled $259,366,744 compared to $223,183,463 at December 31, 2001. The increase in the Company's asset base during the first nine months of 2002 was primarily funded by an increase in interest bearing deposits and $5,000,000 in proceeds from the issuance of trust preferred securities. Total deposits increased by $25,892,892 or 14.1% to $210,157,688 at September 30, 2002 compared to $184,264,796 at December 31, 2001.

Cash and Cash Equivalents

Cash and Cash Equivalents at September 30, 2002 totaled $26,836,509 compared to $21,928,214 at December 31, 2001. Cash and cash equivalents at September 30, 2002 consisted of cash and due from banks of $10,571,156 and Federal funds sold/short term investments of $16,265,353. The corresponding balances at December 31, 2001 were $8,173,550 and $13,754,664, respectively. The balance of cash and cash equivalents at September 30, 2002 increased primarily due to increased interest bearing deposit balances.

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Securities

Securities represented 33.1% of total assets at September 30, 2002 and 30.3% at December 31, 2001. Total securities increased $18,323,893 or 27.1% at September 30, 2002 to $85,963,877 compared to $67,639,984 at year-end 2001.

Information relative to the Company's securities portfolio at September 30, 2002, is as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unreali Losses
SEPTEMBER 30, 2002			
Available for sale --			
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$35,294,403	$ 600,825	$ 31,
Mortgage backed securities	36,765,845	1,688,501	
FHLB stock and other securities	6,148,265	130,835	
	$78,208,512	$ 2,420,161	$ 31,
Held to maturity --			
Obligations of State and Political Subdivisions	$ 3,485,237	$ 212,989	$
Mortgage backed securities	1,881,793	107,128	
	$ 5,367,030	$ 320,116	$

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Securities available for sale totaled $80,596,847 at September 30, 2002, an increase of $18,991,790 or 30.8% from year-end 2001. During the first nine months of 2002, $41,456,000 of securities available for sale were purchased (predominantly mortgage backed securities) and funded by calls and maturities of securities held to maturity, securities available for sale and short-term investments.

Securities held to maturity totaled $5,367,030 at September 30,2002, a decrease of $667,897 or 11.1% from year-end 2001.

Loans

The loan portfolio, which represents the Company's 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 Company's primary lending focus continues to be commercial loans, owner-occupied commercial mortgage loans and tenanted commercial real estate loans.

The following table sets forth the classification of loans by major category at September 30, 2002 and December 31, 2001.

LOAN PORTFOLIO COMPOSITION	September 30, 2002		December 31, 2001	
Component	Amount	% of total	Amount	% of tot
Construction loans	$ 31,628,646	22.5%	$ 29,385,096	23.5%
Residential real estate loans	9,111,963	6.5%	11,634,097	9.3%
Commercial and industrial loans	77,730,665	55.3%	62,043,318	49.7%
Loans to individuals	16,078,322	11.4%	15,587,772	12.5%
Lease financing	5,140,893	3.7%	6,117,261	4.9%
All other loans	752,643	0.5%	169,939	0.1%
	$140,443,132	100.0%	$124,937,483	100.0%

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The loan portfolio increased at September 30, 2002 to $140,443,133 from $124,937,483 at December 31, 2001. The ability of the Company to enter into larger loan relationships and management's philosophy of relationship banking are key factors in continued loan growth. Strong competition from both bank and non-bank competitors could result in comparatively lower yields on new and established lending relationships. The ultimate collectability of the loan portfolio and the recovery of the carrying amount of real estate are subject to changes in the Company's market region's economic environment and real estate market.

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 on principal because of a deterioration in the financial position of the borrower.

The Company's policy with regard to non-accrual loans varies by the type of loan involved. Generally, commercial 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 90 days past due. Residential mortgage loans are not generally placed on a non-accrual status unless the value of the real estate has deteriorated to the point that a potential loss of principal or interest exists. Subsequent payments are credited to income only if collection of principal is not in doubt.

Nonaccrual loans amounted to $172,980 at September 30, 2002, a decrease of $445,122 from $618,102 at year-end 2001. During 2002, the collateral supporting one $425,000 commercial loan on nonaccrual status at December 31, 2001 was sold by the borrower and the proceeds were used to extinguish this obligation. As the table demonstrates, loan quality and ratios remain strong. This was accomplished through quality loan underwriting, a proactive approach to loan monitoring and aggressive workout strategies.

NON-PERFORMING ASSETS AND LOANS	September 30, 2002	December 31, 2001
Non-Performing loans:		
Loans 90 days or more past due and still accruing	$ 68,036	$ 0
Non-accrual loans	172,980	618,102
Total non-performing loans	241,016	618,102
Other real estate owned	9,648	0
Total non-performing assets	$250,664	$618,102
Non-performing loans to total loans	0.17%	0.49%
Non-performing assets to total assets	0.10%	0.28%

The Company had no restructured loans at September 30, 2002 and December 31, 2001. Impaired loans totaled $609,237 at December 31, 2001. The improved financial condition of borrowers resulted in the Company having no impaired loans at September 30, 2002.

Allowance for Loan Losses

The determination of the adequacy of the allowance for loan losses is a critical accounting policy of the Company and is maintained at a level believed by management sufficient to absorb probable credit losses inherent 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 in the loan portfolio and other extensions of credit.

Management utilizes a systematic and documented allowance adequacy methodology for loan losses that requires specific allowance assessment for all loans, including real estate mortgages and consumer loans. This methodology assigns reserves based upon credit risk ratings for all loans. The reserves are based upon various factors, including historical performance, general economic conditions as well as the current economic conditions of borrowers and underlying collateral values. Management periodically reviews the process used to determine the adequacy of the allowance for loan losses. Allocations to the allowance for loan losses, both specific and general, are determined after this review. Loans are classified based on internal reviews and evaluations performed by the lending staff. These evaluations are, in turn, examined by the Company's internal loan review specialist. A formal loan review function, independent of loan origination, is used to identify and monitor risk classifications. The determination of the adequacy of the allowance for loan losses is inherently subjective in nature and subject to significant near term change based upon the underlying factors discussed above.

The allowance for loan losses amounted to $1,607,260 at September 30, 2002, an increase of $192,765 from December 31, 2001. The ratio of the allowance for loan losses to total loans was 1.14% at September 30, 2002 and 1.13% at December 31, 2001, respectively. The quality of the loan portfolio remained stable and it is management's belief that the allowance for loan losses is adequate in relation to credit risk exposure levels.

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

ALLOWANCE FOR LOAN LOSSES	September 30, 2002	September 30, 2001
Balance, beginning of period	$ 1,414,495	$ 1,132,555
Provision charged to operating expenses	180,000	180,000
Loans charged off	(8,182)	(392)
Recoveries	20,947	2,418
Net recoveries	12,765	2,026
Balance, end of period	$ 1,607,260	$ 1,314,581
Loans:		
At period end	$ 140,443,133	$ 124,695,412
Average during the period	133,221,927	122,200,743
Net recoveries to average loans outstanding	0.01%	0.00%
Allowance for loan losses to:		
Total loans at period end	1.14%	1.05%
Non-performing loans	666.87%	212.68%

Deposits

Deposits, which include demand deposits (interest bearing and non-interest bearing), savings and time deposits, are a fundamental and cost-effective source of funding the Company's operations. The Company offers a variety of products designed to attract and retain customers, with management's primary focus being on building and expanding long-term relationships.

AVERAGE DEPOSIT BALANCE

	Nine months ended Sept. 30, 2002	
	Balance	Percentage Of Total
Non-interest bearing demand deposits	$ 36,165,237	19.3%
Interest bearing demand deposits	65,373,881	34.8%
Savings deposits	12,861,217	6.9%
Certificates of deposit of $100,000 or more	17,718,921	9.4%
Other time deposits	55,555,309	29.6%
Total	$187,674,565	100.0%

Total deposits increased $25,892,892 or 14.1% to $210,157,688 at September 30, 2002 from $184,264,796 at December 31, 2001. This increase in total deposits was primarily the result of a $19,899,563 increase in interest bearing deposits to $171,530,464 as depositors sought safety and dependable returns on their funds during the current period of financial market volatility and economic uncertainty. This was supplemented by a $5,993,329 increase in non-interest bearing deposits to $38,627,224.

Other Borrowings

Other Borrowings are comprised of fixed rate convertible advances from the Federal Home Loan Bank ("FHLB"). These borrowings are primarily used to fund asset growth not supported by deposit generation. These advances are fully secured by marketable securities and qualifying one-to-four family mortgage loans.

The balances of other borrowed funds was $15,500,000 at September 30, 2002 and December 31, 2001.

Trust Preferred Securities

On April 10, 2002, the Company, through a wholly owned subsidiary, issued $5.0 million of floating rate Trust Preferred Securities in a pooled institutional placement transaction. The Trust has no independent assets or operations, and exists for the sole purpose of issuing the trust preferred securities and investing the proceeds thereof in an equivalent amount of junior subordinated debentures issued by the Company. The junior subordinated debentures, which are the sole assets of the trust, are unsecured obligations of the Company, and are subordinate and junior in right of payment to all present and future senior and subordinated indebtedness and certain other financial obligations of the Company. The principal amount of subordinated debentures held by the trust equals the aggregate liquidation amount of its Trust Preferred Securities and its common securities. The subordinated debentures bear interest at the same rate, and will mature on the same date, as the corresponding Trust Preferred Securities. The Company fully and unconditionally guarantees the trust's obligations under the Trust Preferred Securities. The Trust Preferred Securities mature April 22, 2032 and have an initial rate of 6.02%. The Trust Preferred Securities are redeemable in whole or in part prior to maturity after April 22, 2007.

Shareholders' Equity And Dividends

Shareholders' equity at September 30, 2002 totaled $20,918,755, an increase of $3,485,811, or 20.0%, compared to December 31, 2001. Book value per common share rose to $14.92 at September 30, 2002 compared to $12.47 at December 31, 2001.

In 2000, the Board of Directors authorized a stock buyback program that allows for the repurchase of a limited number of the Company's shares at management's discretion on the open market. The Company undertook this repurchase program in order to increase shareholder value. During the nine months ended September 30, 2002, 1,757 shares of common stock were purchased at a weighted-average price of $24.04 and, during 2001, 4,610 shares were purchased under this program at a weighted-average price of $14.43. Treasury stock totaled $125,663 at September 30, 2002 compared to $83,190 at December 31, 2001.

During December 2001, the Company's stock became listed for trading on the NASDAQ National Market System, under the symbol, "FCCY".

The table below presents the actual capital amounts and ratios of the Company for the periods indicated:

CAPITAL RATIOS

	Amount	Ratio
As of September 30, 2002 -		
Total capital to risk weighted assets	$25,949,714	15.99%
Tier 1 capital to risk weighted assets	24,342,454	15.00%
Tier 1 capital to average assets	24,342,454	9.88%
As of December 31, 2001-		
Total capital to risk weighted assets	$18,890,081	12.82%
Tier 1 capital to risk weighted assets	17,475,586	11.86%
Tier 1 capital to average assets	17,475,586	7.57%

The minimum regulatory capital requirements for financial institutions require institutions to have a Tier 1 capital to average assets ratio of 4.0%, a Tier 1 capital to risk weighted assets ratio of 4.0% and a total capital to risk weighted assets ratio of 8.0%. To be considered "well capitalized," an institution must have a minimum Tier 1 leverage ratio of 5.0%. At September 30, 2002, the ratios of the Company exceeded the ratios required to be considered well capitalized. It is management's goal to monitor and maintain adequate capital levels to continue to support asset growth and continue its status as a well-capitalized institution.

Liquidity

At September 30, 2002, the amount of liquid assets remained at a level management deemed adequate to ensure that contractual liabilities, depositors withdrawal requirements, and other operational and customer credit needs could be satisfied.

Liquidity measures the ability to satisfy current and future cash flow needs as they become due. Liquidity management refers to the Company's ability to support asset growth while satisfying the borrowing needs and deposit withdrawal requirements of customers. In addition to maintaining liquid assets, factors such as capital position, profitability, asset quality and availability of funding affect a banks' ability to meet its liquidity needs. On the asset side, liquid funds are maintained in the form of cash and cash equivalents, Federal funds sold, investment securities held to maturity

maturing within one year, securities available for sale and loans held for sale. Additional asset-based liquidity is derived from scheduled loan repayments as well as investment repayments of principal and interest from mortgage-backed securities. On the liability side, the primary source of liquidity is the ability to generate core deposits. Short-term borrowings are used as supplemental funding sources when growth in the core deposit base does not keep pace with that of earnings assets.

The Company has established borrowing relationship with the FHLB and its correspondent banks which further support and enhance liquidity.

The Consolidated Statements of Cash Flows present the changes in cash from operating, investing and financing activities.

Net cash provided by operating activities totaled $8,156,917 in 2002 compared to $487,751 provided by operating activities in 2001. The primary sources of funds are net income from operations adjusted for provision for loan losses, depreciation expenses, and amortization of intangibles and net proceeds from sales of loans held for sale.

Net cash used in investing activities totaled $34,474,177 in 2002 compared to $22,470,737 in 2001. The increase in usage was the result of a higher volume of securities purchases for the nine months ended September 30, 2002.

Net cash provided by financing activities amounted to $31,225,555 in 2002 compared to $39,759,048 provided by financing activities in 2001. The decrease in 2002 resulted primarily from a lesser total volume increase in deposits during the nine month period ended September 30, 2002 compared to the same prior year period.

The securities portfolio is also a source of liquidity, providing cash flows from maturities and periodic repayments of principal. During 2002, maturities of investment securities totaled $23,282,602. Another source of liquidity is the loan portfolio, which provides a steady flow of payments and maturities.

Interest Rate Sensitivity Analysis

The largest component of the Company's total income is net interest income, and the majority of the Company's financial instruments are composed of interest rate-sensitive assets and liabilities with various terms and maturities. The primary objective of management is to maximize net interest income while minimizing interest rate risk. Interest rate risk is derived from timing differences in the repricing of assets and liabilities, loan prepayments, deposit withdrawals, and differences in lending and funding rates. Management actively seeks to monitor and control the mix of interest rate-sensitive assets and interest rate-sensitive liabilities.

The Company continually evaluates interest rate risk management opportunities, including the use of derivative financial instruments. Management believes that hedging instruments currently available are not cost-effective, and therefore, has focused its efforts on increasing the Company's spread by attracting lower-costing retail deposits.

MARKET RISK ANALYSIS

To measure the impacts of longer-term asset and liability mismatches beyond two years, the Company utilizes Modified Duration of Equity and Economic Value of Portfolio Equity ("EVPE")

models. The modified duration of equity measures the potential price risk of equity to changes in interest rates. A longer modified duration of equity indicates a greater degree of risk to rising interest rates. Because of balance sheet optionality, an EVPE analysis is also used to dynamically model the present value of asset and liability cash flows, with rates ranging up or down 200 basis points. The economic value of equity is likely to be different as interest rates change. Results falling outside prescribed ranges require action by management. At September 30, 2002 and December 31, 2001, the Company's variance in the economic value equity as a percentage of assets with an instantaneous and sustained parallel shift of 200 basis points is within the negative 3% guideline, as shown in the tables below.

The market capitalization of the Company should not be equated to the EVPE, which only deals with the valuation of balance sheet cash flows using conservative assumptions. Calculated core deposit premiums may be less than what is available in an outright sale. The model does not consider potential premiums on floating rate loan sales, the impact of overhead expense, non-interest income, taxes, industry market price multiples and other factors reflected in the market capitalization of a company.

The following tables set forth certain information relating to the Company's financial instruments that are sensitive to changes in interest rates, categorized by expected maturity or repricing and the instruments fair value at September 30, 2002 and December 31, 2001.

MARKET RISK ANALYSIS

	September 30, 2002			Dece	
Change in Rates	Flat	-200bp	+200bp	Flat	
Economic Value of Portfolio Equity	$26,692,000	$ 23,648,000	$ 24,195,000	$22,128,000	$
Change		(3,043,000)	(2,496,000)		
Change as a % of assets		(1.17%)	(0.96%)		

ITEM 4. CONTROLS AND PROCEDURES.

Within the 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer and the Company's Senior Vice President and Treasurer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon the evaluation, they concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in this report. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of the evaluation.

PART II

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit No.	Description
10.1	Supplemental Executive Retirement Plan, dated as of October 1, 2002.
10.2	Directors' Deferral Plan, dated as of October 1, 2002.
10.3	Directors' Insurance Plan, dated as of October 1, 2002.
10.4	Form of Executive Life Insurance Agreement.

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

1ST CONSTITUTION BANCORP

DATE: November 13, 2002 By: /s/ Robert F. Mangano

Robert F. Mangano
President and Chief Executive Officer
(Principal Executive Officer)

DATE: November 13, 2002 By: /s/ Joseph M. Reardon

Joseph M. Reardon
Senior Vice President and Treasurer
(Principal Financial and Accounting Officer)

CERTIFICATIONS

I, Robert F. Mangano, certify that:

1. I have reviewed this quarterly report on Form 10-Q of 1st Constitution Bancorp;

2. Based on my knowledge, this quarterly report does 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 the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

/s/ Robert F. Mangano

Robert F. Mangano
President and Chief Executive Officer

I, Joseph F. Reardon, certify that:

1. I have reviewed this quarterly report on Form 10-Q of 1st Constitution Bancorp;

2. Based on my knowledge, this quarterly report does 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 the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

/s/ Joseph F. Reardon

Joseph F. Reardon

Senior Vice President and Treasurer