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FEDERAL TRUST CORP
Form 10-Q
May 13, 2003

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

FORM 10-QSB

(Mark One)

X Quarterly report under Section 13 or 15(d) of the Securities Exchange Act
---- of 1934

For the quarterly period ended March 31, 2003

Transition report under Section 13 or 15(d) of the Exchange Act

For the transition period from _____ to _____

Commission file number 33-27139

FEDERAL TRUST CORPORATION

(Exact Name of Small Business Issuer as Specified in Its Charter)

Florida

(State or Other Jurisdiction
of Incorporation or Organization)

59-2935028

(I.R.S. Employer
Identification No.)

312 West 1st Street
Sanford, Florida 32771

(Address of Principal Executive Offices)

(407) 323-1833
(Issuer's Telephone Number)

N/A
(Former Name, Former Address and Former Fiscal Year, if Changed
Since Last Report)

State the number of shares outstanding of each of the
issuer's classes of common equity, as of the latest practicable date:

Common stock, par value \$.01 per share 6,591,338 shares

(class) Outstanding at April 29, 2003

Transitional small business disclosure format (check one) Yes _____ No X

FEDERAL TRUST CORPORATION AND SUBSIDIARY

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FEDERAL TRUST CORPORATION AND SUBSIDIARY

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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Condensed Consolidated Balance Sheets
(Dollars in thousands, except per share amounts)

Assets

Cash and due from banks
Interest-earning deposits

Cash and cash equivalents

Securities available for sale
Loans, less allowance for loan losses of \$2,332 in 2003 and
\$2,110 in 2002
Accrued interest receivable
Premises and equipment, net
Foreclosed assets
Federal Home Loan Bank stock, at cost
Mortgage servicing rights, net
Executive supplemental income plan - cash surrender value of
life insurance policies
Other assets

Total assets

Liabilities and Stockholders' Equity

Liabilities:

Noninterest-bearing demand deposits
Interest-bearing demand deposits
Money-market deposits
Savings deposits
Time deposits

Total deposits

Federal Home Loan Bank advances
Line of credit
Capital lease obligation
Accrued interest payable
Official checks
Other liabilities

Total liabilities

Stockholders' equity:
Common stock

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Additional paid-in capital
Retained earnings
Accumulated other comprehensive income

Total stockholders' equity

Total liabilities and stockholders' equity

See Accompanying Notes to Condensed Consolidated Financial Statements.

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FEDERAL TRUST CORPORATION AND SUBSIDIARY

Condensed Consolidated Statements of Earnings
(Unaudited)
(Dollars in thousands, except per share amounts)

Interest income:

Loans
Securities
Other

Total interest income

Interest expense:

Deposits
Other

Total interest expense

Net interest income

Provision for loan losses

Net interest income after provision for loan losses

Other income:

Service charges and fees
Net loan servicing income
Gain on sale of loans held for sale
Gain on sale of securities available for sale
Rental income
Other

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Total other income

Other expenses:

Salary and employee benefits
Occupancy expense
Data processing
Professional services
Other

Total other expense

Earnings before income taxes

Income taxes

Net earnings

Earnings per share:

Basic

Diluted

Weighted-average shares outstanding for (in thousands):

Basic

Diluted

Cash dividends per share

See Accompanying Notes to Condensed Consolidated Financial Statements.

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FEDERAL TRUST CORPORATION AND SUBSIDIARY

Condensed Consolidated Statements of Stockholders' Equity

For the Three Months Ended March 31, 2003 and 2002
(Dollars in thousands)

| Common Stock | | Additional Paid-In Capital | Retained Earnings |
|--------------|--------|----------------------------------|----------------------|
| Shares | Amount | | |
| ----- | ----- | ----- | ----- |

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| | | | | |
|--|-----------|-------|--------|-------|
| Balance at December 31, 2001 | 5,409,449 | \$ 54 | 17,492 | 1,121 |
| Comprehensive income: | | | | |
| Net earnings (unaudited) | - | - | - | 452 |
| Change in unrealized loss on securities available for sale, net of income taxes of \$8 (unaudited) | - | - | - | - |
| Comprehensive income (unaudited) | | | | |
| Accretion of stock options for stock compensation programs (unaudited) | - | - | 7 | - |
| Issuance of common stock (unaudited) | 83,333 | 1 | 299 | - |
| | ----- | ---- | ----- | ----- |
| Balance at March 31, 2002 (unaudited) | 5,492,782 | \$ 55 | 17,798 | 1,573 |
| | ===== | ==== | ===== | ===== |
| Balance at December 31, 2002 | 6,591,338 | \$ 66 | 21,778 | 3,180 |
| Comprehensive income: | | | | |
| Net earnings (unaudited) | - | - | - | 654 |
| Change in unrealized loss on securities available for sale, net of income taxes of \$131 (unaudited) | - | - | - | - |
| Comprehensive income (unaudited) | | | | |
| Accretion of stock options for stock compensation programs (unaudited) | - | - | 6 | - |
| Dividends paid, \$.01 per share (unaudited) | - | - | - | (65) |
| | ----- | ---- | ----- | ----- |
| Balance at March 31, 2003 (unaudited) | 6,591,338 | \$ 66 | 21,784 | 3,769 |
| | ===== | ==== | ===== | ===== |

See Accompanying Notes to Condensed Consolidated Financial Statements.

FEDERAL TRUST CORPORATION AND SUBSIDIARY

Condensed Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

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Cash flows from operating activities:

Net earnings
Adjustments to reconcile net earnings to net cash provided by operating activities:
Depreciation and amortization
Net amortization of loan origination fees, costs, premiums and discounts
Net amortization of premiums and discounts on securities
Amortization of mortgage servicing rights
Provision for loan losses
Accretion of stock option expense
Increase in cash surrender value of life insurance policies
Proceeds from sales of loans held for sale
Loans originated for resale
Gain on sale of loans held for sale
Gain on sale of securities available for sale
Cash provided by (used in) resulting from changes in:
Accrued interest receivable
Other assets
Accrued interest payable
Official checks
Other liabilities

Net cash provided by operating activities

Cash flows from investing activities:

Purchase of securities available for sale
Proceeds from principal repayments and sales of securities available for sale
Principal repayments, net of loans originated
Purchase of loans
Purchase of premises and equipment
Purchase of Federal Home Loan Bank stock
Net proceeds from sale of foreclosed assets

Net cash used in investing activities

Cash flows from financing activities:

Net increase in deposits
Net increase (decrease) in Federal Home Loan Bank advances
Net increase in line of credit
Principal repayments under capital lease obligation
Dividends paid

Net cash provided by (used in) financing activities

Net decrease in cash and cash equivalents

Cash and cash equivalents at beginning of period

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Cash and cash equivalents at end of period

(continued)

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FEDERAL TRUST CORPORATION AND SUBSIDIARY

Condensed Consolidated Statements of Cash Flows, Continued
(Unaudited)
(In Thousands)

Supplemental disclosure of cash flow information- Cash paid during the period
for:

Interest

Income taxes

Noncash transactions:

Foreclosed assets acquired in settlement of loans

Accumulated other comprehensive income, change in unrealized gain
on securities available for sale, net of tax

Common stock issued in connection with capital land lease

Transfer of loans in portfolio to loans held for sale

Mortgage servicing rights recognized upon sale of loans held for sale

See Accompanying Notes to Condensed Consolidated Financial Statements.

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FEDERAL TRUST CORPORATION AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited)

(1) Description of Business and Basis of Presentation

General. Federal Trust Corporation ("Federal Trust") is a unitary savings and loan holding company and sole shareholder of Federal Trust Bank (the "Bank"), a federally-chartered stock savings bank. Federal Trust's primary investment is the ownership of the Bank. The Bank provides a wide range of banking services to individual and corporate customers through its four offices located in Orange, Seminole and Volusia Counties, Florida. FTB Financial Services, Inc., a wholly-owned subsidiary of the Bank, provides investment services to customers of the Bank.

The condensed consolidated financial statements, include the accounts of Federal Trust, the Bank and the Bank's subsidiary (together, the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments (principally consisting of normal recurring accruals) necessary to present fairly the financial position as of March 31, 2003, and the results of operations and cash flows for the three-month periods ended March 31, 2003 and 2002. The results of operations for the three-month period ended March 31, 2003, are not necessarily indicative of the results to be expected for the entire year ended December 31, 2003. These statements should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10 - KSB for the year ended December 31, 2002.

(2) Loans

The components of loans are summarized as follows (in thousands):

| | At March 31, 2003 ---- |
|----------------------|------------------------------|
| Mortgage loans: | |
| Residential (1) | \$ 294,143 |
| Commercial | 45,656 |
| Construction | 9,509 |
| | ----- |
| Total mortgage loans | 349,308 |
| Commercial loans | 9,084 |
| Consumer loans | 1,055 |
| | ----- |
| Total loans | 359,447 |
| Add (deduct): | |

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| | |
|--|------------|
| Allowance for loan losses | (2,332) |
| Net premiums, discounts, deferred fees and costs | 2,324 |
| Undisbursed portion of loans in process | (1,835) |
| | ----- |
| Loans, net | \$ 357,604 |
| | ===== |

(continued)

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FEDERAL TRUST CORPORATION AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(2) Loans, Continued

The following is a summary of information regarding nonaccrual and impaired loans (in thousands):

Nonaccrual loans

Accruing loans past due ninety days or more

Total recorded investment in impaired loans

Recorded investment in impaired loans for which
there is a related allowance for loan losses

Recorded investment in impaired loans for which
there is no related allowance for loan losses

Allowance for loan losses related to impaired loans

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Interest income recognized and received on impaired loans

Average recorded investment in impaired loans

The activity in the allowance for loan losses is as follows (in thousands):

Balance at beginning of period
Provision for loan losses
Charge-offs
Recoveries

Balance at end of period

A provision for loan losses is charged to earnings based upon management's evaluation of the potential losses in its loan portfolio. During the three months ended March 31, 2003, management made a provision of \$220,000 based on its evaluation of the loan portfolio, compared to a provision of \$30,000 made in the comparable period in 2002. At March 31, 2003, management believes that the allowance is adequate, primarily as a result of the overall quality, and the high percentage of residential single family home loans, in the portfolio.

(continued)

FEDERAL TRUST CORPORATION AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(3) Regulatory Capital

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's and the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and percentages (set forth in the table below) of total and Tier I capital (as defined

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in the regulations) to risk-weighted assets and Tier I capital to average adjusted assets (as defined in the regulations). Management believes, as of March 31, 2003, that the Bank meets all capital adequacy requirements to which it is subject.

As of March 31, 2003, the most recent notification from the Office of Thrift Supervision categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain total risk-based, Tier I risk-based and Tier I leverage percentages as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category. The following table summarizes the capital thresholds for each prompt corrective action capital category. An institution's capital category is based on whether it meets the threshold for all three capital ratios within the category. The Bank's actual capital amounts and percentages are also presented in the table (\$ in thousands).

| | Actual | | For Capital Adequacy Purposes | |
|---|----------|-------|----------------------------------|------|
| | Amount | % | Amount | % |
| At March 31, 2003: | | | | |
| Total capital (to risk-weighted assets) | \$30,357 | 11.5% | \$21,067 | 8.0% |
| Tier I capital (to risk-weighted assets) | 28,069 | 10.7 | 10,533 | 4.0 |
| Tier I capital (to average adjusted assets) | 28,069 | 6.6 | 17,000 | 4.0 |

(continued)

FEDERAL TRUST CORPORATION AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(4) Earnings Per Share of Common Stock

The Company follows the provisions of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS No. 128"). SFAS No. 128 provides accounting and reporting standards for calculating earnings per share. Basic earnings per share of common stock has been computed by dividing the net earnings for the year by the weighted-average number of shares outstanding. Diluted earnings per share is computed by dividing net earnings by the weighted-average number of shares outstanding including the dilutive effect of stock options computed using the treasury stock method. The following table presents the calculation of basic and diluted earnings per share of common stock (in thousands, except per

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share amounts):

Weighted-average shares outstanding for basic earnings per share

Basic earnings per share

Total weighted-average shares outstanding for basic earnings per share computation

Additional dilutive shares using the average market value for the period utilizing the treasury stock method regarding stock options

Weighted-average shares and equivalents outstanding for diluted earnings per share

Diluted earnings per share

(continued)

FEDERAL TRUST CORPORATION AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(5) Federal Home Loan Bank Advances

A summary of advances from the Federal Home Loan Bank of Atlanta ("FHLB") are as follows (\$ in thousands):

| Maturing During the Year Ending December 31, ----- | Interest Rate ---- | At March 31, 2003 ---- | At December 31, 2002 ---- |
|---|--------------------------|------------------------------|---------------------------------|
| 2003 | 6.39 | \$ - | 5,000 |
| 2003 | 1.30* | - | 17,000 |
| 2003 | 1.57* | 24,000 | - |
| 2005 | 2.00 | 25,000 | - |
| 2006 | 1.24** | 5,000 | - |
| 2006 | .75** | 5,000 | - |
| 2007 | 5.22 | 2,200 | 2,200 |
| 2007 | 1.26** | 5,000 | 5,000 |

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| | | | |
|------|----------|-----------|--------|
| 2008 | 1.98*** | 5,000 | - |
| 2011 | 3.73**** | 25,000 | 25,000 |
| | | ----- | ----- |
| | | \$ 96,200 | 54,200 |
| | | ===== | ===== |

* Daily advance - rate adjusts daily. ** FHLB has the option to call every three months.

*** FHLB has the option to call every three months beginning in January 2005. **** * FHLB has a one-time call option in December 2004.

The security agreement with FHLB includes a blanket floating lien requiring the Company to maintain qualifying first mortgage loans as pledged collateral in an amount equal to at least, when discounted at 75% of the unpaid principal balances, 100% of these advances. The FHLB stock is also pledged as collateral for these advances.

(6) Stock Option Plans

The Company has two stock options plans. The Key Employee Stock Compensation Program (the "Employee Plan") is authorized to issue up to 475,000 shares as either incentive stock options, compensatory stock options, stock appreciation rights or performance shares. All awards granted under the Employee Plan have been incentive stock options. These options have ten year lives and vest ratably over various terms up to five years. At March 31, 2003, the Company had 152,554 shares remaining under the Employee Plan available for future grants.

The Directors' Stock Option Plan (the "Director Plan") is authorized to issue up to 140,000 shares. All options granted under the Director Plan have ten year lives, vest immediately and are not exercisable for a period of six months after the grant date. At March 31, 2003, the Company had 36,939 shares remaining under the Director Plan available for future grants.

(continued)

FEDERAL TRUST CORPORATION AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(6) Stock Option Plans, Continued

During 1998, 350,000 options were granted under both plans at an exercise price less than the then market price. This amount is being expensed over the related vesting periods of options still outstanding. Compensation costs relating to these options was approximately \$6,000 and \$7,000 for the three months ended March 31, 2003 and 2002, respectively.

There were no stock option transactions during the three months ended March 31, 2003 or 2002.

SFASNo. 123 requires pro forma fair value disclosures if the intrinsic value method is being utilized to calculate the fair value of options.

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For purposes of pro forma disclosures, the estimated fair value is included in expense in the period vesting occurs. The proforma information has been determined as if the Company had accounted for its stock options under the fair value method of SFAS No. 123. The Company accounts for their stock option plans under the recognition and measurement principles of APB No. 25. No stock-based employee compensation cost is reflected in net earnings, except for those options granted in 1998 as discussed above, as all stock options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net earnings and basic and diluted earnings per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation (\$ in thousands, except per share amounts):

Net earnings, as reported

Deduct: Total stock-based employee compensation
determined under the fair value based method for
all awards, net of related tax benefit

Proforma net earnings

Basic earnings per share:
As reported

Proforma

Diluted earnings per share:
As reported

Proforma

- (7) Reclassifications
Certain amounts in 2002 condensed consolidated financial statements have been reclassified to conform to the presentation for 2003.

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Hacker, Johnson & Smith PA, the Company's independent accountants, have made a limited review of the financial data as of March 31, 2003, and for the three-month periods ended March 31, 2003 and 2002 presented in this document, in accordance with standards established by the American Institute of Certified Public Accountants.

Their report furnished pursuant to Article 10 of Regulation S-X is included herein.

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Independent Accountants Report

The Board of Directors
Federal Trust Corporation
Sanford, Florida:

We have reviewed the accompanying condensed consolidated balance sheet of Federal Trust Corporation and Subsidiary (the "Company") as of March 31, 2003, and the related condensed consolidated statements of earnings, stockholders' equity and cash flows for the three-month periods ended March 31, 2003 and 2002. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally

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accepted in the United States of America, the consolidated balance sheet as of December 31, 2002, and the related consolidated statements of earnings, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated February 11, 2003 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2002, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/Hacker, Johnson & Smith PA

HACKER, JOHNSON & SMITH PA
Orlando, Florida
April 29, 2003

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FEDERAL TRUST CORPORATION AND SUBSIDIARY

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Comparison of March 31, 2003 and December 31, 2002

General

Federal Trust Corporation ("Federal Trust"), is the sole shareholder of Federal Trust Bank (the "Bank") (together, the "Company"). Federal Trust operates as a unitary savings and loan holding company and its primary business activity is the operation of the Bank.

The Bank is chartered as a federal stock savings bank. The Bank provides a wide range of banking services to individual and corporate customers through its four offices located in Orange, Seminole and Volusia Counties, Florida. FTB Financial Services, Inc., a wholly-owned subsidiary of the Bank, provides investment services to customers of the Bank.

Forward Looking Statements

Readers should note, in particular, that this document contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that involve substantial risks and uncertainties. When used in this document, or in the documents incorporated by reference herein, the words "anticipate", "believe", "estimate", "may", "intend" and "expect" and similar expressions identify certain of such forward-looking statements. Actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements contained herein. Actual results may differ materially, depending upon a variety of important factors, including competition, inflation, general economic conditions, changes in interest rates and changes in the value of collateral securing loans we have made, among other things.

Capital Resources

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During the three months ended March 31, 2003, the Company's primary source of funds consisted of net increases in Federal Home Loan Bank advances of \$42.0 million and deposits of \$15.8 million, principal repayments and sales of securities available for sale of \$3.9 million and net cash provided by operating activities of \$4.1 million. The Company used its capital resources principally to purchase and originate loans, net of principal repayments of \$54.5 million and to purchase securities available for sale of \$19.2 million.

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FEDERAL TRUST CORPORATION AND SUBSIDIARY

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, unused lines of credit and loans in process. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amounts recognized in the condensed consolidated balance sheet. The contract amounts of those instruments reflect the extent of the Company's involvement in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, unused lines of credit and loans in process is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total committed amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counter party.

A summary of the amounts of the Company's financial instruments, with off-balance sheet risk at March 31, 2003, follows (in thousands):

| | Contract Amount |
|-----------------------------------|--------------------|
| Commitments to extend credit..... | \$ 8,897 ===== |
| Unused lines of credit..... | \$ 5,749 ===== |

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Loans in process..... \$ 1,835
=====

Management believes the Company has adequate resources to fund all its commitments. At March 31, 2003, the Company had approximately \$161.8 million in time deposits maturing in one year or less. Management also believes that, if so desired, it can adjust the rates on time deposits to retain or obtain new deposits in a changing interest rate environment.

Management believes the Bank was in compliance with all minimum capital requirements which it was subject to at March 31, 2003. See note 3 to the condensed consolidated financial statements.

Management is not aware of any trends, know demands, commitments or uncertainties which are expected to have a material impact on future operating results, liquidity or capital resources.

FEDERAL TRUST CORPORATION AND SUBSIDIARY

Results of Operations

The following table sets forth, for the periods indicated, information regarding (i) the total dollar amount of interest income of the Company from interest-earning assets and the resultant average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average costs; (iii) net interest/dividend income; (iv) interest-rate spread; and (v) net interest margin.

| | Three Months Ended March 31, 2003 | | | |
|-----------------------------------|-----------------------------------|----------|---------------------------|--------------------|
| | Average Balance | Interest | Average Yield/ Cost | Average Balance |
| | ----- | ----- | ---- | ----- |
| | (\$ in thousands) | | | |
| Interest-earning assets: | | | | |
| Loans (1) | \$ 356,086 | 5,129 | 5.76% | \$ 260,261 |
| Securities | 26,259 | 300 | 4.57 | 13,430 |
| Other interest-earning assets (2) | 9,504 | 64 | 2.69 | 15,884 |
| | ----- | ----- | | ----- |
| Total interest-earning assets | 391,849 | 5,493 | 5.61 | 289,575 |
| | | ----- | | |
| Noninterest-earning assets | 18,922 | | | 17,463 |
| | ----- | | | ----- |
| Total assets | \$ 410,771 | | | \$ 307,038 |
| | ===== | | | ===== |

Interest-bearing liabilities:

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| | | | | |
|---|------------|----------|-------|------------|
| Noninterest-bearing demand deposits | 7,760 | - | - | 5,324 |
| Interest-bearing demand and money- market deposits | 85,285 | 476 | 2.23 | 43,809 |
| Savings deposits | 9,707 | 50 | 2.06 | 1,718 |
| Time deposits | 193,088 | 1,507 | 3.12 | 177,862 |
| | ----- | ----- | | ----- |
| Total deposits | 295,840 | 2,033 | 2.75 | 228,713 |
| Other borrowings (3) | 84,274 | 739 | 3.51 | 49,938 |
| | ----- | ----- | | ----- |
| Total interest-bearing liabilities | 380,114 | 2,772 | 2.92 | 278,651 |
| | | ----- | | |
| Noninterest-bearing liabilities | 5,212 | | | 9,465 |
| Stockholders' equity | 25,445 | | | 18,922 |
| | ----- | | | ----- |
| Total liabilities and stockholders' equity | \$ 410,771 | | | \$ 307,038 |
| | ===== | | | ===== |
| Net interest income | | \$ 2,721 | | |
| | | ===== | | |
| Interest-rate spread (4) | | | 2.69% | |
| | | | ===== | |
| Net interest margin (5) | | | 2.78% | |
| | | | ===== | |
| Ratio of average interest-earning assets to average interest-bearing liabilities | 1.03 | | | 1.04 |
| | ===== | | | ===== |

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FEDERAL TRUST CORPORATION AND SUBSIDIARY

Comparison of the Three-Month Periods Ended March 31, 2003 and 2002

General. The Company had net earnings for the three-month period ended March 31, 2003, of \$654,000 or \$.10 per basic and diluted share, compared to \$452,000 or \$.08 per basic and diluted share for the same period in 2002. The increase in net earnings was primarily due to an increase in net interest income, partially offset by increases in the provision for loan losses and other expenses.

Interest Income. Interest income increased by \$753,000 or 15.9% to \$5.5 million for the three-month period ended March 31, 2003, from \$4.7 million for the same period in 2002. Interest income on loans increased \$638,000 or 14.2% to \$5.1 million in 2003 from \$4.5 million in 2002, primarily as a result of an increase in the average amount of loans outstanding from \$260.3 million in 2002 to \$356.1 million in 2003,

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partially offset by a decrease in the average yield earned on loans from 6.90% for the three-month period ended March 31, 2002, to 5.76% for the comparable period in 2003. Interest income on securities increased by \$145,000 for the three-month period ended March 31, 2003, over the same period in 2002, primarily as a result of an increase in the average balance of securities owned. Management expects the rates earned on the portfolio to fluctuate with general market conditions.

Interest Expense. Interest expense increased by only \$2,000 during the three-month period ended March 31, 2003, compared to the same period in 2002. Interest on deposits decreased \$145,000 or 6.7% to \$2.0 million in 2003 from \$2.2 million in 2002, as a result of a decrease in the average cost of deposits from 3.81% for the three-month period ended March 31, 2002, to 2.75% for the comparable period in 2003, partially offset by an increase in average deposits outstanding from \$228.7 million in 2002 to \$295.8 million in 2003. Interest on other borrowings increased to \$739,000 in 2003 from \$592,000 in 2002, primarily as a result of the increase in the average balance of other borrowings. Management expects to continue to use FHLB advances and other borrowings as a liability management tool.

Provision for Loan Losses. A provision for loan losses is charged to earnings based upon management's evaluation of the losses in its loan portfolio. During the quarter ended March 31, 2003, management recorded a provision for loan losses of \$220,000 based on its evaluation of the loan portfolio, which was an increase of \$190,000 from the same period in 2002, primarily as a result of the increase in total loans outstanding. The allowance for loan losses at March 31, 2003, was \$2.3 million or .65% of total loans outstanding, versus \$2.1 million at December 31, 2002, or .68% of total loans outstanding. Management believes the allowance for loan losses at March 31, 2003 is adequate.

Other Income. Other income decreased \$33,000 or 5.2% from \$640,000 for the three-month period ended March 31, 2002, to \$607,000 for the same period in 2003. The decrease in other income was primarily due to decreases of \$151,000, \$39,000 and \$38,000 in gain on sale of loans held for sale, service charges and fees and net loan servicing income, respectively, partially offset by an increase of \$195,000 in gain on sale of securities available for sale. The decrease in gain on sale of loans held for sale relates to the Company's strategy of retaining more residential loans in the portfolio instead of selling them in the secondary market. The decrease in service charges and fees primarily resulted from a decrease in late fees and overdraft charges. The decrease in net loan servicing income resulted from increased amortization of mortgage servicing rights related to residential mortgage loan refinancings and the decision to have the majority of the Company's loans sub-serviced by a third party. The gain on sale of securities available for sale resulted from the Company's decision to sell two securities during the period.

Other Expenses. Other expenses increased \$258,000 or 13.7% to \$2.1 million for the three-month period ended March 31, 2003, from \$1.9 million for the same period in 2002. Salary and employee benefits increased to \$1.1 million in 2003, from \$959,000 in 2002 due to an increase in commercial lending personnel and the overall growth of the Company.

Income Taxes. Income taxes for the three months ended March 31, 2003, was \$316,000 (an effective rate of 32.6%), compared to \$248,000 (an effective rate of 35.4%) for the same period in 2002.

FEDERAL TRUST CORPORATION AND SUBSIDIARY

Item 3. Controls and Procedures

- a. Evaluation of Disclosure Controls and Procedures. The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures performed within 90 days of the filing date of this report, the Chief Executive and Chief Financial officers of the Company concluded that the Company's disclosure controls and procedures were adequate.
- b. Changes in Internal Controls. The Company made no significant changes in its internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation of those controls by the Chief Executive and Chief Financial officers.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There are no material pending legal proceedings to which Federal Trust Corporation or its subsidiary is a party or to which any of their property is subject.

FEDERAL TRUST CORPORATION AND SUBSIDIARY

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits. The following exhibits are incorporated by reference into this report. The exhibits which are marked by a single asterisk (*) were previously filed as a part of, and are hereby incorporated by reference from the Company's Registration Statement on form SB-1, as effective with the Securities and Exchange Commission ("SEC") on October 7, 1997, Registration No. 333-30883. The exhibits which are marked by a double asterisk (**) were previously filed with the SEC,

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and are hereby incorporated by reference from the Company's 1998 Definitive Proxy Statement. The exhibits which are marked with a triple asterisk (***) were previously filed with the SEC, and are hereby incorporated by reference from the Company's 1999 Definitive Proxy Statement. The exhibits which are marked with a quadruple asterisk (****) were previously filed with the SEC, and are hereby incorporated by reference from the Company's 1999 10-KSB. The exhibits which are marked with a quintuple asterisk (*****) were previously filed with the SEC, and are hereby incorporated by reference from the Company's June 30, 2002 Form 10-QSB. The exhibit numbers correspond to the exhibit numbers in the referenced documents.

| Exhibit No. | Description of Exhibit |
|-------------|---|
| * 3.1 | 1996 Amended Articles of Incorporation and the 1995 Amended and Restated Articles of Incorporation of Federal Trust |
| * 3.2 | 1995 Amended and Restated Bylaws of Federal Trust |
| ** 3.3 | 1998 Articles of Amendment to Articles of Incorporation of Federal Trust |
| *** 3.4 | 1999 Articles of Amendment to Articles of Incorporation of Federal Trust |
| * 4.0 | Specimen of Common Stock Certificate |
| ****10.1 | Amended Employment Agreement By and Among Federal Trust, the Bank and James V. Suskiewich |
| ****10.2 | First Amendment to the Amended Employment Agreement By and Among Federal Trust, the Bank and James V. Suskiewich |
| ****10.3 | Amended Employment Agreement By and Among Federal Trust, the Bank and Aubrey W. Wright, Jr. |
| ***** 10.4 | Amendment to Federal Trust 1998 Key Employee Stock Compensation Program |
| ***** 10.5 | Amendment to Federal Trust 1998 Directors' Stock Option Plan |
| 99.1 | CEO Certification required under Section 906 of Sarbanes-Oxley Act of 2002 |
| 99.2 | CFO Certification required under Section 906 of Sarbanes-Oxley Act of 2002 |

(b) Reports on Form 8-K. There were no reports filed on Form 8-K during the three-month period ended March 31, 2003.

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FEDERAL TRUST CORPORATION AND SUBSIDIARY

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.

FEDERAL TRUST CORPORATION

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(Registrant)

Date: May 13, 2003

By: /s/ James V. Suskiewich

James V. Suskiewich
President and Chief Executive Officer

Date: May 13, 2003

By: /s/ Aubrey H. Wright

Aubrey H. Wright
Senior Vice President and Chief
Financial Officer

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CERTIFICATIONS

I, James V. Suskiewich, certify, that:

1. I have reviewed this quarterly report on Form 10-QSB of Federal Trust Corporation;
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

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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:

(a) all significant deficiencies in the design or operation of the 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 the internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 13, 2003

By: /s/ James V. Suskiewich

James V. Suskiewich, President and
Chief Executive Officer

I, Gregory E. Smith, certify, that:

1. I have reviewed this quarterly report on Form 10-QSB of Federal Trust Corporation;

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,

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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:
- (a) all significant deficiencies in the design or operation of the 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 the internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 13, 2003

By: /s/ Aubrey H. Wright

Aubrey H. Wright, Senior
Vice President and Chief
Financial Officer

