FEDERAL TRUST CORP
Form S-1
August 01, 2008
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As filed with the Securities and Exchange Commission on August 1, 2008

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

FEDERAL TRUST CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Florida	6712	59-2935028
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

312 West First Street, Suite 110

Sanford, Florida 32771

(407) 323-1833

(Address, Including Zip Code, and Telephone Number, Including Area Code, of

Registrant s Principal Executive Offices)

Dennis T. Ward

312 West First Street, Suite 110

Sanford, Florida 32771

(407) 323-1833

(Address, Including Zip Code, and Telephone Number, Including Area Code, of

Agent for Service)

Copies to:

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Washington, D.C. 20015	**Atlanta, Georgia 30309**
(202) 274-2000	**404-881-7794**

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: x

If this Form is filed to register additional shares for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ¨

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

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	**Amount to be registered**	**Proposed maximum offering price per share**	**Proposed maximum aggregate offering price**	**Amount of registration fee**
Common Stock, $0.01 par value per share	50,000,000 shares	$0.95	$ 47,500,000 (1)	$ 1,896 (2)
Warrants to Purchase Shares of Common Stock	10,000,000 warrants	$0.95	$9,500,000	$380 (2)

(1) Estimated solely for the purpose of calculating the registration fee.

(2) Pursuant to Rule 457(p), the amount of the above registration fee will be offset against the previously paid registration fee of $1,375.50 relating to the withdrawn registration statement of Federal Trust Corporation on Form S-1, File No. 333-150051 initially filed on April 2, 2008.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion dated August 1, 2008

PRELIMINARY PROSPECTUS

FEDERAL TRUST CORPORATION

[max shares] Shares of Common Stock

Shares of Common Stock at [offering price] per share

Warrants to Purchase 10,000,000

Shares of Common Stock at $0.95 per share

We are offering for sale up to [max shares] shares of our common stock, par value $0.01 per share, on a best efforts basis to the public through Stifel, Nicolaus & Company, Incorporated, our selling agent and financial advisor. We must sell a minimum of [min shares] shares of common stock to complete the stock offering. The stock offering may terminate at any time, but no later than [Expiration Date]. We may accept or reject, in whole or in part, any order for shares of common stock, and we may choose to terminate the stock offering period at any time after we receive orders for at least [min shares] shares of common stock. Additionally, we may cancel the stock offering at any time.

We have separately entered into standby purchase agreements with certain institutional investors and high net worth individuals, pursuant to which these investors and individuals have severally agreed to acquire from us, at the offering price of [offering price] per share, up to [standby maximum] shares of common stock. Shares will only be issued to the standby purchasers if, at the completion of the stock offering, we have not sold at least [min shares] shares of our common stock. Pursuant to the standby purchase agreements, we have also agreed to provide two of these investors a total of 10,000,000 transferable warrants that would entitle these investors to purchase from us 10,000,000 shares of our common stock at $0.95 per share. The warrants expire upon the later of (i) seven years from the date of effectiveness of the registration statement filed with respect to such exercise or (ii) nine years from the completion of the stock offering. The number of shares available for sale to the standby purchasers will depend on the number of shares purchased in the stock offering.

Funds received in the stock offering will be held in a segregated non-interest bearing account at a bank until the stock offering is completed or cancelled. In the event the stock offering is cancelled, all payments held in the account will be returned to investors by the escrow agent, without interest or penalty, as soon as practicable following such cancellation.

Our common stock is traded on the American Stock Exchange under the trading symbol FDT. The last reported sales price of our shares of common stock on ___________, 2008 was $______ per share.

OFFERING SUMMARY

Price: [offering price] per share

	Minimum	Maximum
Number of shares	[min shares]	[max shares]
Gross offering proceeds	$ 30,000,000	$
Estimated offering expenses excluding selling agent commissions and expenses	$	$
Selling agent commissions and expenses [(1)]	$	$

Selling agent commissions and expenses per share [1]	$	$
Net proceeds	$	$
Net proceeds per share	$	$

(1) We have engaged Stifel, Nicolaus & Company, Incorporated as our selling agent and financial advisor in connection with the stock offering and the offering to standby purchasers. Stifel, Nicolaus & Company, Incorporated will solicit the offers to purchase shares of common stock on a best efforts basis. Stifel, Nicolaus & Company, Incorporated is not obligated to purchase any of the shares of common stock that are being offered for sale. Please see Plan of Distribution Financial Advisor for a discussion of Stifel, Nicolaus & Company, Incorporated s compensation for the stock offering and the offering to standby purchasers.

This investment involves risks, including the possible loss of principal.

Please read Risk Factors beginning on page 13.

These securities are not deposits, savings accounts or other obligations of any bank and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Neither the Securities and Exchange Commission, the Office of Thrift Supervision, nor any state securities regulator has approved or disapproved of these securities or determined if this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

STIFEL NICOLAUS

The date of this prospectus is __________, 2008.

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[MAP SHOWING FEDERAL TRUST BANK S MARKET AREA APPEARS HERE]

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You should rely only on the information contained in this prospectus. We have not, and our agent, Stifel, Nicolaus & Company, Incorporated, has not, authorized anyone to provide you with different information. The information contained in this prospectus is accurate only as of the date of this prospectus regardless of the time of delivery of this prospectus or the purchase of any shares of our common stock. Our business, financial condition, results of operations and prospects may have changed since those dates. We are not making an offer of these securities in any state or jurisdiction where the offer is not permitted.

In the prospectus we rely on and refer to information and statistics regarding the banking industry and the banking market in Florida. We obtained this market data from independent publications or other publicly available information. Although we believe these sources are reliable, we have not independently verified and do not guarantee the accuracy and completeness of this information.

Unless the context indicates otherwise, all references in this prospectus to we, our and us refer to Federal Trust Corporation and our subsidiaries, Federal Trust Bank and Federal Trust Mortgage Company; except that in the discussion of our capital stock and related matters these terms refer solely to Federal Trust Corporation and not to any of our subsidiaries.

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QUESTIONS AND ANSWERS RELATING TO THE STOCK OFFERING

What is the stock offering?

We are offering for sale shares of our common stock at a purchase price of [offering price] per share. The shares to be issued in the stock offering, like our existing shares of common stock, will be traded on the American Stock Exchange under the symbol FDT. The stock offering is not a rights offering or an underwritten offering and will be conducted on a best efforts basis by our selling agent and financial advisor, Stifel, Nicolaus & Company, Incorporated. Stifel, Nicolaus & Company, Incorporated is not obligated to sell or purchase any shares of our common stock in the stock offering. See The Stock Offering.

What is the offering to the standby purchasers?

We have entered into separate standby purchase agreements with certain institutional investors and high net worth individuals, pursuant to which we have agreed to sell, and these investors and individuals have severally agreed to purchase from us, up to [standby maximum] shares of our common stock. Shares will only be issued to the standby purchasers if, at the completion of the stock offering, we have not sold at least [min shares] shares of our common stock. The number of shares available for sale to the standby purchasers will depend on the number of shares sold in the stock offering. We have also agreed to provide two of these investors a total of 10,000,000 transferable warrants that would entitle these investors to purchase, from us up to 10,000,000 shares of our common stock at [offering price] per share. The standby purchase commitments are subject to certain conditions as set forth in the standby purchase agreements. The standby purchase agreements assure that in no event will we issue fewer than 10,000,000 warrants, in the aggregate, to standby purchasers, so long as their investment is required to complete the stock offering. The price per share paid by the standby purchasers for such common stock will be equal to the price paid for our shares of common stock in the stock offering. Subject to receipt of regulatory approval, we have also agreed to provide each of two of the standby purchasers the right to select one candidate for appointment to the boards of directors of Federal Trust Corporation and Federal Trust Bank and one individual who will have observer rights at these board meetings. In the event we terminate the standby purchase agreements because our Board of Directors determines, in the exercise of its fiduciary duties, that it is not in the best interests of Federal Trust Corporation and our shareholders to go forward with the stock offering, then we will pay the standby purchasers liquidated damages totaling $3.3 million. Such standby purchase agreements, including the liquidated damages provisions, were entered into by the parties following arm s length negotiations. Prior to the completion of the stock offering, we may enter into additional standby purchase agreements with new standby purchasers. See The Stock Offering Standby Commitments.

Why are we conducting the stock offering?

We are conducting the stock offering to raise equity capital to improve Federal Trust Bank s capital position, as required by the terms of the Cease and Desist Orders that we entered into with the Office of Thrift Supervision, and to retain additional capital at Federal Trust Corporation for general corporate purposes. We cannot assure you that we will not need to seek additional financing or engage in additional capital offerings in the future.

How was the [offering price] per share offering price determined?

In determining the offering price, our Board of Directors considered a number of factors, including: historical and current trading prices for our common stock, the need for liquidity and capital and negotiations with standby purchasers. In conjunction with its review of these factors, our Board of Directors also reviewed our history and prospects, including our past and present earnings, our prospects for future earnings, our current financial condition and regulatory status. The offering price is not necessarily related to our book value, net worth or any other established criteria of value and may or may not be considered the fair value of our common stock to be offered in the stock offering. You should not assume or expect that, after the stock offering, our shares of common stock will trade at or above the [offering price] purchase price.

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How soon must I act to order shares?

We will accept orders in the stock offering for a limited time. The stock offering will end, on [Expiration Date]. If you may be interested in participating in the stock offering, please promptly contact your broker or contact our selling agent and financial advisor, Stifel, Nicolaus & Company, Incorporated, at (______) ______-__________ (toll-free), Monday through Friday (except bank holidays), between 10:00 a.m. and 4:00 p.m., Eastern Time. Our Board of Directors may, in its discretion, cancel the stock offering at any time and may terminate the stock offering at any time if we obtain orders for at least [min shares] shares of common stock.

Are we requiring a minimum amount of orders to complete the stock offering?

We cannot complete the stock offering unless we receive aggregate orders for at least $30.0 million ([min shares] shares) of common stock in the stock offering and the offering to standby purchasers, which includes sale of up to [standby maximum] shares of our common stock.

Are there any limits on the number of shares I may purchase in the stock offering or own as a result of the stock offering?

A person, together with certain related persons, may not purchase more than $______ million (______ shares) of our common stock, and a person, together with certain related persons, may not own more than ______ shares of our common stock as a result of purchases in the stock offering and the offering to standby purchasers. These limitations do not apply to certain of the standby purchasers. See The Stock Offering Limit on How Many Shares of Common Stock You May Purchase in the Stock Offering.

In addition, with the exception of the issuance of shares to certain of our standby purchasers, we will not issue shares of our common stock to any purchaser in the stock offering and the offering to standby purchasers who, in our sole opinion, could be required to obtain prior clearance or approval from or submit a notice to any state or federal bank regulatory authority to acquire, own or control such shares if, as of [Expiration Date], such clearance or approval has not been obtained and/or any applicable waiting period has not expired.

Are there any conditions to completing the stock offering?

Yes. We must sell the minimum offering amount of at least $30.0 million ([min shares] shares) of common stock in the stock offering and the offering to standby purchasers, which includes the purchases by the standby purchasers of up to [standby maximum] shares of our common stock.

Will our directors and officers participate in the stock offering?

We expect our directors and officers, together with their affiliates, will order, in the aggregate, 305,267 shares of common stock in the stock offering. The purchase price paid by them will be [offering price] per share, the same paid by all other persons who purchase shares of our common stock in the stock offering. Following the stock offering, our directors and executive officers, together with their affiliates, are expected to own ______ shares of common stock, or ______% of our total outstanding shares of common stock if we sell [min shares] shares of stock in the stock offering, including shares they currently own in Federal Trust Corporation.

Are the standby purchasers receiving any compensation for the standby commitments?

No. The standby purchasers are not receiving compensation for their standby commitments. However, two of the standby purchasers are each receiving up to $150,000 for payment of reimbursable expenses. In addition, in connection with their purchase of shares of common stock, we are issuing an aggregate of 10,000,000 transferable warrants with an exercise price of $0.95 per share to these two standby purchasers.

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What agreements do we have with the standby purchasers?

Each of the standby purchasers executed a non-disclosure agreement and accordingly gained access to certain nonpublic information about us and participated in discussions with our management. In addition, the standby purchasers performed a due diligence review of Federal Trust Corporation and subsequently negotiated, on an arm s length basis, and executed standby purchase agreements.

How many shares will the standby purchasers own after the stock offering?

After the stock offering, the standby purchasers will own between ______ shares of our common stock (______% of our outstanding shares) and ______ shares of our common stock (up to ______% of our outstanding shares), depending on how many shares of common stock we sell in the stock offering. Depending on the number of shares we sell in the offering, two of the standby purchasers may also hold transferable warrants to purchase from us, at $0.95 per share, an aggregate of 10,000,000 shares (______% of our outstanding shares, if we sell [min shares] shares in the stock offering.

What effects will the stock offering have on our outstanding common stock?

As of [shares outstanding date], we had [record shares] shares of our common stock issued and outstanding. Assuming no options are exercised prior to the expiration of the stock offering and assuming all shares are sold in the stock offering and the offering to standby purchasers, we expect approximately [pro forma outstanding shares] shares of our common stock will be outstanding immediately after completion of the stock offering and the closing of the transactions contemplated by the standby purchase agreements.

The issuance of shares of our common stock in the stock offering will dilute, and thereby reduce, a current shareholder s proportionate ownership in our shares of common stock unless the shareholder purchase shares of common stock in the stock offering. The exercise of warrants to be issued in the stock offering would dilute the proportionate ownership of our existing shareholders as well as other purchasers of shares in the stock offering. In addition, the issuance of shares of our common stock at the offering price, which is less than the market price as of __________, 2008, will likely reduce the price per share of shares held by you prior to the stock offering.

How much will we receive in net proceeds from the stock offering?

We expect that the aggregate proceeds from the stock offering and the offering to standby purchasers, net of expenses, to be between $______ million and $______ million. Subject to Office of Thrift Supervision approval of or non-objection to the capital plan we have submitted to the Office of Thrift Supervision, described in Supervision and Regulation Cease and Desist Orders, we have committed to the Office of Thrift Supervision that we will invest at least 90% of the net proceeds in Federal Trust Bank to improve its regulatory capital position, and retain the remainder of the net proceeds at Federal Trust Corporation. The net proceeds we retain may be used for the repayment of debt and general corporate purposes and further investment in Federal Trust Bank, if required by the Office of Thrift Supervision or if we otherwise determine to make such a further investment. Please see Use of Proceeds.

Are there risks in purchasing shares of common stock?

Yes. The purchase of shares of common stock involves risks and should be considered as carefully as you would consider any other equity investment. Among other things, you should carefully consider the risks described under the heading Risk Factors in this prospectus.

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What is the role of Stifel, Nicolaus & Company, Incorporated in the stock offering?

We have entered into an agreement with Stifel, Nicolaus & Company, Incorporated, pursuant to which Stifel, Nicolaus & Company, Incorporated is acting as our selling agent and our financial advisor in connection with the stock offering and the offering to standby purchasers and will use its best efforts in soliciting investors in the stock offering and soliciting the standby purchasers. Stifel, Nicolaus & Company, Incorporated has agreed to sell, on a best efforts basis, the shares being offered in the public offering. Because the public offering is on a best efforts basis, Stifel, Nicolaus & Company, Incorporated is not obligated to purchase any shares if they are not sold to the public or the standby purchasers, and Stifel, Nicolaus & Company, Incorporated is not required to sell any specific number or dollar amount of shares. We have agreed to pay certain fees and expenses of, Stifel, Nicolaus & Company, Incorporated. Please see Plan of Distribution.

Who should I contact with questions about the stock offering or if I may have an interest in participating in the stock offering?

If you have questions about the stock offering or the offering to standby purchasers, you may contact our selling agent and financial advisor, Stifel, Nicolaus & Company, Incorporated. If you may be interested in participating in the stock offering, promptly call your broker or our selling agent and financial advisor, Stifel, Nicolaus & Company, Incorporated. Stifel, Nicolaus & Company, Incorporated may be reached by calling (______) ______-__________ (toll-free), Monday through Friday (except bank holidays), between 10:00 a.m. and 4:00 p.m., Eastern Time.

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SUMMARY

The following summary contains basic information about us, the stock offering and the offering to standby purchasers. Because it is a summary, it may not contain all of the information that is important to you. For additional information before making a decision to invest in our shares of common stock, you should read this prospectus carefully, including the consolidated financial statements, the notes to the consolidated financial statements and the sections entitled Management s Discussion and Analysis of Financial Condition and Results of Operations, The Stock Offering and Risk Factors.

Federal Trust Corporation

Federal Trust Corporation is a savings and loan holding company, headquartered in Sanford, Florida. Our primary subsidiary, Federal Trust Bank, is a federally chartered savings bank that operates 11 full service branch offices located in Central Florida as set forth on the map on the inside cover of this prospectus. Through Federal Trust Bank, we offer a range of lending services to small- to medium-sized businesses and individuals located in our market areas, including real estate, construction, commercial and consumer loans. We fund our lending services with an array of deposit products, including checking, savings and money market accounts and certificates of deposit. Until April 2008, we operated a residential mortgage company, Federal Trust Mortgage Company, where we originated residential mortgage loans, purchased and sold mortgage loans in the secondary market, and serviced residential mortgage loans, including loans in Federal Trust Bank s loan portfolio. In April 2008, Federal Trust Bank assumed the staff and operations of Federal Trust Mortgage Company. Also in April of 2008, certain staff reductions in our residential loan department were completed to reflect current market conditions and origination volumes. At March 31, 2008, we had consolidated assets of $672.9 million, deposits of $454.0 million and stockholders equity of $37.3 million.

Federal Trust Corporation s executive offices are located at 312 West 1st Street, Sanford, Florida 32771. Our telephone number at this address is (407) 323-1833. Our website is www.federaltrust.com. Information on our website is not incorporated in this prospectus and is not part of this prospectus.

New Stock Offering

On May 12, 2008, we commenced a rights offering directed to our shareholders. We did not complete this rights offering. We initially decided to conduct a new rights offering in order to provide potential investors with updated information about our regulatory capital ratios and the estimate of our allowable deferred tax asset for regulatory capital purposes at December 31, 2007 and at March 31, 2008 As a result of our decision to conduct a new rights offering, our initial prospectus was updated to reflect March 31, 2008 financial information. Subsequently, because of recent fluctuations in the stock market in general, and for financial institution stocks in particular, we determined instead to conduct a best efforts offering to the general public to more quickly raise capital to enable us to comply with the Cease and Desist Orders that have been issued to us by the Office of Thrift Supervision. See Cease and Desist Orders and Risk Factors Risks Related to Our Business We have consented to the issuance of cease and desist orders with the Office of Thrift Supervision. These orders will significantly restrict our operations. The failure to comply with these orders can result in significant penalties.

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Cease and Desist Orders

Following examinations of the operations of Federal Trust Corporation and Federal Trust Bank, as of September 30, 2007, the Office of Thrift Supervision noted weaknesses and failures relating primarily to our real estate lending practices and asset quality, and their impact on our capital and earnings. The Office of Thrift Supervision communicated its findings to Federal Trust Corporation and Federal Trust Bank on February 8, 2008. We have taken action and implemented procedures that management believes will address the weaknesses identified by the Office of Thrift Supervision. Effective May 12, 2008, Federal Trust Corporation and Federal Trust Bank consented to the issuance by the Office of Thrift Supervision of cease and desist orders to Federal Trust Corporation and Federal Trust Bank, which are designed to ensure that the weaknesses noted in the recently concluded examinations are properly addressed. The orders provide that:

- we must submit for review and approval by the Office of Thrift Supervision a capital plan to raise additional capital for Federal Trust Bank by July 15, 2008, which date the Office of Thrift Supervision has subsequently extended to September 30, 2008 and, if the additional capital cannot be raised by such date, to enter into a merger agreement with a merger or acquisition partner by August 31, 2008, which date the Office of Thrift Supervision has subsequently extended to November 15, 2008. The successful completion of the stock offering would satisfy our requirement to raise capital under the Cease and Desist Order;

- Federal Trust Bank must submit for review and approval or non-objection by the Office of Thrift Supervision a detailed business plan to strengthen and improve Federal Trust Bank s operations, earnings, liquidity and capital;

- Federal Trust Bank must submit quarterly reports to the Office of Thrift Supervision regarding compliance with the business plan;

- until the Office of Thrift Supervision has approved or provided its non-objection to Federal Trust Bank s business plan, Federal Trust Bank will not be permitted to increase its current levels of construction loans, acquisition and development loans, non-residential permanent mortgage loans, land loans and certain other loans without the prior approval of the Office of Thrift Supervision;

- until the Office of Thrift Supervision has approved or provided its non-objection to Federal Trust Bank s business plan, Federal Trust Bank will not be permitted to increase its total assets during any quarter in excess of an amount equal to the net interest credited on deposit liabilities during the quarter without the prior approval of the Office of Thrift Supervision;

- Federal Trust Bank must submit for review and approval or non-objection by the Office of Thrift Supervision an asset review program that will (i) strengthen and ensure the timely identification and proper classification of problem assets, (ii) ensure adequate and proper levels of the allowance for loan and lease losses, and (iii) establish individualized resolution plans for problem assets;

- Federal Trust Bank will not be permitted to declare a dividend without the prior written approval of the Office of Thrift Supervision;

- Federal Trust Bank must revise its legal lending limit policies and procedures to ensure compliance with applicable law and devise an action plan to correct any legal lending limit violations;

- Federal Trust Bank will not be permitted to enter into, renew or modify any agreements with us or enter into affiliated transactions with us, without prior approval of the Office of Thrift Supervision;

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- Federal Trust Bank will not be permitted to enter into any third-party contracts for services outside the normal course of business without prior review and approval of the Office of Thrift Supervision;

- the Board of Directors of Federal Trust Bank must submit a plan to strengthen the Board of Directors oversight of management and Federal Trust Bank s operations;

- the Board of Directors of Federal Trust Bank must conduct a review of Federal Trust Bank s lending functions and assess the qualifications, experience and proficiency of Federal Trust Bank s management and lending staff; and

- the Board of Directors of Federal Trust Bank must establish a committee comprised of non-employee directors to monitor and coordinate Federal Trust Bank s compliance with the provisions of its enforcement order.

See Risk Factors Risks Related to Our Business We have consented to the issuance of cease and desist orders with the Office of Thrift Supervision. These orders will significantly restrict our operations. The failure to comply with these orders can result in significant penalties.

Additional Operating Restrictions

As a result of the loan loss provisions recorded during the year ended December 31, 2007, Federal Trust Bank s risk-based capital ratio fell below the amount required for the well capitalized designation for bank regulatory purposes. As a result, Federal Trust Bank was considered adequately capitalized as of December 31, 2007 and March 31, 2008 with Tier 1 leverage, Tier 1 risk-based and total risk-based capital ratios of 5.38%, 7.83% and 9.09%, respectively at December 31, 2007 and Tier 1 leverage, Tier 1 risk-based and total risk-based capital ratios of 5.03%, 7.69% and 8.96%, respectively at March 31, 2008. Because Federal Trust Bank does not qualify for the well capitalized designation, it is subject to restrictions on its operations in addition to those that are being imposed through the cease and desist order, described above. Federal Trust Bank cannot accept brokered deposits or expand our branch network without prior regulatory approval. Furthermore, as a result of the Federal Home Loan Bank of Atlanta s assessment of our recent financial condition, we will not have access to additional advances nor will we be able to renew existing advances from the Federal Home Loan Bank, which may harm our liquidity position.

On April 25, 2008, Federal Trust Corporation and Federal Trust Bank were notified by the Office of Thrift Supervision that the following regulatory and supervisory restrictions apply to Federal Trust Corporation and Federal Trust Bank, some of which restrictions are similar to those included in the cease and desist orders:

- Federal Trust Corporation and Federal Trust Bank are not eligible to have applications or notices processed by the Office of Thrift Supervision on an expedited basis;

- Federal Trust Corporation and Federal Trust Bank are required to provide prior notice to the Office of Thrift Supervision for additions or changes to directors or senior executive officers;

- all employment contracts or compensation arrangements, including severance payments, to directors and senior executive officers are subject to prior review by the Office of Thrift Supervision;

- the ability of Federal Trust Corporation and Federal Trust Bank to make any compensatory payments to any person previously affiliated with Federal Trust Corporation or Federal Trust Bank following such person s termination of employment is restricted by applicable federal regulation; and

- Federal Trust Bank s growth is restricted in that it may not increase its assets during any quarter in excess of an amount equal to net interest credited on deposit liabilities.

In addition, the Office of Thrift Supervision placed the following restrictions on our operations, some of which restrictions are similar to those included in the cease and desist orders:

- Federal Trust Bank may not pay any dividends or make any form of capital distribution without the prior written approval of the Office of Thrift Supervision, and Federal Trust Corporation may not request or accept any dividend or any form of capital distribution from Federal Trust Bank without the prior written approval of the Office of Thrift Supervision;

- Federal Trust Corporation may not declare or pay any dividend without the prior written approval of the Office of Thrift Supervision, and Federal Trust Corporation must request Office of Thrift Supervision approval for the payment of a dividend in writing at least 30 calendar days prior to the proposed dividend declaration date;

- Federal Trust Corporation may not issue any debt securities or otherwise incur any additional debt without the prior written approval of the Office of Thrift Supervision; and

- Federal Trust Corporation may not make any payments of any kind, or in any form, to any person or entity in an amount exceeding $5,000 in any calendar month without the prior written approval of the Office of Thrift Supervision.

Federal Trust Corporation has received Office of Thrift Supervision approval to pay certain fees and expenses in connection with the stock offering.

See Risk Factors Risks Related to Our Business An inability to improve our regulatory capital position could adversely affect our operations and The Office of Thrift Supervision has placed additional restrictions on our operations.

Recent Financial Performance

Our net income has declined in recent years, from $4.4 million for the year ended December 31, 2005, to $3.4 million for the year ended December 31, 2006, to a net loss of $14.2 million for the year ended December 31, 2007. For the first quarter of 2008, we lost $2.2 million as compared to net income of $160,000 for the first quarter of 2007. The net loss for the first quarter of 2008 and the year ended December 31, 2007 was caused primarily by a significant increase in non-performing assets, which necessitated a provision for loan losses of $2.0 million for the first quarter of 2008 and $16.4 million for the year ended December 31, 2007, compared to a provision for loan losses of $150,000 for the first quarter of 2007 and $639,000 for the year ended December 31, 2006. In addition, we experienced a decline in net interest income to $2.0 million for the quarter ended March 31, 2008 and $11.7 million for the year ended December 31, 2007 compared to $3.2 million for the quarter ended March 31, 2007 and $15.7 million for the year ended December 31, 2006, due to net interest margin compression as well as increased foregone interest income resulting from non-accrual loans. Non-interest expense increased to $4.4 million for the quarter ended March 31, 2008 and $19.5 million for the year ended December 31, 2007, compared to $3.4 million for the quarter ended March 31, 2007 and $12.5 million for the year ended December 31, 2006, primarily as a result of increased Federal Deposit Insurance Corporation insurance premiums in the first quarter of 2008 and expenses associated with working out our non-performing assets and charges during 2007 associated with the termination of our former Chief Executive Officer.

See Risk Factors Risks Related to Our Business We experienced an operating loss during the year ended December 31, 2007 and the first quarter of 2008 and we may not return to profitability in the future and Management s Discussion and Analysis of Financial Condition and Results of Operations for a further discussion of our recent financial performance.

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See Recent Developments for a summary of our financial results as of and for the six months ended June 30, 2008.

Business Strategy

Our business strategy is to take the actions required in the enforcement orders of the Office of Thrift Supervision while building a profitable, well capitalized, full-service community bank with operations in Central Florida. We intend to focus on providing excellent customer service, expanding our product offerings, originating quality loans in our market area, and increasing the amount of deposits we receive from our local markets. The following are highlights of our business strategy:

New executive management team members. To execute on our strategy, we have made significant changes to our executive management team over the last year and assembled a team of bankers with significant depth and breadth, including 91 years of combined experience in the banking industry. Dennis T. Ward joined our executive team in February 2007 and was appointed President and Chief Executive Officer in September 2007, to provide the leadership to implement our revitalized business plan. In the last year, we also hired our Executive Vice President and Senior Loan Officer, Mark E. McRae and our Senior Vice President, Interim Chief Credit Officer and Special Assets Manager, Edward Walker. Mr. Walker was recently named Interim Chief Credit Officer following the resignation of our prior Chief Credit Officer effective August 1, 2008. We expect to begin the search for a permanent Chief Credit Officer immediately.

Build core relationships with customers and enhance our sales culture. The primary goal of our management team is to build core relationships and better utilize our existing franchise to generate future growth when economic conditions improve. During 2007, we hired a new sales manager for our branch offices, implemented new training procedures for our staff and focused our efforts on developing a broader range of financial products, in order to establish a framework for an enhanced business and sales culture that will better enable us to serve our customers.

Increase loan originations in local markets with better credit underwriting standards while remaining focused on the effective management of non-performing assets. We believe that our renewed focus on in-market retail and small business loan originations, coupled with our recently strengthened underwriting policies and procedures, will help us originate higher-quality loans with favorable risk-adjusted returns. In light of current market conditions in Florida, we have spent considerable effort and resources on the early identification and quantification of potential problem assets. Our new management team is working aggressively toward resolving our non-performing loans and has established a team experienced in resolving problem assets and managing the workout process to minimize net charge-offs, including the recent hiring of an experienced loan workout specialist who focuses full time on the workout and resolution of non-performing and classified assets.

Decrease reliance on wholesale funding sources. Historically, we have relied significantly on brokered deposits and Federal Home Loan Bank advances in order to fund our loan portfolio. Given our current financial condition, the availability of funding sources is constrained in that we cannot renew, replace or accept brokered deposits without prior regulatory approval, and we cannot access additional advances or renew existing advances from the Federal Home Loan Bank. We are focused on replacing these more expensive and volatile funding options by leveraging our existing network of 11 branches to increase core deposits and lower cost transaction accounts.

In addition to our short-term objectives of resolving problem assets, and improving our liquidity and capital designation, our long-term goal is to transition our asset and liability mix to that of a traditional community bank. We believe that eliminating purchases of pooled residential real estate loans along with reducing our portfolio of large land acquisition, development and residential loans in favor of smaller commercial business loans, while establishing a lower cost deposit base through a strong retail banking franchise, will be critical to our ability to implement our long-term strategy.

See Management s Discussion and Analysis of Financial Condition and Results of Operations Business Strategy.

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Our Dividend Policy

We discontinued paying cash dividends on our shares of common stock during the quarter ended September 30, 2007. Currently, we have no plans to resume the payment of cash dividends on our shares of common stock, and we are subject to Office of Thrift Supervision restrictions on our ability to pay dividends.

See Selected Consolidated Financial and Other Data and Market for the Common Stock and Dividend Information for information regarding our historical dividend payments.

The Stock Offering

Securities Offered	Up to [max shares] shares of our common stock, par value $0.01 per share. Our shares are being offered to the public on a best efforts basis by our selling agent and financial advisor, Nicolaus & Company, Incorporated. Stifel, Nicolaus & Company, Incorporated is not obligated to sell or purchase any shares of our common stock in the stock offering. See The Stock Offering.
Offering Price	[offering price] per share.
Use of Proceeds	We expect the aggregate net proceeds from the stock offering and the offering to standby purchasers to be between $______ million and $_________ million. We intend to use the proceeds to invest in Federal Trust Bank to improve its regulatory capital position, to repay debt and for general corporate purposes.
Limitations on the Purchase of Shares	A person, together with certain related persons, may not purchase more than $_______ million (__________ shares) of our common stock, and a person, together with certain related persons, may not own more than _____________ shares of our common stock as a result of purchases in the stock offering and the offering to standby purchasers. These limitations do not apply to certain of our standby purchasers. See The Stock Offering Limit on How Many Shares of Common Stock You May Purchase in the Stock Offering. In addition, except for our issuance to certain of our standby purchasers, we will not issue shares of our common stock to any purchaser in the stock offering or standby purchaser who, in our sole opinion, could be required to obtain prior clearance or approval from or submit a notice to any state or federal bank regulatory authority to acquire, own or control such shares if, prior to the completion of the stock offering, such clearance or approval has not been obtained and/or any applicable waiting period has not expired.
Standby Purchase Agreements	In connection with the stock offering, we have entered into standby purchase agreements with certain institutional investors and high net worth individuals. Subject to certain conditions, and depending on the number of shares of common stock we sell in the stock offering, the standby purchase agreements obligate us to sell, and require the standby purchasers to purchase from us, up to [standby maximum] shares of common stock, and further obligate us to issue to two standby purchasers an aggregate of 10,000,000 transferable warrants to purchase shares of common stock from us at $0.95 per share so long as their investment is required to complete the stock offering. Shares will only be issued to the standby purchasers if, at the completion of the stock offering, we have not sold at least [min shares] shares of common stock. The price per share paid by the standby purchasers for such

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	common stock will be equal to the offering price paid in the stock offering. The warrants expire upon the later of (i) seven years from the date of effectiveness of the registration statement filed with respect to such exercise or (ii) nine years from the completion of the stock offering. Subject to the receipt of regulatory approval, we have also agreed to provide each of two standby purchasers the right to select one candidate for appointment to the boards of directors of Federal Trust Corporation and Federal Trust Bank, and one individual who will have observer rights at these board meetings. In the event we terminate the standby purchase agreements because our Board of Directors determines, in the exercise of its fiduciary duties, that it is not in the best interests of Federal Trust Corporation and our shareholders to go forward with the stock offering, then we will pay the standby purchasers liquidated damages totaling $3.3 million. Such standby purchase agreements were negotiated by the parties through arm s length negotiations. Prior to the completion of the stock offering, we may enter into additional standby purchase agreements with new standby purchasers.
Standby Purchasers	Our current standby purchasers are ______________________________________.
Minimum Offering	The offering is conditioned upon the receipt of minimum offering proceeds of $30.0 million, including purchases by the standby purchasers.
Purchase Intentions of Our Directors and Officers	Our directors and executive officers as a group, together with their affiliates, have indicated their intention to purchase, in the aggregate, approximately $290,000 (or ___________ shares) of our common stock in the stock offering.
Selling Agent and Financial Advisor	Stifel, Nicolaus & Company, Incorporated is acting as our selling agent and financial advisor in connection with the stock offering and the offering to standby purchasers on a best efforts basis. We have agreed to pay certain fees to, and expenses of, Stifel, Nicolaus & Company, Incorporated.
Shares Outstanding Before the Stock Offering	[record shares] shares of our common stock were outstanding as of [shares outstanding date].
Shares Outstanding After Completion of the Stock Offering	Assuming no options are exercised prior to the completion of the stock offering and assuming all shares are sold in the stock offering and to standby purchasers, we expect approximately [pro forma outstanding shares] shares of our common stock will be outstanding immediately after completion of the stock offering and the closing of the transactions contemplated by the standby purchase agreements.
American Stock Exchange Symbol	Shares of our common stock are currently listed for trading on the American Stock Exchange under the symbol FDT.

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Risk Factors

Before you order shares of our common stock, you should be aware that there are risks associated with your investment, including the risks described in the section entitled Risk Factors beginning on page 13 of this Prospectus, and the risks that we have highlighted in other sections of this prospectus. You should carefully read and consider these risk factors together with all of the other information included in this prospectus before you decide to order shares of our common stock.

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RISK FACTORS

An investment in our shares of common stock involves a number of risks. You should consider carefully the risks described below in evaluating an investment in shares of our common stock. If any of the events in the following risks actually occurs, or if additional risks and uncertainties not presently known to us or that we believe are immaterial, materialize, then our business, results of operations and financial condition could be materially adversely affected. In addition, the trading price of our shares of common stock could decline due to any of the events described in these risks.

Risks Related to Our Business

We have consented to the issuance of cease and desist orders with the Office of Thrift Supervision. These orders will significantly restrict our operations. The failure to comply with these orders can result in significant penalties.

Following examinations of the operations of Federal Trust Corporation and Federal Trust Bank, as of September 30, 2007, the Office of Thrift Supervision noted weaknesses and failures relating primarily to our real estate lending practices and asset quality, and their effect on our capital and earnings. The Office of Thrift Supervision communicated its findings to Federal Trust Corporation and Federal Trust Bank on February 8, 2008. We have taken action and implemented procedures that management believes will address the weaknesses identified by the Office of Thrift Supervision. Effective May 12, 2008, Federal Trust Corporation and Federal Trust Bank consented to the issuance by the Office of Thrift Supervision of cease and desist orders to Federal Trust Corporation and Federal Trust Bank, which are designed to ensure that the weaknesses noted in the recently concluded examinations are properly addressed. The orders provide that:

- we must submit for review and approval by the Office of Thrift Supervision a capital plan to raise additional capital for Federal Trust Bank by July 15, 2008, which date the Office of Thrift Supervision has subsequently extended to September 30, 2008 and, if the additional capital cannot be raised by such date, to enter into a merger agreement with a merger or acquisition partner by August 31, 2008, which date the Office of Thrift Supervision has subsequently extended to November 15, 2008. The successful completion of the stock offering would satisfy our requirement to raise capital under the Cease and Desist Order;

- Federal Trust Bank must submit for review and approval or non-objection by the Office of Thrift Supervision a detailed business plan to strengthen and improve Federal Trust Bank s operations, earnings, liquidity and capital;

- Federal Trust Bank must submit quarterly reports to the Office of Thrift Supervision regarding compliance with the business plan;

- until the Office of Thrift Supervision has approved or provided its non-objection to Federal Trust Bank s business plan, Federal Trust Bank will not be permitted to increase its current levels of construction loans, acquisition and development loans, non-residential permanent mortgage loans, land loans and certain other loans without the prior approval of the Office of Thrift Supervision;

- until the Office of Thrift Supervision has approved or provided its non-objection to Federal Trust Bank s business plan, Federal Trust Bank will not be permitted to increase its total assets during any quarter in excess of an amount equal to the net interest credited on deposit liabilities during the quarter without the prior approval of the Office of Thrift Supervision;

- Federal Trust Bank must submit for review and approval or non-objection by the Office of Thrift Supervision an asset review program that will (i) strengthen and ensure the timely identification and proper classification of problem assets, (ii) ensure adequate and proper levels of the allowance for loan and lease losses, and (iii) establish individualized resolution plans for problem assets;

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- Federal Trust Bank will not be permitted to declare a dividend without the prior written approval of the Office of Thrift Supervision;

- Federal Trust Bank must revise its legal lending limit policies and procedures to ensure compliance with applicable law and devise an action plan to correct any legal lending limit violations;

- Federal Trust Bank will not be permitted to enter into, renew or modify any agreements with us or enter into affiliated transactions with us, without prior approval of the Office of Thrift Supervision;

- Federal Trust Bank will not be permitted to enter into any third-party contracts for services outside the normal course of business without prior review and approval of the Office of Thrift Supervision;

- the Board of Directors of Federal Trust Bank must submit a plan to strengthen the Board of Directors oversight of management and Federal Trust Bank s operations;

- the Board of Directors of Federal Trust Bank must conduct a review of Federal Trust Bank s lending functions and assess the qualifications, experience and proficiency of Federal Trust Bank s management and lending staff; and

- the Board of Directors of Federal Trust Bank must establish a committee comprised of non-employee directors to monitor and coordinate Federal Trust Bank s compliance with the provisions of its enforcement order.

In the event we are in material non-compliance with the terms of such cease and desist orders, the Office of Thrift Supervision has the authority to subject us to the terms of a more restrictive enforcement order, to impose civil money penalties on us and our directors and officers, and to remove directors and officers from their positions with Federal Trust Corporation and Federal Trust Bank.

The Office of Thrift Supervision has placed additional restrictions on our operations.

On April 25, 2008, Federal Trust Corporation and Federal Trust Bank were notified by the Office of Thrift Supervision that the following regulatory and supervisory restrictions apply to Federal Trust Corporation and Federal Trust Bank, some of which restrictions are similar to those included in the cease and desist orders:

- Federal Trust Corporation and Federal Trust Bank are not eligible to have applications or notices processed by the Office of Thrift Supervision on an expedited basis;

- Federal Trust Corporation and Federal Trust Bank are required to provide prior notice to the Office of Thrift Supervision for additions or changes to directors or senior executive officers;

- all employment contracts or compensation arrangements, including severance payments, to directors and senior executive officers are subject to prior review by the Office of Thrift Supervision;

- the ability of Federal Trust Corporation and Federal Trust Bank to make any compensatory payments to any person previously affiliated with Federal Trust Corporation or Federal Trust Bank following such person s termination of employment is restricted by applicable federal regulation; and

Federal Trust Bank s growth is restricted in that it may not increase its assets during any quarter in excess of an amount equal to net interest credited on deposit liabilities.

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In addition, the Office of Thrift Supervision placed the following restrictions on our operations, some of which restrictions are similar to those included in the cease and desist orders:

- Federal Trust Bank may not pay any dividends or make any form of capital distribution without the prior written approval of the Office of Thrift Supervision and Federal Trust Corporation may not request or accept any dividend or any form of capital distribution from Federal Trust Bank without the prior written approval of the Office of Thrift Supervision;

- Federal Trust Corporation may not declare or pay any dividend without the prior written approval of the Office of Thrift Supervision, and Federal Trust Corporation must request Office of Thrift Supervision approval for the payment of a dividend in writing at least 30 calendar days prior to the proposed dividend declaration date;

- Federal Trust Corporation may not issue any debt securities or otherwise incur any additional debt without the prior written approval of the Office of Thrift Supervision; and

- Federal Trust Corporation may not make any payments of any kind, or in any form, to any person or entity in an amount exceeding $5,000 in any calendar month without the prior written approval of the Office of Thrift Supervision.

Federal Trust Corporation has received Office of Thrift Supervision approval to pay certain fees and expenses in connection with the stock offering.

An inability to improve our regulatory capital position could adversely affect our operations.

At March 31, 2008, Federal Trust Bank was classified as adequately capitalized, and not well capitalized. This further restricts our operations beyond restrictions that have been imposed by the cease and desist orders. As a result of our capital levels: (i) our loans to one borrower limit has been reduced, which affects the size of the loans that we can originate and also requires us to sell, participate, or refuse to renew loans that exceed our lower loans to one borrower limit, both of which could negatively impact our earnings; (ii) we cannot renew or accept brokered deposits without prior regulatory approval; (iii) we must obtain prior regulatory approval to undertake any branch expansion activities; and (iv) we will pay higher insurance premiums to the Federal Deposit Insurance Corporation, which will reduce our earnings. To mitigate or resolve these restrictions, we are attempting to raise additional capital through the stock offering and reduce the amount of Federal Trust Bank s assets to improve our capital ratios to satisfy the well capitalized requirements. However, we may not be able to raise additional capital or reduce Federal Trust Bank s assets on favorable terms.

A deterioration of our current non-performing loans or an increase in the number of non-performing loans will continue to have an adverse effect on our operations.

Weakening economic conditions in the residential real estate sector have adversely affected, and may continue to adversely affect, our loan portfolio. Our percentage of non-performing assets relating to total assets increased significantly in 2007 and continued to increase in 2008 to 8.6% at March 31, 2008 as compared to 6.9% at December 31, 2007. This compares to 1.7% at December 31, 2006. If loans that are currently non-performing further deteriorate or loans that are currently performing become non-performing loans, we may need to increase our allowance for loan losses. Such an increase would have an adverse impact on our financial condition and results of operations.

We may experience increased costs of liquidity in future periods as a result of our current financial condition.

In recent periods, we have experienced an increase in non-performing assets, an increase in our allowance for loan losses and an increase in competition in our primary market area, as well as a decrease in interest rates. As a result of our recent financial condition, the Federal Home Loan Bank of Atlanta has decided not to provide us additional advances. Additionally, as a result of Federal Trust Bank being considered adequately capitalized, we may not accept brokered deposits without prior regulatory approval. Collectively, these factors reduce our liquidity and require us to seek alternative sources of liquidity to fund our operations and, in particular, the origination of new loans, the support of our continued growth and other strategic initiatives. Historically, we have had access to a number of alternative sources of liquidity, but given our financial performance and the recent downturn in the credit and liquidity markets, we may not have access to funding sources or to funding sources on terms that will be favorable to us. If our funding costs increase, this will impede our growth and will have an adverse effect on our business, financial condition and results of operations.

Our business is subject to the success of the local economies where we operate.

Our success depends significantly upon the growth in population, income levels, deposits and housing starts in our primary market area of Orange, Seminole, Volusia, Lake, Flagler and Osceola Counties and throughout Florida. If the communities in which we operate do not grow or if prevailing economic conditions locally or nationally are unfavorable, our business may not succeed. We are currently experiencing adverse economic conditions in some of our market areas, which affects the ability of our customers to repay their loans to us and could negatively affect our financial condition and results of operations. We are less able than larger institutions to spread the risks of unfavorable local economic conditions across a large number of diversified economies and are thus disproportionately impacted. Moreover, we may not benefit from any market growth or favorable economic conditions in our primary market areas if they do materialize in the future.

The market value of the real estate securing our loans as collateral has been adversely affected by the slowing economy and unfavorable changes in economic conditions in our market areas, and may be further adversely affected in the future. As of March 31, 2008, approximately 96.7% of our loans receivable were secured by real estate. Real estate values and real estate markets are generally affected by, among other things, changes in national, regional or local economic conditions; fluctuations in interest rates and the availability of loans to potential purchasers; changes in the tax laws and other governmental statutes, regulations and policies; and acts of nature. If real estate prices decline in any of our markets, the value of the real estate collateral securing our loans could be reduced, which could ultimately lead to an increase in loan losses. Any sustained period of increased payment delinquencies, foreclosures or losses caused by the adverse market and economic conditions, including a continued downturn in the real estate values in our markets will adversely affect the ultimate collectability of our loans and also affect our revenues, results of operations and financial condition.

We experienced an operating loss during the year ended December 31, 2007 and the first quarter of 2008 and we may not return to profitability in the future.

We experienced a net loss of $2.2 million and $14.2 million for the quarter ended March 31, 2008 and the year ended December 31, 2007, respectively. The losses for the quarter ended March 31, 2008 and the year ended December 31, 2007 were caused primarily by a significant increase in non-performing assets, which necessitated a provision for loan losses of $2.0 million and $16.4 million for the quarter ended March 31, 2008 and for the year ended December 31, 2007, respectively, compared to a provision for loan losses of $150,000 for the first quarter of 2007 and of $639,000 for the year ended December 31, 2006. We charged off $50,000 of loans during the first quarter of 2008 and $7.6 million of loans during 2007 (compared to no chargeoffs during the first quarter of 2007 and $39,000 during 2006), and non-accrual loans (generally loans 90 days or more past due in principal or interest payments) increased to $47.8 million, or 8.6% of total loans at March 31, 2008 and $38.2 million, or 6.4% of total loans at December 31, 2007, compared to $16.4 million, or 2.6% of total loans for the first quarter of 2007 and $12.0 million, or 1.9% of total loans at December 31, 2006. In addition, we experienced a decline in net interest income to $2.0 million for the quarter ended March 31, 2008 and $11.7 million for the year ended December 31, 2007 compared to $3.2 million for the quarter ended March 31, 2007 and $15.7 million for the year ended December 31, 2006, and our non-interest expense increased to $4.4 million for the quarter ended March 31, 2008 and $19.5 million for the year ended December 31, 2007, compared to $3.4 million for the quarter ended March 31, 2007 and $12.5 million for the year ended December 31, 2006. Non-interest expense for 2007 included a $2.9 million charge for the severance and retirement obligation related to the termination of our former Chief Executive Officer, which included

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$1.1 million to be paid pursuant to the termination of his employment agreement and $1.8 million pursuant to his supplemental retirement plan. We may not generate net income or achieve profitability in the future.

Future economic growth in our Florida market area is likely to be slower compared to previous years.

The State of Florida s population growth has historically exceeded national averages. Consequently, the state has experienced substantial growth in population, new business formation and public works spending. Due to the moderation of economic growth and migration into our market area and the downturn in the real estate market, management believes that growth in our market area will be restrained in the near term. Growth in our mortgage loan portfolio has been adversely affected by a slowing in residential real estate sales activity in our markets. Specifically, in 2007, the inventory of homes for sale in our market area increased to nearly a three-year supply. A decrease in existing and new home sales decreases lending opportunities and negatively affects our income. Our customers who are builders and developers face greater difficulty in selling homes in markets where these trends are more pronounced. Consequently, we are facing a sharp increase in delinquencies and non-performing assets as these builders and developers are forced to default on their loans with us. We do not anticipate that the housing market will improve in the near-term, and accordingly, this could lead to additional valuation adjustments on our loan portfolios and real estate owned as we continue to reassess the market value of our loan portfolio, the losses associated with the loans in default and the net realizable value of real estate owned.

We expect to grant stock options and/or adopt additional stock-based benefit plans after the stock offering, which would increase our costs and reduce our income. Such awards may also dilute your ownership interest.

Following the completion of the stock offering, we expect to grant stock options to purchase shares of our common stock to our executive officers and employees. Under existing stock options plans, we have authority to grant up to 427,301 stock options to our executive officers and employees. In addition, in the future, we may adopt one or more new stock-based benefit plans under which our directors, executive officers and employees would be eligible to receive shares of common stock and/or stock options.

Public companies must expense the grant-date fair value of stock awards and stock options. In addition, if such awards or options are considered variable in nature, public companies must revalue their estimated compensation costs at each subsequent reporting period and may be required to recognize additional compensation expense at these dates. When we record an expense for the grant of stock options and other stock awards using the fair value method as described in applicable accounting rules, we may incur significant compensation and benefits expense.

Awards under stock-based benefit plans will be funded through either open market purchases of common stock or from the issuance of authorized but unissued shares of common stock. Shareholders would experience a reduction in ownership interest in the event newly issued shares are used to fund stock options or awards of common stock.

We may not be able to continue to support the realization of our deferred tax asset.

We calculate income taxes in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes,* which requires the use of the asset and liability method. In accordance with Statement of Financial Accounting Standards No. 109, we regularly assess available positive and negative evidence to determine whether it is more likely than not that our deferred tax asset balances will be recovered from reversals of deferred tax liabilities, potential utilization of net operating loss carrybacks, tax planning strategies and future taxable income. At March 31, 2008, our deferred tax asset was $9.1 million, for which we have not established a valuation allowance. We recognized the deferred tax asset because management believes, based on detailed financial projections, that it is more likely than not, we will have sufficient future earnings to utilize this asset to offset future income tax liabilities. Realization of a deferred tax asset requires us to apply significant judgment and is inherently speculative because it requires the future occurrence of circumstances that cannot be predicted with certainty. We may not achieve sufficient future taxable income as the basis for the ultimate realization of our deferred tax asset and therefore we may have to establish a full or partial valuation allowance at some point in the future. If we determine that a valuation allowance is necessary, this would require us to incur a charge to operations that would adversely affect our shareholders equity. At March 31, 2008, $7.5 million of our deferred tax asset was deducted from Federal Trust Bank s capital for regulatory capital calculation purposes.

Our ability to use net operating losses, future recognized losses on the sale of our assets, or certain future tax deductions may be subject to certain limitations.

In general, under Section 382 of the Internal Revenue Code of 1986, as amended, a loss corporation, as defined therein, that undergoes an ownership change is subject to limitations on its ability to use its pre-change net operating losses to offset future taxable income. A corporation that undergoes an ownership change also may be subject to limitations on its ability to use losses recognized in the five-year period after an ownership change on assets with built-in losses on the date of the ownership change, and may be limited in its ability to use deductions for bad debts if such deductions are attributable to the 12-month period after an ownership change.

If we are a loss corporation and we undergo an ownership change in connection with the stock offering, net operating losses that arise in our current taxable year, any losses from our assets with built-in losses, and bad debt deductions on debt we hold could be subject to the limitations imposed by Section 382 of the Internal Revenue Code. Further changes in our stock ownership, some of which are outside our control, could result in an ownership change under Section 382 of the Internal Revenue Code some time after the stock offering. If we become subject to the limitations imposed by Section 382 of the Internal Revenue Code, this could have the effect of increasing our tax liability and reducing after-tax net income and available cash reserves.

We hold in our portfolio a significant number of land acquisition, development and construction loans, which are considered to have greater credit risk than other types of loans typically made by financial institutions.

We previously offered land acquisition, development and construction loans for builders and developers. As of March 31, 2008, these loans totaled approximately $62.1 million, or 11%, of our gross loan portfolio. The majority of these loans are for residential developments. These land acquisition, development and construction loans are considered more risky than other types of residential mortgage loans. The primary credit risks associated with land acquisition, development and construction lending are underwriting, project risks and market risks. Project risks include cost overruns, borrower credit risk, project completion risk, general contractor credit risk, and environmental and other hazard risks. Market risks are risks associated with the sale of the completed residential units. They include affordability risk, which means the risk of affordability of financing by borrowers, product design risk, and risks posed by competing projects. While we believe we have established adequate reserves on our financial statements to cover the credit risk of our land acquisition, development and construction loan portfolio, actual losses may exceed our reserves causing us to increase our provisions for loan losses, which could adversely impact our future earnings.

Our allowance for loan losses may not be sufficient to absorb losses from loan defaults, which could have a material adverse effect on our business.

Our success depends to a significant extent upon the quality of our assets, particularly loans. In originating loans, there is a substantial likelihood that credit losses will be experienced. The risk of loss will vary with, among other things, general economic conditions, the type of loan being made, the creditworthiness of the borrower over the term of the loan and, in the case of a collateralized loan, the quality of the collateral for the loan.

Our loan customers may not repay their loans according to the terms of these loans, and the collateral securing the payment of these loans may be insufficient to assure repayment. As a result, we may experience significant loan losses, which could have a material adverse effect on our operating results. Management makes various assumptions and judgments about the collectibility of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. We maintain an allowance for loan losses in an attempt to cover any loan losses that may occur. In determining the size of the allowance, we primarily base our evaluation on a review of our loan portfolio and the known risks contained in the loan portfolio, composition and growth of the loan portfolio, Florida real estate values

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and economic factors. However, the determination of an appropriate level of loan loss allowance is an inherently difficult process and is based on numerous assumptions.

If our assumptions are wrong, our current allowance may not be sufficient to cover future loan losses, and adjustments may be necessary to allow for different economic conditions or adverse developments in our loan portfolio. Significant additions to our allowance would materially decrease our net income. As a result of a difficult real estate market, we increased our provision for loan losses to $2.0 million for the quarter ended March 31, 2008 and $16.4 million for the year ended December 31, 2007, as compared to a provision for loan losses of $150,000 for the first quarter of 2007 and $639,000 for the year ended December 31, 2006. Our allowance may be inadequate to cover future loan losses given current and future market conditions. In addition, our regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs, based on judgments different than those of our management. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory agencies would have a negative effect on our operating results.

Our net interest income could be negatively affected by the Federal Reserve s recent interest rate adjustments, as well as by competition in our primary market area.

As a financial institution, our earnings and cash flows are significantly dependent upon our net interest income, which is the difference between the interest income that we earn on interest-earning assets, such as loans and investment securities, and the interest expense that we pay on interest-bearing liabilities, such as deposits and borrowings. Therefore, any change in general market interest rates, including changes resulting from changes in the Federal Reserve s fiscal and monetary policies, affects us more than non-financial institutions and could influence not only the interest we receive on loans and investment securities and the interest we pay on deposits and borrowings, but also (1) our ability to originate loans and obtain deposits, (2) the fair value of our financial assets and liabilities, and (3) the average duration of our assets and liabilities. If the interest rates on deposits and other borrowings increase at a faster rate than the interest rates on our loans and other investments, our net interest income, and therefore earnings, would be adversely affected. Earnings could also be adversely affected if the interest rates on our loans and other investments fall more quickly than the interest rates on deposits and other borrowings.

In response to the dramatic deterioration of the subprime, mortgage, credit and liquidity markets, the Federal Reserve recently has taken action on seven occasions to reduce interest rates by a total of 325 basis points since September 2007, and may reduce rates again, which likely will reduce our net interest income for 2008. Any reduction in our net interest income would negatively affect our business, financial condition, liquidity, operating results, cash flows and/or the price of our securities.

Our ability to service our debt depends on capital distributions from Federal Trust Bank, which are subject to regulatory restrictions.

Federal Trust Corporation is a savings and loan holding company and relies upon dividends from Federal Trust Bank to fund a significant portion of its operations. We use dividends from Federal Trust Bank to service our debt obligations, and our ability to service our debt is further subject to restrictions under our indentures and loan covenants. Federal Trust Bank s ability to pay dividends or make other capital distributions to Federal Trust Corporation is subject to the regulatory authority of the Office of Thrift Supervision and the Federal Deposit Insurance Corporation. Because of Federal Trust Bank s operating losses for the quarter ended March 31, 2008 and the year ended December 31, 2007, and because of additional operating restrictions that the Office of Thrift Supervision has placed on Federal Trust Bank and Federal Trust Corporation, Federal Trust Bank cannot pay dividends to Federal Trust Corporation without prior regulatory approval. At March 31, 2008, Federal Trust Corporation had $44.9 million in unconsolidated cash and other liquid assets.

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Our business may suffer if we lose key employees.

Our success is largely dependent on the personal contacts of our officers and employees in our market areas. If we lose key employees, temporarily or permanently, our business could be negatively impacted. Our recent operating results and other operating restrictions may increase the likelihood that we could lose key employees. Our future success depends on the continued contributions of our existing senior management personnel, including our: President and Chief Executive Officer, Dennis T. Ward; Executive Vice President and Chief Financial Officer, Gregory E. Smith; Executive Vice President and Senior Loan Officer, Mark E. McRae; Executive Vice President, Branch Administration, Jennifer B. Brodnax; and Senior Vice President, Interim Chief Credit Officer and Special Assets Manager Edward J. Walker. If we lose some of our key personnel, we may have difficulty executing on our business plan and capital plan, which could adversely affect our operations and financial results.

We are subject to extensive laws and regulations that could limit or restrict our activities. Changes in such laws and regulations could have a negative effect on our business.

As a unitary savings and loan holding company, Federal Trust Corporation is regulated primarily by the Office of Thrift Supervision. Our current subsidiaries are regulated primarily by the Office of Thrift Supervision, the Federal Deposit Insurance Corporation and the Florida Office of Financial Regulation. We operate in a highly regulated industry and are subject to examination, supervision and comprehensive regulation by various federal and state agencies. Our compliance with these regulations is costly and restricts certain of our activities, including payment of dividends, mergers and acquisitions, incurring debt, investments, loans and interest rates charged, interest rates paid on deposits and locations of offices. We are also subject to capitalization guidelines established by our regulators, which require us to maintain adequate capital to support our growth.

Such laws and regulations govern the activities in which companies may engage and are intended primarily for the protection of the federal deposit insurance fund and depositors. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on operations, the classification of assets and the adequacy of a financial institution s allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, or legislation, could have a material effect on us.

Our business also is subject to laws, rules and regulations regarding the disclosure of non-public information about our customers to non-affiliated third parties. Our operations on the Internet are not currently subject to direct regulation by any government agency in the United States beyond regulations applicable to businesses generally. A number of legislative and regulatory proposals currently under consideration by the federal, state and local governmental organizations may lead to laws or regulations concerning various aspects of our business on the Internet, including: user privacy, taxation, content, access charges, liability for third-party activities and jurisdiction. The adoption of new laws or a change in the application of existing laws may decrease the use of the Internet, increase our costs or otherwise adversely affect our business.

The laws and regulations applicable to the banking industry could change at any time, and we cannot predict the effects of these changes on our business and profitability. Additionally, we cannot predict the effect of any legislation that may be passed at the state or federal level in response to the recent deterioration of the subprime, mortgage, credit and liquidity markets. Because government regulation greatly affects the business and financial results of all financial institutions and their holding companies, our cost of compliance could adversely affect our ability to operate profitably.

Our financial condition and results of operations are reported in accordance with accounting principles generally accepted in the United States of America. While not affecting economic results, future changes in accounting principles issued by the Financial Accounting Standards Board could affect our earnings as reported under accounting principles generally accepted in the United States of America. As a public company, we are also subject to the corporate governance standards set forth in the Sarbanes-Oxley Act of 2002, as well as applicable rules and regulations promulgated by the Securities and Exchange Commission and the American Stock Exchange. Complying with these standards, rules and regulations may impose administrative costs and burdens on us.

Additionally, political conditions could impact our earnings. Acts or threats of war or terrorism, as well as actions taken by the United States or other governments in response to such acts or threats, could impact the business and economic conditions in which we operate.

Competition from financial institutions and other financial service providers may adversely affect our asset growth and profitability.

Our primary market area is the urban areas of Orange, Seminole, Volusia, Lake, Flagler and Osceola Counties, Florida. The banking business in these areas is highly competitive and we experience competition from many other financial institutions. Our subsidiary, Federal Trust Bank, experiences competition in both lending and attracting funds from other banks, savings institutions, and non-bank financial institutions located within our market area, many of which are significantly larger institutions. Non-bank institutions competing for deposits and deposit type accounts include mortgage bankers and brokers, finance companies, credit unions, securities firms, money market funds, life insurance companies and mutual funds. For loans, we encounter competition from other banks, savings banks, finance companies, mortgage bankers and brokers, insurance companies, small loan and credit card companies, credit unions, pension trusts and securities firms.

We compete with these institutions both in attracting deposits and in making loans. In addition, to maintain or increase our customer base, we have to attract new customers from other existing financial institutions and from new residents entering our market area. Many of our competitors are well-established, larger financial institutions. While we believe we can and do successfully compete with these other financial institutions in our primary markets, we may face a competitive disadvantage as a result of our smaller size, lack of geographic diversification and inability to spread our marketing costs across a broader market. Although we compete by concentrating our marketing efforts in our primary markets with local advertisements, personal contacts, and greater flexibility and responsiveness in working with local customers, our strategy may not be successful.

We rely on other companies to provide key components of our business infrastructure and failures in this infrastructure could interrupt our operations or increase the cost of doing business.

Third parties provide key components of our business infrastructure such as banking services, processing, Internet connections and network access. Any disruption in such services provided by these third parties to handle current or higher volumes of use could adversely affect our ability to deliver products and services to clients and otherwise to conduct business. Technological or financial difficulties of a third party service provider could adversely affect our business to the extent those difficulties result in the interruption or discontinuation of services provided by that party. We may not be insured against all types of losses as a result of third party failures and our insurance coverage may be inadequate to cover all losses resulting from system failures or other disruptions. Failures in our business infrastructure could interrupt our operations or increase the cost of doing business.

We may face risks with respect to future expansion and mergers or acquisitions.

As a part of our strategy, in the future, we may seek to increase the size of our franchise through branch expansion and growth, and by aggressively pursuing business development opportunities. We may also consider and enter into new lines of business or offer new products or services. We also may receive future inquiries and have discussions with financial institutions that are interested in acquiring us. Acquisitions and mergers involve a number of risks, including:

- the time and costs associated with identifying and evaluating potential merger and acquisition partners;

- the estimates and judgments used to evaluate credit, operations, management and market risks with respect to the target institution may not be accurate;

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- the time and costs of evaluating new markets, hiring experienced local management and opening new offices, and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;
- our ability to finance an acquisition and possible dilution to our existing shareholders;
- the diversion of our management s attention to the negotiation of a transaction, and the integration of the operations and personnel of the combining businesses;
- entry into new markets where we lack experience;
- the introduction of new products and services into our business;
- the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse short-term effects on our results of operations; and
- the risk of loss of key employees and customers.

To carry out some of our expansion plans, we would be required to obtain permission from the Office of Thrift Supervision. Applications for the acquisition of existing thrifts and banks are submitted to the federal and state bank regulatory agencies for their approval. The future climate for regulatory approval is impossible to predict. Regulatory agencies could prohibit or otherwise significantly restrict our expansion plans, as well as those of our subsidiaries, which could limit our ability to increase revenue.

Additionally, we may incur substantial costs to expand, and such expansion may not result in the levels of profits we seek. Also, we may issue equity securities, including common stock and securities convertible into shares of our common stock in connection with our expansion plans, which could cause ownership and economic dilution to our current shareholders. Following any expansion, our integration efforts may not be successful or our company, after giving effect to the expansion, may not achieve financial performance comparable to or better than our historical experience.

Office of Thrift Supervision restrictions on our payment of operating expenses may disrupt our operations.

As a result of operating restrictions imposed upon Federal Trust Corporation due to its recent financial condition, Federal Trust Corporation is not able to make payments of any kind, or in any form, to any person or entity in an amount exceeding $5,000 in any calendar month without the prior written approval of the Office of Thrift Supervision. Such restrictions subject us to the risk that future services will not be permitted or that we may be unable to pay certain expenses as they become due, unless approved by the Office of Thrift Supervision, such as legal fees, audit fees, offering expenses, marketing expenses and previously committed contractual relationships. If we are unable to pay our service providers in a timely manner, certain important administrative functions of Federal Trust Corporation may not be completed and may disrupt our operations, and such disruption could further negatively affect our financial condition.

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Various factors may make takeover attempts more difficult to achieve.

Provisions of our Restated Articles of Incorporation and Bylaws, federal law and regulations, Florida law and various other factors may make it more difficult for companies or persons to acquire control of Federal Trust Corporation without the consent of our Board of Directors. You may want a takeover attempt to succeed because, for example, a potential acquiror could offer a premium over the then-prevailing price of our common stock. Factors that may discourage takeover attempts or make them more difficult include:

- Florida statutes that restrict voting rights of shareholders who acquire certain amounts of our shares of common stock, that restrict transactions with certain shareholders and that allow a company to not require cumulative voting in the election of directors;

- provisions in our Restated Articles of Incorporation that provide for staggered terms for our Board of Directors and that restrict transactions with certain shareholders;

- provisions in our Bylaws regarding the timing and content of shareholder proposals and nominations and qualification for service on the Board of Directors;

- provisions in our Bylaws regarding the Board of Directors ability to declare a stock dividend consisting of a future right to purchase common stock, at the Board of Directors discretion, upon the acquisition of 15% of our outstanding shares of common stock; and

- federal law and regulations that restrict the acquisition of control of a federal savings institution without prior written approval or non-objection from the Office of Thrift Supervision.

See Restrictions on Acquisition of Federal Trust Corporation for a complete discussion of the applicable restrictions on our ability to be acquired.

Risks Related to the Stock Offering

The future price of the shares of common stock may be substantially less than the [offering price] purchase price per share in the stock offering.

If you purchase shares of common stock in the stock offering, you may not able to sell them later at or above the [offering price] purchase price. The last reported sales price of our common stock on the American Stock Exchange on _________, 2008 was $________ per share, which is less than the offering price per share. As a result, you may be able to purchase shares of our common stock at a lower price on the open market rather than through the stock offering. The actual market price of our common stock could be subject to wide fluctuations in response to numerous factors, some of which are beyond our control. These factors include, among other things, actual or anticipated variations in our costs of doing business, operating results and cash flow, the nature and content of our earnings releases and our competitors earnings releases, changes in financial estimates by securities analysts, business conditions in our markets and the general state of the securities markets and the market for other financial stocks, changes in capital markets that affect the perceived availability of capital to companies in our industry, governmental legislation or regulation, currency and exchange rate fluctuations, as well as general economic and market conditions, such as downturns in our economy and recessions.

If you purchase shares of our common stock and, afterwards, the public trading market price of our shares continues to be below the offering price, you will have purchased shares of our common stock at a price above the prevailing market price and could have an immediate unrealized loss. You may not be able to sell your shares at a price equal to or greater than the offering price.

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The offering price determined for the stock offering is not an indication of the fair value of our common stock.

In determining the offering price, the Board of Directors considered a number of factors, including: historical and current trading prices for our common stock, the need for liquidity and capital and negotiations with standby purchasers. In conjunction with its review of these factors, the Board of Directors also reviewed our history and prospects, including our past and present earnings, our prospects for future earnings, our current financial condition and regulatory status. The per share offering price is not necessarily related to our book value, net worth or any other established criteria of fair value and may or may not be considered the fair value of our common stock to be offered in the stock offering. After the date of this prospectus, our shares of common stock may trade at prices below the offering price.

The stock offering and the offering to standby purchasers may reduce a shareholder s percentage ownership in Federal Trust Corporation.

As of [shares outstanding date], we had __________ shares of common stock outstanding. Assuming no options are exercised prior to the expiration of the stock offering and assuming all shares are sold in the stock offering and to standby purchasers, we expect approximately [pro forma outstanding shares] shares of our common stock will be outstanding immediately after completion of the stock offering and the closing of the transactions contemplated by the standby purchase agreements. Accordingly, our current shareholders as a group will experience significant dilution to their percentage ownership of our outstanding shares of common stock as a result of the stock offering, and an existing shareholder would have to purchase additional shares of common stock in the stock offering or afterwards to avoid dilution to his or her ownership interest. In addition, existing shareholders and purchasers in the stock offering may experience further dilution as a result of the sale of our common stock and the issuance of warrants to the standby purchasers. If fewer than [min shares] shares are sold in the stock offering, pursuant to the standby purchase agreements, we are obligated to sell up to [max shares] shares to the standby purchasers and issue an aggregate of 10,000,000 warrants to two of the standby purchasers.

Upon completion of the stock offering and offering to the standby purchasers, a significant amount of our common stock will be concentrated in the hands of a few of our shareholders. Your interests may not be the same as the interests of these shareholders.

Upon the completion of the stock offering and the sale of additional shares of common stock to the standby purchasers, if we only sell $30.0 million of shares, the standby purchasers could collectively own up to ______% of our common stock, and would have warrants to purchase an additional ______% of our common stock. As a result, if the standby purchasers and their respective affiliates were to elect to act together, they would have the ability to exercise control over matters generally requiring shareholder approval. These matters include the election of directors and the approval of significant corporate transactions, including potential mergers, consolidations or sales of all or substantially all of our assets. Your interests as a holder of the common stock may differ from the interests of the standby purchasers and their affiliates.

We have established purchase limitations in the stock offering that are not applicable to certain of our standby purchasers.

A person, together with certain related persons, may not purchase more than $__________ million (______ shares) of our common stock, and a person, together with certain related persons, may not own more than ______ shares of our common stock as a result of purchases in the stock offering and the offering to standby purchasers. These limitations do not apply to certain of our standby purchasers.

In addition, except for our issuance to certain of our standby purchasers, we will not issue shares of our common stock to any purchaser in the stock offering or standby purchaser who, in our sole opinion, could be required to obtain prior clearance or approval from or submit a notice to any state or federal bank regulatory

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authority to acquire, own or control such shares if, prior to the completion of the stock offering, such clearance or approval has not been obtained and/or any applicable waiting period has not expired.

As a result of these restrictions, you may not be able to purchase as many shares as you wish in the stock offering, and no purchaser in the stock offering will own as many shares of common stock following the stock offering as the standby purchasers to whom this restriction does not apply. See ***After the consummation of the stock offering and the sale of additional shares of common stock to the standby purchasers, a significant amount of our common stock will be concentrated in the hands of a few of our shareholders. Your interests may not be the same as the*** interests of these shareholders and The Stock Offering Limit on How Many Shares of Common Stock You May Purchase in the Stock Offering.

Although publicly traded, our common stock has substantially less liquidity than the average liquidity of stocks listed on the American Stock Exchange.

Although our common stock is listed for trading on the American Stock Exchange our common stock has substantially less liquidity than the average liquidity for companies listed on the American Stock Exchange. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This marketplace depends on the individual decisions of investors and general economic and market conditions over which we have no control. This limited market may affect your ability to sell your shares on short notice, and the sale of a large number of shares at one time could temporarily depress the market price of our common stock. For these reasons, our common stock should not be viewed as a short-term investment.

The market price of our common stock may fluctuate in the future, and this volatility may be unrelated to our performance. General market price declines or overall market swings in the future could adversely affect the price of our common stock, and the current market price may not be indicative of future market prices.

We have broad discretion in the use of proceeds of the stock offering and the offering to standby purchasers.

Other than an investment in Federal Trust Bank, we have not designated the anticipated net proceeds of the stock offering and the offering to standby purchasers for specific uses. Accordingly, our management will have considerable discretion in the application of the net proceeds and you will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. See Use of Proceeds.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements, which can be identified by the use of words such as estimate, project, believe, intend, anticipate, plan, seek, expect and words of similar meaning. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the asset quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- general economic conditions, either nationally or in our market areas, that are worse than expected;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;
- adverse changes in the securities markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate acquired entities, if any;
- changes in consumer spending, borrowing and savings habits;
- changes in demand for new housing in our market area;

unfavorable changes in economic conditions affecting housing markets, credit markets, real estate values or oil and gas prices, either nationally or locally;

changes in accounting policies and practices, as may be adopted by the bank regulatory agencies and the Financial Accounting Standards Board; and

changes in our organization, compensation and benefit plans.

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Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. Please see Risk Factors beginning on page 13.

USE OF PROCEEDS

Although we cannot determine what the actual net proceeds from the sale of the shares of common stock in the stock offering and the offering to standby purchasers will be until such offerings are completed, we estimate that the aggregate net proceeds will be between $______ million and $______ million. Subject to Office of Thrift Supervision approval of or non-objection to the capital plan we have submitted to the Office of Thrift Supervision, described in Supervision and Regulation Cease and Desist Orders, we have committed to the Office of Thrift Supervision that we will invest at least 90% of the net proceeds (between $______ million and $______ million) in Federal Trust Bank to improve its regulatory capital position, and retain the remainder of the net proceeds at Federal Trust Corporation. The net proceeds we retain may be used for the repayment of debt and general corporate purposes and further investment in Federal Trust Bank, if required by the Office of Thrift Supervision or if we otherwise determine to make such a further investment. Other than an investment in Federal Trust Bank, we currently have no arrangements or understandings regarding any specific use of proceeds.

The net proceeds may vary because total expenses relating to the stock offering may be more or less than our estimates.

MARKET FOR THE COMMON STOCK AND DIVIDEND INFORMATION

Federal Trust Corporation s shares of common stock trade on the American Stock Exchange under the trading symbol FDT.

The development of a public market having the desirable characteristics of depth, liquidity and orderliness depends on the existence of willing buyers and sellers, the presence of which is not within our control or that of any market maker. The number of active buyers and sellers of our common stock at any particular time may be limited, which may have an adverse effect on the price at which our common stock can be sold. There can be no assurance that persons purchasing the common stock will be able to sell their shares at or above the [offering price] price per share in the stock offering. Purchasers of our common stock should have long-term investment intent and should recognize that there may be a limited trading market in our common stock.

The following table sets forth the high and low trading prices for shares of our common stock and cash dividends paid per share for the periods indicated. As of [shares outstanding date], there were [record shares] shares of common stock issued and outstanding.

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Year Ending December 31, 2008	High	Low	Cash Dividends Paid Per Share
Third quarter (through ______)	$	$	$
Second quarter	1.85	0.30	
First quarter	2.95	1.12	

Year Ended December 31, 2007	High	Low	Cash Dividends Paid Per Share
Fourth quarter	$ 5.10	$ 2.05	$
Third quarter	8.25	4.30	
Second quarter	10.10	8.10	0.04
First quarter	10.37	9.71	0.04

Year Ended December 31, 2006	High	Low	Cash Dividends Paid Per Share
Fourth quarter	$ 10.50	$ 9.77	$ 0.04
Third quarter	11.05	10.36	0.05
Second quarter	12.15	10.00	0.04
First quarter	12.52	9.77	0.04

On ______, 2008, the most recent practicable date before the date of this prospectus, the closing price of our common stock as reported on the American Stock Exchange was $______ per share. As of the close of business on [shares outstanding date], Federal Trust Corporation had approximately ______ shareholders of record. This number does not include the number of persons or entities that hold our common stock in nominee or street name through various brokerage firms, banks and other nominees.

We discontinued paying cash dividends on our shares of common stock during the quarter ended September 30, 2007. Currently, we have no plans to resume the payment of cash dividends on our shares of common stock.

Under the rules of the Office of Thrift Supervision, Federal Trust Bank is not permitted to make a capital distribution if, after making such distribution, it would be undercapitalized. The Office of Thrift Supervision has informed Federal Trust Bank that it cannot pay dividends to Federal Trust Corporation without first receiving regulatory approval of such payments. In addition, the cease and desist orders with the Office of Thrift Supervision contain a similar restriction. For information concerning additional federal and state law and regulations regarding the ability of Federal Trust Bank to make capital distributions, including the payment of dividends to Federal Trust Corporation, see Supervision and Regulation Federal Banking Regulation.

The Office of Thrift Supervision has further informed Federal Trust Corporation that it cannot declare or pay any dividend without first receiving regulatory approval. Unlike Federal Trust Bank, we are not otherwise restricted by Office of Thrift Supervision regulations on the payment of dividends to our shareholders, although the source of dividends will depend on the net proceeds retained by us and earnings and dividends from Federal Trust Bank. However, we are subject to state law limitations on the payment of dividends. Florida law generally restricts a corporation from paying dividends if (i) it would not be able to pay its debts as they become due in the usual course of business, or (ii) its total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the corporation were to be dissolved at the time of payment of the dividend, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the dividend.

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CAPITALIZATION

The following table presents our historical consolidated capitalization at March 31, 2008 and our pro forma consolidated capitalization after giving effect to the receipt of net proceeds from the stock offering and the offering to standby purchasers, assuming in the alternative that the minimum and maximum of the offered shares are sold. The table also sets forth the historical regulatory capital ratios of Federal Trust Bank at March 31, 2008, and the pro forma regulatory capital ratios of Federal Trust Bank, assuming the receipt by Federal Trust Bank of $______ million and $______ million of net proceeds from the stock offering and the offering to standby purchasers, which represent sales of the minimum and maximum number of shares , respectively, and further assuming that 50% of the proceeds received by Federal Trust Bank were invested in assets with a risk weighting of 20%, and the remaining 50% were invested in assets with a risk weighting of 50% ($ in thousands).

		[offering price] Per Share Pro Forma	
	Historical at March 31, 2008	**[min shares] Shares**	**[max shares] Shares**
Deposits	$ 454,043	$ 454,043	$ 454,043
Federal Home Loan Bank advances	165,000	165,000	165,000
Junior subordinated debentures	5,155	5,155	5,155
Other borrowings	16	16	16
Total deposits and borrowed funds	$ 624,214	$ 624,214	$ 624,214
Shareholders equity:			
Common stock $0.01 par value, 65,000,000 shares authorized (post-shareholder approval); shares to be issued as reflected [(1)(2)]	94		
Additional paid-in capital	44,540		
Retained earnings	(5,974)		
Accumulated other comprehensive loss	(917)		
Less:			
Unallocated ESOP shares	(440)	(440)	(440)
Total shareholders equity	$ 37,303	$	$
Total shares outstanding	[record shares]		[pro forma outstanding shares]
Total shareholders equity as a percentage of total assets	5.54%	%	%
Regulatory capital ratios of Federal Trust Bank:			
Core (leverage) capital	5.03%	%	%
Tier I risk-based capital	7.69%	%	%
Total risk-based capital	8.96%	%	%

(1) At March 31, 2008, we had 15,000,000 authorized shares of common stock, par value $0.01 per share. At our 2008 Annual Meeting of Shareholders, held on June 16, 2008, shareholders approved a proposal to amend the Restated Articles of Incorporation to increase the number of authorized shares of common stock to 65,000,000.

(2) The number of shares of common stock to be outstanding after the stock offering is based on the number of shares outstanding as of [shares outstanding date] and excludes 357,097 shares of our common stock issuable upon exercise of outstanding options on such date, at a weighted average exercise price of $8.24, as well as the 10,000,000 warrants to be issued to two of the standby purchasers, which will be exercisable at [offering price] per share. The issuance of the warrants will have no effect on our shareholders equity.

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The following table presents our historical consolidated capitalization at December 31, 2007 and our pro forma consolidated capitalization after giving effect to the receipt of net proceeds from the stock offering and the offering to standby purchasers, assuming in the alternative that the minimum and maximum of the offered shares are sold. The table also sets forth the historical regulatory capital ratios of Federal Trust Bank at December 31, 2007, and the pro forma regulatory capital ratios of Federal Trust Bank, assuming the receipt by Federal Trust Bank of $______ million and $______ million of net proceeds from the stock offering and the offering to standby purchasers, which represent sales of the minimum and maximum number of shares, respectively, and further assuming that 50% of the proceeds received by Federal Trust Bank were invested in assets with a risk weighting of 20%, and the remaining 50% were invested in assets with a risk weighting of 50% ($ in thousands).

	Historical at December 31, 2007	[offering price] Per Share Pro Forma	
		[min shares] Shares	[max shares] Shares
Deposits	$ 481,729	$ 481,729	$ 481,729
Federal Home Loan Bank advances	152,000	152,000	152,000
Junior subordinated debentures	5,155	5,155	5,155
Other borrowings	16	16	16
Total deposits and borrowed funds	$ 638,900	$ 638,900	$ 638,900
Shareholders equity:			
Common stock $0.01 par value, 65,000,000 shares authorized (post-shareholder approval); shares to be issued as reflected (1)(2)	94		
Additional paid-in capital	44,515		
Retained earnings	(3,755)		
Accumulated other comprehensive loss	(728)		
Less:			
Unallocated ESOP shares	(440)		
Total shareholders equity	$ 39,686	$	$
Total shares outstanding	[record shares]		[pro forma outstanding shares]
Total shareholders equity as a percentage of total assets	5.75%	%	%
Regulatory capital ratios of Federal Trust Bank:			
Core (leverage) capital	5.38%	%	%
Tier I risk-based capital	7.83%	%	%
Total risk-based capital	9.09%	%	%

(1) At March 31, 2008 we had 15,000,000 authorized shares of common stock, par value $0.01 per share. At our 2008 Annual Meeting of Shareholders, held on June 16, 2008, shareholders approved a proposal to amend the Restated Articles of Incorporation to increase the number of authorized shares of common stock to 65,000,000.

(2) The number of shares of common stock to be outstanding after the stock offering is based on the number of shares outstanding as of [shares outstanding date] and excludes 357,097 shares of our common stock issuable upon exercise of outstanding options on such date, at a weighted average exercise price of $8.24, as well as the 10,000,000 warrants to be issued to two of the standby purchasers, which will be exercisable at [offering price] per share. The issuance of the warrants will have no effect on our shareholders equity.

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SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The summary financial information presented below is derived in part from the consolidated financial statements of Federal Trust Corporation. The information at December 31, 2007 and 2006 and for the years ended December 31, 2007, 2006 and 2005 is derived in part from the audited consolidated financial statements of Federal Trust Corporation that appear in this prospectus. The information at December 31, 2005, 2004 and 2003 and for the years ended December 31, 2004 and 2003 is derived in part from audited consolidated financial statements that do not appear in this prospectus. The information at March 31, 2008 and for the three months ended March 31, 2008 and 2007 is unaudited. However, in the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results of operations for the unaudited periods have been made. The selected operating data presented below for the three months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. The following is only a summary and you should read it in conjunction with the consolidated financial statements and notes beginning on page F-1. ($ in thousands, except per share amounts)

	At March 31, 2008(1)	At December 31, 2007	2006	2005	2004	2003
	(Dollars in thousands, except per share amounts)					
Selected Financial Condition Data:						
Total assets	$ 672,879	$ 690,264	$ 722,964	$ 735,416	$ 603,131	$ 468,198
Loans, net	522,551	563,234	603,917	630,827	521,331	398,401
Securities available for sale	41,155	52,449	65,558	50,080	41,172	33,615
Deposits	454,043	481,729	472,794	471,062	404,116	314,630
Federal Home Loan Bank advances	165,000	152,000	179,700	201,700	143,700	107,700
Stockholders equity	37,303	39,686	54,620	44,141	39,387	26,457
Book value per share	3.97	4.22	5.86	5.23	4.86	3.97
Shares outstanding(2)	9,436,305	9,393,919	9,319,603	8,443,105	8,101,287	6,656,739
Equity-to-assets ratio	5.54%	5.75%	7.56%	6.00%	6.53%	5.65%

	At or For the Three Months Ended March 31, 2008(1)	2007(1)	At or For the Years Ended December 31, 2007	2006	2005	2004	2003
	(Dollars in thousands, except per share amounts)						
Selected Operating Data:							
Interest income	$ 9,006	$ 10,719	$ 42,486	$ 43,842	$ 33,977	$ 24,609	$ 20,921
Interest expense	6,966	7,495	30,797	28,114	19,336	10,851	9,750
Net interest income	2,040	3,224	11,689	15,728	14,641	13,758	11,171
Provision for losses on loans	1,965	150	16,412	639	650	1,180	650
Net interest (loss) income after provision for loan losses	75	3,074	(4,723)	15,089	13,991	12,578	10,521
Other income	648	476	944	2,226	2,533	2,391	2,358
Other-than-temporary impairment			749			1,055	
Other expenses	4,375	3,439	18,742	12,461	9,791	9,334	8,826
Net (loss) earnings	(2,219)	160	(14,163)	3,410	4,436	3,089	2,777
Basic (loss) earnings per share	(0.24)	0.02	(1.51)	0.38	0.54	0.43	0.42
Diluted (loss) earnings per share	(0.24)	0.02	(1.51)	0.37	0.53	0.42	0.41

Weighted average common shares outstanding	9,393,919	9,342,093	9,363,223	9,002,900	8,269,423	7,224,069	6,679,936
Return (loss) on average assets	(1.28)%	0.09%	(1.97)%	0.46%	0.66%	0.59%	0.64%
Return (loss) on average equity	(22.46)%	1.17%	(26.83)%	6.70%	10.70%	9.80%	10.79%
Net interest margin	1.27%	1.89%	1.74%	2.26%	2.30%	2.80%	2.73%
Average equity to average assets ratio			7.33%	6.92%	6.16%	6.02%	5.95%
Dividend payout ratio	%	200%	%	44.74%	24.03%	20.36%	11.81%
Allowance for loan losses as a percent of loans, net	2.95%	0.88%	2.42%	0.84%	0.71%	0.74%	0.70%

(1) Ratios at and for the three months ended March 31, 2008 and 2007 are annualized.

(2) Net of unallocated Employee Stock Ownership Plan shares of 42,386, 42,386, 31,939, 21,789 and 119,375 as of March 31, 2008, December 31, 2007, 2006, 2005 and 2004, respectively.

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RECENT DEVELOPMENTS

The summary financial information presented below is derived in part from the consolidated financial statements of Federal Trust Corporation. The information at December 31, 2007 is derived in part from the audited consolidated financial statements of Federal Trust Corporation that appear in this prospectus. The information at June 30, 2008 and for the six months ended June 30, 2008 and 2007 is unaudited. However, in the opinion of management of Federal Trust Corporation, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results of operations for the unaudited periods, have been made. The selected operating data presented below for the six months ended June 30, 2008, are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. The following is only a summary and you should read it in conjunction with the consolidated financial statements and notes beginning on page F-1. ($ in thousands, except per share amounts)

	At June 30, 2008	At December 31, 2007
Total assets	$ 639,846	$ 690,264
Investment securities	37,347	52,449
Loans, net	500,613	563,234
Deposits	425,517	481,729
Shareholders' equity	33,672	39,686
Book value per share	3.58	4.22
Non-performing assets	68,983	47,745
Allowance for loan loss	16,557	13,869
Allowance for loan loss as a percent of total loans, net of loans in process	3.22%	2.42%

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Interest income	$ 8,046	$ 10,690	$ 17,052	$ 21,409
Interest expense	5,925	7,615	12,891	15,110
Net interest income	2,121	3,075	4,161	6,299
Provision for loan losses	2,200	5,145	4,165	5,295
Non-interest income	304	436	952	912
Non-interest expense	4,857	4,209	9,232	7,648
Income tax benefit	1,799	2,291	3,232	(2,340)
Net loss	(2,833)	(3,552)	(5,052)	(3,392)
Loss per share-basic	$ (.30)	$ (.38)	$ (.54)	$ (.36)
(Loss) earnings per share-fully diluted	$ (.30)	$ (.38)	$ (.54)	$ (.36)
Average common shares outstanding-basic	9,392	9,361	9,392	9,352
Average common shares outstanding-diluted	9,392	9,361	9,392	9,352
Return on average assets	(1.73)%	(2.00)%	(.75)%	(.47)%
Return on average equity	(30.68)%	(26.18)%	(13.22)%	(6.23)%
Net interest margin	1.40%	1.91%	1.34%	1.93%

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

This discussion and analysis reflects our consolidated financial statements and other relevant statistical data. The information in this section has been derived from the audited consolidated financial statements and unaudited consolidated financial statements, which appear beginning on page F-1 of this prospectus. You should read the information in this section in conjunction with the business and financial information regarding Federal Trust Corporation provided in this prospectus.

Overview

For the quarter ended March 31, 2008, we had a net loss of $2.2 million, compared to net earnings of $160,000 for the quarter ended March 31, 2007. On a per share basis, the net loss for the first quarter of 2008 was $.24 per basic and diluted share compared to earnings of $.02 per basic and diluted share for the first quarter of 2007. The primary factors contributing to the results for the first quarter in 2008 were higher levels of non-performing loans, which necessitated an increase in our provision for loan losses, net interest margin compression as well as interest income foregone as a result of nonaccrual loans and legal and foreclosure costs associated with the non-performing loans. In addition, our Federal Deposit Insurance Corporation insurance premium increased $292,000, from $15,000 for the first quarter of 2007 to $307,000 for the first quarter of 2008.

Total assets at March 31, 2008 were $672.9 million, a decrease of $17.4 million, or 2.5%, from December 31, 2007. Net loans declined by $40.7 million, or 7.2% from December 31, 2007 to $522.6 million at March 31, 2008. Total deposits and Federal Home Loan Bank advances at March 31, 2008, were $454.0 million and $165.0 million, respectively, compared to $481.7 million and $152.0 million, respectively, at the end of 2007.

Stockholders equity was $37.3 million at March 31, 2008, compared to $39.7 million at December 31, 2007. The book value per share declined to $3.97 at March 31, 2008, from $4.22 at December 31, 2007. We paid no cash dividends in the first quarter of 2008, compared to total cash dividends of $.04 per share in the first quarter of 2007.

For the year ended December 31, 2007, we had a net loss of $14.2 million, compared to net earnings of $3.4 million for 2006. On a per share basis, the net loss for 2007 was $1.51 per basic and diluted share compared to earnings of $.38 per basic and $.37 per diluted share for 2006. The primary factors contributing to the results in 2007 were higher levels of non-performing loans, which necessitated an increase in our provision for loan losses, net interest margin compression associated with a higher cost of deposits as well as foregone interest income as a result of nonaccrual loans and expenses associated with the termination of the contract of our former Chief Executive Officer.

Total assets at December 31, 2007 were $690.3 million, a decrease of $32.7 million, or 4.5%, from December 31, 2006. Net loans declined by $40.7 million, or 6.7% from December 31, 2006 to $563.2 million at December 31, 2007. Total deposits and Federal Home Loan Bank advances at December 31, 2007, were $481.7 million and $152.0 million, respectively, compared to $472.8 million and $179.7 million, respectively at the end of 2006.

Stockholders equity was $39.7 million at December 31, 2007, compared to $54.6 million at December 31, 2006. The book value per share declined to $4.22 at December 31, 2007, from $5.86 at December 31, 2006. We paid total cash dividends per share of $.08 per share in 2007, compared to $.17 per share in 2006.

Business Strategy

Our current business strategy is to build a profitable, well capitalized, full-service community bank with operations in Central Florida. As part of this strategy, we have focused on creating a strong community bank branch network serving our primary market area with competitive deposit and loan products. We also emphasize flexible and personalized services to individual customers and our target customer base of locally owned small-and medium-sized businesses, professional firms, non-profit companies, entrepreneurs and their business interests. Over the last several years, our branch expansion strategy has focused on markets in Central Florida that have favorable growth characteristics. We have completed our short-term expansion plans by opening five *de novo* branch locations in 2006 and 2007, which brings our total number of branch offices to 11. We will continue to leverage our existing investment in branches to reduce our reliance on wholesale funding sources in favor of lower cost transaction accounts and increase our loan opportunities with our retail and small business customer base.

Our executive management team has changed substantially over the past year, primarily with the addition of Dennis T. Ward, who joined our executive team in February 2007 and was appointed President and Chief Executive Officer in September 2007. We have also hired our Executive Vice President and Senior Loan Officer, Mark E. McRae and our Senior Vice President, Interim Chief Credit Officer and Special Assets Manager, Edward Walker. The primary strategy of our management team, all of whom have considerable banking experience, is to build core relationships and better utilize our existing franchise to generate future growth when economic conditions improve. During 2007, we also hired a new sales manager for our branches, implemented new training procedures for our staff and focused our efforts on developing a broader range of financial products, in order to establish a framework for an enhanced business and sales culture that will better enable us to service our customers. These initiatives, along with our strategically located branch network, complement our effort to originate loans to retail, commercial and business customers in our Central Florida branch footprint. Our current intention is not to pursue any further purchases of pools of residential real estate loans, which we have pursued in the past.

We believe that our renewed focus on in-market loan originations, coupled with recently strengthened underwriting policies and procedures, will help us originate higher-quality loans with favorable risk-adjusted returns. In light of current market conditions, we have spent considerable effort on early identification and quantification of potential problem assets. Our new management team is working aggressively toward resolving non-performing loans and is establishing a team experienced in problem asset resolution dedicated to managing the workout process. Depending on the type of loan, the underlying collateral and the particular circumstances regarding the credit, we will pursue various strategies to resolve problem loans.

As discussed previously, at March 31, 2008, Federal Trust Bank was classified as adequately capitalized for regulatory purposes, and not well capitalized. In the immediate term, the primary effect of this classification is that we cannot renew, replace or accept brokered deposits without prior regulatory approval. A total of $60.5 million in brokered deposits will mature during 2008. From December 31, 2007 through March 14, 2008, a total of $16.6 million of brokered deposits matured and were repaid. Of the remaining $43.9 million in brokered deposits that will mature during 2008, $18.8 million will mature through May 31, 2008. On March 14, 2008, we received conditional approval from the Federal Deposit Insurance Corporation to replace up to $16.0 million of brokered deposits through May 31, 2008. Between March 14, 2008 and May 31, 2008, $10.3 million of brokered deposits were replaced when they matured.

Similarly, as a result of the Federal Home Loan Bank of Atlanta s assessment of our recent financial condition, we will not be able to access additional advances from the Federal Home Loan Bank. At March 31, 2008, our total Federal Home Loan Bank advances were $165.0 million. The inability to access these sources of funds places significant limitations on our ability to fund new loans, and requires us to generate liquidity from other funding sources to pay deposit withdrawals and to repay existing borrowings as they mature. One of our fixed-rate Federal Home Loan Bank advances, for $12.0 million, is scheduled to mature in December 2008, and 12 convertible advances with a total balance of $97.0 million and with rates ranging from 3.22% to 4.81% are callable during 2008. Although we do not know whether the Federal Home Loan Bank will call these advances with callable dates, due to the current level of market interest rates, we do not anticipate that the convertible advances will be called during 2008. However, subsequent to December 31, 2007, in order to provide additional liquidity and reduce our balance sheet in an effort to again be considered well capitalized for regulatory purposes, we sold $12.5 million in residential mortgage loans and $8.3 million of municipal bonds, and we had $43.6 million of overnight liquid assets at the end of March 2008. Through the stock offering, we are attempting to raise additional capital to increase our liquidity. There is no assurance that we will be able to raise additional capital or reduce Federal Trust Bank s assets under favorable terms, if at all. Even if we raise additional capital, we will need to request additional waivers from

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the Federal Deposit Insurance Corporation with respect to the additional maturing brokered deposits beyond May 31, 2008.

Despite our short-term actions to improve our liquidity and contract our balance sheet, our long-term goal is to transition our balance sheet asset and liability mix to that of a more traditional community bank. We believe that reducing our portfolio of large land acquisition, development and residential loans in favor of smaller commercial business loans, and establishing a lower cost deposit base through a strong retail banking franchise, will be key to our ability to implement our long-term strategy.

Critical Accounting Policies

Our financial condition and results of operations are sensitive to accounting measurements and estimates of matters that are inherently uncertain. A critical accounting policy is one that is both integral to the portrayal of a company s financial condition and results, and requires difficult, subjective or complex judgments by management. When applying accounting policies in areas that are subjective in nature, we use our best judgments to arrive at the carrying value of certain assets. The most sensitive accounting measurement we apply is related to the valuation of the loan portfolio and the adequacy of the allowance for loan losses.

A number of factors affect the carrying value of the loan portfolio including the calculation of the allowance for loan losses, the value of the underlying collateral, the timing of loan charge-offs and the amount and amortization of loan fees and deferred origination costs. We believe that the determination of the allowance for loan losses represents a critical accounting policy. The allowance for loan losses is maintained at a level management considers to be adequate to absorb probable loan losses inherent in the portfolio, based on evaluations of the collectibility and historical loss experience of loans. Credit losses are charged and recoveries are credited to the allowance. Provisions for loan losses are based on our review of the historical loan loss experience and such factors that, in management s judgment, deserve consideration under existing economic conditions in estimating probable credit losses.

The allowance for loan losses is based on ongoing assessments of the probable estimated losses inherent in the loan portfolio. Our methodology for assessing the appropriate allowance level consists of several key elements described in the section Business Lending Activities Allowance for Loan Losses. The allowance for loan losses is also discussed in Notes 1 and 3 to the consolidated financial statements appearing in this prospectus. The significant accounting policies are discussed in Note 1 to the consolidated financial statements.

Comparison of Financial Condition at March 31, 2008 and at December 31, 2007

Total assets at March 31, 2008 were $672.9 million, a decrease of $17.4 million, or 2.5%, from $690.3 million at December 31, 2007. This decrease in total assets during 2008 was part of our strategy to improve our capital position and reduce the size of the balance sheet due to our losses and the resultant decrease in our regulatory capital ratios, combined with our efforts to change our asset/liability mix through a reduction in wholesale loan purchases and borrowed funds. Our portfolio of securities available for sale decreased by $11.3 million, or 21.5%, to $41.2 million at March 31, 2008, from $52.4 million at December 31, 2007. Total loans declined $40.7 million, or 7.2%, to $522.6 million at March 31, 2008, from $563.2 million at December 31, 2007. Residential mortgage loans and residential construction loans declined $20.8 million and $7.0 million, or 5.8% and 31.7%, respectively, from December 31, 2007. In addition, commercial real estate secured loans and land, development and construction loans declined $8.4 million and $11.7 million, or 9.8% and 15.9%, respectively, from December 31, 2007. The funds provided by the sales and payoffs of loans and investments were used to repay brokered deposits and increase our liquidity. Cash and due from bank increased from $8.0 million at December 31, 2007 to $43.6 million at March 31, 2008.

Total deposits at March 31, 2008 were $454.0 million, a decrease of $27.7 million, or 5.7%, from $481.7 million at December 31, 2007. This decrease was primarily the result of a decrease of $11.3 million or 14.0% in interest-bearing demand deposits from $80.3 million at December 31, 2007, to $69.0 million at March 31, 2008. Time deposits also declined $16.6 million, or 5.1%, to $310.9 million at March 31, 2008, from $327.5 million at

December 31, 2007. Included in the decline of time deposits for the three-month period ended March 31, 2008, were $21.4 million in brokered deposits that matured and were not renewed, rolled over or replaced, partially offset by $4.8 million in growth of our retail time deposits from our branch network. Federal Home Loan Bank advances increased $13.0 million, or 8.5%, during 2008 to $165.0 million at March 31, 2008. Total stockholders equity decreased $2.4 million in 2008, due primarily to the $2.2 million loss for the three months ended March 31, 2008.

Comparison of Financial Condition at December 31, 2007 and 2006

Total assets at December 31, 2007 were $690.3 million, a decrease of $32.7 million, or 4.5%, from $723.0 million at December 31, 2006. This decrease in total assets during 2007 was part of our strategy to shrink the balance sheet due to our losses and the need to strengthen our regulatory capital ratios, combined with our efforts to change our asset/liability mix through a reduction in wholesale loan purchases and borrowed funds. Decreases in land, development and commercial construction loans as well as residential construction loans represented most of the decrease in total assets. Land, development and commercial construction loans decreased $14.8 million, or 16.7%, and residential construction loans decreased $14.6 million, or 40.0%, from December 31, 2006. In addition to regular principal repayments and a reduction of loan originations in current market conditions, foreclosure actions resulted in a $9.5 million increase in total foreclosed assets, to $9.5 million at December 31, 2007. Our commercial real estate secured loans also decreased $7.6 million, or 8.2%, to $85.5 million at December 31, 2007 and our portfolio of securities available for sale decreased by $13.1 million, or 20.0%, to $52.4 million at December 31, 2007 from $65.6 million at December 31, 2006.

The changes in our sources of funds during 2007 reflected our efforts to reduce our reliance on wholesale funding and build our local customer base in our five new branches that we opened in 2006 and 2007. Total interest-bearing checking accounts increased $28.7 million, or 55.6%, during 2007 to $80.3 million at December 31, 2007. Partially offsetting our increase in these checking accounts was a decrease of $12.3 million, or 3.6%, in higher-costing certificate of deposit accounts and a decrease of $6.9 million, or 10.6%, in money market accounts. Federal Home Loan Bank advances decreased $27.7 million, or 15.4%, during 2007 to $152.0 million at December 31, 2007. Total stockholders equity decreased $14.9 million in 2007 due primarily to the $14.2 million loss for the year ended December 31, 2007 and the $752,000 we paid in dividends during the first two quarters of the year.

Lending Activities

Loan Portfolio Composition. Our net loan portfolio, which consists of total loans plus premiums paid for loans purchased, less loans in process, deferred loan origination fees and costs and allowance for loan losses, totaled $522.6 million at March 31, 2008, representing 78% of total assets. At December 31, 2007, our net loan portfolio was $563.2 million, representing 82% of total assets and at December 31, 2006, our net loan portfolio was $603.9 million, or 84% of total assets.

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The following table sets forth information on our loan portfolio by type, and the amounts provided include loans held for sale ($ in thousands):

	At March 31,		At December 31,									
	2008		2007		2006		2005		2004		2003	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Residential loans:												
Mortgages	$ 339,139	61.4%	$ 359,954	60.3%	$ 356,133	56.4%	$ 399,973	56.6%	$ 374,581	70.8%	$ 302,083	75.4%
Lot	41,650	7.5	39,994	6.7	42,676	6.7	40,203	5.7	41,369	7.8	20,816	5.2
Construction	14,974	2.7	21,926	3.7	36,570	5.8	81,572	11.5	5,405	1.0	780	0.2
Total residential loans	395,763	71.6	421,874	70.7	435,379	68.9	521,748	73.8	421,355	79.6	323,679	80.8
Commercial loans:												
Real estate secured	77,125	14.0	85,492	14.3	93,095	14.7	71,253	10.1	56,267	10.6	47,918	12.0
Land, development and construction	62,051	11.2	73,752	12.3	88,586	14.0	90,794	12.8	38,091	7.2	16,524	4.1
Commercial business	17,932	3.2	15,866	2.7	15,308	2.4	22,529	3.2	13,257	2.5	11,639	2.9
Total commercial loans	157,108	28.4	175,110	29.3	196,989	31.1	184,576	26.1	107,615	20.3	76,081	19.0
Consumer loans	121		214		125		447	0.1	657	0.1	864	0.2
Total loans	552,992	100.00%	597,198	100.00%	632,493	100.00%	706,771	100.00%	529,627	100.00%	400,624	100.00%
Add (deduct):												
Allowance for loan losses	(15,793)		(13,869)		(5,098)		(4,477)		(3,835)		(2,779)	
Net premiums, discounts, deferred fees and costs	2,711		3,033		3,567		4,584		3,524		3,346	
Loans in process	(17,359)		(23,128)		(27,045)		(76,051)		(7,985)		(2,790)	
Net loans	$ 522,551		$ 563,234		$ 603,917		$ 630,827		$ 521,331		$ 398,401	

Residential mortgage loans, not including construction and lot loans, continued to comprise the largest group of loans in our loan portfolio, totaling $339.1 million, or 61% of the total loan portfolio at March 31, 2008, down from $360.0 million, or 60% of the total loan portfolio at December 31, 2007. We offer and purchase adjustable rate mortgage loans with maturities up to 30 years. As of March 31, 2008, approximately 91% of our residential loan portfolio consisted of adjustable-rate mortgage loans and 9% were fixed-rate. Fixed-rate loans are generally underwritten to secondary market standards to insure liquidity and interest-rate risk protection. Residential lot loans totaled $41.7 million, or 8% of total loans at March 31, 2008. These loans are secured by developed lots ready for construction of single-family homes. As a result of the softening in the housing market during 2007, we also reduced our residential construction loans to $15.0 million, or 3% of total loans at March 31, 2008, from $36.6 million, or 6% of total loans at the end of 2006. These loans are generally secured by property in Southwest Florida and Central Florida and are underwritten directly to the individual or family for their primary residence or second home.

At March 31, 2008, our loan portfolio included $177.3 million of loans to foreign nationals, of which $104.2 million was to borrowers who reside in the United Kingdom. All of these loans are residential mortgage loans, and are primarily secured by vacation and rental properties near the Orlando resort attractions. Our general strategy with respect to loans to foreign nationals was to originate these loans for retention in our portfolio. We also package and sell pools of such loans in the secondary market. However, with the weak secondary market for residential mortgage loans in 2007, we were not able to sell as many of these loans as we had originally planned. As a result, our portfolio balance of these loans currently exceeds our internal guidelines. Therefore, despite our desire to originate more of these loans, we have discontinued the origination of loans to foreign nationals until we can find purchasers for this type of loan. See Non-performing Loans and Foreclosed Assets for a discussion of the asset quality of our loans to foreign nationals.

Commercial real estate secured loans totaled $77.1 million, or 14% of the total loan portfolio at March 31, 2008, compared to $85.5 million, or 14% of total loans at December 31, 2007. This portfolio includes loans to businesses to finance office, manufacturing or retail facilities. Commercial land, development and construction loans totaled $62.1 million, or 11% of total loans at March 31, 2008, down from $73.8 million, or 12% of total loans at December 31, 2007. The land loans are generally secured by larger parcels of property held for future development. The development and construction loans include loans for the acquisition and development of both residential and commercial projects. The construction loans are made directly to the builders of single and multi-family homes for pre-sold or speculative units. We also finance the construction of commercial facilities, generally for the owner/operator.

Commercial loans totaled $17.9 million and $15.9 million at March 31, 2008 and December 31, 2007, respectively. These loans are generally secured by the assets of the borrower including accounts receivable, inventory and fixed assets, including company owned real estate and are usually personally guaranteed by the owners.

Consumer loans, consisting of installment loans and savings account loans, totaled $121,000 and $214,000 at March 31, 2008 and December 31, 2007, respectively, or less than 1% of the total loan portfolio.

Contractual Repayments. Scheduled contractual principal repayments of loans do not reflect the actual life of such assets. The average life of loans is substantially less than their average contractual terms because of prepayments. In addition, due-on-sale clauses on loans generally give Federal Trust Bank the right to declare a conventional loan immediately due and payable in the event, among other things, that the borrower sells the real property subject to the mortgage and the loan is not repaid. The average life of a mortgage loan tends to be affected by a variety of factors, including changes in real estate values, interest rates and general economic conditions. Residential lot loans generally mature in less than five years and are typically repaid or converted to a construction loan when the owner begins construction of the residence. Construction loans generally mature in one year or less.

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The table below shows the contractual maturities of Federal Trust Bank s loan portfolio at December 31, 2007. Loans that have adjustable rates are shown as amortizing to final maturity rather than when the interest rates are next subject to change. The following table does not include prepayments or scheduled principal repayments ($ in thousands):

	Residential	Commercial	Consumer	Total Loans
Amounts due:				
Less than one year	$ 23,111	$ 99,285	$ 164	$ 122,560
One year to three years	27,562	35,593	35	63,190
Over three years to five years	31,333	28,588	15	59,936
Over five years to 10 years	36,587	9,477		46,064
Over 10 years to 20 years	99,420	2,054		101,474
Over 20 years	203,861	113		203,974
Total due after one year	398,763	75,825	50	474,638
Total amounts due	$ 421,874	$ 175,110	$ 214	$ 597,198

Loans Due After December 31, 2008. The following table sets forth at December 31, 2007, the dollar amount of all loans due after December 31, 2008, classified according to whether such loans have fixed or adjustable interest rates ($ in thousands):

	Due after December 31, 2008		
	Fixed	Adjustable	Total
Residential loans	$ 27,976	$ 370,787	$ 398,763
Commercial loans	36,742	39,083	75,825
Consumer loans	50		50
Total	$ 64,768	$ 409,870	$ 474,638

Purchase, Origination and Sale of Loans. Florida s rate of population growth has historically exceeded national averages. The real estate development and construction industries in Florida, however, have been sensitive to cyclical changes in economic conditions and the demand for and supply of residential units. In 2007 and the first quarter of 2008, both the demand for real estate mortgage loans in Florida and home prices in general declined, and the inventory of homes for sale increased to nearly a three-year supply.

Our loan portfolio consists of purchased and internally originated loans. When we acquired loans, the loan packages were generally between $2 million to $25 million in single-family residential mortgages, comprised of new and seasoned adjustable rate mortgage loans. In the past, when we purchased loan pools, we preferred to purchase loans secured by real estate located in Florida, but, because of pricing and the limited number of loan packages available consisting only of Florida loans, we also purchased loans secured by properties outside of Florida. When purchasing loan packages, we underwrote and reviewed each loan in a loan package prior to purchasing the loans. Due to the weak real estate market and decline in residential loan prepayments, we did not purchase any loans during the first quarter of 2008. We purchased $38.3 million in loans during all of 2007, compared to $62.7 million purchased in 2006. During 2007, all of the loans we purchased were secured by residential properties located in Florida. Although we previously purchased loan pools, we do not currently intend to purchase loan pools (either inside or outside of our market area) going forward. See Non-performing Loans and Foreclosed Assets for a discussion of the asset quality of certain construction loans we purchased from Transland Financial Services, Inc.

Loans that Federal Trust Bank originates (and Federal Trust Mortgage Company originated) are generally secured by real estate located in our primary lending area of Central Florida. Sources for residential mortgage loan originations include direct solicitation by employed loan originators, depositors and other existing customers,

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advertising and referrals from real estate brokers, mortgage brokers and developers. Our residential mortgage loans are originated in accordance with written underwriting standards approved by Federal Trust Bank s Board of Directors. Most fixed-rate loan originations are eligible for sale to Fannie Mae and other investors in the secondary market. In April 2008, all of Federal Trust Mortgage Company s residential loan staff was transferred to Federal Trust Bank and certain staff reductions were completed to reflect current market conditions and origination volumes.

Our loan officers and existing customers are the primary source of commercial and commercial real estate loan originations, while depositors and walk-in customers are the primary source of consumer loan originations. In addition, if the size of a particular loan request exceeds our legal or internal lending limit, we may sell a participation in that loan to a correspondent bank. From time to time, we also purchase participations from other correspondent banks. Our commercial and commercial real estate loans are predominately secured by properties located throughout Florida, but we have also originated and participated in loans secured by properties outside the state. At March 31, 2008, and at December 31, 2007, $5.5 million of such loans were secured by property outside of Florida.

The following tables set forth the amount of loans originated, purchased, sold and repaid during the periods indicated ($ in thousands):

	For the Three Months Ended March 31,	
	2008	**2007**
Originations:		
Mortgage loans:		
Loans on existing property	$ 4,761	$ 13,291
Land, development and construction	6,214	17,380
Total mortgage loans	10,975	30,671
Commercial loans	1,492	2,022
Consumer loans	29	123
Total loans originated	12,496	32,816
Purchases		13,016
Total loans originated and purchased	12,496	45,832
Sales and principal repayments:		
Loans sold	12,495	5,352
Principal repayments and transfers to foreclosed assets	44,207	48,677
Total loans sold, principal repayments and transfers to foreclosed assets	56,702	54,029
Decrease in total loans (before net items)	$ (44,206)	$ (8,197)

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	For the Year Ended December 31,				
	2007	2006	2006	2004	2003
Originations:					
Mortgage loans:					
Loans on existing property	$ 97,472	$ 45,766	$ 51,285	$ 62,999	$ 44,416
Land, development and construction	59,754	115,817	64,197	66,719	20,681
Total mortgage loans	157,226	161,583	115,482	129,718	65,097
Commercial loans	11,606	7,181	8,555	7,337	12,373
Consumer loans	264	1,290	478	635	701
Total loans originated	169,096	170,054	124,515	137,690	78,171
Purchases	38,286	62,668	207,136	178,482	176,828
Total loans originated and purchased	207,382	232,722	331,651	316,172	254,999
Sales and principal repayments:					
Loans sold	(8,601)	(27,972)	(24,407)	(28,632)	(39,560)
Principal repayments and transfers to foreclosed assets	(234,076)	(279,028)	(130,100)	(158,537)	(125,810)
Total loans sold, principal repayments and transfers to foreclosed assets	(242,677)	(307,000)	(154,507)	(187,169)	(165,370)
(Decrease) increase in total loans (before net items)	$ (35,295)	$ (74,278)	$ 177,144	$ 129,003	$ 89,629

Non-performing Loans and Foreclosed Assets. When a borrower fails to make a required payment on a loan, we take a number of steps to induce the borrower to cure the delinquency and restore the loan to current status. We attempt to collect the payment by contacting the borrower through our in-staff commercial loan officers or through our third party residential loan servicer. If a payment on a loan has not been received by the end of a grace period, notices are sent with follow-up contacts made thereafter. In many cases, the delinquencies are cured promptly. If the delinquency exceeds 90 days and is not cured through normal collection procedures, more formal measures are instituted to remedy the default, including the commencement of foreclosure proceedings. If foreclosure is effected, the property is sold at a public auction in which we typically participate as a bidder. If we are the successful bidder, the acquired real estate property is then included in our foreclosed assets account until it is sold. When assets are acquired through foreclosure, they are recorded at the lower of cost or fair value less estimated selling costs at the date of acquisition and any write-down resulting therefrom is charged to the allowance for loan losses. At March 31, 2008, our foreclosed assets totaled $10.1 million, which included $2.5 million on a vacant parcel in the Florida Panhandle that was intended for a condominium project. The remaining balance includes 27 developed residential lots, 15 single-family residences and 10 condominium and townhouse units. Of these residential properties, 19 residential lots and 12 single-family residences, for a total of $5.6 million, came from loans to two related residential builders whose customers failed to begin construction of their home as originally negotiated, or close on their home purchases when construction was completed. Under federal regulations, we are permitted to finance sales of foreclosed assets by loans to facilitate, which may involve more favorable interest rates and terms than generally would be granted under our underwriting guidelines. At March 31, 2008, we had no loans to facilitate the sale of foreclosed assets.

Loans are placed on non-accrual status when, in the judgment of management, the probability of collection of interest is deemed to be insufficient to warrant further accrual of interest. When a loan is placed on non-accrual status, previously accrued, but unpaid interest is reversed from interest income. Our policy is to stop accruing interest on loans as soon as it is determined that repayment of all principal and interest is not likely, and, in any case, where payment of principal or interest is 90 days past due.

Total non-accrual loans at March 31, 2008 were $47.8 million. Included in this total was $8.3 million of loans secured by 35 single-family residences. Of these loans, 17 totaling $3.7 million, were to borrowers who reside in the United Kingdom and substantially all of the homes securing the loans are located in Lake, Polk, Osceola and Orange counties near the Orlando attractions. The remaining balance of $4.6 million is secured by 18 residential properties, of which 14 are located in the state of Florida. The non-accrual total at March 31, 2008, also included loans for $9.1 million to individual borrowers secured by developed residential lots. Of this amount, $4.6 million were loans related to a single subdivision in the Florida Panhandle.

Our non-accrual residential construction loans at March 31, 2008, totaled $6.6 million for loans to individual borrowers, primarily secured by properties located in Lee County in Southwest Florida. These loans were originated by Transland Financial Services, Inc. and acquired by Federal Trust Bank. Included in this amount was $4.1 million in loans for 20 single-family residences, three of which are partially completed and the remainder are completed homes that were never closed or occupied by the original buyer. An additional $2.5 million of this amount is for 21 developed lots where the original intent of the borrowers was to construct single-family residences, but the construction was delayed and the borrowers defaulted on the loans. Substantially all of these construction loans are in the process of foreclosure. The $500,000 balance of loans originated by Transland Financial Services, Inc. relating to unremitted loan proceeds was collected from Federal Trust Bank s insurance carrier during the first quarter of 2008.

Five non-accrual loans for a total of $10.0 million were for commercial office projects, three of which were for $6.9 million, and are secured by property in our Central Florida market area.

Total land development and construction loans on non-accrual at March 31, 2008 were $12.8 million. This total included $8.2 million secured by three parcels of vacant land; one of these for $3.5 million was for property located in the Florida Panhandle area, the other two parcels are located in our Central Florida market area. The remaining $4.6 million represented residential construction loans to three separate borrowers; one of which was secured by a residential condominium project in the Florida Panhandle for $2.7 million, and the remaining two, which are in the process of foreclosure, are secured by properties located primarily across Central Florida from Daytona Beach on the east coast to Tampa on the west coast.

Management is aggressively pursuing resolutions of these non-performing assets. The amount and timing of losses, if any, cannot be determined at the present time. However, we believe that the allowance for loan losses is adequate to absorb potential losses on the non-accrual loans.

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The following table sets forth certain information regarding our non-accrual loans and foreclosed assets, the ratio of such loans and foreclosed assets to total assets as of the date indicated, and certain other related information ($ in thousands):

	At March 31, 2008	At December 31, 2007	2006	2005	2004	2003
			(Dollars in thousands)			
Non-accrual loans:						
Residential loans:						
Mortgages	$ 8,521	$ 4,993	$ 3,140	$ 1,240	$ 1,862	$ 6,167
Lot	9,083	6,578		158		
Construction	6,638	7,317	3,952		5	229
Total residential loans	24,242	18,888	7,092	1,398	1,867	6,396
Commercial loans:						
Real estate secured	9,964	7,520	92			
Land, development and construction	12,812	11,063	4,000			
Commercial business	750	752	786	720	720	
Total commercial loans	23,526	19,335	4,878	720	720	
Consumer loans	6				13	
Total non-accrual loans	$ 47,774	$ 38,223	$ 11,970	$ 2,118	$ 2,600	$ 6,396
Total non-accrual loans to total loans	8.6%	6.4%	1.9%	0.3%	0.5%	1.6%
Total non-accrual loans to total assets	7.1%	5.5%	1.7%	0.3%	0.4%	1.4%
Total allowance for loan losses to total non-accrual loans	33.1%	36.3%	42.6%	211.4%	147.5%	43.4%
Total foreclosed assets	$ 10,093	$ 9,522	$ 36	$ 556	$ 326	$ 1,007
Total non-accrual loans and foreclosed assets to total assets	8.6%	6.9%	1.7%	0.4%	0.5%	1.6%

At March 31, 2008 and at December 31, 2007, we had no accruing loans that were contractually past due 90 days or more as to principal or interest and no troubled debt restructurings as defined by Statement of Financial Accounting Standards No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructuring.* For the quarter ended March 31, 2008 and for the year ended December 31, 2007, interest income that would have been recorded under the original terms of non-accrual loans and interest income actually recognized is summarized below ($ in thousands):

	Quarter Ended March 31, 2008	Year Ended December 31, 2007
Interest income that would have been recorded	$ 1,050	$ 4,037
Interest income recognized	33	1,078
Interest income foregone	$ 1,017	$ 2,959

Classified Assets; Potential Problem Loans. Federal regulations and Federal Trust Bank s policies define classified assets as either loans or other assets, such as debt and equity securities, which have elevated risk or weaknesses and are classified as either substandard, doubtful or loss. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have all of the weaknesses inherent in substandard assets, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. In addition, our policies require that assets which have one or more weaknesses but do not currently expose us to sufficient risk to warrant classification as substandard but possess other weaknesses are designated special mention.

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If an asset is graded special mention or classified, the estimated fair value of the asset is evaluated to determine if that value is less than the carrying value. If the estimated fair value is less than the carrying value, it is considered to be impaired and we establish a specific reserve. Pursuant to Statement of Financial Accounting Standards No. 114, *Accounting by Creditors for Impairment of a Loan*, if an asset is classified as loss, the amount of the asset classified as loss is fully reserved. General reserves or general valuation allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities but, unlike specific reserves, are not allocated to particular assets.

At March 31, 2008, we had loans totaling $16.7 million that were graded special mention. Our substandard loans included $47.8 million of non-accrual loans and $26.7 million of accruing loans. We also held $10.1 million of foreclosed assets, which are also classified as substandard. There were no loans classified as doubtful or loss at March 31, 2008. Of the total special mention loans, one loan with a total balance of $4.0 million was secured by developed lots in Florida. The remaining $12.7 million of loans were secured by commercial properties, two of which, for $2.5 million, were secured by property in Miami Beach, Florida.

The $26.7 million of accruing substandard loans includes six loans with a total balance of $17.7 million for vacant land and developed residential lots. Also included in the substandard total were two Central Florida residential home builders with a combined balance of $3.5 million. One loan with a balance of $5.0 million was secured by a commercial property located in the state of Georgia. Subsequent to March 31, 2008, we completed foreclosure on this property and are in the process of seeking a buyer for the property. One substandard loan for $498,000 was unsecured.

We closely monitor and are in regular contact with all borrowers of classified and special mention loans. The amount and timing of losses on these loans, if any, cannot be determined at the present time, however, we believe that the allowance for loan losses is adequate to absorb potential losses on the classified and special mention loans.

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The following table sets forth our loan delinquencies by type and by amount at the dates indicated ($ in thousands).

	Loans Delinquent For					
	60-89 Days		90 Days and Over (1)		Total	
	Number	Amount	Number	Amount	Number	Amount
At March 31, 2008						
Residential loans:						
Mortgages	15	$ 2,671	36	$ 8,521	51	$ 11,192
Lot	1	55	52	9,083	53	9,138
Construction	1	432	41	6,638	42	7,070
Commercial loans:						
Real estate secured	2	3,383	6	9,964	8	13,347
Land, development and construction	1	409	18	12,812	19	13,221
Commercial business	1	200	2	750	3	950
Consumer loans	1	16	1	6	2	22
Total	22	$ 7,166	156	$ 47,774	178	$ 54,940
At December 31, 2007						
Residential loans:						
Mortgages	24	$ 4,242	27	$ 4,993	51	$ 9,235
Lot	4	368	34	6,578	38	6,946
Construction			43	7,317	43	7,317
Commercial loans:						
Real estate secured	1	1,448	4	7,520	5	8,968
Land, development and construction			19	11,063	19	11,063
Commercial business	3	600	2	752	5	1,352
Consumer loans	1	20			1	20
Total	33	$ 6,678	129	$ 38,223	162	$ 44,901
At December 31, 2006						
Residential loans:						
Mortgages		$	27	$ 3,140	27	$ 3,140
Lot						
Construction	7	1,012	27	3,952	34	4,964
Commercial loans:						
Real estate secured			2	92	2	92
Land, development and construction			1	4,000	1	4,000
Commercial business	1	500	2	786	3	1,286
Consumer loans						
Total	8	$ 1,512	59	$ 11,970	67	$ 13,482
At December 31, 2005						
Residential loans:						
Mortgages	5	$ 775	18	$ 1,240	23	$ 2,015
Lot						
Construction	2	658	1	158	3	816
Commercial loans:						
Real estate secured						
Land, development and construction						
Commercial business			1	720	1	720

Consumer loans								
Total	7	$	1,433	20	$	2,118	27	$	3,551
At December 31, 2004									
Residential loans:									
Mortgages	6	$	425	31	$	1,862	37	$	2,287
Lot									
Construction				1		5	1		5
Commercial loans:									
Real estate secured	1		171				1		171
Land, development and construction									
Commercial business				1		720	1		720
Consumer loans	1		2	1		13	2		15
Total	8	$	598	34	$	2,600	42	$	3,198

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	Loans Delinquent For					
	60-89 Days		90 Days and Over (1)		Total	
	Number	Amount	Number	Amount	Number	Amount
At December 31, 2003						
Residential loans:						
Mortgages	11	$ 577	73	$ 6,167	84	$ 6,744
Lot						
Construction			1	229	1	229
Commercial loans:						
Real estate secured	1	972			1	972
Land, development and construction						
Commercial business						
Consumer loans	1	47			1	47
Total	13	$ 1,596	74	$ 6,396	87	$ 7,992

Allowance for Loan Losses

A number of factors are considered when establishing our allowance for loan losses. For loan loss purposes, the loan portfolio is segregated into broad segments, including: residential real estate loans to United States citizens; residential real estate loans to foreign national borrowers; various types of commercial real estate loans; land development and construction loans; commercial business loans and other loans. A general allowance for losses is then provided for each of the aforementioned categories, which consists of general loss percentages based upon historical analyses and inherent losses that probably exist as of the evaluation date even though they might not have been identified by the more objective processes used to evaluate individual past due, special mention and classified loans. The adequacy of the allowance is subjective and requires complex judgments based on qualitative factors that do not lend themselves to exact mathematical calculations such as: trends in delinquencies and nonaccruals; trends in real estate values; migration trends in the portfolio; trends in volume, terms, and portfolio mix; new credit products and/or changes in the geographic distribution of those products; changes in lending policies and procedures; collection practices; examination results from bank regulatory agencies; external loan reviews and our internal credit review function; changes in the outlook for local, regional and national economic conditions; concentrations of credit; and peer group comparisons.

Large commercial loans that exhibit probable or observed credit weaknesses that we have graded special mention or classified, are subject to individual review for impairment. As part of our review for impairment of loans, we may assess the current value of the underlying collateral, which may include a current appraisal of property where the underlying collateral is real estate. We update our assessment of our special mention and classified assets at least quarterly. We may obtain a new appraisal at any time we feel necessary to establish value. We also use current sales listings, available inventory and recent sales to establish value of underlying collateral. Reserves are allocated to specific impaired loans based on our estimate of the borrower s ability to repay the loan given the value of the underlying collateral, other sources of cash flows, and available legal options. Our review of individual loans is based on the definition of impairment as provided in Statement of Financial Accounting Standards No. 114, *Accounting by Creditors for Impairment of a Loan,* as amended. We evaluate the collectibility of both principal and interest when assessing the need for a specific reserve. Specific reserves on individual loans and historical loss rates are reviewed throughout the year and adjusted as necessary based on changing borrower and collateral conditions and actual collection and charge-off experience. Historical loss rates are used to evaluate the adequacy of the allowance on other commercial loans not subject to specific reserve allocations.

Homogenous loans, such as installment and residential mortgage loans, are not individually reviewed by management but collectively evaluated for impairment, except in the case of delinquencies. Reserves are established for each pool of loans based on the expected net charge-offs. Loss rates are based on the average net charge-off history and an analysis of the risks and trend information by loan category. Historical loss rates for commercial and consumer loans may be adjusted for significant factors that, in management s judgment, reflect the impact of current market conditions.

As part of our analysis of the adequacy of the allowance for loan losses we review our recent loan charge-off experience. We generally recognize loan charge-offs when we determine that the ultimate collectability of all or part of

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our remaining principal balance is unlikely based on the past due status, financial condition of the borrower and the value of underlying collateral, if any. However, for loans to individual borrowers on their residential properties, we recognize the charge-offs when we complete foreclosure and determine the current fair value of the property. In 2007, we recognized $7.6 million in charge-offs compared to $39,000 for 2006. Included in the 2007 charge-off total was $2.8 million to three unrelated borrowers on loans secured by vacant land and residential properties. One of these loans was for $1.6 million, and was secured by land intended for a residential condominium project in the Florida panhandle. We foreclosed on this property in 2007. Also included in the charge-off total for 2007 was $1.9 million relating to a fraud loss from Transland Financial Services Inc. that we recognized when we determined that there were $2.4 million of loan principal payments on residential construction loans that were received by Transland and not remitted to us. We filed a claim with our insurance carrier after discovering this fraud loss and received a $500,000 payment in the first quarter of 2008. We also recognized charge-offs of $2.1 million on loans to four borrowers who were residential home builders. The borrowers defaulted on their loans with us due to the downturn in construction activity and/or, in some instances, when their customers failed to close on homes after construction was completed. During 2007, we received the title to all of the properties pledged as collateral on those loans, and the charge-off total reflected the updated appraisal values on such properties. We also recognized $438,000 in commercial loan charge-offs, one of which was for $344,000 on a delinquent loan secured by the second mortgage on a commercial property. During 2007, we recognized $290,000 in charge-offs on residential loans to individual borrowers.

For the first quarter of 2008, we recognized one charge-off of $50,000 on a residential property. We had no commercial loan charge-offs during the quarter. While we did not change our methodology for calculating the adequacy of the allowance for loan losses in 2008, we added $2.0 million to the allowance during the 2008 first quarter due to the continuing weakness in the Florida real estate market and the increases in our past due and non-accrual loans. We anticipate recognizing additional charge-offs during the remainder of 2008, but cannot predict the amount and timing of such charge-offs, if any.

Based on these procedures, management believes that the allowance for loan losses was adequate to absorb estimated loan losses inherent in the loan portfolio at March 31, 2008. Actual results could differ from these estimates. However, since the allowance is affected by management s judgments and uncertainties, there is the likelihood that materially different amounts would be reported under different conditions or assumptions. To the extent that the economy, collateral values, reserve factors or the nature and volume of problem loans change, we may need to adjust the provision for loan losses. In addition, federal regulatory agencies, as an integral part of the examination process, periodically review our allowance for loan losses. Such agencies may require us to recognize additions to the allowance level based upon their judgment of the information available to them at the time of their examination. As we experienced in 2007, material additions to our provision for loan losses in 2008 could result in a decrease in net earnings and capital.

At March 31, 2008, the allowance for loan losses was $15.8 million, or 33.1% of non-performing loans and 2.92% of total loans net of loans in process at that date. At December 31, 2007, the allowance for loan losses was $13.9 million, or 36.3% of non-performing loans and 2.42% of total loans net of loans in process at that date. At December 31, 2006, the allowance for loan losses was $5.1 million, or 42.6% of non-performing loans and .84% of total loans net of loans in process at that date. The allowance at March 31, 2008 and at December 31, 2007, consisted of reserves for performing loans in the portfolio and reserves against certain impaired loans based on management s evaluation of these individual loans.

The following table sets forth information with respect to our allowance for loan losses during the periods indicated. The allowances shown in the table below should not be interpreted as an indication that charge-offs in future periods will occur in these amounts or proportions or that the allowance indicates future charge-off amounts or trends ($ in thousands):

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	At or For the Three Months Ended March 31, 2008	2007	At or For the Years Ended December 31, 2007	2006	2005	2004	2003
Average loans outstanding, net of loans in process	$ 557,196	$ 604,864	$ 600,465	$ 621,670	$ 579,811	$ 447,773	$ 366,488
Allowance at beginning of period	13,869	5,098	5,098	4,477	3,835	2,779	2,110
Charge-offs:							
Residential loans:							
Mortgage	(50)		(290)	(25)		(106)	(30)
Construction			(4,072)	(14)			
Commercial loans:							
Real estate loans			(2,843)				
Commercial business			(438)			(48)	
Consumer loans					(10)		(1)
Total loans charge-offs	(50)		(7,643)	(39)	(10)	(154)	(31)
Recoveries	9		2	21	2	30	50
Net (charge-offs) recoveries	(41)		(7,641)	(18)	(8)	(124)	19
Provision for loan losses	1,965	150	16,412	639	650	1,180	650
Allowance at end of period	15,793	5,248	$ 13,869	$ 5,098	$ 4,477	$ 3,835	$ 2,779
Ratio of net charge-offs (recoveries) to average loans outstanding, net of loans in process	0.01%	%	1.27%	0.00%	0.00%	0.03%	(0.01)%
Ratio of allowance to period-end total loans, net of loans in process	2.95%	0.88%	2.42%	0.84%	0.71%	0.74%	0.70%
Period-end total loans, net of loans in process	$ 535,633	$ 595,711	$ 574,070	$ 605,448	$ 630,720	$ 521,642	$ 397,834

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The following table represents information regarding our allowance for loan losses, as well as the allocations to the various categories of loans. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories ($ in thousands):

	At March 31, 2008		At December 31, 2007		2006	
	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans
Residential loans	$ 12,127	71.6%	$ 10,341	70.7%	$ 2,671	68.9%
Commercial loans	3,666	28.4%	3,528	29.3%	2,427	31.1%
Consumer loans		%		%		%
Total allowance for loan losses	$ 15,793	100.0%	$ 13,869	100.0%	$ 5,098	100.0%

	At December 31, 2005		2004		2003	
	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans
Residential loans	$ 2,337	73.8%	$ 2,488	79.6%	$ 1,886	80.8%
Commercial loans	2,130	26.1%	1,055	20.3%	825	19.0%
Consumer loans	10	0.1%	292	0.1%	68	0.2%
Total allowance for loan losses	$ 4,477	100.0%	$ 3,835	100.0%	$ 2,779	100.0%

The allowance for loan losses allocated to residential loans at March 31, 2008 included $4.7 million for mortgage loans, $3.8 million for lot loans and $3.6 million for construction loans. The allowance for loan losses allocated to commercial loans at March 31, 2008 included $1.8 million for real estate secured loans, $1.7 million for land, development and construction loans and $144,000 for commercial business loans.

Weakening economic conditions in the residential real estate sector have adversely affected, and may continue to adversely affect, our loan portfolio. Our percentage of non-performing assets relating to total assets increased significantly in 2007 and continued to increase in 2008 to 8.6% at March 31, 2008 as compared to 6.9% at December 31, 2007. This compares to 1.7% at December 31, 2006. If loans that are currently non-performing further deteriorate or loans that are currently performing become non-performing loans, we may need to increase our allowance for loan losses. Such an increase would have an adverse impact on our financial condition and results of operations.

Investment Activities

Mortgage-Backed Securities. We purchase mortgage-backed securities and other collateralized mortgage obligations, which are guaranteed as to principal and interest by Fannie Mae or Freddie Mac, which are enterprises sponsored by the United States Government. We also purchase mortgage-backed securities issued or guaranteed by entities that are not Federal government agencies or government sponsored enterprises. These securities are acquired primarily for their liquidity, yield and credit characteristics, and may be used as collateral for borrowings. The mortgage-backed securities we purchase are backed by either fixed-rate or adjustable-rate mortgage loans. At March 31, 2008, our mortgage-backed securities portfolio had a carrying value of $19.7 million, including $8.2 million of collateralized mortgage obligations, $6.1 million of which were issued by Fannie Mae or Freddie Mac. At that date, all of our mortgage-backed securities were issued by government sponsored enterprises.

Other Investments. As a condition to our membership in the Federal Home Loan Bank of Atlanta we are required to own Federal Home Loan Bank stock. At March 31, 2008, we owned $8.7 million of Federal Home Loan Bank stock. The other investments in our investment portfolio, with the exception of corporate equity securities, are

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eligible for inclusion in our liquidity base when calculating our regulatory liquidity. We also purchase municipal bonds and corporate equity and debt securities. At March 31, 2008, we held $7.0 million of insured, bank-qualified municipal bonds. Subsequent to March 31, 2008, in order to improve our liquidity, we sold $8.9 million of municipal bonds for a gain of $58,000.

We invest in trust preferred securities, primarily issued by pools of issuers sponsored by financial institution holding companies. At March 31, 2008, the carrying value of our three trust preferred securities was $4.2 million, and included $1.1 million of securities related to financial institution holding company issuers and $3.1 million of securities related to insurance company issuers.

At March 31, 2008, we had $15.9 million in carrying value of investment securities and all of our Federal Home Loan Bank stock pledged to the Federal Home Loan Bank as collateral for advances. At March 31, 2008, our entire investment securities portfolio was classified as available for sale.

Impairment of Securities. Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to: (1) the length of time and the extent to which fair value has been less than cost; (2) the financial condition and near-term prospects of the issuer; and (3) our intent and ability to retain the investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair market value.

During 2007, we recorded an other-than-temporary impairment write-down charge of $749,000 to adjust for the market value decline of one of our collateralized mortgage obligations. The investment was secured by second mortgage loans that had experienced significant delinquencies and some portfolio losses. At March 31, 2008, the remaining principal balance of this investment was $1.5 million, the market value was $849,000 and our carrying value, after our other-than-temporary impairment write-down was $754,000. We expect to receive all of our remaining principal and interest due.

The following table sets forth the carrying values of our total investments and liquidity as of the dates indicated ($ in thousands):

	At March 31,	At December 31,		
	2008	2007	2006	2005
Interest-earning deposits	$ 708	$ 1,131	$ 1,585	$ 6,424
Mortgage-back securities	19,712	20,169	26,960	21,807
Debt securities:				
Government sponsored enterprises	8,787	10,703	8,855	4,798
Municipal bonds	6,956	15,237	14,056	12,321
Corporate debt	1,420	1,495	5,289	5,068
Trust preferred securities	4,218	4,785	6,489	
Equity securities:				
Federal Home Loan Bank stock	8,663	8,129	9,591	10,273
Corporate equity	62	60	3,909	6,086
Total investment portfolio	$ 50,526	$ 61,709	$ 76,734	$ 66,777

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The following table sets forth the remaining maturity and weighted-average yields as of March 31, 2008 ($ in thousands):

	One Year or Less		Over One Year to Five Years		Over Five Years to Ten Years		More than Ten Years		Total	
	Carrying Value	Yield	Carrying Value	Yield	Carrying Value	Yield	Carrying Value	Yield	Carrying Value	Yield
Interest-earning deposits	$ 708	2.96%	$	%	$	%	$	%	$ 708	2.96%
Mortgage-backed securities (*)							19,712	5.68	19,712	5.68
Government sponsored Enterprises					1,347	5.04	7,440	6.62	8,787	6.38
Municipal bonds			928	6.21	1,361	6.36	4,667	6.35	6,956	6.33
Corporate debt					1,420	5.70			1,420	5.70
Trust preferred securities							4,218	4.10	4,218	4.10
FHLB stock (*)							8,663	5.97	8,663	5.97
Corporate equity securities (*)							62	1.47	62	1.47
Total	$ 708	2.96%	$ 928	6.21%	$ 4,128	5.70%	$ 44,762	5.81%	$ 50,526	5.76%

* Estimated and scheduled prepayments of principal on mortgage-backed securities are not allocated in the above table, and corporate equity securities and Federal Home Loan Bank stock are perpetual investments with no maturity date.

Impact of Interest Rates on the Investment Portfolio. Between June 2006 and September 2007, the Federal Reserve Board maintained the Federal Funds rate at 5.25%. In September 2007, the Federal Reserve Board decreased the rate by 50 basis points, followed by several additional reductions to 2.00% at the April 30, 2008 meeting, representing a 3.25% decrease in the Federal Funds rate since September 2007. At the same time, longer term Treasury rates declined by less than 100 basis points. Throughout the period, the Treasury yield curve steepened as the economy grew weaker and inflation fears increased due to rising oil prices.

The yields and market values of the investment portfolio are significantly affected by changes in the Federal Funds rate set by the Federal Reserve Board, Treasury rates and other market interest rates. Also affecting investment portfolio rates and values are changing market conditions on individual investments and groups of investments. As mentioned above, we recognized an other-than-temporary impairment on a single mortgage-backed security investment in September 2007. However, the price has improved on this investment during the first quarter of 2008 and no further write-downs are expected at this time. Other mortgage-backed securities investments and trust preferred securities also have been affected by the market deterioration in 2007 and 2008. However, we have determined at this time that the decline in values is temporary and values will recover as market conditions improve, or we expect to receive all of our principal and interest due at maturity.

Sources of Funds

General. Deposits are our primary source of funds for use in lending, investments and for other general business purposes. In addition to deposits, funds are also obtained from normal loan amortization, maturities of investment securities, prepayments of loan principal and loan sales. Historically, we have used brokered deposits as a supplemental source of funding for our operations, as these deposits generally have lower interest rates than rates offered for certificates of deposit in our local market area. It has been our recent funding strategy to reduce our reliance on brokered deposits, and instead focus on attracting retail deposits through our network of 11 branches. In addition, as described below, we are restricted in the amount of brokered deposits that we can renew, replace or accept. Contractual loan payments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments and sales are significantly influenced by general market interest rates and economic conditions. Other borrowings are also used on a short-term basis to compensate for seasonal or other reductions in normal sources of funds, and provide diversity in our funding sources among providers and across maturities. Until recently, Federal Home Loan Bank borrowings have been used by Federal Trust Bank on a short-term and longer term basis to support expanded lending or investment activities. However, as described below, we are not currently able to access additional advances from the Federal Home Loan Bank. Borrowings by Federal Trust Corporation (like the trust preferred securities we have issued) could also be used as an additional source of capital for Federal Trust Bank, but the Office of Thrift Supervision has

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restricted Federal Trust Corporation from issuing any debt securities or otherwise incurring any debt without the prior approval of the Office of Thrift Supervision.

Deposits. Our primary deposit products include fixed-rate certificate accounts, money-market deposit accounts and both noninterest and interest-bearing transaction accounts. We have a number of different programs that are designed to attract both short-term and long-term deposits and we continue to promote transaction accounts, which generally provide higher fee revenue compared to time deposits.

Deposits have generally been obtained from residents in our primary market area and, to a lesser extent, nationwide, through a network of deposit brokers. Of the total $310.9 million in time deposits at March 31, 2008, $57.3 million were acquired through deposit brokers at rates that are typically comparable to the rates paid for like-term certificates offered in our local market. At March 31, 2008, Federal Trust Bank s capital ratio was below the well capitalized level and, therefore, we cannot renew, replace or accept brokered deposits until we are well capitalized, or we receive a waiver from the Federal Deposit Insurance Corporation. A total of $60.5 million in brokered deposits will mature during 2008. From December 31, 2007 through March 14, 2008, a total of $16.6 million of brokered deposits matured and were repaid. Of the remaining $43.9 million in brokered deposits that will mature during 2008, $18.8 million will mature through May 31, 2008. On March 14, 2008, we received conditional approval from the Federal Deposit Insurance Corporation to replace up to $16.0 million of brokered deposits through May 31, 2008. Between March 14, 2008 and May 31, 2008, $10.3 million of brokered deposits were replaced when they matured. We will need to request additional waivers from the Federal Deposit Insurance Corporation with respect to the additional maturing brokered deposits beyond May 31, 2008. If we do not obtain a waiver from the Federal Deposit Insurance Corporation to permit us to renew or replace the additional maturing brokered deposits beyond May 31, 2008, we may be required to repay these deposits through other sources of funds, including retail deposits in our local market and loan prepayments and sales. While it has been our strategy during 2007 and 2006 to reduce our reliance on brokered deposits through the opening of additional branch offices and slowing our growth, the brokered deposit restriction could force us to pay higher rates on our other deposit products or sell loans at less than favorable terms in order to repay these maturing deposits as they come due.

The principal methods used to attract in market deposit accounts have included offering a wide variety of services and accounts, competitive interest rates and convenient office locations, including access to automated teller machines and Internet banking. We currently operate 11 automated teller machines and our customers also have access to the AllPoint Honor and other shared automated teller machine networks. We also offer customers Internet banking with access to their accounts, funds transfer and bill paying.

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The following table shows the distribution of, and certain other information relating to, our deposits by account type as of the dates indicated ($ in thousands):

	For the Three Months Ended March 31, 2008		For the Year Ended December 31, 2007		2006		2005	
	Amount	Percent of Deposits	Amount	Percent of Deposits	Amount	Percent of Deposits	Amount	Percent of Deposits
Noninterest-bearing checking accounts	$ 14,830	3.3%	$ 13,916	2.9%	$ 13,887	2.9%	$ 13,628	2.9%
Interest-bearing checking accounts	68,997	15.2	80,275	16.6	51,584	10.9	51,682	11.0
Money-market accounts	57,060	12.6	57,608	12.0	64,458	13.7	78,371	16.6
Savings accounts	2,233	0.5	2,422	0.5	3,065	0.6	4,062	0.8
Subtotal	143,120	31.6	154,221	32.0	132,994	28.1	147,743	31.3
Time deposits:								
0% - 0.99%	8							
1.00% - 1.99%	53						2,160	0.5
2.00% - 2.99%	1,671	0.4	274	0.1	695	0.1	40,677	8.6
3.00% - 3.99%	40,434	8.9	1,678	0.3	5,747	1.2	171,712	36.5
4.00% - 4.99%	115,257	25.4	75,239	15.6	120,416	25.5	108,004	22.9
5.00% - 5.99%	153,500	33.7	250,317	52.0	212,942	45.1	720	0.2
6.00% - 6.99%							46	
7.00% - 7.99%								
Total time deposits	310,923	68.4	327,508	68.0	339,800	71.9	323,319	68.7
Total deposits	$ 454,043	100.0%	$ 481,729	100.0%	$ 472,794	100.0%	$ 471,062	100.0%

The following table shows the average amount of and the weighted average rate paid on each of the following deposit categories during the periods indicated ($ in thousands):

	For the Three Months Ended March 31, 2008		For the Year Ended December 31, 2007		2006		2005	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing checking accounts	$ 14,388	%	$ 12,844	%	$ 13,615	%	$ 14,667	%
Money market and interest-bearing checking accounts	129,562	3.31	125,054	3.96	127,182	3.77	127,485	2.83
Savings	2,437	0.66	2,808	1.53	3,417	1.76	5,103	1.37
Time deposits	324,894	4.95	332,839	5.19	340,144	4.50	282,693	3.16
Total deposits	$ 471,281	4.33%	$ 473,545	4.70%	$ 484,358	4.16%	$ 429,948	2.93%

The variety of deposit accounts that we offer has increased our ability to retain deposits and has allowed us to be competitive in obtaining new funds, although the threat of disintermediation (the flow of funds away from savings institutions into direct investment vehicles such as government and corporate securities) still exists. Our ability to attract and retain deposits and maintain a favorable cost of funds has been, and will continue to be, significantly affected by national and local economic conditions, changes in prevailing interest rates, pricing of deposits and competition.

On a weekly basis, we review the rates offered by other depository institutions in our market area and make adjustments to the rates we offer to meet our funding needs and to remain competitive with the local market. Our total deposits decreased to $454.0 million at March 31, 2008, from $481.7 million at December 31, 2007.

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The following table sets forth maturities of jumbo certificates of $100,000 and more at March 31, 2008 ($ in thousands):

	Amount
Due three months or less	$ 37,808
Due over three months to six months	54,596
Due over six months to one year	39,296
Due over one year	27,009
	$ 158,709

The following table sets forth maturities of all of our time deposits at March 31, 2008 ($ in thousands):

Twelve Month Period Ending March 31,	Amount
2009	$ 271,114
2010	25,623
2011	7,566
2012	5,190
2013	1,430
	$ 310,923

As of March 31, 2008, we had a total of $57.3 million of brokered deposits. The following table sets forth the maturities of those deposits ($ in thousands)

Maturity Date	Amount
April 11, 2008	$ 9,000
May 15, 2008	5,000
August 8, 2008	10,000
August 11, 2008	7,040
September 25, 2008	3,086
September 26, 2008	5,028
August 11, 2009	1,500
November 30, 2009	12,000
June 15, 2010	4,599
	$ 57,253

Federal Home Loan Bank Advances. Advances from the Federal Home Loan Bank have been a significant source of funds that we have relied upon to support our lending activities. Such advances may be made pursuant to several different credit programs. Each credit program has its own interest rate based on the range of maturities. The Federal Home Loan Bank has limitations on the total amount and terms of advances that are available to Federal Trust Bank based on, among other things, asset size, capital strength, earnings and the amount of collateral available to be pledged for such advances. Prepayment of Federal Home Loan Bank advances may result in prepayment penalties. At March 31, 2008, we had $165.0 million in such advances, up from $152.0 million at the end of 2007.

As a result of the Federal Home Loan Bank of Atlanta s assessment of our recent financial condition, we will not be able to access additional advances from the Federal Home Loan Bank at the present time. One fixed-rate advance for $12.0 million is scheduled to mature in December 2008, and 12 convertible advances with a total balance of $97.0 million and with rates ranging from 3.22% to 4.81% are callable during 2008. Although we do not know whether the Federal Home Loan will call those advances with callable dates, due to the current level of market interest rates, Federal Trust Bank does not anticipate that the convertible advances will be called during 2008. At March 31, 2008, our daily rate credit balance was $6.0 million.

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The following table is a summary of our advances from the Federal Home Loan Bank of Atlanta ($ in thousands):

	Under One Year	One to Five Years	After Five Years	2008 Total	2007 Total
By remaining contractual maturity at March 31, 2008					
Fixed rate	$ 31,000	$ 32,000	$	$ 63,000	$ 50,000
Callable		47,000	55,000	102,000	102,000
Total advances from the Federal Home Loan Bank	$ 31,000	$ 79,000	$ 55,000	$ 165,000	$ 152,000
Interest rate	3.00-4.92%	3.34-5.35%	3.22-4.00%	3.00-5.35%	3.22-5.35%
By next call or repricing date as of March 31, 2008					
Fixed rate	$ 31,000	$ 32,000	$	$ 63,000	$ 50,000
Callable	97,000	5,000		102,000	102,000
Total advances from the Federal Home Loan Bank	$ 128,000	$ 37,000	$	$ 165,000	$ 152,000
Interest rate	3.00-4.92%	3.34-5.35%	%	3.00-5.35%	3.22-5.35%

At December 31, 2007, the security agreement with the Federal Home Loan Bank included a blanket floating lien requiring Federal Trust Bank to maintain qualifying first mortgage loans as pledged collateral for our advances. In addition, at December 31, 2007, Federal Trust Bank pledged investment securities with a fair value of $18.0 million and Federal Home Loan Bank stock of $8.1 million. In 2008, we were informed by the Federal Home Loan Bank that we cannot continue to utilize the blanket floating lien at the present time. We will be required to pledge specific qualifying first mortgage loans and investment securities to the Federal Home Loan Bank as collateral for our advances and deliver possession of such collateral to the Federal Home Loan Bank or its custodian. At March 31, 2008, we had a total of $165.0 million in advances outstanding. We are in the process of segregating certain residential mortgage loan documents for the Federal Home Loan Bank in conjunction with their security agreement on their advances. The Federal Home Loan Bank also requires the purchase of Federal Home Loan Bank common stock in proportion to the amount of advances outstanding.

The interest rate on the daily rate credit advances is subject to change daily and may be repaid at any time without penalty. Fixed-rate advances could result in the payment of a prepayment penalty or receipt of a premium by Federal Trust Bank depending upon the interest rate on the advance and market rates at the time of prepayment.

***Other Borrowings*.** In addition to Federal Home Loan Bank advances, we borrow from correspondent banks to support our operations. During 2006 and 2007, Federal Trust Corporation had a revolving line of credit agreement with a correspondent bank that enabled us to borrow up to $8,000,000. The interest rate on the line of credit was floating at the prime lending rate minus 50 basis points as long as we maintain certain loan-to-book value ratios. The line of credit was secured by all of Federal Trust Bank s common stock. Federal Trust Corporation could draw upon or repay the line of credit in whole or in part for the first 24 months without any prepayment penalties, at which time the remaining principal balance was scheduled for repayment over eight years. In February 2007 the balance outstanding on the line of credit was repaid. In July 2007, the revolving period of the line ended and has not been renewed or replaced.

Other borrowings also include securities sold under agreements to repurchase, which totaled $16,000 at March 31, 2008. Total interest expense on other borrowings for the quarter ended March 31, 2008 and for the years ended December 31, 2007, 2006 and 2005, was approximately $1,000, $32,000, $104,000 and $58,000, respectively.

Junior Subordinated Debentures. On September 17, 2003, Federal Trust Statutory Trust I sold adjustable-rate Trust Preferred Securities due September 17, 2033 in the aggregate principal amount of $5,000,000 in a pooled trust preferred securities offering. The interest rate on the Trust Preferred Securities adjusts quarterly, to a rate equal to the current three-month London Interbank Offered Rate, plus 295 basis points (5.75% at March 31, 2008). In addition, Federal Trust Corporation contributed capital of $155,000 to Federal Trust Statutory Trust I for the purchase of the common securities of Federal Trust Statutory Trust I. The proceeds from these sales were paid to Federal Trust Corporation in exchange for $5,155,000 of its adjustable-rate Junior Subordinated Debentures due September 17, 2033. The debentures have the same terms as the Trust Preferred Securities. The sole asset of Federal Trust Statutory Trust I, the obligor on the Trust Preferred Securities, is the debentures.

Federal Trust Corporation guaranteed Federal Trust Statutory Trust I s payment of distributions on, payments on any redemptions of, and any liquidation distribution with respect to the Trust Preferred Securities. Cash distributions on both the Trust Preferred Securities and the debentures are payable quarterly in arrears on March 17, June 17, September 17 and December 17 of each year.

The Trust Preferred Securities are subject to mandatory redemption: (i) in whole, but not in part, upon repayment of the debentures at stated maturity or, at the option of Federal Trust Corporation, their earlier redemption in whole upon the occurrence of certain changes in the tax treatment or capital treatment of the Trust Preferred Securities, or a change in the law such that Federal Trust Statutory Trust I would be considered an Investment Company; and (ii) in whole or in part at any time on or after September 17, 2008, contemporaneously with the optional redemption by Federal Trust Corporation of the debentures in whole or in part. The debentures are redeemable prior to maturity at the option of Federal Trust Corporation: (i) on or after September 17, 2008, in whole at any time or in part from time to time; or (ii) in whole, but not in part, at any time within 90 days following the occurrence and continuation of certain changes in the tax treatment or capital treatment of the Trust Preferred Securities, or a change in law such that Federal Trust Statutory Trust I would be considered an Investment Company, required to be registered under the Investment Company Act of 1940.

On June 27, 2008, Federal Trust Corporation notified the trustee of Federal Trust Statutory Trust I of Federal Trust Corporation s intention to defer its payments on the debentures, meaning that Federal Trust Statutory Trust I will defer its payments of dividends on the trust preferred securities. Federal Trust Corporation may not resume payments on the debentures until it receives prior regulatory approval from the Office of Thrift Supervision.

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The following tables set forth certain information relating to our borrowings at the dates and for the periods indicated ($ in thousands):

	At or For the Three Months Ended March 31,	
	2008	2007
Federal Home Loan Bank advances:		
Average balance outstanding	$ 166,907	$ 183,122
Maximum amount outstanding at any month end during the period	168,000	188,200
Balance outstanding at end of period	165,000	165,700
Weighted average interest rate during the period	4.30%	4.39%
Weighted average interest rate at end of period	4.21%	4.47%
Securities sold under agreement to repurchase;		
Average balance outstanding	$ 16	$ 759
Maximum amount outstanding at any month end during the period	16	871
Balance outstanding at end of period	16	78
Weighted average interest rate during the period	3.16%	4.23%
Weighted average interest rate at end of period	2.84%	4.13%
Other borrowings and junior subordinated debentures:		
Average balance outstanding	$ 5,155	$ 6,164
Maximum amount outstanding at any month end during the period	5,155	5,655
Balance outstanding at end of period	5,155	5,155
Weighted average interest rate during the period	7.66%	8.88%
Weighted average interest rate at end of period	6.98%	8.24%
Total borrowings:		
Average balance outstanding	$ 172,078	$ 190,045
Maximum amount outstanding at any month end during the period	173,171	194,726
Balance outstanding at end of period	170,171	170,933
Weighted average interest rate during the period	4.40%	4.54%
Weighted average interest rate at end of period	4.30%	4.59%

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	At or For the Year Ended December 31, 2007	2006	2005
Federal Home Loan Bank advances:			
Average balance outstanding	$ 178,688	$ 183,106	$ 186,122
Maximum amount outstanding at any month end during the period	191,500	207,400	212,500
Balance outstanding at end of period	152,000	179,700	201,700
Weighted average interest rate during the period	4.49%	3.98%	3.31%
Weighted average interest rate at end of period	4.29%	4.22%	3.67%
Securities sold under agreement to repurchase;			
Average balance outstanding	$ 447	$ 69	$
Maximum amount outstanding at any month end during the period	871	893	
Balance outstanding at end of period	16	893	
Weighted average interest rate during the period	4.08%	3.83%	%
Weighted average interest rate at end of period	3.70%	3.83%	%
Other borrowings and junior subordinated debentures:			
Average balance outstanding	$ 5,463	$ 9,167	$ 9,000
Maximum amount outstanding at any month end during the period	5,655	13,370	12,019
Balance outstanding at end of period	5,155	8,159	12,019
Weighted average interest rate during the period	8.74%	7.68%	5.98%
Weighted average interest rate at end of period	7.94%	9.42%	6.78%
Total borrowings:			
Average balance outstanding	$ 184,598	$ 192,342	$ 195,122
Maximum amount outstanding at any month end during the period	198,026	221,663	224,519
Balance outstanding at end of period	157,171	188,752	213,719
Weighted average interest rate during the period	4.62%	4.14%	3.44%
Weighted average interest rate at end of period	4.41%	4.44%	3.85%

Comparison of Operating Results for the Three Month Periods Ended March 31, 2008 and 2007

General. We had a net loss for the three-month period ended March 31, 2008, of $2.2 million, or $.24 per basic and fully diluted share, compared to net earnings of $160,000 or $.02 per basic and fully diluted share for the same period in 2007. The loss for the three months ended March 31, 2008, is primarily attributable to a $2.0 million provision for loan losses, together with interest income foregone as a result of the increase in nonperforming assets.

Interest Income. Interest income decreased $1.7 million to $9.0 million for the 2008 first quarter, from $10.7 million for the quarter ended March 31, 2007. The decrease in interest income was primarily due to a decrease in market interest rates from the first quarter of 2007 to the first quarter of 2008, and $1.0 million in foregone interest for the three-months ended March 31, 2008.

Interest Expense. Interest expense decreased $529,000, or 7%, due to a decrease in the average rate paid on interest-bearing liabilities from 4.64% in the quarter ending March 31, 2007 to 4.43% for the 2008 first quarter. In addition, average interest bearing liabilities decreased from $645.9 million for the 2007 first quarter to $629.0 million for the first quarter of 2008.

Provision for Loan Losses. A provision for loan losses is charged to earnings based upon management s evaluation of the loan portfolio. During the quarter ended March 31, 2008, we recorded a provision for loan losses of $2.0 million based on our evaluation of the loan portfolio, compared to $150,000 for the same period in 2007. The increased provision for the 2008 first quarter was due to the decline in real estate collateral values and an increase in nonaccrual loans. The allowance for loan losses at March 31, 2008, was $15.8 million compared to $5.2 million at

March 31, 2007. Our evaluation of the allowance for loan losses at March 31, 2008, included an assessment of the current market values for the nonaccrual loans, and an ongoing evaluation of the loan portfolio. As a percent of total loans outstanding, the allowance for loan losses increased to 2.95% at March 31, 2008 from 2.42% at December 31, 2007, and .88% at March 31, 2007. Management believes the allowance for loan losses at March 31, 2008, was adequate to absorb estimated loan losses in the loan portfolio at March 31, 2008. However, we can make no assurance that our allowance will be adequate to cover future loan losses given current and future market conditions, including the recent downturn in our local real estate markets. In addition, our regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs, based on judgments different than those of our management. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory agencies would have a negative effect on our operating results.

Other Income. Other income increased 36% to $648,000 for the quarter ended March 31, 2008, from $476,000 for the quarter ended March 31, 2007 due primarily to net gains on sales of loans and securities of $257,000 in the 2008 first quarter, compared to $107,000 of such gains in the first quarter of 2007. These loan and security sales, which totaled approximately $21 million, were part of our plan to increase liquidity and reduce the size of the balance sheet in order to improve our liquidity and capital ratios.

Other Expenses. Total other expenses for the 2008 first quarter were $4.4 million, up $936,000 or 27% from the first quarter of 2007. The increase was primarily due to an additional $292,000 Federal Deposit Insurance Corporation insurance premium, which totaled to $307,000 in 2008, compared to $15,000 in 2007, together with a $189,000 increase in occupancy expense resulting from our two new branches and the relocation of our New Smyrna Beach branch in the fourth quarter of 2007, and a $150,000 increase in expenses related to foreclosed properties. Personnel expense increased $64,000, or 3% in the first quarter of 2008 due to the additions in personnel in our new branches and credit department, partially offset by other strategic personnel reductions.

Income Taxes. Our consolidated tax position resulted in a tax benefit of $1.4 million (an effective rate of 39.2%) for the three months ended March 31, 2008, compared to a tax benefit of $49,000 (an effective rate of 44.1%) for the same period in 2007. We recognized the deferred tax asset because management believes, based on detailed financial projections, that it is more likely than not, that we will have sufficient future earnings to utilize this asset to offset future income tax liabilities.

Comparison of Operating Results for the Years Ended December 31, 2007 and 2006

General. We had a net loss for 2007 of $14.2 million, or $1.51 per basic and diluted share, compared to net earnings of $3.4 million, or $.38 per basic and $.37 per diluted share for 2006.

Interest Income. Interest income is the principal source of our earnings. Interest income was $42.5 million in 2007 compared to $43.8 million in 2006. Interest income on loans decreased to $38.5 million in 2007 from $39.9 million in 2006. The decrease in interest income on loans in 2007 is attributable primarily to a decrease in the average amount of loans outstanding and an increase in non-accrual loans during the year. During 2007, we recognized $1.1 million of interest income on non-accruing loans. Had these loans been performing in accordance with their terms, we would have recognized $4.0 million of interest income on these loans. Interest income on investment securities remained flat at $3.2 million for both 2007 and 2006, as the decrease in the average balance was offset by an increase in the average rate earned. Other interest income decreased from $721,000 in 2006 to $710,000 during 2007.

Interest Expense. Interest expense increased to $30.8 million for 2007 compared to $28.1 million for 2006, due to an increase in the average rate paid on interest-bearing liabilities offset by a decline in the average amount of deposit accounts and borrowings outstanding. Interest expense on deposits increased by $2.1 million in 2007 as a result of an increase in the average rate paid on deposits, which was partially offset by a decline in the average amount of deposits outstanding. Interest rates on these accounts will increase or decrease according to the general level of market interest rates. Interest on borrowings increased to $8.5 million in 2007 from $8.0 million in 2006 due to an increase in the average rate paid on borrowings outstanding, partially offset by a decrease in the average amount of borrowings. As a result of the Federal Home Loan Bank of Atlanta s assessment of our recent financial condition, we no longer have the ability to access additional funds from the Federal Home Loan Bank.

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Provisions for Loan Losses. A provision for loan losses is charged to earnings based upon our evaluation of the inherent losses in the loan portfolio. The general nature of lending results in periodic charge-offs of non-performing loans, despite our loan review process, credit standards and internal controls. Our provision for loan losses for 2007 was $16.4 million compared to $639,000 in 2006. Despite a decrease in our loan portfolio between December 31, 2006 and December 31, 2007, our provision increased for 2007 due to an increase in delinquencies and weaknesses in real estate values in Florida. Total charge-offs were $7.6 million in 2007 and we recognized recoveries of $2,000 on loans previously charged-off. For 2006, total charge-offs and recoveries were $39,000 and $21,000, respectively. At December 31, 2007, the allowance for loan losses was $13.9 million, or 2.42% of year-end loans net, compared to $5.1 million or .84% of net loans at December 31, 2006.

Our total charge-offs for 2007 included $4.1 million in residential construction loans, of which $1.9 million was related to loans originated and serviced by Transland Financial Services, Inc., which had diverted loan payoff remittance proceeds for $2.4 million that were never forwarded to Federal Trust Bank. The remaining $500,000 balance of the unremitted loan proceeds was collected from our insurance carrier subsequent to December 31, 2007. During 2007, Federal Trust Bank and two other financial institutions filed a joint petition for involuntary Chapter 11 bankruptcy against Transland Financial Services, Inc. with regard to the diverted loan payments. In November 2007, Federal Trust Bank entered into an inter-creditor agreement with certain shareholders of Transland Financial Services, Inc. for the termination of the bankruptcy action and the liquidation of the company. The amount and timing of any future payments from Transland Financial Services, Inc. on the diverted loan proceeds, if any, cannot be determined at the present time.

The remaining $2.1 million in residential construction charge-offs were for several residential builders located primarily in Flagler County, Florida. The loans to these builders included developed residential lots and partially constructed, as well as completed homes. Also included in charge-offs for 2007 was $1.55 million relating to a $4.0 million participation in a real estate loan secured by a planned condominium site on the Gulf of Mexico in the Florida Panhandle. The remaining $2.45 million balance of the loan is included in the foreclosed asset total at December 31, 2007.

One additional charge-off of approximately $842,000 was recognized on a loan secured by land for a planned residential development. The charge-off resulted from a settlement whereby Federal Trust Bank received approximately $4.6 million in cash in satisfaction of the loan amount due. The remaining charge-offs of approximately $1.2 million related to several single-family residential properties and commercial loan customers.

Total non-accrual loans at December 31, 2007, increased to $38.2 million compared to $12.0 million at December 31, 2006. The amount needed in the allowance for loan losses relating to nonaccrual loans is based on the particular circumstances of the individual loans, including the type, amount and value of the collateral, if any, and the overall composition and amount of the performing loans in the portfolio at the time of evaluation, and, as a result, will vary over time. In 2007, our residential mortgage loan portfolio increased $3.8 million. As of December 31, 2007, 60% of our loan portfolio consisted of residential mortgage loans, which historically have had the lowest risk of loss in the overall portfolio, and as a result have had a lower reserve percentage applied to them based on historical loss percentages.

Based on our analysis, we believe that our allowance for loan losses is adequate to absorb loan losses inherent in the loan portfolio as of December 31, 2007. The allowance is based on the current and anticipated future operating conditions, thereby causing our estimate of inherent losses to be susceptible to changes that could result in material adjustments to results of operations in the near term. The amount needed in the allowance for loan losses is based on the particular circumstances of the individual non-performing loans, including the type, amount and value of the collateral, if any. In addition, the overall composition and amount of the classified assets and performing loans in the portfolio at the time of evaluation is considered to determine the adequacy of the allowance, and, as a result, will vary over time. Although more emphasis is being placed on originating new commercial loans, the composition of our loan portfolio continues to be concentrated primarily in residential mortgage loans, and residential land, development and construction loans which have been negatively impacted in 2007. Loan repayments are dependent on loan underwriting and also on economic, operating and other conditions that may be beyond our control. Therefore, although we believe our allowance for loan losses is adequate to absorb loan losses inherent in the loan portfolio as of December 31, 2007, further deterioration of the economy and/or declines in residential real estate prices in the market areas in which we extend credit could cause actual losses in future periods to differ materially from amounts provided in the current period and could result in a material adjustment to operations.

Other Income. Other income decreased $1.3 million to $944,000 for the year ended December 31, 2007. This decline was primarily the result of net losses on sales of securities and foreclosed assets of $119,000 and $618,000, respectively. Other income decreased $306,000 which includes a decline in loan prepayment fees of $366,000.

Other Expense. Other expense increased $7.0 million, or 56%, to $19.5 million for the year ended December 31, 2007, from $12.5 million for 2006. Salary and employee benefits increased $3.9 million and occupancy expense increased $327,000 primarily due to the $2.9 million charge for the severance and retirement obligation related to the termination of our former Chief Executive Officer, which included $1.1 million to be paid pursuant to the termination of his employment agreement and $1.8 million pursuant to his supplemental retirement plan, and due to the opening of the Palm Coast branch in August 2007 and the Wekiva branch in November 2007. Professional expenses increased $549,000 primarily as a result of legal fees associated with our non-performing assets and fees for the profit improvement review program completed during the year. In addition, other volume and growth-related expense increases included data processing expense of $301,000, and marketing and advertising expenses of $139,000. Also included in other expenses for 2007 was a $749,000 other-than-temporary impairment of a single mortgage-backed security investment which experienced significant delinquencies and some portfolio losses.

Income Taxes. Income taxes decreased from $1.4 million (an effective tax rate of 29.8%) in 2006 to a tax benefit of $9.1 million (an effective tax rate of 39.1%) in 2007.

Comparison of Operating Results for the Years Ended December 31, 2006 and 2005

General. We had net earnings for 2006 of $3.4 million, or $.38 per basic share and $.37 per diluted share, compared to net earnings of $4.4 million, or $.54 per basic and $.53 per diluted share, for 2005. The decrease in the net earnings in 2006 was due to increases in employee compensation and benefits and occupancy expense relating to the three new branches opened in 2006 and the staffing of our Mortgage Company, together with decreases in net gains from sales of loans and securities available for sale, partially offset by an increase in net interest income.

Interest Income. Interest income was $43.8 million in 2006 compared to $34.0 million in 2005. Interest income on loans increased to $39.9 million in 2006 from $31.5 million in 2005. The increase in interest income on loans in 2006 is attributable primarily to an increase in the yield earned on the loans outstanding during the year and to a lesser extent by an increase in the average amount of loans outstanding. Interest income on securities increased to $3.2 million in 2006 from $2.0 million in 2005 as a result of an increase in the average balance of securities available for sale and an increase in the yield earned on the securities. Other interest income increased from $492,000 in 2005 to $721,000 during 2006.

Interest Expense. Interest expense increased to $28.1 million for 2006 compared to $19.3 million for 2005, due to an increase in the average amount of deposit accounts and borrowings outstanding and an increase in the average rate paid. Interest expense on deposits increased by $7.5 million in 2006 as a result of an increase in the average amount of deposits and an increase in average rate paid on deposits. Interest expense on these accounts will increase or decrease according to the general level of interest rates. Interest on borrowings increased to $8.0 million in 2006 from $6.7 million in 2005 due to an increase in the average rate paid on borrowings outstanding, offset by a small decrease in the average amount of borrowings.

Provisions for Loan Losses. Our provisions for loan losses for 2006 were $639,000 compared to $650,000 in 2005 based on our evaluation of the loan portfolio. Total loans declined by $74.3 million, or 11%, in 2006. Of this amount, $43.8 million were residential mortgage loans, $45.0 million were residential construction loans and $2.2 million were land development and construction loans, all offset by an increase of $21.8 million in non-residential real estate loans. As of December 31, 2006, 56% of our loan portfolio was in residential mortgage loans, which historically have had the lowest risk of loss in the overall portfolio, and as a result have had a lower reserve percentage applied to them based on historical loss percentages.

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Total charge-offs were $39,000 in 2006 compared to recoveries of $21,000 on loans previously charged-off. For 2005, total charge-offs and recoveries were $10,000 and $2,000, respectively. At December 31, 2006, the allowance for loan losses was $5.1 million, or .84%, of year-end loans net, compared to $4.5 million, or .71%, of net loans at December 31, 2005. Total non-accrual loans at December 31, 2006, increased to $12.0 million compared to $2.1 million at December 31, 2005.

Other Income. Other income decreased $307,000 to $2.2 million for the year ended December 31, 2006. This decline was primarily the result of declines in gains on sales of loans and securities of $256,000 and a decline of $297,000, which includes a decline in prepayment loan fees of $136,000, loan servicing fee income of $184,000, and gains on dispositions of foreclosed assets of $69,000, offset by an increase in service charges and fees of $226,000.

Other Expense. Other expense increased $2.7 million or 27% to $12.5 million for the year ended December 31, 2006, from $9.8 million for 2005. Salary and employee benefits increased $1.7 million and occupancy expense increased $413,000 primarily due to the staffing and opening of branches in Lake Mary in January 2006, Port Orange in July 2006 and Eustis in October 2006, increases in the lending staff, and the overall growth. Specifically, the three new branches that opened in 2006 have added approximately $613,000 to our overhead expenses. Professional expenses increased $121,000 primarily as a result of the proxy contest and lawsuit filed by Keefe Managers, LLC, regarding the election of directors at the 2006 Annual Meeting of Shareholders. In addition, other volume and growth related expense increases included data processing expense of $117,000, marketing and advertising of $66,000, printing and stationary of $86,000, and $36,000 in telephone expense.

Income Taxes. Income taxes decreased from $2.3 million (an effective tax rate of 34.1%) in 2005 to $1.4 million (an effective tax rate of 29.8%) in 2006.

Average Balance Sheets

The following tables set forth, for the periods indicated, information regarding: (i) the total dollar amount of interest income 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 cost; (iii) net interest income; (iv) interest rate spread; (v) net interest margin; and (vi) weighted average yields and rates. Average balances are based on average daily balances ($ in thousands):

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	For the Three Months Ended March 31, 2008			2007		
	Average Balance	Interest	Average Yield/ Cost(7)	Average Balance	Interest	Average Yield/ Cost(7)
Interest-earning assets:						
Loans(1)	$ 557,196	$ 7,999	5.74%	$ 604,864	$ 9,699	6.41%
Securities	45,000	641	5.70	64,643	844	5.22
Other interest-earning assets(2)	39,629	366	3.69	12,183	176	5.78
Total interest-earning assets	641,825	9,006	5.61	681,690	10,719	6.29
Non-interest earning assets	53,063			38,578		
Total assets	$ 694,888			$ 720,268		
Non-interest bearing demand deposits	$ 14,388			$ 12,949		
Interest-bearing liabilities:						
Interest-bearing demand and money-market deposits	$ 129,562	1,073	3.31	$ 117,296	1,094	3.73
Savings deposits	2,437	4	0.66	3,138	13	1.66
Time deposits	324,894	4,022	4.95	335,434	4,260	5.08
Total deposit accounts	471,281	5,099	4.33	468,817	5,367	4.58
FHLB advances and other borrowings(3)	172,078	1,867	4.34	190,045	2,128	4.48
Total interest-bearing liabilities(4)	628,971	6,966	4.43	645,913	7,495	4.64
Non-interest-bearing liabilities	12,006			6,840		
Stockholders equity	39,523			54,566		
Total liabilities and stockholders equity	$ 694,888			$ 720,268		
Net interest/dividend income		$ 2,040			$ 3,224	
Net interest margin(5)			1.27%			1.89%
Interest rate spread(6)			1.18%			1.65%
Ratio of average interest-earning assets to average interest-bearing liabilities	1.02			1.06		

(Footnotes follow on next page)

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	For The Year Ended December 31,								
	2007			2006			2005		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
Interest-earning assets:									
Loans[1]	$ 600,465	$ 38,536	6.42%	$ 621,670	$ 39,885	6.42%	$ 579,811	$ 31,484	5.43%
Securities	61,584	3,240	5.26	62,941	3,236	5.14	45,700	2,001	4.38
Other interest-earning assets[2]	11,081	710	6.41	11,935	721	6.04	11,352	492	4.33
Total interest-earning assets	673,130	42,486	6.31	696,546	43,842	6.29	636,863	33,977	5.34
Non-interest earning assets	46,699			38,935			35,953		
Total assets	$ 719,829			$ 735,481			$ 672,816		
Non-interest bearing demand deposits	$ 12,844			$ 13,615			$ 14,667		
Interest-bearing liabilities:									
Interest-bearing demand and money-market deposits	125,054	4,950	3.96	127,182	4,792	3.77	127,485	3,606	2.83
Savings deposits	2,808	43	1.53	3,417	60	1.76	5,103	70	1.37
Time deposits	332,839	17,280	5.19	340,144	15,291	4.50	282,693	8,928	3.16
Total deposit accounts	473,545	22,273	4.70	484,358	20,143	4.16	429,948	12,604	2.93
FHLB advances and other borrowings[3]	184,598	8,524	4.62	192,342	7,971	4.14	195,122	6,732	3.45
Total interest bearing liabilities[4]	645,299	30,797	4.77	663,085	28,114	4.24	610,403	19,336	3.17
Non-interest bearing liabilities	8,890			7,903			6,283		
Stockholders equity	52,796			50,878			41,463		
Total liabilities and stockholders equity	$ 719,829			$ 735,481			$ 672,816		
Net interest/dividend income		$ 11,689			$ 15,728			$ 14,641	
Net interest margin[5]			1.74%			2.26%			2.30%
Interest rate spread[6]			1.54%			2.05%			2.17%
Ratio of average interest-earning assets to average interest-bearing liabilities	1.04			1.05			1.04		

(1) Includes non-accrual loans.
(2) Includes interest-earning deposits and Federal Home Loan Bank stock.
(3) Includes Federal Home Loan Bank advances, other borrowings, junior subordinated debentures and capital lease obligation, and securities sold under agreements to repurchase.
(4) Total interest-bearing liabilities exclude non-interest bearing demand deposits.
(5) Net interest margin is net interest income divided by average interest earning assets.
(6)

Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(7) Yields and costs for the three-month periods have been annualized.

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Rate/Volume Analysis

The following tables set forth certain information regarding changes in interest income and interest expense for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to: (i) changes in rate (change in rate multiplied by prior volume); (ii) changes in volume (changes in volume multiplied by prior rate); and (iii) changes in rate-volume (change in rate multiplied by change in volume) ($ in thousands):

	Three Months Ended March 31, 2008 vs. 2007 Increase (Decrease) Due to Changes in			
	Rate	Volume	Rate/ Volume	Total
Interest-earning assets:				
Loans	$ (1,016)	$ (764)	$ 80	$ (1,700)
Securities	77	(257)	(23)	(203)
Other interest-earning assets	(63)	396	(143)	190
Total	(1,002)	(625)	(86)	(1,713)
Interest-bearing liabilities:				
Deposit accounts	(294)	28	(27)	(268)
FHLB advances and other borrowings, and securities sold under agreements to repurchase	(66)	(201)	6	(261)
Total	(360)	(173)	4	(529)
Net change in net interest income before provision for loan losses	$ (642)	$ (452)	$ (90)	$ (1,184)

	Year Ended December 31, 2007 vs. 2006 Increase (Decrease) Due to Changes in			
	Rate	Volume	Rate/Volume	Total
Interest-earning assets:				
Loans	$ 12	$ (1,361)	$	$ (1,349)
Securities	75	(69)	(2)	4
Other interest-earning assets	44	(52)	(3)	(11)
Total	131	(1,482)	(5)	(1,356)
Interest-bearing liabilities:				
Deposit accounts	2,639	(450)	(59)	2,130
FHLB advances and other borrowings, and securities sold under agreements to repurchase	911	(321)	(37)	553
Total	3,550	(771)	(96)	2,683
Net change in net interest income before provision for loan losses	$ (3,419)	$ (711)	$ 91	$ (4,039)

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	Year Ended December 31, 2006 vs. 2005 Increase (Decrease) Due to Changes in			
	Rate	Volume	Rate/Volume	Total
Interest-earning assets:				
Loans	$ 5,715	$ 2,273	$ 413	$ 8,401
Securities	349	754	132	1,235
Other interest-earning assets	194	25	10	229
Total	6,258	3,052	555	9,865
Interest-bearing liabilities:				
Deposit accounts	5,276	1,595	668	7,539
FHLB advances and other borrowings, and securities sold under agreements to repurchase	1,354	(96)	(19)	1,239
Total	6,630	1,499	649	8,778
Net change in net interest income before provision for loan losses	$ (372)	$ 1,553	$ (94)	$ 1,087

Asset /Liability Management

It is our objective to manage assets and liabilities to provide a satisfactory, consistent level of profitability within the framework of established cash, loan, investment, borrowing and capital policies. Management is responsible for monitoring policies and procedures that are designed to ensure acceptable composition of the asset/liability mix, stability and leverage of all sources of funds while adhering to prudent banking practices. It is our overall philosophy to support asset growth through core deposit balances, which include deposits of all categories made by individuals, partnerships and corporations. Management seeks to invest the largest portion of our assets in residential and business banking loans.

The balance sheet mix is monitored on a weekly basis and a report reflecting interest-sensitive assets and interest-sensitive liabilities is presented to Federal Trust Bank s Board of Directors monthly. The objective is to control interest-sensitive assets and liabilities to maximize earnings and minimize the impact on our earnings of substantial movements in interest rates.

Our profitability, like that of most financial institutions and their holding companies, is dependent to a large extent upon our net interest income, which is the difference between our interest income on interest-earning assets, such as loans, mortgage-backed securities and investment securities, and our interest expense on interest-bearing liabilities, such as deposits and other borrowings. Financial institutions are affected by general changes in levels of interest rates and other economic factors beyond our control. At March 31, 2008, our cumulative, one-year interest sensitivity gap (the difference between the amount of interest-earning assets anticipated to mature or reprice within one year and the amount of interest-bearing liabilities anticipated to mature or reprice within one year) as a percentage of total assets was a negative 10.7%, while our three-month gap was virtually matched with $226.9 million of assets and $213.2 million of liabilities scheduled or eligible for repricing during the period. Generally, an institution with a negative gap would experience a decrease in net interest income in a period of rising interest rates or an increase in net interest income in a period of declining interest rates since there will be more liabilities than assets that will either mature or be subject to repricing within that period. However, certain shortcomings are inherent in this rate sensitivity analysis. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different manners to changes in market interest rates. Therefore, no assurance can be given that we will be able to maintain our net interest-rate spread as market interest rates fluctuate.

For purposes of our gap analysis, we have included our Federal Home Loan Bank advances in the periods when the advances will mature rather than the next scheduled call date. At March 31, 2008, we had $50.0 million in fixed rate advances that mature between December 2008 and August 2009, with interest rates between 4.76% and 5.35%. We also had callable advances of $102 million at March 31, 2008, of which $97 million is callable during 2008 and the remaining $5 million is callable in 2009. These advances will mature between 2010 and 2017. The interest

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rates on the advances range from 3.22% to 4.81% and are higher than current rates on callable advances, so, although we do not know if the Federal Home Loan Bank will call the advances with callable dates, we do not anticipate that these advances will be called in 2008.

We monitor our interest-rate risk through the management Asset/Liability Committee, which meets monthly and reports the results of the meetings to Federal Trust Bank Board of Directors. Our policy is to seek to maintain a balance between interest-earning assets and interest-bearing liabilities so that the cumulative one-year gap is within a range established by the Board of Directors and which we believe is conducive to maintaining profitability without incurring undue risk. The negative one-year cumulative gap position at March 31, 2008 better positions us, compared to our prior gap position, for the declining rate environment we anticipate in the first half of 2008. The table below sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at March 31, 2008, that are expected to reprice, based upon certain assumptions and contractual maturities, in each of the future periods shown. In the following table, adjustable-rate mortgage-backed securities are scheduled according to their next adjustment date, fixed-rate mortgage-backed securities are scheduled according to their estimated amortization and prepayment rates, and equity securities are scheduled according to the date of their next dividend announcement ($ in thousands):

	Three Months or Less	More than Three Months to Six Months	More than Six Months to 12 Months	More than One Year to Three Years	More than Three Years to Five Years	More than Five Years to Ten Years	More than Ten Years	Total
Rate-sensitive assets:								
Residential lending	$ 96,195	$ 53,322	$ 68,845	$ 106,014	$ 47,586	$ 5,360	$ 18,441	$ 395,763
Commercial and consumer lending	112,468	3,331	5,772	13,452	14,859	4,997	2,350	157,229
Mortgage-backed securities	1,833	543	912	4,514	2,018	3,860	6,032	19,712
Debt securities	2,502	3,968	62	1,294	292	5,088	3,957	17,163
Corporate equity securities	62							62
Trust preferred securities	4,218							4,218
FHLB stock	8,663							8,663
Interest-earning deposits	708							708
Other	243							243
Total interest-earning assets	226,892	61,164	75,591	125,274	64,755	19,305	30,780	603,761
Rate-sensitive liabilities:								
Deposits:								
Demand, money-market and savings accounts	128,290							128,290
Time deposits	73,782	98,562	98,770	33,189	6,620			310,923
FHLB advances	6,000		25,000	45,000	34,000	55,000		165,000
Other borrowings	5,171							5,171
Total interest-bearing liabilities	213,243	98,562	123,770	78,189	40,620	55,000		609,384
Interest-sensitive gap	$ 13,649	$ (37,398)	$ (48,179)	$ 47,085	$ 24,135	$ (35,695)	$ 30,780	$ (5,623)
Cumulative interest-sensitivity gap	$ 13,649	$ (23,749)	$ (71,928)	$ (24,843)	$ (708)	$ (36,403)	$ (5,623)	
Cumulative interest-earning assets	$ 226,892	$ 288,056	$ 363,647	$ 488,921	$ 553,676	$ 572,981	$ 603,761	
Cumulative interest-bearing liabilities	$ 213,243	$ 311,805	$ 435,575	$ 513,764	$ 554,384	$ 609,384	$ 609,384	

Cumulative interest-sensitivity gap as a percentage of total assets	2.0%	(3.5)%	(10.7)%	(3.7)%	(0.1)%	(5.4)%	(0.8)%
Cumulative interest-earning assets as a percentage of cumulative interest-bearing liabilities	106.4%	92.4%	83.5%	95.2%	99.9%	94.0%	99.1%

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Market Risk Management

The risk of loss of interest and principal that may result from changes in market prices and rates is our market risk. A simple interest rate gap analysis by itself may not be an accurate indicator of how net interest income will be affected by changes in interest rates. Because gap analysis alone may not adequately address the interest rate risk, we also use a simulation model to analyze net interest income sensitivity to movements in interest rates. The measurement of market risk associated with financial instruments is meaningful only when related offsetting on- and off-balance sheet transactions are aggregated, and the resulting net positions are identified. Accordingly, while the Asset/Liability Committee relies primarily on its asset liability structure to control interest rate risk, a sudden and substantial change in interest rates may adversely impact our earnings to the extent that the interest rates of our assets and liabilities do not change at the same speed, to the same extent or on the same basis.

The Asset/Liability Committee also evaluates how the repayment of particular assets and liabilities is impacted by changes in interest rates. Income associated with interest-earning assets and costs associated with interest-bearing liabilities may not be affected uniformly by changes in interest rates. In addition, the magnitude and duration of changes in interest rates may have a significant impact on net interest income. For example, although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. Interest rates on certain types of assets and liabilities fluctuate in advance of changes in general market interest rates, while interest rates on other types may lag behind changes in general market rates. In addition, certain assets, such as adjustable rate mortgage loans, have features (generally referred to as interest rate caps) that limit changes in interest rates on a short-term basis and over the life of the asset. In the event of a change in interest rates, prepayment and early withdrawal levels also could deviate significantly from those assumed in calculating the interest rate gap. The ability of many borrowers to service their debts also may decrease in the event of an interest rate increase.

Economic Value of Equity. We measure the impact of market interest rate changes on the net present value of estimated cash flows from our assets, liabilities and off-balance sheet items, defined as economic value of equity, using the simulation model. These simulations assess the changes in the market value of interest rate sensitive financial instruments that would occur in response to an instantaneous and sustained increase or decrease (shock) in market interest rates.

At March 31, 2008, our economic value of equity exposure related to those hypothetical changes in market interest rates was within our current guidelines. The following table shows our projected change in economic value of equity for this set of rate shocks at March 31, 2008 ($ in thousands).

Interest Rate Scenario	Economic Value	Percentage Change From Base	Percentage of Total Assets	Percentage of Equity Book Value
Up 200 basis points	$ 37,399	(4.75)%	5.62%	93.43%
Up 100 basis points	37,448	(4.62)	5.58	93.55
BASE	39,263		5.78	98.09
Down 100 basis points	42,786	8.97	6.21	106.89

The computation of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, asset prepayments and deposit decay, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions we may undertake in response to changes in interest rates. Actual amounts may differ from the projections set forth above should market conditions vary from the underlying assumptions.

Net Interest Income Simulation. An additional tool we use to measure interest rate risk at March 31, 2008, is the simulation model to project changes in net interest income that result from forecasted changes in interest rates. This analysis calculates the difference between net interest income forecasted using rising and falling interest rate scenarios and a net interest income using a base market interest rate derived from the current treasury yield curve. The income simulation model includes various assumptions regarding the repricing relationship for each of our

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products. Many of our assets are floating rate loans, which are assumed to reprice immediately in proportion to a change in market rates as specified in the underlying contractual agreements. Accordingly, the simulation models use prepayment estimates based on historical experience at Federal Trust Bank and assume reinvestment of proceeds at current yields. Our non-term deposit products reprice more slowly, usually changing less than the change in market rates based on Asset/Liability Committee decisions, liquidity considerations and local competition.

This analysis indicates the impact of changes in net interest income for the next 12 months, based on our balance sheet at March 31, 2008, with the rate changes and assumptions. It assumes the balance sheet remains static and that its structure does not change over the course of the year. It does not account for all factors that could impact this analysis, including changes by management to mitigate the impact of interest rate changes or secondary impacts such as changes to our credit risk profile as interest rates change.

Furthermore, loan prepayment rate estimates and spread relationships change regularly. Interest rate changes create changes in actual loan prepayment rates that will differ from the market estimates incorporated in this analysis. Changes that vary significantly from the assumptions may have significant effects on our net interest income.

For the rising and falling interest rate scenarios, the base market interest rate forecast was increased over 12 months by 100 and 200 basis points and decreased by 100 basis points. We did not include the 200 basis point decrease in rates at March 31, 2008, because the Federal Funds rate was 2.25% and therefore such a decrease in rates would be too low for this analysis. At March 31, 2008, our net interest income exposure related to these hypothetical changes in market interest rates was within the guidelines approved by Federal Trust Bank s Board of Directors. As shown in the table below, at March 31, 2008, we have positioned our balance sheet to result in a slight improvement in net interest income for 2008 if market interest rates decrease ($ in thousands).

Interest Rate Scenario	Adjusted Net Interest Income	Percentage Change From Base
Up 200 basis points	$ 8,209	(9.71)%
Up 100 basis points	8,598	(5.43)
BASE	9,092	
Down 100 basis points	9,808	7.88

Liquidity and Capital Resources

Like other financial institutions, we must ensure that sufficient funds are available to meet deposit withdrawals, loan commitments, investment needs and expenses. Control of our cash flow requires the anticipation of deposit flows and loan payments. Our primary sources of funds are deposit accounts, principal and interest payments on loans, maturities and calls of investment securities and sales of loans and investments. Historically, we have also relied on brokered deposits and Federal Home Loan Bank advances as funding sources, but we currently have no ability to renew, replace or accept brokered deposits without the prior approval of the Federal Deposit Insurance Corporation and no renewed or further access to Federal Home Loan Bank advances. See Business Strategy for a discussion of restrictions on our current ability to access brokered deposits and Federal Home Loan Bank borrowings.

During the year ended December 31, 2006, we reduced our brokered deposit balances by $37.0 million (to $78.6 million) and maintained that level during 2007. During the same two year period, we reduced our level of Federal Home Loan Bank advances by a total of $49.7 million. Historically, one of our primary uses of funds has been purchasing pools of residential real estate loans. During the years ended December 31, 2006 and 2007, those loan purchases totaled $101.0 million. During the second half of 2007, we changed our business strategy from purchasing pools of loans to focusing on originating in-market retail and small business loans. See Business Strategy for a discussion of the transition of our asset and liability mix to that of a traditional community bank and our intention to reduce our previous reliance on wholesale funding sources and purchases of residential loans. We believe this will build core relationships with our customers. As such, in the short term, we anticipate our cash flow requirements for in-market retail and business loan originations to be less than the cash used historically for purchases of pooled residential real estate loans.

We require funds in the short-term to finance ongoing operating expenses, pay liquidating deposits and invest in loans. Historically, we funded short-term requirements through advances from the Federal Home Loan Bank, deposit growth, the sale of loans and investments and loan principal payments. However, by no longer focusing on the purchase of pooled residential real estate loans, we expect to be able to fund our short-term liquidity requirements (over the next 12 months) through principal and interest payments on loans and deposit growth in our branch network.

Long-term funds are required to invest in loans for our portfolio, purchase fixed assets and provide for the liquidation of deposits maturing in the future. Long-term funding requirements are obtained from principal payments from maturing loans, the sale of loans and the sale of investments. We have no plans to significantly change long-term funding requirements. In addition, we opened five new branches in 2006 and 2007 and moved our New Smyrna Beach branch to a larger, free-standing building with drive-up facilities that were not available in our prior location. We anticipate that the new branches and the local markets they serve will enhance our ability to grow our deposits and provide liquidity necessary for our operations.

Our most liquid assets are cash and cash equivalents. The levels of these assets depend on our operating, financing and investing activities during any given period. At March 31, 2008, cash and cash equivalents totaled $44.3 million. Also, at March 31, 2008, we had investment securities with a market value of $10.7 million held at a correspondent bank that were available to secure short term borrowings and we also had a $10.0 million unsecured federal funds line available with the same correspondent bank. We believe these sources of funds, in addition to principal and interest payments on loans, will satisfy our short-term funding needs, and would cover shortfalls in the event our operating cash flows are not sufficient to satisfy short-term emergencies, such as significant withdrawals of customer deposits.

The additional capital we intend to raise in our stock offering will provide both a source of short-term and long-term liquidity. With the additional capital, our regulatory capital ratios would exceed the requirements to be considered well capitalized, which would assist us in utilizing the brokered deposit market as a short- and long-term funding source. Also, the additional capital would permit us to more aggressively liquidate problem assets, which would provide liquidity for new loan originations and our operations.

If we are not successful in raising additional capital, we would seek to improve our liquidity and capital resources by continuing to shrink our balance sheet. We could achieve this through the sale of performing loans and investments and reducing the origination of new loans. In that scenario, we would also likely pay higher rates for deposits in our local market to retain deposits and have the funds available for liquidity needs.

During the quarter ended March 31, 2008, our sources of funds came primarily from net principal repayment of loans of $25.5 million, proceeds from the sale of loans of $12.1 million, proceeds from the sale and repayments of securities of $11.1 million and an increase of $13.0 million in Federal Home Loan Bank advances. We used $27.7 million for deposit maturities and withdrawals and $35.1 million was retained in cash and cash equivalents for liquidity purposes. Management believes that, over the next 12 months, funds will primarily be obtained from deposit growth and principal and interest payments on loans.

At March 31, 2008, loans-in-process, or closed loans scheduled to be funded over a future period of time, totaled $17.4 million. Available lines of credit totaled $18.2 million, loans committed, but not closed, totaled $2.0 million, and standby letters of credit totaled $663,000. Funding for these amounts is expected to be provided by the sources described above (other than Federal Home Loan Bank advances).

For the months of March 2008 and December 2007, Federal Trust Bank s average liquidity ratio was 11.08% and 6.85%, respectively. This ratio is generally calculated by dividing average cash and other short-term investment securities by average borrowings and savings accounts. Federal Trust Bank s 11 Central Florida

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branches are expected to generate deposits along with loan principal and interest payments to provide liquidity for new loan originations and other investments. The Asset/Liability Management Committee meets regularly, and reviews liquidity levels to ensure that funds are available as needed.

During the year ended December 31, 2007, our sources of funds came primarily from net principal repayment of loans of $45.9 million, proceeds from the sale and repayments of securities of $26.9 million, an increase of $8.9 million in deposits and loan sales of $9.3 million. We used $38.3 million to fund loan purchases, $15.3 million to purchase securities, $27.7 million to repay Federal Home Loan Bank advances, $6.0 million to originate loans for sale and $3.2 million to purchase premises and equipment.

At December 31, 2007, loans-in-process, or closed loans scheduled to be funded over a future period of time, totaled $23.1 million. Available lines of credit totaled $16.9 million; loans committed, but not closed, totaled $12.3 million, and standby letters of credit totaled $986,000. Funding for these amounts were provided primarily by the sources described above.

We paid total cash dividends per share of $.08 in 2007 and $.17 in 2006. We discontinued the payment of cash dividends during the quarter ended September 30, 2007, and we do not anticipate paying dividends in the near future.

At March 31, 2008 and December 31, 2007, Federal Trust Corporation, on an unconsolidated basis, had $565,000 and $556,000, respectively, in cash available for payment of operating expenses. On January 31, 2007, Federal Trust Corporation exercised its option to purchase its corporate headquarters building in Sanford, Florida. As part of our plan to exercise the purchase option, Federal Trust Bank purchased the building from Federal Trust Corporation. Federal Trust Bank paid approximately $4.5 million for the building, which was Federal Trust Corporation s book value of the building including the capitalized lease amount and leasehold improvements. Federal Trust Corporation paid approximately $2.4 million for the purchase of the building. Of the remaining $2.1 million paid to Federal Trust Corporation from Federal Trust Bank, approximately $500,000 was used to repay the balance of the revolving credit line with our correspondent bank.

On June 27, 2008, Federal Trust Corporation notified the trustee of Federal Trust Statutory Trust I of Federal Trust Corporation s intention to defer its payments on the debentures, meaning that Federal Trust Statutory Trust I will defer its payments of dividends on the trust preferred securities. Federal Trust Corporation may not resume these interest payments on the debentures until it receives prior regulatory approval from the Office of Thrift Supervision. We anticipate that we would not request such approval unless we complete our stock offering, or otherwise raise additional capital as required by the terms of the Cease and Desist Order entered into with the Office of Thrift Supervision.

The following table is a reconciliation of stockholder s equity for Federal Trust Bank calculated in accordance with accounting principles generally accepted in the United States of America to regulatory capital ($ in thousands):

	At March 31, 2008	
	Tier I	Total Risk-Based
Federal Trust Bank s stockholder equity in accordance with GAAP	$ 40,029	$ 40,029
Add (deduct):		
Unrealized losses on investments	887	887
Excess net deferred tax assets	(7,499)	(7,499)
General valuation allowances		5,488
Regulatory capital	$ 33,417	$ 38,905

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The following table is a reconciliation of stockholder s equity for Federal Trust Bank calculated in accordance with accounting principles generally accepted in the United States of America to regulatory capital ($ in thousands):

	At December 31, 2007	
	Tier I	Total Risk-Based
Federal Trust Bank s stockholder equity in accordance with GAAP	$ 42,232	$ 42,232
Add (deduct):		
Unrealized losses on investments	698	698
Excess net deferred tax assets	(6,189)	(6,189)
General valuation allowances		5,897
Regulatory capital	$ 36,741	$ 42,638

At December 31, 2007 and March 31, 2008, Federal Trust Bank exceeded each of its minimum capital requirements; however, at December 31, 2007 and March 31, 2008, Federal Trust Bank s risk-based capital ratio was below the well capitalized threshold, and therefore Federal Trust Bank was considered to be adequately capitalized at both December 31, 2007 and March 31, 2008.

Inflation

Inflation affects our financial condition and operating results. However, because most of our assets are monetary in nature, the effect is less significant compared to other commercial or industrial companies with heavy investments in inventories and fixed assets. Inflation influences the growth of total banking assets, which in turn produces a need for an increased equity capital base to support growing banks. Inflation also influences interest rates and tends to raise the general level of salaries, operating costs and purchased services. We have not attempted to measure the effect of inflation on various types of income and expense due to difficulties in quantifying the impact. We engage in various asset/liability management strategies to control interest rate sensitivity and minimize exposure to interest rate risk. Prices for banking products and services are continually reviewed in relation to current costs and local competition.

Off-Balance Sheet Financial Instruments

We have at any time a significant number of outstanding commitments to extend credit. These arrangements are subject to strict credit control assessments and each customer s creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if we deem it necessary upon extension of credit, is based on management s credit evaluation of the counterparty.

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. Because some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We evaluate each customer s creditworthiness on a case-by-case basis.

Standby letters of credit are conditional commitments we issue to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially, all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. At March 31, 2008, we had standby letters of credit commitments of approximately $663,000, the majority of which was to one commercial loan customer, which was secured by real estate.

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Loan commitments written have off-balance sheet credit risk because only original fees are recognized in the balance sheet until the commitments are fulfilled or expire. Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted. The credit risk amounts are equal to the contractual amounts, assuming that the amounts are fully advanced, and that collateral or other security is of no value.

Our policy is to require customers to provide collateral prior to the disbursement of approved loans. The amount of collateral obtained, if we deem it necessary upon extension of credit, is based on management s credit evaluation of the counterparty. The collateral we hold is primarily real estate and income producing commercial properties, but may include accounts receivable and inventory.

The following summarizes our contractual obligations, including certain on-balance-sheet and off-balance sheet obligations, at December 31, 2007($ in thousands):

	Payments Due by Period				
	Total	One Year or Less	Greater Than One Year, Up To Three Years	Greater Than Three Years, Up To Five Years	Greater than Five Years
Time deposit maturities	$ 327,508	$ 290,910	$ 30,062	$ 6,536	$
Federal Home Loan Bank advances assumed final maturity	152,000	12,000	51,000	34,000	55,000
Undisbursed construction and line of credit loans	40,054	40,054			
Loan Commitments	12,282	12,282			
Junior subordinated debentures assumed final maturity	5,155				5,155
Accrued interest payable	2,597	2,597			
Standby letters of credit	986	986			
Other borrowings	16	16			
Total	$ 540,598	$ 358,845	$ 81,062	$ 40,536	$ 60,155

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BUSINESS OF FEDERAL TRUST CORPORATION AND FEDERAL TRUST BANK

Federal Trust Corporation

Federal Trust Corporation is a Florida Corporation that was organized in February 1989 for the purpose of becoming the unitary savings and loan holding company of Federal Trust Bank. Federal Trust Corporation s primary operating subsidiary is Federal Trust Bank. The operations of Federal Trust Mortgage Company, another subsidiary of Federal Trust Corporation, were consolidated into Federal Trust Bank in April 2008. Federal Trust Corporation has also issued trust preferred securities through another subsidiary, Federal Trust Statutory Trust I. At March 31, 2008, Federal Trust Corporation had consolidated assets of $672.9 million, deposits of $454.0 million and shareholders equity of $37.3 million.

Federal Trust Bank

Federal Trust Bank is a federally chartered stock savings bank headquartered in Sanford, Florida. It was organized in 1989, and currently conducts its business from its corporate headquarters and 11 branch offices. Federal Trust Bank s primary business is obtaining funds in the form of customer deposits and Federal Home Loan Bank advances, and investing such funds in permanent loans secured by residential or commercial real estate, and in various types of construction, commercial and consumer loans and in investment securities.

Federal Trust Mortgage Company

Federal Trust Mortgage Company began operations in January 2006 as a wholly owned subsidiary of Federal Trust Corporation. Until April 2008, Federal Trust Mortgage Company originated residential mortgage loans, purchased and sold mortgage loans in the secondary market, and serviced residential mortgage loans, including loans in Federal Trust Bank s portfolio. When Federal Trust Mortgage Company began operations, the mortgage origination and servicing staff of Federal Trust Bank were transferred to Federal Trust Mortgage Company. The operations of Federal Trust Mortgage Company, including its residential loan staff, were consolidated into Federal Trust Bank in April 2008. Also in April of 2008, certain staff reductions in our residential loan department were completed to reflect current market conditions and origination volumes.

Segment Reporting

Reportable segments are business units that offer different products and services and require different management and marketing strategies. Our management considers that all banking operations are essentially similar within each of our subsidiaries and that there are no reportable operating segments.

Market Area and Competition

We provide a wide variety of community banking services through our 11 full-service branch offices located in Orange, Seminole, Volusia, Lake and Flagler Counties. The total population of the five-county area is approximately 2.3 million, with the majority of the population in Orange and Seminole Counties. Our Sanford branch is located approximately 20 miles northeast of downtown Orlando. Sanford is the second largest city in Seminole County and is the county seat. Our Winter Park branch is located 13 miles southeast of Sanford and approximately seven miles northeast of downtown Orlando. Our Casselberry, Wekiva and Lake Mary branches are located in Seminole County between our Sanford and Winter Park branches. Our Wekiva branch is located in southwest Seminole County approximately seven miles west of our Casselberry branch. Our administrative and operations offices are located in Sanford. New Smyrna Beach and Port Orange are located in Volusia County near the Atlantic Ocean, south of Daytona Beach, Florida. Deltona and Orange City are both located in the western part of Volusia County along the Interstate 4 corridor between Orlando and Daytona Beach. Eustis is located in Lake County, 26 miles west of our Sanford branch. In September 2007, we opened our Palm Coast branch in Flagler County, which is approximately 32 miles north of Daytona Beach; and the Wekiva branch located in Longwood, Florida, was opened in October 2007.

Our primary market area is comprised of the counties in which our branches are located, as well as Osceola County, which is contiguous to Orange County. Although our primary market area is best known as a tourist destination, with over 20 million visitors a year, the Central Florida area has become a center for industries such as aerospace and defense, electro-optics and lasers, computer simulated training, computer networking and data management. Many companies, including two in the Fortune 500, have chosen the greater Orlando area as a base for corporate, regional and divisional headquarters. The Orlando-Kissimmee metropolitan statistical area (MSA) has one of the strongest economies in the state of Florida. This MSA currently has an unemployment rate of 2.9% and remains near the top of the state in key growth indicators. The Orlando area currently leads the state of Florida in projected employment and population growth from 2007 to 2010, with estimated annual growth rates of 3.0% and 2.8%, respectively.

The area is also home to the University of Central Florida with an enrollment of approximately 48,700, one of the largest and fastest growing schools in the Florida state university system, as well as Valencia Community College and Seminole Community College, which have a combined enrollment exceeding 72,000. Winter Park is home to Rollins College, Florida s oldest college. In addition, Stetson University, Florida s first private university, is located in Volusia County.

We face intense competition in both attracting and retaining deposits and in lending funds. The primary factors in competing for deposits are the quality of customer service, the convenience of branch locations and interest rates offered on our deposit products. Direct competition for deposits comes from other savings institutions, commercial banks and nontraditional financial service providers, including insurance companies, consumer finance companies, brokerage houses and credit unions. Additional significant competition for deposits comes from corporate and government securities and money market funds. The primary factors in competing for loans are loan terms, interest rates and loan origination fees. Competition for origination of real estate loans typically comes from other savings institutions, commercial banks, mortgage bankers, insurance companies and real estate investment trusts.

Consolidation within the banking industry, and in particular within Florida, has remained constant over the past several years. As of June 30, 2007, based upon market share, the five largest bank holding companies with operations in Florida but headquartered out of state controlled approximately 53.5% of the bank deposits within the state. Federal Trust Bank is one of the largest independent financial institutions with headquarters and all of our branches in Central Florida. At the same time that we have seen continued consolidation of local community banks, seasoned banking executives continue to spearhead the formation of new community banks with aggressive capital and growth plans.

Geographic deregulation also has had a material affect on the banking industry. Federal and state legislation has removed most of the barriers to interstate banking. Under Florida Law, an out-of-state bank holding company may acquire banks in Florida that have been in existence for at least three years and, as a result, many large national financial institutions have purchased banks in Florida and expanded their Florida operations.

Lending Activities

General. Our residential lending traditionally has included the origination, purchase and sale of mortgage loans for the purchase, refinance or construction of residential real property, primarily secured by first liens on such property. These loans are typically conventional home mortgage loans or lot loans that are not insured by the Federal Housing Administration or partially secured by the Veterans Administration. Loans with fixed rates beyond five years are generally sold into the secondary market. Loans with fixed rates of five years or less are generally retained in our portfolio. Interest rates for construction loans are generally tied to the prime rate and float daily during the construction period. Such loans are converted to either fixed or adjustable permanent mortgages upon completion of construction. We also make home equity loans with second liens, and with interest rates that generally float daily with the prime rate. Other consumer related loans include savings account loans secured by certificates of deposit at an interest rate above the rate paid on the certificate. In January 2006, our residential mortgage origination and underwriting functions were transferred to our subsidiary, Federal Trust Mortgage

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Company. However, the staff and operations of Federal Trust Mortgage Company were consolidated into Federal Trust Bank in April 2008.

Our commercial real estate lending traditionally has included the origination of mortgage loans for the purchase, refinance or development of commercial and industrial properties. The loans are secured primarily by first liens on the property. Interest rates for these loans are generally tied to the prime rate and adjust daily. However, we also originate fixed-rate commercial real estate loans; such loans generally have a term of five years or less.

During 2008 and 2007, we increased our emphasis on commercial business lending in our Central Florida market area and on cross marketing business deposit accounts. Included in commercial lending are our business banking loans to local businesses secured by real estate used in the enterprise and, where appropriate, other assets of the borrower. We also make real estate loans for the acquisition and development of land for residential and income-producing projects. Commercial loans are generally priced on a floating prime rate basis or fixed at repricing intervals not to exceed five years. As a matter of policy, commercial loans are generally guaranteed by each borrower s principals.

Loan Underwriting and Review. Our lending activities are subject to underwriting standards and loan origination procedures prescribed by the Board of Directors of Federal Trust Bank and management. To strengthen our loan underwriting, we have separated the commercial loan function into three parts: sales, credit and administration. All loan requests are submitted to our underwriting staff at our administrative and operations office in Sanford to ensure compliance with our underwriting standards. In addition to information submitted by the applicant, we obtain a credit report on individuals sponsoring the credit request, evaluate market risk, assess the value of the collateral pledged and identify primary and secondary sources of repayment. Loan requests for commercial credit typically include the purpose of the request, current financial statements on the borrower, collateral offered to secure the loan, source of repayment information and guarantor financial information.

Our lending policy for loans secured by real estate generally requires that the property be appraised by an independent, outside appraiser who is approved by the Board of Directors of Federal Trust Bank. The credit department has responsibility for all of the items described above, in addition to assisting in the structuring of the loan to assure compliance with our loan policy. A separate loan administration team is responsible for closing the loan and administering it after closing to assure compliance with the underlying credit approval. Each of these departments is separate from our sales team, which originates requests and maintains contact with the customers.

Loans are approved at various management levels up to and including the Directors Loan Committee of Federal Trust Bank s Board of Directors. Loan approvals are made in accordance with delegated authority levels approved by our Board of Directors annually. Generally, loans less than $250,000 are approved by authorized officers and underwriters. Loans in excess of $250,000 and up to $4,000,000 require the concurrence of three or more authorized officers. Loans greater than $4,000,000 require approval of Federal Trust Bank s Board of Directors Loan Committee. For loan approvals, the aggregate loans to the borrower and their related interests are used for determining the appropriate lending authority required for any new loans or renewals.

We conduct ongoing, internal reviews of our loan portfolio with the objective of identifying potential problems early to allow for faster resolution. During each of the last two years we have engaged an independent firm to evaluate segments of our loan portfolio to assess the underwriting, credit grading and credit quality of the portfolio. In addition, the Office of Thrift Supervision performs testing of our underwriting, credit administration, credit risk grading and credit quality. Based on these inspections, we then assign a grade to our loans using the classifications described under Classified Assets; Potential Problem Loans. In light of current market and portfolio conditions, we are evaluating our loan grading and review process for potential improvements.

General Lending Policies. We regularly review our loan policies to conform them to then-existing market conditions. As a part of this review we may determine the need to more completely rewrite and restructure our loan policies to ensure consistency as well as compliance with regulatory changes. We are currently undertaking such a review of our loan policies.

Our policy for all real estate loans is to have a valid mortgage lien on real estate securing a loan and to obtain a title insurance policy, which insures the validity and priority of the lien. Borrowers must also obtain hazard insurance policies prior to closing, and when the property is in a flood prone area, flood insurance is required.

While our policy is to lend up to 80% of the appraised value of real estate securing a loan, we are permitted to lend up to 100% of the appraised value of real property securing a residential mortgage loan. However, if the amount of a conventional mortgage loan (including a construction loan or a combination construction and permanent loan) originated or refinanced exceeds 90% of the appraised value of the underlying property, federal regulations require that private mortgage insurance be obtained on that portion of the principal amount of the loan that exceeds 80% of the appraised value of the property. We originate fully-amortizing and interest-only single-family residential mortgage loans up to a 97% loan-to-value ratio if the required private mortgage insurance is obtained. Loans over a 97% loan-to-value ratio, if originated, would be made under special community support programs or one of the Federal Housing Administration, Veterans Administration or United States Department of Agriculture Rural Housing Service or insurance programs. The loan-to-value ratio on a home loan secured by a junior lien generally does not exceed 100%, including the amount of the first mortgage on the collateral. With respect to home loans granted for construction or combination construction/permanent financing, we will lend up to 90% of the appraised value of the property on an as completed basis.

Over the past five years, neither Federal Trust Bank nor Federal Trust Mortgage Company has originated or purchased any loans to borrowers with low credit scores, which are typically referred to as sub-prime borrowers. In addition, we have not originated or purchased any loans with below market interest rates that result in increasing loan balances or negative amortization. We have not originated and do not hold any reverse equity mortgages.

The loan-to-value ratio on multi-family residential and commercial real estate loans is generally limited to 80% of appraised value. Special purpose commercial real estate loans such as land or acquisition and development loans are underwritten at loan-to-value ratios of 75% or less based on the lesser of cost or a current appraisal. Loans that exceed our policy are monitored, reported to the Board of Directors of Federal Trust Bank and do not exceed our regulatory lending limits. In addition to considering loan-to-value ratios, we may also consider, among other factors, debt service coverage ratios, balance sheet and income statement covenants, pre-sale or pre-lease of commercial real estate properties and restrictions on the use of proceeds.

Historically, we were an active purchaser and seller of pools of conforming residential loans in the secondary market. However, recent changes in market conditions and our business philosophy have caused us to limit purchase activities. We do not currently intend to purchase loan pools (either inside or outside of our market area) going forward.

The maximum amount that Federal Trust Bank may loan to one borrower and the borrower s related entities at March 31, 2008, was approximately $6.5 million. Due to the losses we recognized during 2007 and the first quarter of 2008 and the corresponding decrease in our capital, our loans to one borrower limit decreased from $8.8 million at December 31, 2006. As a result, we have four loan relationships at March 31, 2008, aggregating $36.5 million that exceed our current regulatory lending limits. Federal Trust Bank will not be allowed to advance additional funds to these borrowers and will work with the borrowers to bring their loan balances within our current loan to one borrower limitation.

In addition to loans secured by real estate, Federal Trust Bank regularly makes loans to business customers secured by other types of collateral such as accounts receivable, inventory and equipment. We have established different lending guidelines depending on the specific type of collateral, and we have established monitoring procedures consistent with the collateral type.

Federal regulations permit Federal Trust Bank to originate or invest in loans secured by non-residential or commercial real estate in an aggregate amount up to four times our regulatory capital. At March 31, 2008, this limit

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allowed us to originate or invest in non-residential or commercial real estate loans in an aggregate amount up to $155.6 million. At such date, we had $77.1 million in loans secured by non-residential or commercial real estate.

The risk of non-payment of loans is inherent in all lending activities. To address this risk, we carefully evaluate all loan applicants and attempt to minimize our credit risk exposure by using comprehensive loan application and approval procedures that we have established for each category of loan. In determining whether to make a loan, we consider the borrower s credit history, analyze the borrower s income and ability to service the loan, and evaluate the need for collateral to secure recovery in the event of default. While we do not use credit protection insurance or derivatives to mitigate our credit risk, management monitors market conditions and, based on then-current conditions, may change product offerings, interest rates charged and collateral requirements. We do not conduct stress testing or sensitivity analysis for risk management purposes. An allowance for loan losses is maintained based upon assumptions and judgments regarding the ultimate collectability of loans in our portfolio.

Income from Lending Activities and Loan Servicing. We assess fees in connection with loan commitments and originations, loan modifications, late payments, assumptions related to changes of property ownership and for miscellaneous services related to loans. Through Federal Trust Mortgage Company, we also received fees for servicing residential loans owned by other financial institutions. At March 31, 2008, we were servicing $47.1 million in residential loans for other institutions, which produces servicing income, net of amortization of mortgage servicing rights. Federal Trust Mortgage Company serviced Federal Trust Bank s residential mortgage loans through an agreement with a third party. This third party charges standard servicing and administration fees for these services. Our agreement with the third party ends in December 2009.

Commitment and other loan fees, and direct costs typically are charged at the time of loan origination and may be a fixed fee or a percentage of the amount of the loan. Under current accounting standards, such fees cannot be recognized as income at closing and are deferred and taken into income over the contractual life of the loan, using a level yield method. If a loan is prepaid or refinanced, all remaining net deferred fees with respect to such loan are recognized in income at that time.

Employees

At March 31, 2008, we had a total of 117 full-time employees. We consider our working relations with our employees to be excellent. We currently maintain a comprehensive employee benefit program providing, among other benefits, hospitalization and major medical insurance, long-term disability insurance, life insurance, education assistance, an employee stock ownership plan and a 401(k) Plan. For 2007 and the first quarter of 2008, we did not make contributions to our employee stock ownership plan due to our net operating losses. These benefits are considered by our management to be competitive with employee benefits provided by other major employers in our market areas. Our employees are not represented by any collective bargaining group.

Seasonality

We do not consider our business to be seasonal in nature.

Monetary Policies

The results of our operations are affected by credit policies of monetary authorities, particularly the Federal Open Market Committee of the Board of Governors of the Federal Reserve System. The instruments of monetary policy employed by the Federal Reserve Board include open market operations in U.S. government securities, changes in the federal funds and discount rates on member bank borrowings and changes in reserve requirements against member bank deposits. In view of changing conditions in the national economy and in the financial markets, as well as the effect of action by monetary and fiscal authorities, including the Federal Reserve Board, no accurate prediction can be made as to possible future changes in interest rates, deposit levels, loan demand or our business results and earnings.

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Properties

The following table sets forth certain information on our principal offices ($ in thousands):

	Date Opened	Net Carrying Value of Real Property		Lease Expiration
Sanford Branchz 420 West First Street Sanford, Florida 32771	1998	$	1,089	N/A
Winter Park Branch 655 West Morse Blvd. Winter Park, Florida 32789	2000	$	145	12/31/10
Casselberry Branch 487 Semoran Boulevard Casselberry, Florida 32707	2002	$	1,273	N/A
New Smyrna Beach Branch 763 East Third Avenue New Smyrna Beach, Florida 32169	2000 (1)	$	139	10/11/25
Orange City Branch 2690 Enterprise Road Orange City, Florida 32763	2003	$	1,289	N/A
Deltona Branch 901 Doyle Road Deltona, Florida 32725	2003	$	884	N/A
Lake Mary Branch (2) 791 Rinehart Road Lake Mary, Florida 32746	2006	$	1,221	3/31/25
Port Orange Branch 3880 S. Nova Road Port Orange, Florida 32127	2006	$	1,571	N/A
Eustis Branch	2006	$	1,458	N/A

256 W. County Road 44 Eustis, Florida 32726				
Palm Coast Branch [3] 108 Central Avenue Palm Coast, Florida 32164	2007	$	2,078	7/06/26
Wekiva Branch 505 Wekiva Springs Road, Ste 700 Longwood, Florida 32779	2007	$	656	N/A
Corporate Headquarters [4] 312 West First Street Sanford, Florida 32771	2001	$	5,903	N/A

(1) Reflects opening of branch office originally located at 761 East Third Street, New Smyrna, Florida. The new location was opened in December 2007.

(2) Federal Trust Bank has a ground lease on the Lake Mary branch site. The lease has a 20-year term with optional renewal periods. The building and improvements for the branch are owned by Federal Trust Bank.

(3) Federal Trust Bank has a ground lease on the Palm Coast branch site. The lease has a 20-year term with optional renewal periods. The building and improvements for the branch are owned by Federal Trust Bank.

(4) On January 30, 2007, we exercised our option to purchase the Sanford corporate headquarters building. The net settlement amount including closing costs was $2.4 million. The building has a total of 48,994 rentable square feet of which we occupy 28,168 square feet and 20,826 square feet is rented to various non-affiliated tenants.

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Federal Trust Bank owns a parcel of land in Edgewater, in Volusia County, Florida. The parcel was purchased for a future branch location, however, the plans for the branch were cancelled and we currently plan to sell the parcel of land.

Management considers our properties to be well maintained.

Legal Proceedings

Federal Trust Corporation and its subsidiaries may become parties to various legal proceedings arising from the normal course of its business. There are no material pending legal proceedings to which Federal Trust Corporation or its subsidiaries is a party or to which any of its property is subject.

SUPERVISION AND REGULATION

General

As a federally chartered savings bank, Federal Trust Bank is regulated and supervised by the Office of Thrift Supervision and the Federal Deposit Insurance Corporation. This supervision and regulation establishes a comprehensive framework of activities in which we may engage, and is intended primarily for the protection of the Federal Deposit Insurance Corporation s deposit insurance fund and depositors. Under this system of federal regulation, financial institutions are periodically examined to ensure that they satisfy applicable standards with respect to their capital adequacy, asset quality, management, earnings, liquidity and sensitivity to market interest rates. Federal Trust Bank also is a member of, and owns stock in, the Federal Home Loan Bank of Atlanta, which is one of the 12 regional banks in the Federal Home Loan Bank System. Federal Trust Bank also is regulated, to a lesser extent, by the Board of Governors of the Federal Reserve System, governing reserves to be maintained against deposits and other matters. The Office of Thrift Supervision examines Federal Trust Corporation and Federal Trust Bank and prepares reports for consideration by our Board of Directors on any operating concerns and deficiencies. Federal Trust Bank s relationship with our depositors and borrowers also is regulated to a great extent by both federal and state laws, especially in matters concerning the ownership of deposit accounts and the form and content of our loan documents.

There can be no assurance that changes to existing laws, rules and regulations, or any other new laws, rules or regulations, will not be adopted in the future, which could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition or prospects. Any change in these laws or regulations, or in regulatory policy, whether by the Federal Deposit Insurance Corporation, the Office of Thrift Supervision or Congress, could have a material adverse impact on our business, financial condition or operations.

Cease and Desist Orders

Following examinations of the operations of Federal Trust Corporation and Federal Trust Bank, as of September 30, 2007, the Office of Thrift Supervision noted weaknesses and failures relating primarily to our real estate lending practices and asset quality, and their impact on our capital and earnings. The Office of Thrift Supervision communicated its findings to Federal Trust Corporation and Federal Trust Bank on February 8, 2008. We have taken action and implemented procedures that management believes will address the weaknesses identified by the Office of Thrift Supervision. Effective May 12, 2008, Federal Trust Corporation and Federal Trust Bank consented to the issuance by the Office of Thrift Supervision of cease and desist orders to Federal Trust Corporation and Federal Trust Bank, which are designed to ensure that the weaknesses noted in the recently concluded examinations are properly addressed. The orders provide that:

- we must submit for review and approval by the Office of Thrift Supervision a capital plan to raise additional capital for Federal Trust Bank by July 15, 2008, which date the Office of Thrift Supervision has subsequently extended to September 30, 2008 and, if the additional capital cannot be raised by such date, to enter into a merger agreement with a merger or acquisition partner by August 31, 2008, which date the Office of Thrift Supervision has subsequently extended to November 15, 2008. The successful completion of the stock offering would satisfy our requirement to raise capital under the Cease and Desist Order;

Federal Trust Bank must submit for review and approval or non-objection by the Office of Thrift Supervision a detailed business plan to strengthen and improve Federal Trust Bank s operations, earnings, liquidity and capital;

Federal Trust Bank must submit quarterly reports to the Office of Thrift Supervision regarding compliance with the business plan;

until the Office of Thrift Supervision has approved or provided its non-objection to Federal Trust Bank s business plan, Federal Trust Bank will not be permitted to increase its current levels of construction loans, acquisition and development loans, non-residential permanent mortgage loans, land loans and certain other loans without the prior approval of the Office of Thrift Supervision;

until the Office of Thrift Supervision has approved or provided its non-objection to Federal Trust Bank s business plan, Federal Trust Bank will not be permitted to increase its total assets during any quarter in excess of an amount equal to the net interest credited on deposit liabilities during the quarter without the prior approval of the Office of Thrift Supervision;

Federal Trust Bank must submit for review and approval or non-objection by the Office of Thrift Supervision an asset review program that will (i) strengthen and ensure the timely identification and proper classification of problem assets, (ii) ensure adequate and proper levels of the allowance for loan and lease losses, and (iii) establish individualized resolution plans for problem assets;

Federal Trust Bank will not be permitted to declare a dividend without the prior written approval of the Office of Thrift Supervision;

Federal Trust Bank must revise its legal lending limit policies and procedures to ensure compliance with applicable law and devise an action plan to correct any legal lending limit violations;

Federal Trust Bank will not be permitted to enter into, renew or modify any agreements with us or enter into affiliated transactions with us, without prior approval of the Office of Thrift Supervision;

Federal Trust Bank will not be permitted to enter into any third-party contracts for services outside the normal course of business without prior review and approval of the Office of Thrift Supervision;

the Board of Directors of Federal Trust Bank must submit a plan to strengthen the Board of Directors oversight of management and Federal Trust Bank s operations;

the Board of Directors of Federal Trust Bank must conduct a review of Federal Trust Bank s lending functions and assess the qualifications, experience and proficiency of Federal Trust Bank s management and lending staff; and

the Board of Directors of Federal Trust Bank must establish a committee comprised of non-employee directors to monitor and coordinate Federal Trust Bank s compliance with its provisions of the enforcement order.

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Additional Office of Thrift Supervision Restrictions

On April 25, 2008, Federal Trust Corporation and Federal Trust Bank were notified by the Office of Thrift Supervision that the following regulatory and supervisory restrictions apply to Federal Trust Corporation and Federal Trust Bank, some of which restrictions are similar to those included in the cease and desist orders:

- Federal Trust Corporation and Federal Trust Bank are not eligible to have applications or notices processed by the Office of Thrift Supervision on an expedited basis;
- Federal Trust Corporation and Federal Trust Bank are required to provide prior notice to the Office of Thrift Supervision for additions or changes to directors or senior executive officers;
- all employment contracts or compensation arrangements, including severance payments, to directors and senior executive officers are subject to prior review by the Office of Thrift Supervision;
- the ability of Federal Trust Corporation and Federal Trust Bank to make any compensatory payments to any person previously affiliated with Federal Trust Corporation or Federal Trust Bank following such person s termination of employment is restricted by applicable federal regulation; and
- Federal Trust Bank s growth is restricted in that it may not increase its assets during any quarter in excess of an amount equal to net interest credited on deposit liabilities.

In addition, the Office of Thrift Supervision placed the following restrictions on our operations, some of which restrictions are similar to those included in the cease and desist orders:

- Federal Trust Bank may not pay any dividends or make any form of capital distribution without the prior written approval of the Office of Thrift Supervision, and Federal Trust Corporation may not request or accept any dividend or any form of capital distribution from Federal Trust Bank without the prior written approval of the Office of Thrift Supervision;
- Federal Trust Corporation may not declare or pay any dividend without the prior written approval of the Office of Thrift Supervision, and Federal Trust Corporation must request Office of Thrift Supervision approval for the payment of a dividend in writing at least 30 calendar days prior to the proposed dividend declaration date;
- Federal Trust Corporation may not issue any debt securities or otherwise incur any additional debt without the prior written approval of the Office of Thrift Supervision; and
- Federal Trust Corporation may not make any payments of any kind, or in any form, to any person or entity in an amount exceeding $5,000 in any calendar month without the prior written approval of the Office of Thrift Supervision.

Federal Trust Corporation has received Office of Thrift Supervision approval to pay certain fees and expenses in connection with the stock offering.

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U.S. Treasury Department Report

On March 31, 2008, the U.S. Treasury Department issued a report recommending ways in which the federal financial regulatory structure could be modernized. With respect to the banking industry, the report recommends the elimination of the federal thrift charter to the national bank charter over a two-year period and the merger of the Office of Thrift Supervision into the Office of the Comptroller of the Currency, the administrator of the national banks. Additionally, in the long term, the report recommends the consolidation of all federal banking regulators into a single new bank regulator and the establishment of a single federal bank charter. There can be no assurance that the report will result in legislation and that legislation would ultimately be enacted.

Federal Banking Regulation

Change in Control Regulations. Under the Change in Bank Control Act, no person may acquire control of an insured federal savings bank or its parent holding company unless the Office of Thrift Supervision has been given 60 days prior written notice and has not issued a notice disapproving the proposed acquisition. In addition, Office of Thrift Supervision regulations provide that no company may acquire control of a savings bank without the prior approval of the Office of Thrift Supervision. Any company that acquires such control becomes a savings and loan holding company subject to registration, examination and regulation by the Office of Thrift Supervision.

Control, as defined under federal law, means ownership, control of or holding irrevocable proxies representing more than 25% of any class of voting stock, contribution of more than 25% of the capital, control in any manner of the election of a majority of the institution s directors, or a determination by the Office of Thrift Supervision that the acquiror has the power to direct, or directly or indirectly to exercise a controlling influence over, the management or policies of the institution. Acquisition of more than 10% of any class of a savings bank s voting stock, if the acquiror is also subject to any one of eight control factors, constitutes a rebuttable presumption of control under the regulations. Such control factors include the acquiror being one of the two largest shareholders. The presumption of control may be rebutted by submission to the Office of Thrift Supervision, prior to the acquisition of stock or the occurrence of any other circumstances giving rise to such presumption, of a statement setting forth facts and circumstances which would support a finding that no control relationship will exist and containing certain undertakings. The regulations provide that persons or companies which acquire beneficial ownership exceeding 10% or more of any class of a savings bank s stock who do not intend to participate in or seek to exercise control over a savings bank s management or policies may qualify for a safe harbor by filing with the Office of Thrift Supervision a certification form that states, among other things, that the holder is not in control of such institution, is not subject to a rebuttable presumption of control and will take no action which would result in a determination or rebuttable presumption of control without prior notice to or approval of the Office of Thrift Supervision, as applicable. There are also rebuttable presumptions in the regulations concerning whether a group of investors is deemed to be acting in concert, including presumed action in concert among members of an immediate family.

The Office of Thrift Supervision may prohibit an acquisition of control if it finds, among other things, that the acquisition would result in a monopoly or substantially lessen competition, the financial condition of the acquiring person might jeopardize the financial stability of the institution, or the competence, experience or integrity of the acquiring person indicates that it would not be in the interest of the depositors or the public to permit the acquisition of control by such person.

Transactions with Related Parties. A federal savings bank s authority to engage in transactions with its affiliates is limited by Office of Thrift Supervision regulations and Regulation W of the Federal Reserve Board, which implements Sections 23A and 23B of the Federal Reserve Act. The term affiliates for these purposes generally means any company that controls or is under common control with an institution. Federal Trust Corporation and its non-savings institution subsidiaries are deemed to be affiliates of Federal Trust Bank. In general, transactions with affiliates must be on terms that are as favorable to the savings bank as comparable transactions with non-affiliates. In addition, certain types of these transactions are restricted to an aggregate percentage of the savings bank s capital. Collateral in specified amounts must usually be provided by affiliates in order to receive loans from the savings bank. In addition, Office of Thrift Supervision regulations prohibit a savings bank from lending to any of its affiliates that are engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate, other than a subsidiary.

Federal Trust Bank s authority to extend credit to its directors, executive officers and 10% or greater shareholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve Board and regulations of the Office of Thrift Supervision. Among other things, these provisions require that extensions of credit to insiders (i) be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features, and (ii) not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of Federal Trust Bank s capital. In addition, extensions of credit in excess of certain limits must be approved by Federal Trust Bank s Board of Directors.

Capital Distributions. Office of Thrift Supervision regulations govern capital distributions by a federal savings bank, which include cash dividends, stock repurchases and other transactions charged to the institution s capital account. A savings bank must file an application with the Office of Thrift Supervision for approval of a capital distribution if:

- the total capital distributions for the applicable calendar year exceed the sum of the savings bank s net income for that year to date plus the savings bank s retained net income for the preceding two years;
- the savings bank would not be at least adequately capitalized following the distribution;
- the distribution would violate any applicable statute, regulation, agreement or Office of Thrift Supervision-imposed condition; or
- the savings bank is not eligible for expedited treatment of its filings.

Even if an application is not otherwise required, every savings bank that is a subsidiary of a holding company must still file a notice with the Office of Thrift Supervision at least 30 days before the Board of Directors declares a dividend or approves a capital distribution.

The Office of Thrift Supervision may disapprove a notice or application if:

- the savings bank would be undercapitalized following the distribution;
- the proposed capital distribution raises safety and soundness concerns; or
- the capital distribution would violate a prohibition contained in any statute, regulation or agreement.

Because of Federal Trust Bank s operating losses for the first quarter of 2008 and for the year ended December 31, 2007, and because of additional operating restrictions that the Office of Thrift Supervision has placed on Federal Trust Bank and Federal Trust Corporation, Federal Trust Bank cannot pay dividends to Federal Trust Corporation without regulatory approval.

Capital Requirements. Office of Thrift Supervision regulations require savings banks to meet three minimum capital standards: a 1.5% tangible capital ratio, a 4% leverage ratio (3% for institutions receiving the highest examination rating) and an 8% risk-based capital ratio.

The risk-based capital standard for savings banks requires the maintenance of Tier 1 (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100%, assigned by the Office of Thrift Supervision capital regulation based on the risks inherent in the type of asset. Core capital is defined as common shareholders equity (including

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retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights, deferred tax assets and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, allowance for loan and lease losses up to a maximum of 1.25% of risk-weighted assets, and up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

In assessing an institution s capital adequacy, the Office of Thrift Supervision takes into consideration not only these numeric factors but also qualitative factors as well, and has the authority to establish higher capital requirements for individual associations where necessary. Federal Trust Bank, as a matter of prudent management, targets as its goal the maintenance of capital ratios which exceed the well capitalized requirements and that are consistent with Federal Trust Bank s risk profile. At March 31, 2008, Federal Trust Bank exceeded each of its minimum capital requirements. Its risk-based capital ratio, however, was 8.96% at March 31, 2008, which was below the threshold for being well capitalized. Federal Trust Bank was therefore characterized as adequately capitalized. In an effort to improve our capital ratio, we are in process of resolving problem assets, reducing total assets and raising additional capital through the holding company, Federal Trust Corporation.

The Office of Thrift Supervision and other federal banking agencies risk-based capital standards also take into account interest rate risk, concentration of risk and the risks of non-traditional activities. The Office of Thrift Supervision monitors the interest rate risk of individual institutions through use of their own simulation model with data provided by Federal Trust Bank. The ability of the Office of Thrift Supervision to impose individual minimum capital requirements on institutions that exhibit a high degree of interest rate risk, and the requirements of Thrift Bulletin 13a, provides guidance on the management of interest rate risk and the responsibility of boards of directors in that area.

The Office of Thrift Supervision also monitors the interest rate risk of individual institutions through analysis of the change in net portfolio value. Net portfolio value is defined as the net present value of the expected future cash flows of an entity s assets and liabilities and, therefore, hypothetically represents the value of an institution s net worth. The Office of Thrift Supervision has also used this net portfolio value analysis as part of its evaluation of certain applications or notices submitted by savings banks. The Office of Thrift Supervision, through its general oversight of the safety and soundness of savings banks, retains the right to impose minimum capital requirements on individual institutions to the extent the institution is not in compliance with certain written guidelines established by the Office of Thrift Supervision regarding net portfolio value analysis. The Office of Thrift Supervision has not imposed any such requirements on Federal Trust Bank.

See Deposit Insurance and Risk Factors Risks Related to Our Business An inability to improve our regulatory capital position could adversely affect our operations for a discussion of the effects of our capital position on our operations.

Prompt Corrective Action Regulations. Under the prompt corrective action regulations, the Office of Thrift Supervision is authorized and, under certain circumstances, required to take supervisory actions against undercapitalized savings banks. For this purpose, a savings bank is placed in one of the following five categories based on the savings bank s capital:

well capitalized (at least 5% leverage capital, 6% tier 1 risk-based capital and 10% total risk-based capital);

adequately capitalized (at least 4% leverage capital, 4% tier 1 risk-based capital and 8% total risk-based capital);

undercapitalized (less than 3% leverage capital, 4% tier 1 risk-based capital or 8% total risk-based capital);

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- significantly undercapitalized (less than 3% leverage capital, 3% tier 1 risk-based capital or 6% total risk-based capital); or

- critically undercapitalized (less than 2% tangible capital).

Generally, the Office of Thrift Supervision is required to appoint a receiver or conservator for a savings bank that is critically undercapitalized. The regulation also provides that a capital restoration plan must be filed with the Office of Thrift Supervision within 45 days of the date a savings bank receives notice or is deemed to have notice that it is undercapitalized, significantly undercapitalized or critically undercapitalized and the plan must be guaranteed by any parent holding company. The aggregate liability of a parent holding company is limited to the lesser of:

- an amount equal to 5% of the savings bank s total assets at the time it became undercapitalized ; and

- the amount that is necessary (or would have been necessary) to bring the association into compliance with all capital standards applicable with respect to such association as of the time it fails to comply with a capital restoration plan.

If a savings bank fails to submit an acceptable plan, it is treated as if it were significantly undercapitalized. In addition, numerous mandatory supervisory restrictions become immediately applicable to the savings bank, including, but not limited to, restrictions on growth, investment activities, capital distributions and affiliate transactions. The Office of Thrift Supervision may also take any one of a number of discretionary supervisory actions against undercapitalized savings banks, including the issuance of a capital directive and the replacement of senior executive officers and directors.

At March 31, 2008, Federal Trust Bank met the criteria for being considered adequately capitalized.

Standards for Safety and Soundness. Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation, and other operational and managerial standards as the agency deems appropriate. The federal banking agencies have adopted Interagency Guidelines Prescribing Standards for Safety and Soundness. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The guidelines address internal controls and information systems, internal audit systems, credit underwriting, loan documentation, interest rate risk exposure, asset growth, compensation, fees and benefits. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If the institution fails to submit an acceptable plan or implement an accepted compliance plan, the agency may take further enforcement action against the institution, including the issuance of a cease and desist order or the imposition of civil money penalties.

Deposit Insurance. Federal Trust Bank is a member of the Deposit Insurance Fund, maintained by the Federal Deposit Insurance Corporation, and Federal Trust Bank pays its deposit insurance assessments to the Deposit Insurance Fund. The Federal Deposit Insurance Reform Act of 2005 established a statutory minimum and maximum designated reserve ratio for the Deposit Insurance Fund and granted the Federal Deposit Insurance Corporation greater flexibility in establishing the required reserve ratio. In its regulations implementing the Federal Deposit Insurance Reform Act of 2005, the Federal Deposit Insurance Corporation has set the current annual designated reserve ratio for the Deposit Insurance Fund at 1.25%.

In order to maintain the Deposit Insurance Fund, member institutions are assessed an insurance premium. The amount of each institution s premium is currently based on the balance of insured deposits and the degree of risk the institution poses to the Deposit Insurance Fund. Under the assessment system, the Federal Deposit Insurance Corporation assigns an institution to one of nine risk categories using a two-step process based first on capital ratios (the capital group assignment) and then on other relevant information (the supervisory subgroup

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assignment). Each risk category is assigned an assessment rate. Assessment rates currently range from 0.05% of deposits for an institution in the highest category (i.e., well capitalized and financially sound, with no more than a few minor weaknesses) to 0.43% of deposits for an institution in the lowest category (i.e., undercapitalized and substantial supervisory concerns). The Federal Deposit Insurance Corporation is authorized to adjust the assessment rates as necessary to maintain the Deposit Insurance Fund. Federal Trust Bank s assessment rate increased in February 2008 from 0.10% to 0.28% per $100 of deposits. This increase in insurance assessments will have an adverse effect on the earnings of Federal Trust Bank in 2008. The rate increase in 2008 was due to the net operating loss for the year ended December 31, 2007, and the level of non-performing assets together with the fact that our risk-based capital ratio fell below the well capitalized level at the end of 2007.

In addition, all Federal Deposit Insurance Corporation-insured institutions are required to pay a pro rata portion of the interest due on obligations issued by the Financing Corporation to fund the closing and disposal of failed thrift institutions by the Resolution Trust Corporation. At March 31, 2008, the Federal Deposit Insurance Corporation assessed Deposit Insurance Fund-insured deposits 1.14 (0.0114%) basis points per $100 of deposits to cover those obligations. The Financing Corporation rate is adjusted quarterly to reflect changes in assessment bases of the Deposit Insurance Fund. This obligation will continue until the Financing Corporation bonds mature in 2017.

Loans to One Borrower. A federal savings bank generally may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned, not in excess of 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. The maximum amount that could have been loaned by Federal Trust Bank to one borrower and the borrower s related entities at March 31, 2008, was approximately $6.5 million. Due to the losses we recognized during the first quarter of 2008 and during 2007 and the corresponding decrease in capital, our loans to one borrower limit decreased from $8.8 million at December 31, 2006 and $6.8 million at December 31, 2007. As a result, we have four loan relationships aggregating $36.5 million that exceed our current limitation. Federal Trust Bank will not be allowed to advance additional funds to these borrowers and will work with the borrowers to bring their balance within our current loan-to-one-borrower limitation.

Business Activities. A federal savings bank derives its lending and investment powers from the Home Owners Loan Act, and the regulations of the Office of Thrift Supervision. Under these laws and regulations, Federal Trust Bank may invest in mortgage loans secured by residential and commercial real estate, commercial business and consumer loans, certain types of debt securities and certain other loans and assets, subject to applicable limits. Federal Trust Corporation also may establish subsidiaries that may engage in activities not otherwise permissible for Federal Trust Bank directly, including real estate investment, securities brokerage and insurance agency services, subject to applicable registration and licensing requirements.

Qualified Thrift Lender Test. As a federal savings bank, Federal Trust Bank is subject to the qualified thrift lender test. Under the qualified thrift lender test, Federal Trust Bank must maintain at least 65% of its portfolio assets in qualified thrift investments in at least nine months of the most recent 12-month period. Portfolio assets generally means total assets of a savings institution, less the sum of specified liquid assets up to 20% of total assets, goodwill and other intangible assets, and the value of property used in the conduct of the institution s business.

Qualified thrift investments include various types of loans made for residential and housing purposes, investments related to such purposes, including certain mortgage-backed and related securities, and loans for personal, family, household and certain other purposes up to a limit of 20% of portfolio assets. Qualified thrift investments also include 100% of an institution s credit card loans, education loans and small business loans. Federal Trust Bank also may satisfy the qualified thrift lender test by qualifying as a domestic building and loan association as defined in the Internal Revenue Code of 1986.

A savings bank that fails the qualified thrift lender test must either convert to a bank charter or operate under specified restrictions. At March 31, 2008, Federal Trust Bank satisfied the qualified thrift lender test.

Brokered Deposits. Federal regulation imposes restrictions on the ability of financial institutions to accept brokered deposits. In general, well capitalized financial institutions may accept brokered deposits without the prior approval of the Federal Deposit Insurance Corporation, while adequately capitalized financial institutions must obtain the approval of the Federal Deposit Insurance Corporation to accept, renew, or rollover brokered deposits. At March 31, 2008, Federal Trust Bank was considered adequately capitalized and, therefore, cannot accept additional brokered deposits without Federal Deposit Insurance Corporation approval. A total of $60.5 million in brokered deposits will mature during 2008. From December 31, 2007 through March 14, 2008, a total of $16.6 million of brokered deposits matured and were repaid. Of the remaining $43.9 million in brokered deposits that will mature during 2008, $18.8 million will mature through May 31, 2008. On March 14, 2008, we received conditional approval from the Federal Deposit Insurance Corporation to replace up to $16.0 million of brokered deposits through May 31, 2008. Between March 14, 2008 and May 31, 2008, $10.3 million of brokered deposits were replaced when they matured. As of March 31, 2008, we had a total of $57.3 million of brokered deposits. We have requested an additional waiver from the Federal Deposit Insurance Corporation with respect to the remaining $30,0 million of brokered deposits maturing in 2008. If we do not obtain a waiver from the Federal Deposit Insurance Corporation to permit us to renew or replace the additional maturing deposits beyond May 31, 2008, we may be required to repay these deposits through other sources of funds, including retail deposits in our local market and loan prepayments and sales. While it has been our strategy during 2006 and 2007 to reduce our reliance on brokered deposits through the opening of additional branch offices and slowing our growth, the brokered deposit restriction could force us to pay higher rates on our deposit products or sell loans at less than favorable terms in order to repay the maturing deposits. As a result, this restriction could cause Federal Trust Bank to increase our interest cost or to incur losses on the sale of loans, both of which would adversely affect earnings in 2008.

Liquidity. The term liquidity refers to the ability to generate adequate amounts of cash to fund loan originations, deposit withdrawals and operating expenses. A federal savings bank is required to maintain a sufficient amount of liquid assets to ensure its safe and sound operation. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

Community Reinvestment Act and Fair Lending Laws. All savings banks have a continuing responsibility under the Community Reinvestment Act and related regulations of the Office of Thrift Supervision to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In connection with its examination of a federal savings bank, the Office of Thrift Supervision is required to assess the savings bank s record of compliance with the Community Reinvestment Act. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. A savings bank s failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in regulatory restrictions on its activities. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the Office of Thrift Supervision, as well as other federal regulatory agencies and the Department of Justice. Federal Trust Bank received a Satisfactory Community Reinvestment Act rating in its most recent federal examination. The Community Reinvestment Act requires all Federal Deposit Insurance Corporation-insured institutions to publicly disclose their rating.

Enforcement. The Office of Thrift Supervision has primary enforcement responsibility over federal savings banks and has the authority to bring enforcement actions against all institution-affiliated parties, including directors, officers, shareholders, attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors of the savings bank, receivership, conservatorship or the termination of deposit insurance. Civil penalties cover a wide range of violations and actions, and range up to $25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as $1.0 million per day. The Federal Deposit Insurance Corporation also has the authority to recommend to the Director of the Office of Thrift Supervision that enforcement action be taken with respect to a particular savings bank. If action is not taken by the Director, the Federal Deposit Insurance Corporation has authority to take action under certain specified circumstances.

Assessments. The Office of Thrift Supervision charges assessments to recover the cost of examining federal savings banks and their affiliates. These assessments are based on three components: (i) the size of the institution on which the basic assessment is based; (ii) the institution s supervisory condition, which results in an additional assessment based on a percentage of the basic assessment for any savings institution with a composite rating of 3, 4 or 5 in its most recent safety and soundness examination; and (iii) the complexity of the institution s operations, which results in an additional assessment based on a percentage of the basic assessment for any savings institution that managed over $1 billion in trust assets, serviced for others loans aggregating more than $1 billion, or had certain off-balance sheet assets aggregating more than $1 billion.

The Office of Thrift Supervision also assesses fees against savings and loan holding companies, such as Federal Trust Corporation. The Office of Thrift Supervision semi-annual assessment for savings and loan holding companies includes a $3,000 base assessment with an additional assessment based on the holding company s risk or complexity, organizational form and condition.

Federal Home Loan Bank System. Federal Trust Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks, each of which is subject to regulation and supervision of the Federal Housing Finance Board. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions as well as other entities involved in home mortgage lending. It is funded primarily from proceeds derived from the sale of consolidated obligations of the Federal Home Loan Banks. It makes loans or advances to members in accordance with policies and procedures, including collateral requirements, established by the respective boards of directors of the Federal Home Loan Banks. These policies and procedures are subject to the regulation and oversight of the Federal Housing Finance Board. All long-term advances are required to provide funds for residential home financing. The Federal Housing Finance Board has also established standards of community or investment service that members must meet to maintain access to such long-term advances. As a member of the Federal Home Loan Bank of Atlanta, Federal Trust Bank is required to acquire and hold shares of capital stock in the Federal Home Loan Bank. As of March 31, 2008, Federal Trust Bank owned $8.7 million of Federal Home Loan Bank stock and was in compliance with this requirement.

Federal Reserve System. Institutions must maintain certain reserves against aggregate transaction accounts. Because required reserves must be maintained in the form of vault cash, a non-interest-bearing account at a Federal Reserve Bank or a pass-through account as defined by the Federal Reserve Board, the effect of this reserve requirement is to reduce Federal Trust Bank s interest-earning assets. Federal Trust Bank is in compliance with the foregoing requirements. The balances maintained to meet the reserve requirements imposed by the Federal Reserve Board are also used to satisfy liquidity requirements imposed by the Office of Thrift Supervision.

The USA PATRIOT Act. The USA PATRIOT Act gives the federal government powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. Certain provisions of the USA PATRIOT Act impose affirmative obligations on a broad range of financial institutions, including federal savings banks, like Federal Trust Bank. These obligations include enhanced anti-money laundering programs, customer identification programs and regulations relating to private banking accounts or correspondence accounts in the United States for non-United States persons or their representatives (including foreign individuals visiting the United States). Federal Trust Bank has established policies and procedures to ensure compliance with the USA PATRIOT Act s provisions, and the impact of the USA PATRIOT Act on our operations has not been material.

Privacy Requirements of the Gramm-Leach-Bliley Act. The Gramm-Leach-Bliley Act provided for sweeping financial modernization for commercial banks, savings banks, securities firms, insurance companies, and other financial institutions operating in the United States. Among other provisions, the Gramm-Leach-Bliley Act places limitations on the sharing of consumer financial information with unaffiliated third parties. Specifically, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution s privacy policy and provide such customers the opportunity to opt out of the sharing of personal financial information with unaffiliated third parties.

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Holding Company Regulation. Federal Trust Corporation is a unitary savings and loan holding company, subject to regulation and supervision by the Office of Thrift Supervision. The Office of Thrift Supervision has enforcement authority over Federal Trust Corporation and its non-savings institution subsidiaries. Among other things, this authority permits the Office of Thrift Supervision to restrict or prohibit activities that are determined to be a risk to Federal Trust Bank.

Under federal law, Federal Trust Corporation is limited to engaging in those activities permissible for financial holding companies or for savings and loan holding companies under Section 10(c)(2) of the Home Owners Loan Act. A financial holding company may engage in activities that are financial in nature, including underwriting equity securities and insurance, and activities incidental to financial activities or complementary to a financial activity. Office of Thrift Supervision regulations implementing Section 10(c)(2) of the Home Owners Loan Act generally limit a savings and loan holding company to activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, subject to the prior approval of the Office of Thrift Supervision, and certain additional activities authorized by Office of Thrift Supervision regulations. Effective April 1, 2008, those regulations will authorize a more expansive list of permissible activities to include those permissible for bank holding companies under Section 4(c) of the Bank Holding Company Act.

Federal law prohibits a savings and loan holding company, directly or indirectly, or through one or more subsidiaries, from acquiring control of another savings institution or holding company thereof, without prior written approval of the Office of Thrift Supervision. It also prohibits the acquisition or retention of, with specified exceptions, more than 5% of the equity securities of a company engaged in activities that are not closely related to banking or financial in nature or acquiring or retaining control of an institution that is not federally insured. In evaluating applications by holding companies to acquire savings institutions, the Office of Thrift Supervision must consider the financial and managerial resources and future prospects of the savings institution involved, the effect of the acquisition on the risk to the insurance fund, the convenience and needs of the community and competitive factors.

Sarbanes-Oxley Act

As a public company, Federal Trust Corporation is subject to the Sarbanes-Oxley Act, which implements a broad range of corporate governance and accounting measures for public companies designed to reduce conflicts of interest, improve the accuracy of financial reports and promote transparency in corporate operations in order to better protect investors from corporate wrongdoing. The Sarbanes-Oxley Act s principal legislation and the derivative regulation and rule making promulgated by the Securities Exchange Commission includes:

- the creation of an independent accounting oversight board;
- auditor independence provisions which restrict non-audit services that accountants may provide to their audit clients;
- additional corporate governance and responsibility measures, including the requirement that the chief executive officer and chief financial officer certify financial statements;
- a requirement that companies establish and maintain a system of internal control over financial reporting and that a company s management provide an annual report regarding its assessment of the effectiveness of such internal control over financial reporting to the company s independent accountants and that such accountants provide an attestation report with respect to management s assessment of the effectiveness of the company s internal control over financial reporting;
- an increase in the oversight of, and enhancement of certain requirements relating to audit committees of public companies and how they interact with the company s independent auditors;
- a requirement that audit committee members must be independent and are absolutely barred from accepting consulting, advisory or other compensatory fees from the issuer;

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- a requirement that companies disclose whether at least one member of the committee is a financial expert (as such term is defined by the Securities and Exchange Commission) and if not, why not;
- expanded disclosure requirements for corporate insiders, including accelerated reporting of stock transactions by insiders and a prohibition on insider trading during pension blackout periods;
- a prohibition on personal loans to directors and officers, except certain loans made by insured financial institutions;
- disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code;
- mandatory disclosure by analysts of potential conflicts of interest; and
- a range of enhanced penalties for fraud and other violations.

Florida Business Corporation Act

As Florida corporations, Federal Trust Corporation and Federal Trust Mortgage Company are subject to the provisions of the Florida Business Corporations Act, which authorizes the establishment of Florida corporations and sets forth the corporate governance standards for their operations. The statutory provisions govern items such as:

- general powers of a corporation;
- shareholder rights;
- notice, conduct of meetings and voting rights;
- director and officer requirements and duties;
- election of directors;
- terms of directors;
- compensation of directors;
- contract rights of offers;
- indemnification of directors, officers, employees and agents;

business combinations and mergers; and

corporate dissolutions.

The Florida Business Corporations Act also permits for super majority voting requirements for shareholders, which may be considered to be anti-takeover provisions. We have amended our Articles of Incorporation to include certain super majority voting requirements permitted by the Florida Business Corporations Act.

Federal Securities Laws

Federal Trust Corporation has filed with the Securities and Exchange Commission a registration statement under the Securities Act of 1933, as amended, for the registration of the shares of common stock to be issued in the stock offering and sold to the standby purchasers. Federal Trust Corporation s common stock is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Federal Trust Corporation is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

The registration under the Securities Act of 1933 of shares of common stock to be issued in the stock offering and sold to the standby purchasers does not cover the resale of those shares. Shares of common stock

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purchased by persons who are not affiliates of Federal Trust Corporation may be resold without registration. Shares purchased by an affiliate of Federal Trust Corporation will be subject to the resale restrictions of Rule 144 under the Securities Act of 1933. If Federal Trust Corporation meets the current public information reporting requirements of Rule 144 under the Securities Act of 1933, each affiliate of Federal Trust Corporation that complies with the other conditions of Rule 144, including those that require the affiliate s sale to be aggregated with those of other persons, would be able to sell in the public market, without registration, a number of shares not to exceed, in any three-month period, the greater of 1% of the outstanding shares of Federal Trust Corporation, or the average weekly volume of trading in the shares during the preceding four calendar weeks. In the future, Federal Trust Corporation may permit affiliates to have their shares registered for sale under the Securities Act of 1933.

MANAGEMENT

Our Board of Directors is presently composed of seven members. Our Restated Articles of Incorporation provide that directors are divided into three classes, which serve for staggered three-year terms. The table below sets forth certain information as of [shares outstanding date] regarding our Board of Directors, Executive Officers and Directors of Federal Trust Bank who are not directors of Federal Trust Corporation, including the terms of office of Board members.

Name (1)	Age	Current Term to Expire	Shares of Common Stock Beneficially Owned (2)	Percent of Class
DIRECTORS				
Kenneth W. Hill	75	2009	93,314(4)	*
Eric J. Reinhold	43	2009	6,700(5)	*
Robert G. Cox	67	2010	22,759(6)	*
A. George Igler	56	2010	55,672(7)	*
Charles R. Webb	66	2010	18,000(8)	*
Samuel C. Certo, PhD.	61	2011	99,063(3)	1.0%
Dennis T. Ward	56	2011	3,100	*
EXECUTIVE OFFICERS WHO ARE NOT DIRECTORS				
Jennifer B. Brodnax	50	N/A	102,359(9)	1.1
Mark E. McRae	39	N/A		*
Gregory E. Smith	54	N/A	70,441(10)	*
DIRECTORS OF FEDERAL TRUST BANK WHO ARE NOT DIRECTORS OF FEDERAL TRUST CORPORATION				
W. Daniel Allen	47	2009	100	*
A. Stewart Hall, Jr.	65	2009	8,160	*
All Directors and Executive Officers as a Group (13 persons)			849,083(11)	8.3%

* Less than 1%.

(1) The mailing address for each person listed is 312 West First Street, Suite 110, Sanford, Florida 32771.

(2) Includes shares for which the named person has sole voting and investment power, has shared voting and investment power with a spouse or holds in an IRA or other retirement plan program, unless otherwise indicated in these footnotes.
(3) Includes 94,844 shares of common stock and 4,219 restricted stock units that have vested or vest within 60 days of [shares outstanding date].
(4) Includes 55,080 shares of common stock and 38,234 options to purchase common stock that have vested or vest within 60 days of [shares outstanding date].
(5) Includes 6,000 shares of common stock and 700 options to purchase common stock that have vested or vest within 60 days of [shares outstanding date].
(6) Includes 15,860 shares of common stock, 5,000 options to purchase common stock that have vested or vest within 60 days of [shares outstanding date] and 1,899 restricted stock units that have vested or vest within 60 days of [shares outstanding date].
(7) Includes 33,052 shares of common stock (including 6,607 shares held as trustee under the Igler & Dougherty, P.A. Profit Sharing Plans, with respect to which Mr. Igler shares voting and investment power) and 22,620 options to purchase common stock that have vested or vest within 60 days of [shares outstanding date].
(8) Includes 13,000 shares of common stock and 5,000 options to purchase common stock that have vested or vest within 60 days of [shares outstanding date].
(9) Includes 29,220 shares owned directly, 1,816 shares in Federal Trust Corporation s Stock Bonus Plan, over which Ms. Brodnax has sole voting and investment power, 24,231 shares in Federal Trust Corporation s 401(k) Plan, 16,493 shares held in the Federal Trust Corporation employee stock ownership plan and 30,599 options to purchase common stock that have vested or vest within 60 days of [shares outstanding date].
(10) Includes 19,492 shares owned directly, 11,949 shares in Federal Trust Corporation s 401(k) Plan, 4,320 shares held in the Federal Trust Corporation employee stock ownership plan and 34,680 options to purchase common stock that have vested or vest within 60 days of [shares outstanding date].
(11) Includes 279,724 shares of common stock, 136,833 options to purchase shares of common stock that have vested or vest within 60 days of [shares outstanding date], 4,712 restricted stock units that have vested or vest within 60 days of [shares outstanding date], 215,091 shares held under the Federal Trust Corporation 401(k) Plan, for which our executive officers serve as trustees and 212,723 shares held under the Federal Trust Corporation Employee Stock Ownership Plan, for which our executive officers serve as trustees.

Directors

The business experience for the past five years of each of our directors is set forth below. Unless otherwise indicated, directors have held their positions for the past five years or longer.

Kenneth W. Hill has been a director of Federal Trust Corporation since 1997 and a director of Federal Trust Bank since 1995. Mr. Hill was a Vice President and Trust Officer of SunBank, N.A., Orlando, Florida, from 1983 through 1995.

Eric J. Reinhold has been a director of Federal Trust Corporation since 2006. Mr. Reinhold is a Certified Financial Planner, who has served as President of Academy Planning Group since 2002 and was previously Regional Vice President for Academy Financial, both located in Orlando, Florida.

Robert G. Cox was appointed as a director of Federal Trust Corporation in November 2006. Mr. Cox is a retired bank executive, having served as the President of Summit Bank in New Jersey from 1980 to 1987, and then as the President of Summit Bancorp upon the merger of Summit Bank and UTB Financial Corp. in 1987. Mr. Cox served at Summit Bancorp until his retirement in 2000. In addition, he was recently a director at Ryan Beck & Company and is currently a member of the Board of Trustees of New Jersey SEEDS.

A. George Igler was first elected to the Board of Directors in October 2001. He has been a principal shareholder of the law firm of Igler & Dougherty, P.A. since it was established in 1992. The firm concentrates its practice in financial institutions, corporate and securities law. Igler & Dougherty, P.A., served as Federal Trust Corporation s corporate counsel from 1993 until 2007.

Charles R. Webb was appointed as a director of Federal Trust Corporation in January 2007. He is currently a Principal of Ernst & Webb, LLC, a consulting firm based in Naples, Florida and Cincinnati, Ohio, which specializes in merger integration for financial institutions. Mr. Webb also has over 35 years of financial institution experience, including serving as both Chief Executive Officer and Chief Financial Officer of thrift institutions.

Samuel C. Certo, PhD. has been a director of Federal Trust Corporation since 1997 and a director of Federal Trust Bank since 1996. He is a Professor of Management and the former Dean at the Crummer Graduate School of Business at Rollins College in Winter Park, Florida. Since 1986, Mr. Certo has served as a business consultant and has published textbooks in the areas of management and strategic management.

Dennis T. Ward was named President and Chief Executive Officer and Director of Federal Trust Corporation in September 2007. Mr. Ward was also appointed Chairman of the Board of Directors, President and Chief Executive Officer of Federal Trust Bank in September 2007. Mr. Ward joined Federal Trust Corporation as Executive Vice President and Chief Operating Officer in February 2007. Prior to joining Federal Trust Corporation, he served as Central Florida President for Regions Bank for nine years. His previous banking experience includes International Banking for SunTrust and National Bank of Detroit. Mr. Ward has over 31 years of banking experience.

Executive Officers who are not Directors

The business experience for the past five years of each of our executive officers other than Mr. Ward is set forth below. Unless otherwise indicated, executive officers have held their positions for the past five years or longer.

Jennifer B. Brodnax joined Federal Trust Bank in June 1987 during its organization. For the past 20 years with Federal Trust Bank, Mrs. Brodnax has served in various management capacities. Mrs. Brodnax was appointed Executive Vice President, Retail Banking in January 2008 and currently oversees branch office operations and strategic and operational activities associated with the development of new products and program management.

Mark E. McRae joined Federal Trust Bank as Executive Vice President and Senior Loan Officer in November 2007. Mr. McRae has 17 years of commercial banking experience, primarily focused in middle market and business banking. Prior to joining Federal Trust Corporation, from 2004 to 2007, Mr. McRae was with Regions Bank in Central Florida as Commercial Middle Market Sales Manager. From 1995 to 2003, Mr. McRae was employed by Southtrust Bank, working in Tampa, Florida.

Gregory E. Smith was named Executive Vice President and Chief Financial Officer of Federal Trust Corporation and Federal Trust Bank in March 2003. He has worked for both large and small commercial banks and savings institutions in Florida since 1979. His prior banking experience includes being a president, chief operating officer, chief financial officer and director of financial institutions. Mr. Smith is a certified public accountant and he started his career with a large accounting firm in New York, where he was a bank specialist.

Directors of Federal Trust Bank who are not Directors of Federal Trust Corporation

The business experience for the past five years of each of Federal Trust Bank s directors who are not directors of Federal Trust Corporation is set forth below. Unless otherwise indicated, individuals have held their positions for the past five years or longer.

W. Daniel Allen has been a director of Federal Trust Bank since 2005. He is the owner of Discount Propane, Inc. located in DeBary, Florida.

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A. Stewart Hall, Jr. has been a director of Federal Trust Bank since 2003. Mr. Hall was the President and Chief Operating Officer of Hughes Supply, Inc. from 1973 through 2001, and has served as the Chairman of ASHCORP, a health benefits company, since 2001.

Executive Compensation

Compensation Committee Determination of Executive Compensation

The Compensation Committee s responsibilities, as they pertain to executive and director compensation, include:

- recommending to the Board of Directors the compensation of our executive officers and other senior executives;
- ensuring that we develop, implement and maintain executive reward systems that are competitive, reasonable and motivate executive performance and contribution to Federal Trust Corporation;
- establishing, reviewing and amending our compensation policies and procedures;
- reviewing and approving all employment agreements and any amendments thereto, as well as change in control and severance agreements for our executive officers;
- reviewing and recommending the form and amount of all awards provided to eligible executives;
- reviewing and recommending to the Board of Directors the form and amount of compensation paid to our directors; and
- ensuring that we have proper management succession.

At the beginning of each calendar year, the Compensation Committee, in consultation with the Chief Executive Officer, determines target base and total direct compensation levels for our executive officers based on several factors, including:

- the executive officer s role and responsibilities;
- the significant and perhaps unexpected business challenges that the executive has faced or is likely to face;
- the total compensation of executives who perform similar duties at other companies;
- the total compensation for the executive officer during the prior fiscal year;
- how the executive officer has contributed to our performance during the prior year;

- the executive officer s expected contribution and goals for the current year; and
- our performance in comparison to our peers.

The Compensation Committee s goal is to design a compensation program that will attract and retain executive officers by rewarding them for performance in relationship to achievement of corporate and personal performance goals.

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The Compensation Committee has the sole authority with respect to retaining and terminating consulting firms that assist in the evaluation of the compensation of the Chief Executive Officer and other executive officers. For 2007, the Compensation Committee retained Hewitt Associates, based in Chicago, Illinois, as its compensation consultant. Hewitt Associates was directed to review the compensation of then-President and Chief Executive Officer James V. Suskiewich. Hewitt Associates was also engaged by the Compensation Committee to assist in the design of a management cash incentive plan, which plan was not adopted by the Compensation Committee or the Board of Directors. As part of the selection process to retain the compensation consultant, the Compensation Committee considered representations with respect to its practices and its approach to maintaining independence. During 2007, Federal Trust Corporation used the Bank Consulting Group for actuarial and related services in connection with our supplemental executive retirement plans.

Summary Compensation Table

The following Summary Compensation table provides information for the fiscal years ended December 31, 2007 and 2006 concerning the total compensation paid to the two individuals who served as Chief Executive Officer during 2007 and the three other most highly compensated executive officers of Federal Trust Corporation and its subsidiaries during the fiscal year ended December 31, 2007. These officers are referred to as the named executives in the following discussions. The columns entitled Stock Awards and Nonqualified deferred compensation earnings have been omitted as inapplicable.

Name and Principal Position	Year	Salary(1)	Bonus	Option Awards(2)	Non-equity Incentive Plan Compensation	All Other Compensation(3)	Total
Dennis T. Ward, President and Chief Executive Officer	2007	$ 178,846	$	$ 2,850	$	$ 15,511	$ 197,207
James V. Suskiewich(4)	2007	$ 302,883	$	$	$	$ 3,016,130	$ 3,319,013
Former President and Chief Executive Officer	2006	375,000		35,829	67,968	332,879	811,676
Gregory E. Smith	2007	$ 164,615	$	$ 12,703	$	$ 24,228	$ 201,546
Executive Vice President and Chief Financial Officer	2006	154,423	24,722	6,726		22,725	208,696
Thomas D. Spatola(5)	2007	$ 153,577	$	$	$	$ 10,857	$ 164,434
Former President, Federal Trust Mortgage Company	2006	150,000	750			17,690	168,440
Jennifer B. Brodnax	2007	$ 102,885	$	$	$	$ 22,451	$ 125,336
Executive Vice President Retail Banking, Federal Trust Bank	2006	99,749	12,750			21,416	133,915

(1) Includes all compensation in the year earned whether received or deferred at the election of the executive.

(2) Reflects the value of stock options granted under the Amended and Restated 1998 Key Employee Stock Compensation Program. The value is the amount recognized for financial statement reporting purposes in accordance with Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*. The assumptions used in the valuation of these awards are included in Notes 1 and 14 to our audited financial statements for the year ended December 31, 2007 included in Amendment No. 1 to our Annual Report on Form 10-K/A for the year ended December 31, 2007 as filed with the Securities and Exchange Commission.

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(3) All Other Compensation for 2007 includes the value of:

	Dennis T. Ward	James V. Suskiewich	Gregory E. Smith	Thomas P. Spatola	Jennifer B. Brodnax
Health & life insurance premiums	$ 9,282	$ 55,357	$ 15,329	$ 10,857	$ 15,329
Social/country club dues	4,441	5,198			
401(k) plan contributions	1,788	6,479	5,528		3,071
Supplemental retirement plan accrual		1,752,809	3,361		4,051
Salary accrual		1,125,000			
Use of company automobile		6,473			
Long-term care policy		1,852			
Director fees		34,000			
Unused vacation days		25,962			
Total	$ 15,551	$ 3,016,130	$ 24,228	$ 10,857	$ 22,451

All of the director fees for Mr. Suskiewich were earned or paid in cash.

(4) Mr. Suskiewich was terminated as President and Chief Executive Officer on October 14, 2007. In connection with his termination, under his employment agreement, Mr. Suskiewich will receive three years of base salary at $375,000 per year and three years of health and life insurance, with a total value of $44,500. Pursuant to his supplemental retirement plan, Mr. Suskiewich will receive $202,500 per year for life and, upon his death, his spouse will receive 80% of such payments per year for her life. See 2007 Outstanding Equity Awards at Fiscal Year-End for a description of the effect of Mr. Suskiewich s termination on his stock options.

(5) Mr. Spatola resigned effective November 30, 2007. He was not paid any severance in connection with his retirement. See 2007 Outstanding Equity Awards at Fiscal Year-End for a description of the effect of Mr. Spatola s resignation on his stock options.

Total Compensation Cash and Stock Incentives

Our total compensation consists of five components:

- base salary;
- cash performance-based annual incentives;
- stock options;
- deferred compensation (qualified and nonqualified); and
- other benefits and limited perquisites.

Base Salary. When determining base salary, the Compensation Committee takes into consideration a number of factors, including market data, prior salary, job responsibilities and changes in job responsibilities, achievement of specified goals, individual experience, demonstrated leadership, performance potential, actual performance, and retention considerations. These factors are not weighed or ranked in any particular way. During 2007, in connection with his promotion to President and Chief Executive Officer, Dennis T. Ward received an increase in base salary of $50,000, to $250,000. Executive Vice President and Chief Financial Officer Gregory E. Smith and Federal Trust Bank Executive Vice President/Retail Banking Jennifer B. Brodnax received increases in base salary of $10,000 and $3,000, respectively, increasing their base salaries to $165,000 and $103,000, respectively. For 2008, none of our executive officers received increases in base salary.

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Annual Incentives. Annual cash incentives are awarded to executive officers based upon their individual performance and our financial performance. The former President and Chief Executive Officer s target bonus opportunity was set forth in his employment agreement, and included a target bonus opportunity in 2007 of up to 40% of his base salary. However, the President and Chief Executive Officer was terminated prior to the potential receipt of a cash incentive in 2007. Bonuses for other executive officers are not established pursuant to incentive plans, but can be recommended by the Compensation Committee for Board of Directors approval. We did not reach our expected level of performance in 2007. As such, the Board of Directors adopted the Compensation Committee s recommendation not to pay cash bonuses to executive officers for 2007.

Long-Term Incentive Compensation. We also provide long-term incentive compensation to our executive officers through the 1998 Key Employee Stock Compensation Program (the Program). The Compensation Committee believes stock-based awards help align the financial interests of management with the shareholders interests, since the ultimate value of stock-based awards is tied to the value of our stock.

The Program allows us to grant stock options and stock appreciation rights. These types of awards measure financial performance over a longer period of time than the other methods of compensation. To date, our long-term incentive compensation for executive officers has been comprised of stock options only.

When granting awards, the Compensation Committee takes into account the following subjective and objective factors:

- each executive officer s level of responsibility;
- each executive officer s contributions to Federal Trust Corporation s performance;
- our past financial performance;
- retention considerations; and
- the practices of other financial institutions in our markets.

Prior to making a grant, the Compensation Committee also considers our share price, the volatility of the share price, and potential dilution. The Compensation Committee believes that using our stock for a significant portion of these awards helps further align the interests of the executive officers and the shareholders by providing the executive officers with an additional equity stake in Federal Trust Corporation.

We do not have a formal policy regarding ownership of our stock by our executive officers. Executive officers, however, are encouraged to maintain an equity position in Federal Trust Corporation.

Stock Options. In 2007, the Compensation Committee granted 50,000 stock options to President and Chief Executive Officer Dennis T. Ward, with an exercise price of $4.80 per share, vesting over three years beginning one year from the date of grant. In 2007, Executive Vice President and Chief Financial Officer Gregory E. Smith and Federal Trust Bank Executive Vice President/Retail Banking Jennifer B. Brodnax were granted 10,000 options and 5,000 options, respectively, each with an exercise price of $2.53 per share, vesting over three years beginning one year from the date of grant.

The Compensation Committee considered the total recommended grant size as compared to shares remaining in the Program. With respect to the actual size and ranges of stock option awards, the Compensation Committee used the Black-Scholes pricing model (a formula widely used to value exchange-traded options by determining the present value of the stock option award). All of the stock option grants in 2007 had an exercise price equal to the closing price of Federal Trust Corporation s common stock on the grant date and vest in three equal annual increments beginning on the first anniversary following the grant date of the award.

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Deferred Compensation Benefits and Bonus Plan

Employee Stock Ownership Plan. All full-time, salaried employees are participants in the Employee Stock Ownership Plan once they have completed 1,000 hours of employment and have been employed since January 1st, the beginning of the plan year. Executive officers are eligible to participate in the Employee Stock Ownership Plan, but directors are not eligible unless they are also full-time salaried employees. Participants interests in the Employee Stock Ownership Plan become vested after they have completed three years of employment with a minimum of 1,000 hours per year.

Employee Stock Ownership Plan contributions are determined annually by Federal Trust Corporation s Board of Directors, taking into consideration prevailing financial conditions, our fiscal requirements, and other factors deemed relevant by the Board of Directors. In general, contributions of up to 15% of total compensation paid to employees during the year can be made to the Employee Stock Ownership Plan. The contribution made on behalf of each participant equals the proportion that each participant s compensation for the year bears to the total compensation of all participants for the year. In 2007, the Board of Directors elected not to make a cash contribution to the Employee Stock Ownership Plan.

Key Employee Stock Bonus Plan. In April 2002, the Board of Directors adopted the Key Employee Stock Bonus Plan (Bonus Plan). Under the Bonus Plan, a trust has been formed to purchase up to 2% of the outstanding shares of Federal Trust Corporation s common stock on the open market. The Compensation Committee has the right to award such shares of stock to our non-executive officer employees. Any such award may contain conditions that must be met, or a vesting schedule that must be followed, prior to the shares being earned by and distributed pursuant to an employee s stock award. The termination of employment of any award recipient for reasons other than normal retirement, death or disability shall constitute revocation of the recipient s unearned award. If the termination of a recipient s employment is caused by retirement, death or disability, all unearned awards shall be deemed fully earned unless it is later discovered that the employee engaged in conduct which warranted revocation of an award.

Other Benefits and Perquisites. Executive officers receive other benefits also available to other employees. For example, we provide executive officers and other salaried employees with health and disability insurance, vacation pay, and sick pay. We also provide our Chief Executive Officer with a country club membership. The executive officers are responsible for reimbursing us for any social expenses incurred, except to the extent that they are specifically, directly, and exclusively made in connection with business development, such as travel and boarding for conferences, trade association meetings, and dinners or social outings with vendors and potential bank customers.

Retirement Benefits. Retirement benefits are intended both to recognize, over the long term, services rendered to Federal Trust Corporation and to keep our overall pay packages for executives comparable to those of our competitors in our markets. We maintain supplemental earnings and retirement plans for our Executive Vice President and Chief Financial Officer, Gregory E. Smith ($10,000 per year at age 65, for life), and for Federal Trust Bank Senior Vice President/Retail Banking Jennifer B. Brodnax ($20,000 per year at age 65, for life). The executive officers can opt for early retirement at age 62, provided they have ten years of service. If an officer elects early retirement, the retirement benefit would be reduced by 15%.

In addition, we maintain a 401(k) Plan, which permits participants to defer additional portions of their salary for retirement. We match a portion of these contributions for executive officers and all other eligible participants. The Compensation Committee believes it is appropriate to maintain these additional contributory plans, with the matching feature, to provide an additional incentive for the participants to further provide for their retirement.

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Severance and Other Employment-Related Agreements. Federal Trust Corporation currently has severance agreements with President and Chief Executive Officer Dennis T. Ward, Executive Vice President and Chief Financial Officer Gregory E. Smith, Executive Vice President/Retail Banking Jennifer B. Brodnax and one other executive officer. We believe these types of agreements are necessary so that we may attract and retain key executives. The amount of each termination benefit is two times the executive officers highest salary, and such benefit is paid if an executive officer is terminated without Just Cause (as defined in the severance agreements) or the executive officer terminates his or her own employment, each after a Change in Control of Federal Trust Corporation (as defined in the severance agreements). The termination amounts were considered to be reasonable based upon the banking experience and knowledge of these senior executive officers. The benefits include a lump sum cash payment (base salary only) and continued health benefits for an extended period of time. In addition, the individual stock option agreements for executives who have been awarded stock options provide for full acceleration of all outstanding and unvested equity awards in the event of a Change in Control of Federal Trust Corporation.

Consummation of the stock offering would result in a Change in Control under the severance agreements. We expect to amend each of the severance agreements so that each executive officer who is party to a severance agreement will waive his or her rights to receive benefits under the severance agreement that would otherwise be paid as a result of the consummation of the stock offering.

2007 Outstanding Equity Awards at Fiscal Year-End

The following table discloses the stock options owned by the named executives at December 31, 2007.

Name	Number of Securities Underlying Unexercised Options Exercisable(1)	Number of Securities Underlying Unexercised Options Unexercisable	Option Exercise Price(1)	Option Expiration Date
Dennis T. Ward, President and Chief Executive Officer		50,000(2)	$ 4.80	10/25/2013
James S. Suskiewich(3)	51,000		$ 10.00	11/17/2010
Former President and Chief Executive Officer	17,000		$ 10.00	11/17/2014
	51,000		$ 9.92	5/5/2010
	51,000		$ 7.47	10/23/2013
Gregory E. Smith		10,000(4)	$ 2.53	12/17/2014
Executive Vice President and Chief Financial Officer	2,040	8,160(5)	$ 12.16	1/29/2016
	15,300		$ 4.99	4/24/2013
	15,300		$ 7.47	10/23/2013
Thomas P. Spatola(6) Former President, Federal Trust Mortgage Company	30,600		$ 11.76	8/1/2010
Jennifer B. Brodnax		5,000(4)	$ 2.53	12/17/2014
Executive Vice President Retail Banking, Federal Trust Bank	24,117		$ 7.47	10/23/2013
	1,382		$ 3.92	9/30/2012
	5,100		$ 3.92	5/21/2008

(1) Number of shares and exercise price have been adjusted for the 2% stock dividend distributed on June 12, 2006.

(2) Reflects a grant of 50,000 stock options on October 25, 2007, which vest over three years starting one year from the date of grant.

(footnotes continued on following page)

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(3) Mr. Suskiewich was terminated as President and Chief Executive Officer on October 14, 2007. Unvested options for 34,000 shares were cancelled, and all vested options were unexercised and subsequently cancelled on January 12, 2008.
(4) Reflects a grant of options on December 17, 2007, which vest over three years starting one year from the date of grant.
(5) Reflects a grant of 10,200 options (split-adjusted) on January 30, 2006, which vest over five years starting one year from the date of grant.
(6) Mr. Spatola resigned effective November 30, 2007. All vested options were unexercised and subsequently cancelled on February 29, 2008.

Director Compensation

In 2007 we paid each Federal Trust Corporation director a quarterly retainer of $2,500, plus $2,500 per Board meeting attended in person. We did not pay Federal Trust Corporation directors any cash compensation for membership on committees. During 2007, the Chairman of the Audit, Compensation, and Nominating and Corporate Governance Committees received cash compensation of $5,000, $3,000, and $1,250, respectively. Former Chairman James V. Suskiewich did not receive fees for serving as Chairman. However, he did receive the quarterly retainer and board fees, which are disclosed in the Summary Compensation Table.

In 2007, Federal Trust Bank paid its directors $1,000 per full Board meeting and $250 per committee meeting. Committee Chairs were awarded $2,000 Chair fees. As Chairman of Federal Trust Bank s Board, Mr. Suskiewich, received an additional $500 per full Board meeting. In addition, A. Stewart Hall Jr., a director of Federal Trust Bank, who is not also a Federal Trust Corporation director, received a quarterly retainer of $2,500 based upon his tenure as a bank director and his being Chairman of Federal Trust Bank s loan committee.

The following table summarizes the compensation paid to the non-employee directors of Federal Trust Corporation and Federal Trust Bank during 2007. No director fees were paid to directors of Federal Trust Mortgage Company.

2007 Director Compensation Table

	Federal Trust Corporation			Federal Trust Bank		
Name	**Fees Earned or Paid In Cash**	**Option Awards(1)**	**Stock Awards(2)**	**Fees Earned**	**All Other Compensation**	**Total**
Samuel C. Certo, PhD.	$ 27,500	$	$ 17,152(3)	$ 16,333	$ 1,390(4)	$ 62,375
Robert G. Cox	$ 27,500	$ 24,415(5)	$ 19,214(5)	$	$	$ 71,129
Kenneth W. Hill	$ 27,500	$ 2,367(6)	$	$ 17,917	$	$ 47,784
A. George Igler	$ 27,500	$ 1,894(7)	$	$	$	$ 29,394
Eric J. Reinhold	$ 27,500	$ 3,260	$	$	$	$ 30,760
Charles R. Webb	$ 27,500	$ 23,282	$	$	$	$ 50,782

(1) Reflects the value of stock options granted under the 1998 Directors Stock Option Plan and the 2005 Directors Stock Plan. The value is the amount recognized for financial statement reporting purposes in accordance with Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*. The assumptions used in the valuation of these awards are included in Notes 1 and 14 to our audited financial statements for the year ended December 31, 2007 included in Amendment No. 1 to our Annual Report on Form 10-K/A for the year ended December 31, 2007 as filed with the Securities and Exchange Commission.
(2) The value is the amount recognized for financial statement reporting purposes in accordance with Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, in connection with our 2005 Director Stock Plan. Expense for restricted stock units for a year is calculated by multiplying the number of units initially granted by the closing price of our shares of common stock on the date of grant, and then dividing that total by the number of restricted stock units that vest during the year.

(3) At December 31, 2007, Dr. Certo had 2,813 vested restricted stock units and 1,416 unvested restricted stock units.
(4) Reflects a premium for long-term care policy.
(5) At December 31, 2007, Mr. Cox had 5,000 vested stock options, 40,000 unvested stock options, 1,899 vested restricted stock units and 5,697 unvested restricted stock units.
(6) At December 31, 2007, Mr. Hill had 37,724 vested stock options.
(7) At December 31, 2007, Mr. Igler had 22,212 vested stock options.

1998 Directors Stock Option Plan. Our 1998 Directors Stock Option Plan (1998 Directors Plan) was approved by our shareholders at the 1998 Annual Meeting, and was subsequently amended at the 2002 Annual Meeting to increase the number of shares reserved for issuance. The 1998 Directors Plan authorizes the granting of up to 141,337 shares of common stock (reflecting the 2% stock dividend) through the granting of compensatory stock options.

The per share exercise prices of the options that have been granted were equal to the fair market value of a share of common stock as of the date of grant. The stock options granted under the 1998 Directors Plan can be exercised any time after six months from the date of grant, up until ten years after the date of grant. Unless terminated, the 1998 Directors Plan shall remain in effect until the tenth anniversary of its effective date.

2005 Directors Stock Plan. At the 2005 Annual Meeting, our shareholders approved the adoption of the 2005 Directors Stock Plan (the 2005 Plan). Under the 2005 Plan, 91,800 shares of Federal Trust Corporation s common stock have been reserved (reflecting the 2% stock dividend). Awards made under the 2005 Plan may be in the form of shares of common stock, stock units, or stock options. Each director of Federal Trust Corporation and its subsidiaries may be granted an annual stock retainer, in which the director annually elects to receive either shares or stock units. A stock unit is the right to receive a share of common stock on a date elected by the director. Awards made as part of an annual stock retainer will be granted quarterly to coincide with the quarterly payment of the director s annual cash retainer. The number of shares or stock units granted each quarter will be equal to up to 25% of the director s annual cash retainer divided by the fair market value per share on the date of the award.

In addition, the 2005 Plan provides that a director may elect to substitute his or her annual cash retainer or a portion thereof, with an award of shares or stock units. The number of shares or stock units granted will equal the amount of the annual cash retainer that the director has elected divided by the fair market value per share on the date of the award. While any stock unit is outstanding, the director holding the stock unit will be entitled to receive a dividend in the form of additional stock units if cash dividends are declared on outstanding shares of common stock. The amount of any such dividend will be equal to the amount of the cash dividend declared times the number of stock units held divided by the fair market value of the common stock on the date the dividend is paid. Each stock unit, including fractional stock units, will be converted to one share of common stock on the date which has been selected by the director.

The 2005 Plan also provides for discretionary awards, which may be granted by the Board in its sole discretion, to recognize any additional services provided to the Board or Federal Trust Corporation or as a special grant to all directors. These discretionary awards may be in the form of stock options, award of shares, or stock units; provided, however, that any stock options granted may not be exercisable for less than fair market value per share on the date of grant, and must be exercised at least six months from the date of grant and before the earlier of: (i) up to ten years after the date of the award; or (ii) one year from the date the director s service is terminated by reason of retirement or death.

Certain Relationships and Related Transactions

Our loan policies provide for limited types of loans to be made to directors, officers and employees. Loans made by Federal Trust Bank are also subject to the provisions of Section 22(h) of the Federal Reserve Act, which require that any credit extended by Federal Trust Bank to our directors, executive officers and principal shareholders, or any of their affiliates must:

1. be on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions by Federal Trust Bank with non-affiliated parties; and

2. not involve more than the normal risk of repayment or present other unfavorable features.

There are no family relationships, as defined in the Securities and Exchange Commission rules or American Stock Exchange rules, between any of our executive officers or directors. When a transaction, however, involves an officer, director, principal shareholder or affiliate of Federal Trust Corporation, Federal Trust Bank or Federal Trust Mortgage Company, it is our policy that the transaction must be on terms no less favorable to us than could be obtained from an unaffiliated party. All such transactions must be approved in advance by a majority of Federal Trust Corporation s or Federal Trust Bank s independent and disinterested directors. As of December 31, 2007, there were no such loans outstanding. The Board of Directors has determined that Messrs. Igler and Webb are independent, notwithstanding the relationships described below.

In the ordinary course of business, we may use the services of companies, partnerships, or firms of which our directors are officers, directors or owners. We have retained in the past the law firm of Igler & Dougherty, P.A., Tallahassee, Florida, of which Director A. George Igler is a member. Legal fees paid to the firm for its services, exclusive of direct costs, were $147,795 in 2007 and $193,535 in 2006.

We have entered into a consulting agreement with Ernst & Webb, LLC, of which Director Charles R. Webb is a Principal. Consulting fees paid to Ernst & Webb, LLC, exclusive of direct costs, were $137,501 in 2007.

Director Independence

American Stock Exchange listing requirements require our Board of Directors to be comprised of a majority of independent directors. In determining whether a director is independent under applicable independence requirements, our Board of Directors considered any transactions and relationships between each director and any member of his immediate family or affiliates and Federal Trust Corporation and its subsidiaries and affiliates. The Board of Directors has determined that the following directors presently in office are independent in accordance with American Stock Exchange listing requirements:

Samuel C. Certo, PhD.

Robert G. Cox

Kenneth W. Hill

A. George Igler

Eric J. Reinhold

Charles R. Webb

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table contains information concerning the persons and entities known to us to be beneficial owners of 5% or more of our outstanding shares common stock as of [shares outstanding date].

Name and Address of Beneficial Owner	Number of Shares	Percent of Class[1]
Estate of Einar Paul Robsham Post Office Box 5183 Cochituate, MA 01778	488,400[2]	5.2%
Benjamin Partners 589 Broadway New York, NY 10012	507,960[3]	5.4%

(1) Based upon [record shares] shares outstanding as of the record date.
(2) As reported in the Schedule 13D filed with the Securities and Exchange Commission on June 19, 2000.
(3) As reported in the Schedule 13D filed with the Securities and Exchange Commission on February 15, 2007. Includes other affiliated parties, in addition to Benjamin Partners.

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PURCHASES BY DIRECTORS AND EXECUTIVE OFFICERS

The table below sets forth, for each of Federal Trust Corporation s directors and executive officers and for all of the directors and executive officers as a group, the following information:

(i) the proposed purchases of shares, assuming sufficient shares of common stock are available to satisfy their purchase intentions; and

(ii) the total amount of Federal Trust Corporation common stock to be held following the stock offering.

Information is based on [record shares] shares outstanding as of [shares outstanding date], which excludes stock options currently exercisable or exercisable within 60 days of [shares outstanding date] and restricted stock units that have vested or vest within 60 days of [shares outstanding date], and is further based on information presented in Management.

	Proposed Purchases of Stock in the Stock Offering [1]		Total Common Stock to be Held		
Name of Beneficial Owner	**Number of Shares**	**Amount**	**Number of Shares**	**Percentage of Total Outstanding if [min shares] Shares are Sold**	**Percentage of Total Outstanding if [max shares] Shares are Sold**
Directors:					
Samuel C. Certo, PhD.		$ 20,000		*%	*%
Dennis T. Ward		25,000		*	*
Kenneth W. Hill		10,001		*	*
Eric J. Reinhold		10,001		*	*
Robert G. Cox		100,001		*	*
A. George Igler				*	*
Charles R. Webb		100,001		*	*
Total		265,004			
Executive Officers Who Are Not Directors:					
Jennifer B. Brodnax				*	*
Mark E. McRae					
Gregory E. Smith		25,000		*	*
Total		25,000		*	*
Total for Directors and Executive Officers		$ 290,004		%	%

* Less than 1%.

(1) Includes proposed purchases, if any, by associates.

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THE STOCK OFFERING

General

We are offering for sale to the public shares of our common stock at a purchase price of [offering price] per share. The shares to be issued in the stock offering and the offering to standby purchasers, like our existing shares of common stock, will be traded on the American Stock Exchange under the symbol FDT. The stock offering is not a rights offering or an underwritten offering and is being conducted on a best efforts basis by our selling agent and financial advisor, Stifel, Nicolaus & Company, Incorporated. Stifel, Nicolaus & Company, Incorporated is not obligated to sell or purchase any shares of our common stock in the stock offering.

Reasons for the Stock Offering

We are engaging in the stock offering to raise equity capital to improve Federal Trust Bank s capital position, as required by the terms of the Cease and Desist Orders that we entered into with the Office of Thrift Supervision, and to retain additional capital at Federal Trust Corporation. The net proceeds we retain may be used for the repayment of debt and general corporate purposes and further investment in Federal Trust Bank, if required by the Office of Thrift Supervision or if we otherwise determine to make such a further investment. Our Board of Directors considered several alternative capital raising methods prior to concluding that the stock offering was the appropriate option under the current circumstances. We believe that the stock offering will strengthen our financial condition by generating additional cash and increasing our capital position. We cannot assure you that we will not need to seek additional financing or engage in additional capital offerings in the future.

Standby Commitments

Prior to making their commitment to participate in the stock offering, each of the standby purchasers executed a non-disclosure agreement and pursuant thereto gained access to certain nonpublic information about us and participated in discussions with our management. Beginning May 12, 2008, following a due diligence review of Federal Trust Corporation by the standby purchasers, we negotiated and subsequently entered into standby purchase agreements with the standby purchasers in connection with our prior rights offering. On __________, 2008, the standby purchase agreements were amended to reflect our current stock offering. The following description of the standby purchase agreements summarizes certain terms of the standby purchase agreements. The standby agreements have been filed as exhibits to the registration statement of which this prospectus is a part. We urge you to carefully read the documents in their entirety. See Where You Can Find Additional Information.

Subject to certain conditions, including the receipt of required regulatory approvals, the standby purchase agreements obligate us to sell, and require the standby purchasers to purchase from us, up to an aggregate of $__________ million ([standby maximum] shares) of our common stock. We will only issue shares of common stock to the standby purchasers to the extent that other investors do not purchase at least [min shares] shares of our common stock in the stock offering. The [offering price] price per share paid by the standby purchasers for such common stock equals the price paid by all other purchasers in the stock offering.

We have also agreed to provide two of the standby purchasers a total of 10,000,000 transferable warrants that would entitle these investors to purchase from us up to 10,000,000 shares of our common stock at $0.95 per share. We are only obligated to issue warrants to the standby purchasers if their investment is required to complete the stock offering. Although the warrants are immediately exercisable, the standby purchasers may not be able to exercise the warrants themselves unless they receive any required approvals or non-objection from the Office of Thrift Supervision or other applicable bank regulatory authority with respect to such exercise. Such regulatory restriction on exercise may not apply if the warrants are transferred by the standby purchasers, depending on the relationship between the standby purchasers and the transferees. We have agreed to file a registration statement with the Securities and Exchange Commission with respect to the exercise of the warrants within 20 days of the completion of the stock offering. The warrants expire upon the later of (i) seven years from the date of

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effectiveness of the registration statement filed with respect to such exercise or (ii) nine years from the completion of the stock offering.

We will account for the issuance of the warrants in a manner similar to the accounting for non-employee stock options. The fair value amount deducted from the net stock offering proceeds will be offset by an increase in additional paid in capital resulting from the recognition of the fair value of the warrants. Accordingly, the issuance of the warrants will not reduce our shareholders equity. In addition, the issuance will not reduce our income because the amount deducted from the net stock offering proceeds is an expense of the stock offering, and not reflected in our income statement.

The following table sets forth the maximum share commitments of the standby purchasers. We will also issue 5,000,000 warrants to each of Patriot Financial Partners, L.P. and Sidhu Advisors FDT, LLC, regardless of the number of shares these individuals purchase in the offering to standby purchasers, so long as their investment is required to complete the stock offering.

Name	Maximum Share Commitment
Total	[standby maximum]

Prior to the closing of the stock offering, we may enter into additional standby purchase agreements with new standby purchasers. In the event we enter into additional standby purchase agreements, the offering price and the aggregate number of shares of our common stock to be sold in the stock offering and the offering to standby purchasers will not change.

We have agreed to provide preemptive rights with respect to future issuances of shares of common stock (or securities convertible into shares of common stock) to standby purchasers who beneficially own more than 10% of our outstanding shares at the time of issuance; however, issuances pursuant to stock benefit plans do not trigger these preemptive rights. Any issuance to such standby purchaser may be subject to the approval or non-objection of the Office of Thrift Supervision.

Subject to receipt of regulatory approval, we have also agreed to provide each of Patriot Financial Partners, L.P. and Sidhu Advisors FDT, LLC the right to select one candidate for appointment to the boards of directors of Federal Trust Corporation and Federal Trust Bank and we have also agreed to provide each of these two standby purchasers the right to select one individual who will have observer rights at these board meetings. We have also agreed to pay the reimbursable expenses of each of Patriot Financial Partners, L.P. and Sidhu Advisors FDT, LLC in an amount up to $150,000. In addition, in the event we terminate the standby purchase agreements because our Board of Directors determines, in the exercise of its fiduciary duties, that it is not in the best interests of Federal Trust Corporation and our shareholders to go forward with the stock offering, then we will pay the standby purchasers liquidated damages totaling $3.3 million. Such standby purchase agreements, including the liquidated damages provisions, were entered into by the parties following arm s length negotiations.

Each standby purchase agreement provides that it may be terminated by the standby purchaser only upon the occurrence of the following events:

(i) prior to the closing of the stock offering, if we experience a material adverse effect on our financial condition, or on our financial position, operations, assets, results of operation or business (excluding changes in general economic, industry, market or competitive conditions that generally affect the financial institutions industry, unless such changes have a disproportionate effect on us);

(ii) the suspension of trading in our common stock, a general suspension of trading on the American Stock Exchange or the establishment of limited or minimum prices on the American Stock Exchange;

(iii) if we materially breach the standby purchase agreement and such breach is not cured within the time period specified in the standby purchase agreement;

(iv) if the stock offering is not completed by September 30, 2008;

(v) if we fail to receive shareholder approval of the issuance of shares in a non-public offering, which would permit us to conduct the sale of shares and issuance of warrants to standby purchasers;

(vi) if we fail to receive shareholder approval of the amendment to our Restated Articles of Incorporation to increase the number of authorized shares;

(vii) in the event that we are unable to obtain any required federal or state approvals for the stock offering on conditions reasonably satisfactory to us despite our reasonable efforts to obtain such approvals; and

(viii) if we fail to amend the severance agreements and the salary continuation agreements we have entered into with certain of our executive officers to provide that the stock offering will not constitute a Change in Control under those agreements.

The obligations of Federal Trust Corporation and the standby purchasers to complete the stock offering are subject to additional conditions, including the shares to be issued in the stock offering and to the standby purchasers being authorized for listing on the American Stock Exchange.

Each standby purchaser has represented to us that they are not affiliates of the other within the meaning of Rule 405 of the Securities Act of 1933, as amended, and are not acting in concert with each other and are not members of a group (within the meaning of Section 13(d)(3) of the Exchange Act) and have no current intention to act in the future in a manner that would make them members of such a group.

We anticipate that each of Sidhu Advisors FDT, LLC and Patriot Financial Partners, L.P. will assign some or all of their rights under their standby purchase agreement to one or more of its affiliates.

Limit on How Many Shares of Common Stock You May Purchase in the Stock Offering

No person may purchase more than $______ million (______ shares) of common stock, and no person may own more than ______ shares of common stock as a result of purchases in the stock offering and the offering to standby purchasers. If any of the following persons already owns shares of common stock, their existing ownership plus their purchases in the stock offering and the offering to standby purchasers, when aggregated with your existing ownership and purchases in the stock offering, also cannot exceed $______ million (______ shares) of common stock:

your spouse or relatives of you or your spouse living in your house;

companies, trusts or other entities in which you are a trustee, have a controlling beneficial interest or hold a senior position; or

other persons who may be your associates or persons acting in concert with you.

These restrictions do not apply to certain of our standby purchasers.

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In addition, we will not issue shares of common stock to any prospective purchaser (other than certain standby purchasers) who, in our sole opinion, could be required to obtain prior clearance or approval from or submit a notice to any state or federal bank regulatory authority to acquire, own or control such shares if, prior to the completion of the stock offering, such clearance or approval has not been obtained and/or any required waiting period has not expired.

The term associate is used above to indicate any of the following relationships with a person:

- any corporation or organization, other than Federal Trust Corporation, Federal Trust Bank or Federal Trust Statutory Trust I or Federal Trust Mortgage Company, of which a person is a senior officer or partner, or beneficially owns, directly or indirectly, 10% or more of any class of equity securities of the corporation or organization;

- any trust or other estate, if the person has a substantial beneficial interest in the trust or estate or is a trustee or fiduciary of the estate (although a person who has a substantial beneficial interest in one of our tax-qualified or non-tax-qualified employee plans, or who is a trustee or fiduciary of the plan is not an associate of the plan, and our tax-qualified employee plans are not associates of a person);

- any person who is related by blood or marriage to such person and:

  (i) who lives in the same house as the person; or

  (ii) who is a director or senior officer of Federal Trust Corporation, Federal Trust Bank or a subsidiary thereof; and

- any person acting in concert with the persons or entities specified above.

As used above, the term acting in concert means:

- knowing participation in a joint activity or interdependent conscious parallel action towards a common goal, whether or not pursuant to an express agreement; or

- a combination or pooling of voting or other interests in the securities of an issuer for a common purpose pursuant to any contract, understanding, relationship, agreement or other arrangement, whether written or otherwise.

A person or company that acts in concert with another person or company (other party) shall also be deemed to be acting in concert with any person or company who is also acting in concert with that other party, except that any of our tax-qualified employee plans will not be deemed to be acting in concert with its trustee or a person who serves in a similar capacity solely for the purpose of determining whether stock held by the trustee and stock held by the plan will be aggregated.

Determination of Offering Price

In determining the offering price, our Board of Directors considered a number of factors, including: historical and current trading prices for our common stock, the need for liquidity and capital and negotiations with standby purchasers. In conjunction with its review of these factors, the Board of Directors also reviewed our history and prospects, including our past and present earnings, our prospects for future earnings, our current financial condition and regulatory status. The offering price is not necessarily related to our book value, net worth or any other established criteria of value and may or may not be considered the fair value of our common stock to be offered in the stock offering.

We cannot assure you that the market price of our shares of common stock will not decline during or after the stock offering. We also cannot assure you that you will be able to sell shares of our common stock purchased during the stock offering at a price equal to or greater than the offering price.

Expitation Date; Cancellation of the Stock Offering

The stock offering may terminate at any time, but no later than 5:00 p.m., Eastern Time, on [Expiration Date]. We reserve the right to cancel the stock offering at any time for any reason. We may cancel the stock offering if at any time there is any judgment, order, decree, injunction, statute, law or regulation entered, enacted, amended or held to be applicable to the stock offering that in the sole judgment of our Board of Directors would or might make the stock offering or its completion, whether in whole or in part, illegal or otherwise restrict or prohibit completion of the stock offering.

In addition, we cannot complete the stock offering unless we sell at least $30.0 million of common stock in the stock offering ([min shares] shares), which includes the purchases by the standby purchasers of up to [standby maximum] shares of our common stock.

Selling Agent

Stifel, Nicolaus & Company, Incorporated has agreed, subject to the terms and conditions contained in an agency agreement with us, to sell to the public, on a best efforts basis, the shares being offered in the stock offering. Because the stock offering is on a best efforts basis, Stifel, Nicolaus & Company, Incorporated is not obligated to purchase any shares if they are not sold to the public or the standby purchasers, and Stifel, Nicolaus & Company, Incorporated is not required to sell any specific number or dollar amount of shares.

We will pay the fees and expenses of Stifel, Nicolaus & Company, Incorporated and have also agreed to indemnify Stifel, Nicolaus & Company, Incorporated from certain liabilities that it may incur in connection with the stock offering.

Regulatory Limitation

Except for issuances to certain of the standby purchasers, we will not issue shares of common stock to any purchaser in the stock offering or other standby purchaser who, in our sole opinion, could be required to obtain prior clearance or approval from or submit a notice to any state or federal bank regulatory authority to acquire, own or control such shares if, prior to the completion of the stock offering, such clearance or approval has not been obtained and/or any required waiting period has not expired.

Shares of Our Common Stock Outstanding After the Stock Offering

Assuming no options are exercised prior to the completion of the stock offering, we expect approximately [pro forma outstanding shares] shares of our common stock will be outstanding immediately after completion of the stock offering and the closing of the transactions contemplated by the standby purchase agreement, assuming all shares are sold in the stock offering and to standby purchasers.

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PLAN OF DISTRIBUTION

Directors and Executive Officers

Our directors and executive officers may participate in the solicitation of purchases of shares of common stock in the stock offering. These persons will not receive any commissions or compensation in connection with these activities, other than their normal compensation, but they will be reimbursed for their reasonable out-of-pocket expenses incurred in connection with any solicitation. We will rely on Rule 3a4-1 under the Securities Exchange Act of 1934, as amended, and the sales of common stock in the stock offering will be conducted within the requirements of Rule 3a4-1, so as to permit officers and directors to participate in the sale of our common stock. None of our officers or directors will be compensated in connection with their participation in the stock offering by the payment of commissions or other remuneration based either directly or indirectly on the transactions in the shares of common stock.

Selling Agent

We have engaged Stifel, Nicolaus & Company, Incorporated, a broker-dealer registered with the Financial Industry Regulatory Authority, as our selling agent and financial advisor in connection with the stock offering pursuant to an agency agreement between Stifel, Nicolaus & Company, Incorporated and us. Stifel, Nicolaus & Company, Incorporated has agreed to sell, on a best efforts basis, the shares being offered in the stock offering. Because the stock offering is on a best efforts basis, Stifel, Nicolaus & Company, Incorporated is not obligated to purchase any shares if they are not sold to the public or the standby purchasers, and Stifel, Nicolaus & Company, Incorporated is not required to sell any specific number or dollar amount of shares.

Stifel, Nicolaus & Company, Incorporated is a nationally recognized investment banking firm whose principal business specialty is financial institutions. In the ordinary course of its investment banking business, Stifel, Nicolaus & Company, Incorporated is regularly engaged in the valuation of financial institutions and their securities in connection with mergers and acquisitions and other corporate transactions

In its capacity as our financial advisor, Stifel, Nicolaus & Company, Incorporated provided advice to us regarding the structure of the stock offering as well as with respect to marketing the shares of our common stock to be issued in the stock offering. Stifel, Nicolaus & Company, Incorporated has identified potential standby purchasers and assisted us in negotiating standby purchase agreements with the standby purchasers on an arm s length basis, and may assist us in identifying additional standby purchasers.

Our Board of Directors received a fairness opinion dated May 21, 2008, from Stifel, Nicolaus & Company, Incorporated, our financial and marketing advisor, to the effect that, as of the date of such opinion, and subject to the assumptions and qualifications therein, the financial terms of the rights offering as then contemplated were fair to Federal Trust Corporation from a financial point of view. Stifel, Nicolaus & Company, Incorporated expresses no opinion and makes no recommendation as to the purchase by any person of shares of our common stock. Stifel, Nicolaus & Company, Incorporated also expresses no opinion as to the prices at which shares to be issued in the stock offering may trade if and when they are issued or at any future time. See The Stock Offering Determination of Offering Price.

As compensation for its services, upon completion of the stock offering, we have agreed to pay Stifel, Nicolaus & Company, Incorporated the following amounts:

- an advisory and management fee of $100,000 in connection with the advisory and administrative services provided by Stifel, Nicolaus & Company, Incorporated, of which $50,000 was due and payable upon engagement of Stifel, Nicolaus & Company, Incorporated and $50,000 was due and payable upon effectiveness of the registration statement for the previously terminated rights offering;

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- a fairness opinion fee of $100,000 in connection with Stifel, Nicolaus & Company, Incorporated s delivery of its prior opinion as to the fairness to Federal Trust Corporation, from a financial point of view, of the financial terms of the previously terminated rights offering;

- a placement fee of 1% of the aggregate purchase price of shares of our common stock sold to Federal Trust Corporation shareholders (other than standby purchasers and those investors identified by Stifel, Nicolaus & Company, Incorporated) in the stock offering; plus

- a fee of 5% of the aggregate purchase price of shares of common stock sold and warrants issued to standby purchasers or purchasers in the stock offering (other than purchasers in the stock offering for which Stifel, Nicolaus & Company, Incorporated will receive a 1% placement fee, as described above).

We have agreed to reimburse Stifel, Nicolaus & Company, Incorporated for its reasonable out-of-pocket expenses pertaining to its engagement, including legal fees, regardless of whether the stock offering is consummated. We have agreed to indemnify Stifel, Nicolaus & Company, Incorporated against certain liabilities and expenses in connection with its engagement, including certain potential liabilities under the federal securities laws. Stifel, Nicolaus & Company, Incorporated expresses no opinion and makes no recommendation as to the purchase by any person of any shares of our common stock. Stifel, Nicolaus & Company, Incorporated expresses no opinion as to the prices that the shares of our common stock may trade for if and when they are issued or at any future time.

We and each of our directors and executive officers and certain of the standby purchasers have agreed with Stifel, Nicolaus & Company, Incorporated that, without the prior written consent of Stifel, Nicolaus & Company, Incorporated, none of us or those certain standby purchasers will, during the period ending 180 days after the closing date of this offering:

- offer, sell, contract to sell (including any short sale), pledge, hypothecate, establish an open put equivalent position within the meaning of Rule 15a-1(h) of the Securities Exchange Act of 1934, as amended, grant any option, right or warrant for the sale of, purchase any option or contract to sell, sell any option or contract to purchase, or otherwise encumber, dispose of or transfer, or grant any rights with respect to, directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock, or enter into any transaction that would have the same effect; or

- enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of the common stock,

whether any transaction described above is to be settled by delivery of common stock or such other securities, in cash or otherwise, or publicly disclose the intention to make any such offer, sale, pledge or disposition, or to enter into any such transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Stifel, Nicolaus & Company, Incorporated. This 180-day period may be extended under certain circumstances if we announce or pre-announce earnings or material news or a material event within approximately 17 days prior to, or approximately 16 days after, the termination of the 180-day period.

The restrictions described in the preceding paragraph do not apply to:

- the transfer by any individual of shares of our common stock to a trust for the benefit of such individual or members of such individual s immediate family, as a bona fide gift or which occurs by operation of law, if each transferee or donee agrees in writing as a condition precedent to such transfer or gift to be bound by the same restrictions; and

- transactions by any person other than us relating to shares of our common stock or other securities acquired in open market transactions after the completion of the offering of the shares.

Stifel, Nicolaus & Company, Incorporated may in the future provide other investment banking services to us and will receive compensation for such services. In the ordinary course of its business as a broker-dealer, Stifel, Nicolaus & Company, Incorporated may also purchase securities from and sell securities to us and may actively trade our equity or debt securities for its own account and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities.

Stifel, Nicolaus & Company, Incorporated, a broker-dealer, will serve as sole book-running manager in the stock offering. In such capacity, Stifel, Nicolaus & Company, Incorporated may form a syndicate of other broker-dealers who are registered with the Financial Industry Regulatory Authority (formerly the National Association of Securities Dealers, Inc.) as member firms. Neither Stifel, Nicolaus & Company, Incorporated, nor any registered broker-dealer will have any obligation to take or purchase any shares of the common stock in the stock offering. The stock offering will be conducted in accordance with certain Securities and Exchange Commission rules applicable to best efforts offerings. Generally under those rules, for existing Stifel, Nicolaus & Company, Incorporated customers, funds for payment for shares of common stock will be removed from their Stifel, Nicolaus & Company, Incorporated accounts upon the closing of the stock offering. For new customers, funds received during the stock offering period will be deposited in a segregated non-interest bearing escrow account at a bank. Additionally, funds remitted by the standby purchasers will be deposited in the escrow account. If and when all the conditions for closing the stock offering are met, funds for common stock sold in the stock offering held in the escrow account will be promptly released by the escrow agent delivered to Federal Trust Corporation. If the stock offering is consummated, but some or all of an interested investor s order is not accepted by Federal Trust Corporation, the applicable funds will be returned to the interested investor promptly, without interest. If the stock offering is not consummated, all funds in the escrow account will be promptly returned to the investors by the escrow agent, without interest. Except in the case of standby purchasers who have executed standby purchase agreements, normal customer ticketing will be used for order placement and stock order forms will not be used.

DESCRIPTION OF CAPITAL STOCK

General

We are authorized to issue 65,000,000 shares of common stock, par value of $0.01 per share. Each share of Federal Trust Corporation common stock has the same relative rights as, and is identical in all respects to, each other share of common stock. Upon payment of the offering price for the common stock in the stock offering, all of the shares of common stock sold in the stock offering will be duly authorized, fully paid and nonassessable.

Shares of common stock of Federal Trust Corporation represent nonwithdrawable capital, are not an account of an insurable type, and are not insured by the Federal Deposit Insurance Corporation or any other government agency.

In connection with the stock offering, and pursuant to the standby purchase agreements entered into with two of the standby purchasers, we are issuing 10,000,000 warrants to purchase our shares of common stock to those two standby purchasers.

Dividends

Under Florida corporate law, Federal Trust Corporation may pay dividends to an amount equal to the excess of our capital surplus over payments that would be owed upon dissolution to shareholders whose preferential rights upon dissolution are superior to those receiving the dividend, and to an amount that would not make us insolvent, as and when declared by our Board of Directors. However, the payment of dividends by Federal Trust Corporation is subject to restrictions that have been placed on Federal Trust Corporation by the Office of Thrift Supervision. See Risk Factors Risks Related to Our Business The Office of Thrift Supervision has placed additional restrictions on our operations. The holders of common stock of Federal Trust Corporation will be entitled to receive and share equally in dividends as may be declared by our Board of Directors out of funds legally available therefor. If Federal Trust Corporation issues shares of preferred stock, the holders thereof may have a priority over the holders of the common stock with respect to dividends.

Voting Rights

The holders of common stock of Federal Trust Corporation have exclusive voting rights in Federal Trust Corporation. They elect Federal Trust Corporation s Board of Directors and act on other matters as are required to be presented to them under Florida law or as are otherwise presented to them by the Board of Directors. Generally, each holder of common stock is entitled to one vote per share and does not have any right to cumulate votes in the election of directors.

As a federal stock savings bank, corporate powers and control of Federal Trust Bank are vested in its Board of Directors, who elect the officers of Federal Trust Bank and who fill any vacancies on the Board of Directors. Voting rights of Federal Trust Bank are vested exclusively in the owners of the shares of capital stock of Federal Trust Bank, which is Federal Trust Corporation, and voted at the direction of Federal Trust Corporation s Board of Directors. Consequently, the holders of the common stock of Federal Trust Corporation do not have direct control of Federal Trust Bank.

Liquidation

In the event of any liquidation, dissolution or winding up of Federal Trust Bank, Federal Trust Corporation, as the holder of 100% of Federal Trust Bank s capital stock, would be entitled to receive all assets of Federal Trust Bank available for distribution, after payment or provision for payment of all debts and liabilities of Federal Trust Bank, including all deposit accounts and accrued interest thereon. In the event of liquidation, dissolution or winding up of Federal Trust Corporation, the holders of its common stock would be entitled to receive, after payment or provision for payment of all its debts and liabilities, all of the assets of Federal Trust Corporation available for distribution. If preferred stock is issued, the holders thereof may have a priority over the holders of the common stock in the event of liquidation or dissolution.

Preemptive Rights

Other than with respect certain preemptive rights that are being provided to the standby purchasers, holders of the common stock of Federal Trust Corporation are not entitled to preemptive rights with respect to any shares that may be issued. The common stock is not subject to redemption. See The Stock Offering Standby Commitments.

Warrants to Purchase Shares of Common Stock

We have agreed to provide two of the standby purchasers a total of 10,000,000 transferable warrants that would entitle these investors to purchase from us up to 10,000,000 shares of our common stock at $0.95 per share. We will only issue these warrants if an investment by the standby purchasers is required to complete the stock offering. Although the warrants are immediately exercisable, the standby purchasers cannot exercise the warrants themselves unless they receive any required approvals or non-objection from the Office of Thrift Supervision or other applicable bank regulatory authority with respect to such exercise. Such regulatory restriction on the exercise of the warrants may not apply if the warrants are transferred by the standby purchasers, depending on the relationship between the standby purchasers and the transferees. We have agreed to file a registration statement with the Securities and Exchange Commission with respect to the exercise of the warrants within 20 days of the completion of the stock offering. The warrants expire upon the later of (i) seven years from the date of effectiveness of the registration statement filed with respect to such exercise or (ii) nine years from the completion of the stock offering.

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RESTRICTIONS ON ACQUISITION OF FEDERAL TRUST CORPORATION

The following discussion is a general summary of the material provisions of our Restated Articles of Incorporation and Bylaws and certain regulatory provisions that may be deemed to have an anti-takeover effect. The following description of certain of these provisions is necessarily general and, with respect to provisions contained in our Restated Articles of Incorporation and Bylaws, reference should be made in each case to the document in question, each of which is part of our registration statement filed with the Securities and Exchange Commission. See Where You Can Find Additional Information.

Our Restated Articles of Incorporation and Bylaws

Our Restated Articles of Incorporation and Bylaws contain a number of provisions relating to corporate governance and rights of shareholders that might discourage future takeover attempts. As a result, shareholders who might desire to participate in such transactions may not have an opportunity to do so. In addition, these provisions will also render the removal of our Board of Directors or management more difficult.

Directors. The Board of Directors is divided into three classes. The members of each class are elected for a term of three years and only one class of directors is elected annually. Thus, it would take at least two annual elections to replace a majority of our Board of Directors. Further, the Bylaws impose notice and information requirements in connection with the nomination by shareholders of candidates for election to the Board of Directors or the proposal by shareholders of business to be acted upon at an annual meeting of shareholders.

Restrictions on Call of Special Meetings. The Bylaws provide that special meetings of shareholders can be called by the Board of Directors pursuant to a resolution adopted by a majority of the total number of directors that Federal Trust Corporation would have if there were no vacancies on the Board of Directors or upon the written request of shareholders who hold not less than 20% all votes entitled to be cast on any issue proposed to be considered at the special meeting.

Removal of Directors. The Restated Articles of Incorporation provide that directors can be removed by shareholders, with or without cause, but only with approval of a majority of the voting power of all of the then-outstanding voting stock, voting as a single class.

Authorized but Unissued Shares. Following the stock offering, Federal Trust Corporation will have authorized but unissued shares of common stock. See Description of Capital Stock.

Stock Dividend. The Bylaws provide that the Board of Directors may declare a stock dividend consisting of a future right to purchase stock at the Board s discretion upon the occurrence of certain events specified therein. The one right to acquire may be issued for each share of the then senior voting stock of Federal Trust Corporation. The exercise price of such right shall be 50% of the current market value of the stock. This right shall have no present value until such time as the Board announces a redemption period. Such a redemption period shall only occur upon the acquisition of 15% of the outstanding shares of Federal Trust Corporation. The party acquiring 15% of the outstanding shares of Federal Trust Corporation shall not be entitled to participate in such right to repurchase shares. In addition, if following the acquisition of 15% of the outstanding shares of Federal Trust Corporation, we are involved in a business combination or a sale of substantial assets of Federal Trust Corporation, the Board may allow all stockholders other than the entity or person acquiring 15% of the shares to purchase the most senior voting securities of the final corporate parent resulting from the transaction.

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Amendments to Articles of Incorporation and Bylaws. Amendments to the Restated Articles of Incorporation must be approved by our Board of Directors and also by a majority of the outstanding shares of our voting stock; provided, however, that approval by at least 66% of the voting power of all then-outstanding voting stock, voting as a single class, is generally required to amend the following provisions:

- the division of the Board of Directors into three staggered classes;
- the ability of the Board of Directors to fill vacancies on the Board;
- the inability to deviate from the manner prescribed in the Bylaws by which shareholders nominate directors and bring other business before meetings of shareholders;
- the requirement that a majority of shareholders must vote to remove directors;
- the vote required of shareholders to approve resolutions granting Control-Share Voting Rights (as described below in Control Share Acquisitions); and
- the vote required of shareholders to approve Business Combinations (as described below in Business Combinations).

The Bylaws may be amended by our Board of Directors or the affirmative vote of a majority of the voting power of all then-outstanding voting stock, voting as a single class.

Control Share Acquisitions

As a Florida corporation, we are subject to the Florida control share acquisition statute. Subject to certain exceptions, this statute provides that shares acquired within certain specified ranges will not possess voting rights for the election of directors unless the voting rights are approved by a majority vote of the corporation s disinterested shares (those shares not held by the acquirer or its affiliates). In addition, our Restated Articles of Incorporation provide that control shares will have limited voting rights unless approved by the affirmative vote of at least 66% of the outstanding shares of our common stock not including the control shares. The statute also enables a corporation to provide for the redemption of control shares with no voting rights under certain circumstances.

Business Combinations

Our Restated Articles of Incorporation require approval by the affirmative vote of holders of at least 66% of our outstanding shares of common stock to approve a Business Combination, which includes specified transactions, such as a merger or sale of all or substantially all of our assets, each with or to an Acquiring Person (generally a person who is or who was recently the holder of or in control of 25% or more of our outstanding shares of common stock).

Transactions With Interested Shareholders

We are subject to the Florida affiliated transactions statute, which generally requires approval by the disinterested directors or super-majority approval by shareholders for certain specified transaction between a corporation and a holder, or its affiliates, of more than 10% of the outstanding shares of the corporation.

Change in Control Regulations

Under the Change in Bank Control Act, no person may acquire control of an insured federal savings bank or its parent holding company unless the Office of Thrift Supervision has been given 60 days prior written notice and has not issued a notice disapproving the proposed acquisition. In addition, Office of Thrift Supervision regulations provide that no company may acquire control of a savings bank without the prior approval of the Office

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of Thrift Supervision. Any company that acquires such control becomes a savings and loan holding company subject to registration, examination and regulation by the Office of Thrift Supervision.

Control, as defined under federal law, means ownership, control of or holding irrevocable proxies representing more than 25% of any class of voting stock, contribution of more than 25% of the capital, control in any manner of the election of a majority of the institution s directors, or a determination by the Office of Thrift Supervision that the acquiror has the power to direct, or directly or indirectly to exercise a controlling influence over, the management or policies of the institution. Acquisition of more than 10% of any class of a savings bank s voting stock, if the acquiror is also subject to any one of eight control factors, constitutes a rebuttable determination of control under the regulations. Such control factors include the acquiror being one of the two largest shareholders. The determination of control may be rebutted by submission to the Office of Thrift Supervision, prior to the acquisition of stock or the occurrence of any other circumstances giving rise to such determination, of a statement setting forth facts and circumstances which would support a finding that no control relationship will exist and containing certain undertakings. The regulations provide that persons or companies which acquire beneficial ownership exceeding 10% or more of any class of a savings bank s stock who do not intend to participate in or seek to exercise control over a savings bank s management or policies may qualify for a safe harbor by filing with the Office of Thrift Supervision a certification form that states, among other things, that the holder is not in control of such institution, is not subject to a rebuttable determination of control and will take no action which would result in a determination or rebuttable determination of control without prior notice to or approval of the Office of Thrift Supervision, as applicable. There are also rebuttable presumptions in the regulations concerning whether a group acting in concert exists, including presumed action in concert among members of an immediate family.

The Office of Thrift Supervision may prohibit an acquisition of control if it finds, among other things, that:

(i) the acquisition would result in a monopoly or substantially lessen competition;

(ii) the financial condition of the acquiring person might jeopardize the financial stability of the institution; or

(iii) the competence, experience or integrity of the acquiring person indicates that it would not be in the interest of the depositors or the public to permit the acquisition of control by such person.

TRANSFER AGENT

The transfer agent and registrar for Federal Trust Corporation s common stock is Registrar and Transfer Company, Cranford, New Jersey.

EXPERTS

The consolidated financial statements of Federal Trust Corporation as of December 31, 2007 and 2006, and for each of the years in the three-year period ended December 31, 2007, appearing elsewhere in this prospectus have been included herein and in the registration statement in reliance upon the report of Hacker, Johnson & Smith PA, Independent Registered Public Accounting Firm, which is included herein and upon the authority of that firm as experts in accounting and auditing.

LEGAL MATTERS

Luse Gorman Pomerenk & Schick, P.C., Washington, D.C., counsel to Federal Trust Corporation, will issue to Federal Trust Corporation its opinion regarding the legality of the common stock and the warrants. Certain legal matters will be passed upon for Stifel, Nicolaus & Company, Incorporated by Alston & Bird LLP, Atlanta, Georgia.

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WHERE YOU CAN FIND ADDITIONAL INFORMATION

Federal Trust Corporation has filed with the Securities and Exchange Commission a registration statement under the Securities Act of 1933 with respect to the shares of common stock offered hereby. As permitted by the rules and regulations of the Securities and Exchange Commission, this prospectus does not contain all the information set forth in the registration statement. Such information can be examined without charge at the public reference facilities of the Securities and Exchange Commission located at 100 F Street, N.E., Washington, D.C. 20549, and copies of such material can be obtained from the Securities and Exchange Commission at prescribed rates. The Securities and Exchange Commission telephone number is 1-800-SEC-0330. In addition, the Securities and Exchange Commission maintains a web site (http://www.sec.gov) that contains periodic reports, proxy and information statements and other information regarding registrants that file electronically with the Securities and Exchange Commission, including Federal Trust Corporation. The statements contained in this prospectus as to the contents of any contract or other document filed as an exhibit to the registration statement are, of necessity, brief descriptions of the material terms of, and should be read in conjunction with, such contract or document.

In addition, we make available, without charge, through our website, http://www.federaltrust.com, electronic copies of our filings with the Securities and Exchange Commission, including copies of annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these filings, if any. Information on our website should not be considered a part of this prospectus, and we do not intend to incorporate into this prospectus any information contained in the website.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

($ in thousands, except per share amounts)

	At December 31, 2007	2006
Assets		
Cash and due from banks	$ 8,046	7,095
Interest-earning deposits	1,131	1,585
Cash and cash equivalents	9,177	8,680
Securities available for sale	52,449	65,558
Loans, less allowance for loan losses of $13,869 in 2007 and $5,098 in 2006	563,234	603,917
Accrued interest receivable	4,509	4,832
Premises and equipment, net	18,814	17,378
Foreclosed assets	9,522	36
Federal Home Loan Bank stock	8,129	9,591
Mortgage servicing rights, net	444	599
Bank-owned life insurance	7,504	7,231
Deferred tax asset	7,966	1,997
Other assets	8,516	3,145
Total assets	$ 690,264	722,964
Liabilities and Stockholders Equity		
Liabilities:		
Noninterest-bearing demand deposits	$ 13,916	13,887
Interest-bearing demand deposits	80,275	51,584
Money-market deposits	57,608	64,458
Savings deposits	2,422	3,065
Time deposits	327,508	339,800
Total deposits	481,729	472,794
Federal Home Loan Bank advances	152,000	179,700
Other borrowings	16	1,393
Junior subordinated debentures	5,155	5,155
Capital lease obligation		2,504
Accrued interest payable	2,597	1,506
Official checks	2,238	1,933
Other liabilities	6,843	3,359
Total liabilities	650,578	668,344
Commitments (Notes 5 and 11)		
Stockholders equity:		
Common stock, $.01 par value, 15,000,000 shares authorized; 9,436,305 and 9,351,542 shares issued in 2007 and 2006, respectively	94	94
Additional paid-in capital	44,515	43,858
Retained earnings (accumulated deficit)	(3,755)	11,160

Unallocated ESOP shares (42,386 shares in 2007 and 31,939 shares in 2006)	(440)	(257)
Accumulated other comprehensive loss	(728)	(235)
Total stockholders equity	39,686	54,620
Total liabilities and stockholders equity	$ 690,264	722,964

See Accompanying Notes to Consolidated Financial Statements.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations

($ in thousands, except per share amounts)

	Years Ended December 31, 2007	2006	2005
Interest income:			
Loans	$ 38,536	39,885	31,484
Securities	3,240	3,236	2,001
Other	710	721	492
Total interest income	42,486	43,842	33,977
Interest expense:			
Deposits	22,273	20,143	12,604
Other	8,524	7,971	6,732
Total interest expense	30,797	28,114	19,336
Net interest income	11,689	15,728	14,641
Provision for loan losses	16,412	639	650
Net interest (expense) income after provision for loan losses	(4,723)	15,089	13,991
Other income:			
Service charges and fees	441	530	304
Gain on sale of loans held for sale	132	281	368
Net (loss) gain on sale of securities available for sale	(119)	39	208
Net (loss) gain on sale of foreclosed assets	(618)	24	94
Rental income	360	330	304
Increase in cash surrender value of life insurance policies	273	241	247
Other	475	781	1,008
Total other income	944	2,226	2,533
Other expense:			
Salary and employee benefits	10,794	6,931	5,203
Occupancy expense	2,363	2,036	1,623
Professional services	1,335	786	665
Data processing	1,074	773	656
Marketing and advertising	419	280	214
Other-than-temporary impairment of securities available for sale	749		
Other	2,757	1,655	1,430
Total other expense	19,491	12,461	9,791
(Loss) earnings before income taxes	(23,270)	4,854	6,733
Income tax (benefit) expense	(9,107)	1,444	2,297
Net (loss) earnings	$ (14,163)	3,410	4,436

(Loss) earnings per share:				
Basic	$	(1.51)	0.38	0.54
Diluted	$	(1.51)	0.37	0.53

See Accompanying Notes to Consolidated Financial Statements

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders Equity

Years Ended December 31, 2007, 2006 and 2005

($ in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Unallocated ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
Balance at December 31, 2004	8,061,813	$ 81	32,059	8,089	(862)	20	39,387
Comprehensive income:							
Net earnings				4,436			4,436
Change in net unrealized gain on securities available for sale, net of tax benefit of $569						(943)	(943)
Comprehensive income							3,493
Tax benefit related to exercise of stock options			169				169
Issuance of common stock, stock options exercised	237,530	2	989				991
ESOP shares allocated (27,586 shares)			131		199		330
ESOP shares sold (70,000 shares)			331		506		837
Dividends paid, $.13 per share				(1,066)			(1,066)
Balance at December 31, 2005	8,299,343	$ 83	33,679	11,459	(157)	(923)	44,141
Comprehensive income:							
Net earnings				3,410			3,410
Change in net unrealized loss on securities available for sale, net of taxes of $413						688	688
Comprehensive income							4,098
Issuance of common stock:							
Options exercised	19,300		101				101
Private Equity Offering, net of offering costs of $639	850,000	8	7,853				7,861
Stock Dividend	182,899	2	2,074	(2,076)			
ESOP shares purchased (9,715 shares)		1	100		(100)		1
Share based compensation			51				51
Dividends paid, $.17 per share				(1,633)			(1,633)
Balance at December 31, 2006	9,351,542	$ 94	43,858	11,160	(257)	(235)	54,620

See Accompanying Notes to Consolidated Financial Statements.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders Equity, Continued

Years Ended December 31, 2007, 2006 and 2005

($ in thousands)

	Common Stock						
	Shares	Amount	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Unallocated ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
Balance at December 31, 2006	9,351,542	$ 94	43,858	11,160	(257)	(235)	54,620
Comprehensive income:							
Net loss				(14,163)			(14,163)
Change in net unrealized loss on securities available for sale, net of taxes of $298						(493)	(493)
Comprehensive loss							(14,656)
Issuance of common stock:							
Options exercised and stock unit shares issued	84,763		401				401
ESOP shares purchased (17,618 shares)			183		(183)		
Share based compensation			73				73
Dividends paid, $.08 per share				(752)			(752)
Balance at December 31, 2007	9,436,305	$ 94	44,515	(3,755)	(440)	(728)	39,686

See Accompanying Notes to Consolidated Financial Statements.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

($ in thousands)

	Years Ended December 31, 2007	2006	2005
Cash flows from operating activities:			
Net (loss) earnings	$ (14,163)	3,410	4,436
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities:			
Depreciation and amortization	909	806	690
Provision for loan losses	16,412	639	650
Net loss (gain) on sale of foreclosed assets	618	(24)	(94)
Capitalized costs on foreclosed assets	(25)		
Net amortization of premiums and discounts on securities	(120)	(81)	81
Net amortization of loan origination fees, costs, premiums and discounts	1,016	1,257	982
Amortization of mortgage servicing rights	180	245	403
Valuation allowance on mortgage servicing rights			(100)
Increase in cash surrender value of life insurance policies	(273)	(267)	(247)
Proceeds from sales of loans held for sale	6,516	13,605	9,705
Loans originated for resale	(6,033)	(13,528)	(11,762)
Gain on sale of loans held for sale	(132)	(281)	(368)
Market value adjustment on loans held for sale	328		
Net loss (gain) on sale of securities available for sale	119	(39)	(208)
Other-than-temporary impairment of securities held for sale	749		
Deferred income tax expense (benefit)	(5,671)	64	(788)
Share-based compensation	73	51	
Allocation of ESOP shares			330
Tax benefit from options exercised			169
Cash provided by (used in) resulting from changes in:			
Accrued interest receivable	323	(694)	(884)
Other assets	(4,489)	(1,219)	(947)
Accrued interest payable	1,091	298	397
Official checks	305	344	544
Other liabilities	2,975	(158)	(1,183)
Net cash provided by operating activities	708	4,428	1,806
Cash flows from investing activities:			
Principal repayments, net of loans originated	45,854	73,238	80,031
Purchase of loans	(38,286)	(62,668)	(207,136)
Proceeds from sales of loans transferred to held for sale	2,789	14,608	15,071
Purchase of securities available for sale	(15,302)	(44,258)	(22,671)
Proceeds from principal repayments, calls and sales of securities available for sale	26,872	30,003	14,916
Proceeds from the sale of foreclosed assets	2,115	544	418
Redemption (purchase) of Federal Home Loan Bank stock	1,462	682	(2,888)
Purchase of premises and equipment	(3,227)	(3,808)	(2,567)
Net cash provided by (used in) investing activities	22,277	(8,341)	(124,826)
Cash flows from financing activities:			
Net increase in deposits	8,935	1,732	66,946
Net (decrease) increase in Federal Home Loan Bank advances	(27,700)	(22,000)	58,000

Net (decrease) increase in other borrowings	(1,377)	(2,707)	3,215
Principal repayments under capital lease obligation	(2,504)	(260)	(285)
Net (decrease) increase in advance payments by borrowers for taxes and insurance	509	(180)	(103)
Dividends paid	(752)	(1,633)	(1,066)
Purchase of common shares for the ESOP		1	
Net proceeds from the sale of common stock	401	7,962	1,828
Net cash (used in) provided by financing activities	(22,488)	(17,085)	128,535
Net increase (decrease) in cash and cash equivalents	497	(4,316)	5,515
Cash and cash equivalents at beginning of year	8,680	12,996	7,481
Cash and cash equivalents at end of year	$ 9,177	8,680	12,996

(Continued)

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows, Continued

($ in thousands)

	Year Ended December 31, 2007	2006	2005
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest, net of amounts capitalized	$ 29,791	27,816	18,939
Income taxes	$	2,459	2,521
Noncash transactions:			
Foreclosed assets acquired in settlement of loans	$ 12,194	36	554
Other comprehensive income (loss), net change in unrealized gain (loss) on securities available for sale, net of tax	$ (493)	688	(943)
Securitization of loans held for sale	$		2,538
Transfer of loans in portfolio to loans held for sale	$ 9,985	14,531	14,850
Mortgage servicing rights recognized upon sale of loans held for sale	$ 25	40	239
ESOP shares purchased	$ 183	100	
Transfer of premises to other assets	$ 882		

See Accompanying Notes to Consolidated Financial Statements.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

At December 31, 2007 and 2006 and for Each of the Years

in the Three-Year Period Ended December 31, 2007

(1) Organization and Summary of Significant Accounting Policies

Organization. Federal Trust Corporation (Federal Trust) is the sole shareholder of Federal Trust Bank (the Bank) and Federal Trust Mortgage Company (Mortgage Company). Federal Trust operates as a unitary savings and loan holding company. Federal Trust s business activities are primarily the operation of the Bank and the Mortgage Company. The Bank is federally-chartered as a stock savings bank. The Bank s deposits are insured up to applicable limits by the Federal Deposit Insurance Corporation. The Bank provides a wide range of banking services to individual and corporate customers through its 11 offices located in Seminole, Orange, Volusia, Lake and Flagler Counties, Florida. The Mortgage Company commenced operations in January 2006. The Mortgage Company originates residential mortgage loans, purchases and sells mortgage loans in the secondary market, and services residential mortgage loans, including loans in the Bank s portfolio.

Basis of Financial Statement Presentation. The consolidated financial statements include the accounts of Federal Trust, the Bank and the Mortgage Company (together, the Company). All significant intercompany accounts and transactions have been eliminated in consolidation.

The accounting and reporting policies of the Company conform to U.S. generally accepted accounting principles and prevailing practices within the banking industry. The following summarizes the more significant of these policies and practices.

Use of Estimates. The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting period. The most significant estimates made by management that are particularly susceptible to significant change in the near term relate to the determination of the adequacy of the allowance for loan losses and the valuation of deferred tax assets. Actual results could differ from these estimates.

Cash and Cash Equivalents. For the purposes of reporting cash flows, cash and cash equivalents includes cash and due from banks and interest-earning deposits with maturities of three months or less.

The Bank is required by law or regulation to maintain cash reserves in the form of vault cash or in a noninterest-earning account with the Federal Reserve Bank or other qualified banks, based on its transaction deposit accounts. These reserve balances at December 31, 2007 and 2006 were approximately $5,544,000 and $2,972,000, respectively.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(1) Organization and Summary of Significant Accounting Policies, Continued

Securities. The Company may classify its securities as either trading, held to maturity or available for sale. Trading securities are held principally for resale and recorded at their fair values. Unrealized gains and losses on trading securities are included immediately in operations. Held-to-maturity securities are those which the Company has the positive intent and ability to hold to maturity and are reported at amortized cost. Available-for-sale securities consist of securities not classified as trading securities nor as held-to-maturity securities. Unrealized holding gains and losses, net of tax, on available-for-sale securities are excluded from the statement of operations and reported in accumulated other comprehensive loss. A security is considered impaired if its fair value is less than its accumulated cost. If the impairment is considered to be other-than-temporary, an impairment loss is recognized in operations equal to the difference between the security s cost and its fair value. During the year ended December 31, 2007, the Company recorded an other-than-temporary loss of approximately $749,000 (see note 2). Gains and losses on the sale of available-for-sale securities are recorded on the trade date and determined using the specific-identification method. Premiums and discounts on securities available for sale are recognized in interest income using the interest method over the period to maturity.

Loans. Loans that management has the intent and the Company has the ability to hold until maturity or payoff, are reported at their outstanding unpaid principal balance, adjusted for premiums or discounts on loans purchased, charge-offs and recoveries, the allowance for loan losses and deferred fees and costs on originated loans.

Commitment and loan origination fees are deferred and certain direct loan origination costs are capitalized on loans. Both are recognized in operations over the contractual life of the loans, adjusted for estimated prepayments based on the Company s historical prepayment experience. If the loan is prepaid, the remaining unamortized fees and costs are recognized in operations. Net loan fee amortization is ceased when a loan is placed on nonaccrual status.

Loans are placed on nonaccrual status when the loan becomes recognized in 90 days past due as to interest or principal. When a loan is placed on nonaccrual status, the accrued and unpaid interest receivable is written off and the loan is accounted for on the cash or cost recovery method thereafter, until qualifying for return to accrual status.

The Company considers a loan to be impaired when it is probable that the Company will be unable to collect all amounts due, both principal and interest, according to the contractual terms of the loan agreement. When a loan is impaired, the Company may measure impairment based on (a) the present value of the expected future cash flows of the impaired loan discounted at the loan s original effective interest rate, (b) the observable market price of the impaired loan, or (c) the fair value of the collateral of a collateral-dependent loan. The Company selects the measurement method on a loan-by-loan basis, except for collateral-dependent loans for which foreclosure is probable, are measured at the fair value of the collateral. In a troubled debt restructuring involving a restructured loan, the Company measures impairment by discounting the total expected future cash flows at the loan s original effective rate of interest.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

(Continued)

FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(1) Organization and Summary of Significant Accounting Policies, Continued

Loans Held for Sale. Loans originated that are intended to be sold in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses are recognized through a valuation allowance by charges to earnings. The Company had approximately $7.6 million and $1.1 million of loans held for sale at December 31, 2007 and 2006, respectively, which are included in loans on the accompanying consolidated balance sheets. During 2007, the Company recorded a write down of $328,000 to recognize a decline in value of loans held for sale. Loan origination fees are deferred and direct loan origination costs are capitalized until the related loan is sold, at which time the net fees are included in the gain on sale of loans held for sale in the consolidated statements of earnings.

Allowance for Loan Losses. A number of factors are considered when establishing our allowance for loan losses. For loan loss purposes, the loan portfolio is segregated by collateral type. A general allowance for losses is then provided for each collateral type, which consists of two components. General loss percentages are calculated based upon historical analyses. A supplemental portion of the allowance is calculated for inherent losses which probably exist as of the evaluation date even though they might not have been identified by the more objective processes used for the portion of the allowance described above. This is due to the risk of error and/or inherent imprecision in the process. This portion of the allowance is particularly subjective and requires judgments based on qualitative factors which do not lend themselves to exact mathematical calculations such as; trends in delinquencies and nonaccruals; trends in volume, terms, and portfolio mix; new credit products and/or changes in the geographic distribution of those products; changes in lending policies and procedures; collection practices; examination results from bank regulatory agencies; external loan reviews, and our internal credit review function; changes in the outlook for local, regional and national economic conditions; concentrations of credit; and peer group comparisons.

Large commercial loans that exhibit probable or observed credit weaknesses are subject to individual review. Where appropriate, reserves are allocated to individual loans based on our estimate of the borrower s ability to repay the loan given the availability of collateral, other sources of cash flows, and available legal options. Included in the review of individual loans, are those that are impaired as provided in Statement of Financial Accounting Standards (SFAS) No. 114, *Accounting by Creditors for Impairment of a Loan* as amended. Any specific reserves for impaired loans are measured based on the fair market value of the underlying collateral. We evaluate the collectibility of both principal and interest when assessing the need for a specific reserve. Specific reserves on individual loans and historical loss rates are reviewed throughout the year and adjusted as necessary based on changing borrower and collateral conditions and actual collection and charge-off experience. Historical loss rates are applied to other commercial loans not subject to specific reserve allocations.

Homogenous loans, such as installment and residential mortgage loans are not individually reviewed by management except in the case of delinquencies. Reserves are established for each pool of loans based on the expected net charge-offs. Loss rates are based on the average net charge-off history and an analysis of the risks and trend information by loan category.

(Continued)

FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(1) Organization and Summary of Significant Accounting Policies, Continued

Historical loss rates for loans may be adjusted for significant factors that, in management s judgment, reflect the impact of any current conditions or loss recognition. Based on these procedures, management believes that the allowance for loan losses is adequate to absorb estimated loan losses associated with the loan portfolio at December 31, 2007. Actual results could differ from these estimates. However, since the allowance is affected by management s judgments and uncertainties, there is the possibility that materially different amounts would be reported under different conditions or assumptions. To the extent that real estate values and the general economy, collateral values, reserve factors, or the nature and volume of problem loans change, we may need to adjust the provision for loan losses. In addition, federal regulatory agencies, as an integral part of the examination process, periodically review our allowance for loan losses. Such agencies may require us to recognize additions to the allowance level based upon their judgment of the information available to them at the time of their examination. Material additions to our provision for loan losses would result in an increase in net losses and a decrease in capital.

At December 31, 2007, the allowance for loan losses was $13.9 million, or 36.7% of non-performing loans and 2.42% of total loans net of loans in process (LIP) compared to $5.1 million, or 42.6% of non-performing loans and .84% of total loans net of LIP at December 31, 2006. The allowance at December 31, 2007, consisted of reserves for the performing loans in the portfolio and specific reserves against certain loans based on management s evaluation of these loans. If the amount of commercial loans in the portfolio continues to increase or the nonaccrual loan amount increases in 2008, the allowance will be adjusted accordingly.

Mortgage Servicing Rights. Mortgage servicing rights are recognized as separate assets when rights are acquired through sale of financial assets. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the net present value of estimated future net servicing income.

The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earning rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are reported as an asset and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized costs. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance account, to the extent that all or a portion of the impairment no longer exists based on the fair value, a reduction of the allowance may be recorded as an increase to income. There was no valuation allowance at December 31, 2007 or 2006.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(1) Organization and Summary of Significant Accounting Policies, Continued

Derivative Financial Instruments. SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), as amended by SFAS No. 149, *Amendment of Statements 133 on Derivative Instruments and Hedging Activities* (SFAS 149), establishes accounting and reporting standards for derivative instruments and requires an entity to recognize all derivatives as either assets or liabilities in the Consolidated Balance Sheets and measure those instruments at fair value. Presently the Company does not hedge derivatives and the changes in the fair value of derivatives must be adjusted through income.

In the normal course of business, the Company sells originated mortgage loans to other correspondent banks and into the secondary mortgage loan markets. The Company maintains a risk management program to protect and manage interest-rate risk and pricing associated with its mortgage commitment pipeline. The Company s mortgage commitment pipeline may, at times, include interest-rate lock commitments (IRLCs) that have been extended to borrowers who have applied for loan funding and met certain defined credit and underwriting standards. IRLC s could include fixed-rate, adjustable-rate, or floating-rate derivative loan commitments. During the term of the IRLCs, the Company may be exposed to interest-rate risk, in that the value of the IRLCs may change significantly before the loans close. To mitigate this interest-rate risk, the Company enters into loan sale agreements that require the Company to deliver an individual mortgage of a specified principal amount and quality to an investor if the loan to the underlying borrower closes. In accordance with SFAS 133 the Company classifies and accounts for IRLCs as nondesignated derivatives if the loan that will result from the exercise of that commitment will be held for sale upon funding. The loan sale agreements currently negotiated by the Company are termed a best efforts contract referring to a loan sales agreement that commits to deliver an individual mortgage loan of a specified principal amount and quality if the loan to the underlying borrower closes but does not require or permit net settlement. Loan sale agreements with this characteristic are not considered derivatives. At December 31, 2007 and 2006, IRLC s were not material.

Foreclosed Assets. Assets acquired in the settlement of loans are initially recorded at the lower of cost (principal balance of the former loan plus costs of obtaining title and possession) or estimated fair value at the date of acquisition. Subsequently, such assets acquired are carried at the lower of cost or fair value less estimated costs to sell. Costs relating to development and improvement of foreclosed assets are capitalized, whereas costs relating to holding the foreclosed assets are charged to operations.

Premises and Equipment. Land is stated at cost. Premises and equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Amortization of leasehold improvements is computed using the straight-line method over the lesser of the estimated useful lives or the respective lease terms, including renewal options expected to be exercised. Major renovations and betterments of property are capitalized; maintenance, repairs, and minor renovations and betterments are expensed in the period incurred. Upon retirement or other disposition of the assets, the asset cost and related accumulated depreciation or amortization are removed from the accounts, and gains or losses are included in operations.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(1) Organization and Summary of Significant Accounting Policies, Continued

Stock Compensation Plans. Prior to January 1, 2006, the Company s stock option plans were accounted for under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25 (Opinion 25), *Accounting for Stock Issued to Employees*, and related Interpretations, as permitted by Statement of Financial Accounting Standard (SFAS) No. 123, *Accounting for Stock-Based Compensation* (as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*) (collectively SFAS 123). No stock-based employee compensation cost was recognized in the Company s Consolidated Statements of Operations through December 31, 2005, as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS Statement No. 123(R), *Share-Based Payment* (SFAS 123(R)), using the modified-prospective-transition method. Under that transition method, compensation cost recognized in 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value calculated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to December 31, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). Under the fair value recognition provisions of SFAS 123(R), the Bank recognizes stock-based compensation in salaries and employee benefits in the accompanying consolidated statement of operations as the options vest. The amounts recognized in operations for the years ending December 31, 2007 and 2006 were $73,000 and $51,000, respectively.

In addition, prior to the adoption of SFAS 123(R), the tax benefits of stock options exercised were classified as operating cash flows. Since the adoption of SFAS 123(R), tax benefits resulting from tax deductions in excess of the compensation cost recognized for options are classified as financing cash flows. The prior period cash flow statement was not adjusted to reflect current period presentation.

Comprehensive Income (Loss). Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net (loss) earnings. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the consolidated balance sheets, such items, along with net (loss) earnings, are components of comprehensive income (loss). The components of other comprehensive income (loss) and related tax effects are as follows ($ in thousands):

	Year Ended December 31,		
	2007	2006	2005
Unrealized holding gains (losses) on securities available for sale	$ (1,659)	1,142	(1,304)
Reclassification adjustments for:			
Losses (gains) from sales realized in operations	119	(39)	(208)
Other-than-temporary impairment of securities recognized in operations	749		
Net change in unrealized amount	(791)	1,103	(1,512)
Income taxes (benefit)	(298)	415	(569)
Net amount	$ (493)	688	(943)

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(1) Organization and Summary of Significant Accounting Policies, Continued

(Loss) Earnings Per Share of Common Stock. The Company follows the provisions of SFAS No. 128, *Earnings Per Share* (SFAS 128), which provides accounting and reporting standards for calculating (loss) earnings per share. Basic (loss) earnings per share of common stock have been computed by dividing the net (loss) earnings for the year by the weighted-average number of shares outstanding. Shares of common stock purchased by the Company s Employee Stock Ownership Plan (ESOP) are considered outstanding when the shares are allocated to participants. Diluted (loss) earnings per share is computed by dividing net earnings by the weighted-average number of shares outstanding including the dilutive effect of stock options and stock units computed using the treasury stock method. Outstanding stock options are not considered dilutive securities for the year ending December 31, 2007, due to the net loss incurred by the Company. The following table presents the calculation of basic and diluted (loss) earnings per share of common stock for the years ending December 31, 2007, 2006 and 2005 ($ in thousands, except basic and diluted per share amounts):

	Year Ended December 31,		
	2007	2006	2005
Weighted-average shares outstanding before adjustment for unallocated ESOP shares	9,408	9,027	8,361
Adjustment to reflect the effect of unallocated ESOP shares	(45)	(24)	(92)
Weighted-average shares outstanding for basic earnings per share	9,363	9,003	8,269
Basic (loss) earnings per share	$ (1.51)	.38	.54
Total weighted-average shares outstanding for basic earnings per share computation	9,363	9,003	8,269
Additional dilutive shares using the average market value for the period utilizing the treasury stock method regarding stock options and stock units		140	127
Weighted-average shares and equivalents outstanding for diluted earnings per share	9,363	9,143	8,396
Diluted (loss) earnings per share	$ (1.51)	.37	.53

Income Taxes. Federal Trust, the Bank, and the Mortgage Company file a consolidated income tax return. Income taxes are allocated between Federal Trust, the Bank and the Mortgage Company as though separate income tax returns were filed.

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. Valuation allowances are provided against assets which are not likely to be realized. At December 31, 2007, the net deferred tax asset was $8.0 million. The Company recognized the deferred tax asset because management believes, based on detailed financial projections, that it is more likely than not, the Company will have sufficient future earnings to utilize this asset to offset future income tax liabilities.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(1) Organization and Summary of Significant Accounting Policies, Continued

Off-Balance Sheet Financial Instruments. In the ordinary course of business, the Company has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, unused lines of credit, standby letters of credit and undisbursed construction loans in process. Such financial instruments are recorded in the consolidated financial statements when they are funded.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 160 *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160) and SFAS No. 141(R) *Business Combinations* (SFAS 141(R)). The Standards will improve, simplify, and converge internationally the accounting for business combinations and the reporting of noncontrolling interests in consolidated financial statements. The statements are effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2008. Earlier adoption is prohibited. Management does not anticipate that SFAS 160 and SFAS 141(R) will have a material effect on the Company s financial condition or results of operations.

In June 2007, the FASB ratified the Emerging Issues Task Force (EITF) consensus on Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards* (EITF No. 06-11). EITF No. 06-11 requires that the tax benefit related to dividend equivalents paid on restricted stock and restricted stock units which are expected to vest be recorded as in increase to additional paid-in capital. EITF No. 06-11 is to be applied prospectively for tax benefits on dividends declared by the Company on or after January 1, 2008. The adoption of EITF No. 06-11 will have no impact on the Company s financial condition and results of operations.

In February 2007, the FASB issued SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. This statement is effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007. Management is in the process of evaluating the impact of SFAS 159 and does not anticipate it will have a material effect on the Company s financial condition or results of operations.

In February 2007, the FASB issued FASB Staff Position No. FAS 158-1 *Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No. 106 and to the Related Staff Implementation Guides*. This Staff Position and the related FASB Statements deal with accounting for pension plans and other postretirement benefits. The Company does not presently have pension plans or other postretirement benefit plans that require accounting under these pronouncements and as such does not anticipate this Staff Position will have any effect on the Company s financial condition or results of operations.

In September 2006, the FASB issued SFAS No. 157 *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principals, and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Management is in the process of evaluating the impact of SFAS 157 and does not anticipate it will have a material impact on the Company s financial condition or results of operations.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(1) Organization and Summary of Significant Accounting Policies, Continued

Recent Accounting Pronouncements, Continued

In September 2006, the EITF reached a consensus on EITF Issue No. 06-04, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements* (EITF 06-04). Also, in March 2007, the ETIF reached a consensus on EITF Issue No. 06-10, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements* (EITF 06-10). These Issues clarifies the accounting for split-dollar life insurance arrangements that provide a benefit to an employee that extends into postretirement periods and clarifies the accounting for assets related to collateral split-dollar insurance assignment arrangements. These Issues requires that an employer recognize a liability for future benefits based on the substantive agreement with the employee and concluded that the asset recorded should also be measured based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. EITF 06-04 and EITF 06-10 are effective for fiscal years beginning after December 15, 2007, with earlier adoption permitted and any resulting adjustment will be recorded as a change in accounting principle through a cumulative effect adjustment to equity. Management is in the process of evaluating the impact of EITF 06-04 and EITF 06-10 and does not anticipate it will have a material impact on the Company s financial condition or results of operations.

Reclassifications

Certain previously reported amounts have been reclassified to conform with the current reporting presentation.

As of December 31, 2006 and 2005, $14,608,000 and $15,071,000 respectively, of proceeds from sales of loans transferred to loans held for sale were incorrectly reported on the Consolidated Statements of Cash Flows as net cash flows from operating activities rather than net cash flows from investing activities as required by Generally Accepted Accounting Standards. These loan sale proceeds were reclassified to cash flows from investing activities along with the corresponding amount for 2007. This change did not affect the previously reported amounts of net increase (decrease) in cash and cash equivalents.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(2) Securities Available for Sale

All securities have been classified as available for sale by management. The amortized cost and estimated fair values of securities available for sale are as follows ($ in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At December 31, 2007:				
Mortgage-backed securities	$ 19,954	296	(81)	20,169
Municipal bonds	15,564	40	(367)	15,237
Corporate equity securities	109		(49)	60
U.S. government sponsored enterprise securities	10,684	31	(12)	10,703
Corporate bonds	2,000		(505)	1,495
Trust preferred securities	5,305		(520)	4,785
	$ 53,616	367	(1,534)	52,449
At December 31, 2006:				
Mortgage-backed securities	$ 27,268	135	(443)	26,960
Municipal bonds	13,941	129	(14)	14,056
Corporate equity securities	3,886	23		3,909
U.S. government sponsored enterprise securities	8,852	32	(29)	8,855
Corporate bonds	5,476	40	(227)	5,289
Trust preferred securities	6,511		(22)	6,489
	$ 65,934	359	(735)	65,558

The amortized cost and estimated fair values of securities available for sale at December 31, 2007 are detailed below by contractual maturity. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties ($ in thousands):

	Amortized Cost	Fair Value
Due in one year or less	$ 100	100
Due after one year up to five years	1,007	958
Due after five years up to ten years	10,804	10,204
Due after ten years	21,642	20,958
Mortgage-backed securities	19,954	20,169
Corporate equity securities	109	60
	$ 53,616	52,449

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(2) Securities Available for Sale, Continued

The following summarizes sales of securities ($ in thousands):

	Year Ended December 31,		
	2007	2006	2005
Proceeds from sales	$ 13,797	17,767	5,315
Gross gains from sales	$ 38	88	215
Gross losses from sales	(157)	(49)	(7)
Net (loss) gain	$ (119)	39	208

Information pertaining to securities with gross unrealized losses at December 31, 2007 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows ($ in thousands):

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
At December 31, 2007:				
Mortgage-backed securities	$ (24)	1,695	(57)	4,031
Municipal bonds	(367)	13,178		
Corporate equity securities	(49)	60		
U.S. government sponsored enterprise securities	(12)	1,357		
Corporate Bonds			(505)	1,495
Trust preferred securities	(280)	3,025	(240)	1,760
	$ (732)	19,315	(802)	7,286

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

During 2007, the Company recorded an other-than-temporary impairment write-down of approximately $749,000 to adjust for the market value declines on a single investment security secured by second mortgage loans which has experienced significant delinquencies and some portfolio losses. At December 31, 2007, our remaining principal balance in this investment was $829,000 and the market value was $883,000 and we expect to receive all remaining principal and interest due.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(2) Securities Available for Sale, Continued

At December 31, 2007, the Company had unrealized losses on nine mortgage-backed securities, 19 municipal bonds, two U.S. government agency securities, three trust preferred securities, and one corporate bond. Management believes these unrealized losses relate to changes in interest rates and not credit quality. Management also believes the Company has the ability to hold these securities until maturity or for the foreseeable future and therefore no declines are deemed to be other-than-temporary except for the investment security secured by second mortgage loans, described above.

At December 31, 2007, the Bank had a total of $18.0 million in fair value of investments pledged to the Federal Home Loan Bank as collateral for advances.

(3) Loans

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

	At December 31,	
	2007	2006
Residential lending:		
Mortgages (*)	$ 359,954	356,133
Lot loans	39,994	42,676
Construction	21,926	36,570
Total residential lending	421,874	435,379
Commercial lending:		
Real estate secured	85,492	93,095
Land, development and construction	73,752	88,586
Commercial loans	15,866	15,308
Total commercial lending	175,110	196,989
Consumer loans	214	125
Total loans	597,198	632,493
Add (deduct):		
Allowance for loan losses	(13,869)	(5,098)
Net premiums, discounts, deferred fees and costs	3,033	3,567
Undisbursed portion of loans in process	(23,128)	(27,045)
Loans, net	$ 563,234	603,917

(*) Includes approximately $7.6 million and $1.1 million of loans held for sale at December 31, 2007 and 2006, respectively.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(3) Loans, Continued

Residential mortgage loans, not including construction and lot loans, continue to comprise the largest group of loans in the loan portfolio, totaling $360.0 million, or 60% of the total loan portfolio at December 31, 2007, up from $356.1 million, or 56% of the total loan portfolio at December 31, 2006. The Company offers and purchases adjustable rate mortgage loans with maturities up to 30 years. As of December 31, 2007, approximately 93% of the residential loan portfolio consisted of adjustable-rate mortgage loans and 7% were fixed-rate. Fixed-rate loans are generally underwritten to secondary market standards to insure liquidity and interest-rate risk protection. Residential lot loans totaled $40.0 million, or 7% of total loans at December 31, 2007. These loans are secured by developed lots ready for construction of single-family homes. As a result of the softening in the housing market during 2007, the Company also reduced its residential construction loans to $21.9 million, or 4% of total loans at December 31, 2007, from $36.6 million, or 6% of total loans at the end of 2006. These loans are generally secured by property in Southwest Florida and Central Florida and are underwritten directly to the individual or family for their primary residence or second home.

At December 31, 2007, the loan portfolio included $184.0 million of loans to foreign nationals, of which $106.6 million was to borrowers who reside in the United Kingdom. All of these loans are residential mortgage loans, and are primarily vacation and rental properties near the Orlando resort attractions. The general strategy with respect to loans to foreign nationals was to originate these loans for retention in the Bank s portfolio. The Bank also packages and sells pools of such loans in the secondary market. However, with the weak secondary market for residential mortgage loans in 2007, the Bank was not able to sell as many of these loans as originally planned. As a result, the portfolio balance of these loans currently exceeds the Bank s internal guidelines. Therefore, despite the Bank s desire to originate more of these loans, the Bank has discontinued the origination of loans to foreign nationals until it can find purchasers for this type of loan.

Commercial real estate secured loans totaled $85.5 million, or 14% of the total loan portfolio at December 31, 2007, compared to $93.1 million, or 15% of total loans at December 31, 2006. This portfolio includes loans to businesses to finance office, manufacturing or retail facilities. Commercial land, development and construction loans totaled $73.8 million, or 12% of total loans at December 31, 2007, down from $88.6 million, or 14% of total loans at December 31, 2006. The land loans are generally secured by larger parcels of property held for future development. The development and construction loans include loans for the acquisition and development of both residential and commercial projects. The construction loans are made directly to the builders of single and multi-family homes for pre-sold or speculative units. The Bank also finances the construction of commercial facilities, generally for the owner/operator.

Commercial loans totaled $15.9 million and $15.3 million at December 31, 2007 and 2006, respectively. These loans are generally secured by the assets of the borrower including accounts receivable, inventory and fixed assets, including company owned real estate and are usually personally guaranteed by the owners.

Consumer loans, consisting of installment loans and savings account loans, totaled $214,000 and $125,000 at December 31, 2007 and 2006, respectively, or less than 1% of the total loan portfolio.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(3) Loans, Continued

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

	At December 31, 2007	2006
Non-accrual loans	$ 38,223	11,970
Accruing loans past due 90 days or more	$	
Recorded investment in impaired loans for which there is a related allowance for loan losses	$ 15,229	8,623
Recorded investment in impaired loans for which there is no related allowance for loan losses	$ 22,903	
Allowance for loan losses related to impaired loans	$ 5,556	2,327

	Interest Income Recognized and Received on Impaired Loans	Average Net Recorded Investment in Impaired Loans
For the Year Ended December 31:		
2007	$ 327	19,340
2006	$ 46	3,821
2005	$ 132	2,298

Total non-accrual loans at December 31, 2007 were $38.2 million. Included in this total was $5.0 million of loans secured by 27 single-family residences. Twelve of these loans, totaling $2.7 million, were to borrowers who reside in the United Kingdom and substantially all of the homes securing the loans are located in Lake, Polk, Osceola and Orange counties near the Orlando attractions. The remaining balance of $2.3 million is secured by 15 residential properties, of which eight are located in the state of Florida. The non-accrual total at December 31, 2007, also included loans for $6.6 million to individual borrowers secured by developed residential lots. Of this amount, $4.6 million were loans related to a single subdivision in the Florida Panhandle.

Non-accrual residential construction loans at December 31, 2007, totaled $7.3 million for loans to individual borrowers, primarily secured by properties located in Lee County in Southwest Florida. These loans were originated by Transland Financial Services, Inc. and acquired by the Bank. Included in this amount was $4.1 million in loans for 20 single-family residences, three of which were partially completed and the remainder were completed homes that were never closed or occupied by the original buyer. An additional $2.7 million of this amount is for 22 developed lots where the original intent of the borrowers was to construct single-family residences, but the construction was delayed and the borrowers defaulted on the loans. Substantially all of these construction loans are in process of foreclosure. The remaining $500,000 balance of the loans originated by Transland Financial Services, Inc. related to unremitted loan proceeds that were collected from the Bank s insurance carrier subsequent to December 31, 2007.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(3) Loans, Continued

Three non-accrual loans for a total of $7.5 million were for commercial office projects, two of which were for $6.1 million, and are secured by property in our Central Florida market area, and the third project is secured by a commercial building in Tallahassee, Florida.

Total land development and construction loans on non-accrual at December 31, 2007 were $11.1 million. This total included $8.2 million secured by three parcels of vacant land, one of these for $3.4 million was for property located in the Florida Panhandle area, the other two parcels are located in our Central Florida market area. The remaining $2.9 million represented residential construction loans to three separate borrowers, all of which loans are in process of foreclosure and are located primarily across Central Florida from Daytona Beach on the east coast to Tampa on the west coast.

Management is aggressively pursuing resolutions of these non-performing assets. The amount and timing of losses, if any, cannot be determined at the present time. However, we believe that the allowance for loan losses is adequate to absorb potential losses on the non-accrual loans.

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

	For the Year Ended December 31,		
	2007	2006	2005
Balance at beginning of year	$ 5,098	4,477	3,835
Provision for loan losses	16,412	639	650
Charge-offs	(7,643)	(39)	(10)
Recoveries	2	21	2
Balance at end of year	$ 13,869	5,098	4,477

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(4) Loan Servicing

Loans serviced for other entities are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans were approximately $45.1 million and $56.1 million at December 31, 2007 and 2006, respectively.

Loan servicing income, net of amortization of mortgage servicing rights, was approximately $102,000, $133,000, and $317,000 for the years ended December 31, 2007, 2006 and 2005, respectively and is included in other noninterest income on the consolidated statements of operations.

The balance and fair value of capitalized servicing rights, net of valuation allowances, at December 31, 2007 and 2006, was approximately $444,000 and $599,000, respectively. The fair value of servicing rights at December 31, 2007 was determined using discount rates ranging from 8% to 12.5% and prepayment speeds (PSA) ranging from 134 to 846, depending upon the stratification of the specific right.

The following summarizes mortgage servicing rights capitalized and amortized, along with the aggregate activity in related valuation allowances ($ in thousands):

	Year Ended December 31,		
	2007	2006	2005
Mortgage servicing rights capitalized	$ 25	40	239
Mortgage servicing rights amortized	180	245	403
Valuation (credits) provisions during year			(100)
Valuation allowances at year-end			

The Company also owns loans serviced by other entities. These loans totaled approximately $240.4 million and $266.8 million at December 31, 2007 and 2006, respectively.

(5) Premises and Equipment

Premises and equipment consists of the following ($ in thousands):

	At December 31,	
	2007	2006
Land	$ 2,408	3,183
Bank premises under capital lease		3,490
Buildings and improvements	16,610	7,966
Leasehold improvements	673	3,255
Furniture, fixtures and equipment	3,236	3,731
Total	22,927	21,625
Less accumulated depreciation and amortization	(4,113)	(4,247)
Premises and equipment, net	$ 18,814	17,378

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(5) Premises and Equipment, Continued

Accumulated depreciation of approximately $344,000 at December 31, 2006 related to bank premises under capital lease.

The Company opened three new branches during 2006 and two in 2007. The Lake Mary branch opened in January 2006. In July 2006, the Port Orange branch opened followed by Eustis, our first branch in Lake County, which opened in October 2006. Our Palm Coast branch in Flagler County opened in August 2007 and the Wekiva branch in Seminole County opened in November 2007. While we anticipate that our branch expansion will enhance franchise value, their positive effect on earnings will not be realized until the branches have been given an opportunity to mature and reach their expected efficiency levels. We expect that our branch expansion plan will enhance our franchise value because the new branches are located in desirable high growth markets. With the completion of our current branch expansion plan, our focus is on sales training and building core deposits.

The Bank owns a four acre parcel of property in Edgewater, in Eastern Volusia County, Florida. Approximately three acres were under contract to sell for a retail plaza and the Bank planned to build a branch on the remaining portion of the site. The developer of the plaza did not proceed with the project and the Bank cancelled the plans for the branch construction since we had the opportunity to acquire the Wekiva branch. The Edgewater site has been listed for sale and we do no anticipate recognizing a loss on the property. In January 2007, the Company elected to exercise a purchase option in the lease agreement and acquired the administrative office building located in Sanford, Florida for approximately $2.4 million. The original lease term on the building was for fifteen years with fixed annual lease payments and an option to purchase the building for $1 at the end of the term. The agreement was accounted for as a capital lease and we had the option to purchase the building at the end of five years.

The Company leases the office space for two branch offices, and has ground leases for the Lake Mary and Palm Coast branches. Each of these leases is accounted for as operating leases. At one of the locations during 2006 and 2007, a portion of the leased space on the second floor was subleased to an unrelated business. The space is now vacant and we intend to release the excess space. The terms of these branch and land leases are for up to 20 years and the leases contain escalation clauses and renewal options. Rent expense under operating leases was approximately $534,000, $298,000 and $333,000 for the years ended December 31, 2007, 2006 and 2005, respectively. At December 31, 2007, future minimum payments under operating leases are as follows ($ in thousands):

Year Ending December 31,	**Amount**
2008	$ 702
2009	717
2010	446
2011	451
2012	455
Thereafter	9,363
	$ 12,134

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(5) Premises and Equipment, Continued

The Company also leases space to third parties in its administration building and pays a fee to a third party to manage the property. The Company recognized approximately $360,000, $330,000 and $304,000 in rental income during the years ended December 31, 2007, 2006 and 2005, respectively.

(6) Deposits

At December 31, 2007 and 2006, time deposits of $100,000 or more were approximately $179.0 million and $ 182.5 million, respectively. At December 31, 2007 the scheduled maturities of time deposits are as follows ($ in thousands):

Year Ending December 31,	Amount
2008	$ 290,910
2009	22,414
2010	7,648
2011	4,199
2012	2,337
	$ 327,508

Interest expense on deposits is as follows ($ in thousands):

	Year Ended December 31,		
	2007	2006	2005
Interest-bearing demand deposits	$ 2,378	1,865	1,369
Money-market accounts	2,572	2,927	2,237
Savings accounts	43	60	70
Time deposits, net of penalties	17,280	15,291	8,928
Total interest expense on deposits	$ 22,273	20,143	12,604

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(7) Federal Home Loan Bank Advances

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

	Under 1 Year	1 to 5 Years	After 5 Years	2007 Total	2006 Total
By remaining contractual maturity at December 31, 2007:					
Fixed rate	$ 12,000	38,000		50,000	69,700
Callable		47,000	55,000	102,000	110,000
Total advances from FHLB	$ 12,000	85,000	55,000	152,000	179,700
Interest rate	4.92%	3.87-5.35%	3.22-4.00%	3.22-5.35%	3.03-5.38%
By next call or repricing date as of December 31, 2007:					
Fixed rate	$ 12,000	38,000		50,000	69,700
Callable	97,000	5,000		102,000	110,000
Total advances from FHLB	$ 109,000	43,000		152,000	179,700
Interest rate	3.22-4.92%	3.77-5.35%	%	3.22-5.35%	3.03-5.38%

At December 31, 2007, the security agreement with the FHLB included a blanket floating lien requiring the Bank to maintain qualifying first mortgage loans as pledged collateral for advances. In addition, at December 31, 2007, the Bank pledged investment securities with a fair value of $18.0 million and FHLB stock of $8.1 million. The Bank was informed by the FHLB in 2008 that it cannot continue to utilize the blanket floating lien at the present time. The Bank will be required to pledge specific qualifying first mortgage loans and investment securities to the FHLB as collateral for its advances. At the end of February 2008, the Bank had a total of $168.0 million in advances outstanding. The Bank is in process of identifying the mortgage loans that will be pledged to the FHLB for the remainder of the advance balance. The FHLB also requires the purchase of FHLB common stock in proportion to the amount of advances outstanding.

In January 2008, as a result of the losses in 2007 and the weakened capital position, the Bank will not be able to access additional advance funds from the FHLB. One fixed rate advance for $12.0 million is scheduled to mature in December 2008, and 12 convertible advances with a total balance of $97.0 million are callable during 2008 with rates ranging from 3.22% to 4.81%. Due to the current level of market interest, the Bank does not anticipate that the convertible advances will be called during 2008.

(8) Other Borrowings

At December 31, 2006, Federal Trust had a loan agreement with a correspondent bank. Under the loan agreement, Federal Trust was able to borrow up to $8.0 million under a revolving line of credit (LOC) for general operations. The lines were secured by all of the Bank s common stock and both had interest rates of prime minus 50 basis points, as long as the Company maintained certain loan-to-book value percentages. The loan agreement also had other covenants that the Company was required to meet.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(8) Other Borrowings, Continued

The loan had a two-year revolving period which expired in July 2007, and an eight-year repayment term. There was a balance of $500,000 on the line of credit at December 31, 2006. In February 2007, after the purchase of the Sanford headquarters building by the Bank, the balance outstanding on the line of credit was repaid. The loan was not renewed by the correspondent bank and there was no balance outstanding at December 31, 2007.

Included in other borrowings at December 31, 2007 and 2006, $16,000 and $893,000, respectively, was in an overnight sweep account with a customer.

(9) Junior Subordinated Debentures

Federal Trust Statutory Trust I (Statutory Trust I) was formed in 2003 for the sole purpose of issuing $5,000,000 of trust preferred securities. In accordance with Financial Accounting Standards Interpretation No. 46 *Consolidation of Variable Interest Entities,* Federal Trust accounts for Statutory Trust I under the equity method of accounting.

The Statutory Trust I sold adjustable-rate Trust Preferred Securities due September 17, 2033 in the aggregate principal amount of $5.0 million (the Trust Preferred Securities) in a pooled trust preferred securities offering. The interest rate on the Trust Preferred Securities adjusts quarterly, to a rate equal to the then-current three-month London Interchange Bank Offering Rate (LIBOR), plus 295 basis points (7.94% at December 31, 2007). In addition, Federal Trust contributed capital of $155,000 to Statutory Trust I for the purchase of the common securities of Statutory Trust I. The proceeds from these sales were paid to Federal Trust in exchange for $5.2 million of its adjustable-rate Junior Subordinated Debentures (the Debentures) due September 17, 2033. The Debentures have the same terms as the Trust Preferred Securities. The sole asset of Statutory Trust I, the obligor on the Trust Preferred Securities, is the Debentures.

Federal Trust has guaranteed Statutory Trust I s payment of distributions on, payments on any redemptions of, and any liquidation distribution with respect to, the Trust Preferred Securities. Cash distributions on both the Trust Preferred Securities and the Debentures are payable quarterly in arrears on March 17, June 17, September 17 and December 17 of each year.

The Trust Preferred Securities are subject to mandatory redemption: (i) in whole, but not in part, upon repayment of the Debentures at stated maturity or, at the option of Federal Trust, their earlier redemption in whole upon the occurrence of certain changes in the tax treatment or capital treatment of the Trust Preferred Securities, or a change in the law such that Statutory Trust I would be considered an Investment Company; and (ii) in whole or in part at any time on or after September 17, 2008 contemporaneously with the optional redemption by Federal Trust of the Debentures in whole or in part. The Debentures are redeemable prior to maturity at the option of Federal Trust: (i) on or after September 17, 2008, in whole at any time or in part from time to time; or (ii) in whole, but not in part, at any time within 90 days following the occurrence and continuation of certain changes in the tax treatment or capital treatment of the Trust Preferred Securities, or a change in law such that Statutory Trust I would be considered an Investment Company, required to be registered under the Investment Company Act of 1940.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(10) Fair Value of Financial Instruments

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument or may not necessarily represent the underlying fair value. The following methods and assumptions were used by the Company in estimating fair values of financial instruments:

Cash and Cash Equivalents - The carrying amount of cash and cash equivalents represents fair value.

Securities Available for Sale - The fair values of our securities available for sale are based on quoted market prices.

Loans - For variable rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for residential, commercial real estate, commercial and consumer loans other than variable rate loans are estimated using discounted cash flow analysis, using an asset liability model acquired from an outside vendor. Fair values of impaired loans are estimated using discounted cash flow analysis or underlying collateral values, where applicable.

Federal Home Loan Bank Stock - The stock is not publicly traded and the estimated fair value is based on its redemption value of $100 per share, which equals our book value.

Accrued Interest - The carrying amounts of accrued interest receivable and accrued interest payable approximates fair value.

Mortgage Servicing Rights - The fair value of mortgage servicing rights is based on a recent valuation performed by an independent third-party using certain assumptions relating to the Company s servicing portfolio.

Deposits - The fair values for noninterest-bearing demand, interest-bearing demand, money-market and savings deposits are, by definition, equal to the amount payable on demand (that is their carrying amounts). Fair values for time deposits are estimated using an asset liability model acquired from an outside vendor, which utilizes current rates for similar investments.

Federal Home Loan Bank Advances - Fair values for Federal Home Loan Bank advances are estimated using an asset liability model acquired from an outside vendor, which utilizes current rates for similar borrowings.

Other Borrowings and Junior Subordinated Debentures - Fair values of these borrowings are estimated using an asset liability model acquired from an outside vendor, which utilizes current rates for similar borrowings.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(10) Fair Value of Financial Instruments, Continued

Off-Balance Sheet Instruments - Fair values for off-balance sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties credit standing.

The carrying amounts and estimated fair values of the Company s financial instruments are as follows ($ in thousands):

	At December 31,			
	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 9,177	9,177	8,680	8,680
Securities available for sale	52,449	52,449	65,558	65,558
Loans, net	563,234	566,627	603,917	608,234
Federal Home Loan Bank stock	8,129	8,129	9,591	9,591
Accrued interest receivable	4,509	4,509	4,832	4,832
Mortgage servicing rights	444	619	599	688
Financial liabilities:				
Deposits	$ 481,729	484,879	472,794	473,051
Federal Home Loan Bank advances	152,000	155,980	179,700	179,551
Other borrowings	16	16	1,393	1,393
Junior subordinated debentures	5,115	5,115	5,155	5,155
Accrued interest payable	2,597	2,597	1,506	1,506
Off-balance sheet financial instruments				

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(11) Off-Balance Sheet Financial Instruments

The Company has outstanding at any time a significant number of commitments to extend credit. These arrangements are subject to strict credit control assessments and each customer s credit worthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management s credit evaluation of the counterparty. A summary of the contractual amounts of off-balance sheet commitments which approximate fair value is as follows ($ in thousands):

	At December 31 2007
Commitment to extend credit	$ 12,282
Unused lines of credit	$ 16,926
Standby letters of credit	$ 986
Undisbursed portion of construction loans in process	$ 23,128

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 some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer s credit worthiness on a case-by-case basis.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters-of-credit are primarily issued to support public and private borrowing arrangements. Essentially, all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. At December 31, 2007, the Company had standby letters of credit commitments of approximately $1.0 million, the majority of which was to one commercial loan customer, which was secured by real estate.

Loan commitments written have off-balance-sheet credit risk because only original fees are recognized in the balance sheet until the commitments are fulfilled or expire. Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted. The credit risk amounts are equal to the contractual amounts, assuming that the amounts are fully advanced, and that collateral or other security is of no value.

The Company s policy is to require customers to provide collateral prior to the disbursement of approved loans. 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 counterparty. The collateral held by the Company is primarily real estate and income producing commercial properties, but may include accounts receivable and inventory.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(12) Income Taxes

Allocation of Federal and state income taxes between current and deferred portions is as follows ($ in thousands):

	Current	Deferred	Total
Year Ended December 31, 2007:			
Federal	$ (3,436)	(4,391)	(7,827)
State		(1,280)	(1,280)
Total	$ (3,436)	(5,671)	(9,107)
Year Ended December 31, 2006:			
Federal	$ 1,178	55	1,233
State	202	9	211
Total	$ 1,380	64	1,444
Year Ended December 31, 2005:			
Federal	$ 2,648	(673)	1,975
State	437	(115)	322
Total	$ 3,085	(788)	2,297

The effective tax rate was different than the statutory Federal income tax rate. A summary and the reasons for the difference are as follows ($ in thousands):

	Year Ended December 31,					
	2007		2006		2005	
	Amount	% of Pretax Loss	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings
Tax provision at statutory rate	$ (7,912)	(34.0)%	$ 1,650	34.0%	$ 2,289	34.0%
Increase (decrease) in tax resulting from:						
State income taxes, net of federal income tax benefit	(844)	(3.6)	139	2.9	213	3.2
Tax-exempt income	(233)	(1.0)	(276)	(5.7)	(150)	(2.2)
Officers life insurance, meals and entertainment and other permanent items	(118)	(0.5)	(69)	(1.4)	(55)	(0.9)
	$ (9,107)	(39.1)%	$ 1,444	29.8%	$ 2,297	34.1%

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(12) Income Taxes, Continued

The tax effects of temporary differences between the tax basis of assets and liabilities and their financial reporting amounts which give rise to significant portions of deferred tax assets and liabilities, are as follows ($ in thousands):

	At December 31,	
	2007	2006
Deferred tax assets:		
Allowance for loan losses	$ 5,219	$ 1,847
Net operating loss carryforwards	538	
Deferred compensation	1,504	450
Impaired loan interest	286	171
Impaired securities	282	
Unrealized loss on securities available for sale	439	141
Alternative minimum tax credits	266	
Other	77	32
Total deferred tax assets	8,611	2,641
Deferred tax liabilities:		
Depreciation	(108)	(140)
Mortgage servicing rights	(167)	(195)
Deferred loan fees and costs, net	(318)	(258)
Accrued dividends	(52)	(51)
Total deferred tax liabilities	(645)	(644)
Net deferred tax assets	$ 7,966	$ 1,997

At December 31, 2007, the Company had a net operating loss carryforward of approximately $10,400,000 available to offset future Florida taxable income. This carryforward will expire in 2027.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(13) Regulatory Capital

The Bank is subject to certain restrictions on the amount of dividends that it may declare and distribute to the Holding Company without prior regulatory notification or approval.

The Bank is also 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 in the regulations) to total and risk-weighted assets (as defined in the regulations). Management believes, as of December 31, 2007, that the Bank exceeds all minimum capital adequacy requirements to which it is subject.

As of December 31, 2007, however, the Bank did not meet the threshold to be well capitalized based on the total capital to risk weighted assets ratio. Therefore, the Bank was categorized as adequately 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.

The following table summarizes the capital thresholds for the minimum and well capitalized designations. An institution s capital category is based on whether it meets the threshold for all three capital ratios within the category. On June 25, 2008, management revised the Bank s December 31, 2007 regulatory capital ratios to reflect a lower than originally estimated allowable deferred tax asset. The revision had no effect on the Company s total consolidated assets or stockholders equity at December 31, 2007 and no effect on the consolidated net loss or loss per share as reported for the year ended December 31, 2007. The revision has been made to reflect the actual income tax refunds claimed compared to estimated amounts and a revision to the budgeted results for 2008 used in the original calculation. The change reduced the capital amount as computed for the calculation of the capital ratios for the total regulatory capital by $3.0 million and for the Tier 1 capital amount by $2.9 million. The Bank s capital ratios decreased as follows: total capital to risk-weighted assets decreased from 9.6% to 9.1%, Tier 1 capital to risk-weighted assets decreased from 8.3% to 7.8% and Tier 1 capital decreased from 5.8% to 5.4%. The Bank continues to be categorized as adequately capitalized. The following are the 2007 revised regulatory capital calculations ($ in thousands).

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(13) Regulatory Capitals, Continued

	Actual		For Minimum Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	%	Amount	%	Amount	%
At December 31, 2007:						
Total capital (to risk-weighted assets)	$ 42,637	9.1%	$ 37,546	8.0%	$ 46,932	10.0%
Tier I capital (to risk-weighted assets)	36,740	7.8	18,773	4.0	28,159	6.0
Tier I capital (to average adjusted assets)	36,740	5.4	27,303	4.0	34,128	5.0
At December 31, 2006:						
Total capital (to risk-weighted assets)	$ 59,891	12.1%	$ 39,524	8.0%	$ 49,405	10.0%
Tier I capital (to risk-weighted assets)	55,903	11.3	19,762	4.0	29,643	6.0
Tier I capital (to average adjusted assets)	55,903	7.8	28,662	4.0	35,827	5.0

(14) Stock Compensation Plans

The Company has three stock benefit plans. The Key Employee Stock Compensation Program (the Employee Plan) is authorized to issue up to 10% of the issued shares up to a maximum of 1,020,000 shares through the exercise of 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 five to ten year terms and vest over various terms up to five years. At December 31, 2007, the Company had 226,701 options available for future grants under the Employee Plan.

The Directors Stock Option Plan (the Directors Plan) is authorized to issue up to 140,000 shares through the exercise of stock options. All options granted under the Directors Plan have ten-year terms, are fully vested and exercisable and all options authorized under the Plan had been granted as of December 31, 2007.

The 2005 Directors Stock Plan (2005 Directors Plan) is authorized to issue up to 91,800 shares through the exercise of stock options. Awards made under the 2005 Directors Plan may be in the form of restricted shares, restricted stock units, or stock options. A restricted stock unit is the right to receive a share of common stock, after vesting, on a date elected by the director. While any restricted stock unit is outstanding the director holding the restricted stock unit will be entitled to receive a dividend in the form of additional restricted stock units, if cash or stock dividends are declared on outstanding shares of common stock. Each restricted stock unit, including fractional restricted stock units, will be converted to one share of common stock, after vesting, on the date which has been selected by the director. Awards of restricted shares or restricted stock units may be awarded to a director as an annual stock retainer, which is dependent upon the amount of the director s annual cash retainer.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, Continued

(14) Stock Compensation Plans, Continued

Restricted stock units for 11,815 shares have been issued to two current and one former director under the 2005 Directors Plan. Under terms of those respective agreements, the units vest over periods from three to four years (in nearly equal installments), unless there is a change in control, at which point the units vest immediately. As restricted stock units, no shares will be physically issued on vested units until the Director elects to receive the shares, or no longer serves on the Board.

Options are granted to certain employees and directors at a price equal to the market value of the stock on the dates the options were granted. In accordance with SFAS 123(R), the fair value of each option is amortized using the straight-line method over the requisite service period of each option. We have estimated the fair value of all option awards as of the grant date by applying the Black-Scholes pricing valuation model. The application of this valuation model involves assumptions that are judgmental and sensitive in the determination of compensation expense. The weighted average amounts for key assumptions used in determining the fair value of options granted during the years ended December 31, 2007, 2006 and 2005 follows:

	Year Ended December 31,		
	2007	**2006**	**2005**
Expected stock price volatility	29.00%	47.29%	20.00%
Risk-free interest rate	3.91%	4.64%	4.27%
Weighted average expected life in years	4.5	6.4	3.0
Expected dividend yield	.35%	1.58%	1.35%
Per share weighted-average grant date fair value of options issued during the period	$ 1.78	$ 4.85	$ 2.22

The following table illustrates the effect on net earnings and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 to options granted under the Company s stock option plan for the year ended December 31, 2005. For comparative purposes, we have made proportionate adjustments to the number of shares of common stock, and in the purchase price per share of the stock option for the 2% stock dividend declared on April 25, 2006 for shareholders of record on June 1, 2006. The value of the options was estimated using the Black-Scholes option-pricing model and amortized to expense in the period the vesting occurred ($ in thousands, except per share data).

	Year Ended December 31, 2005
Net earnings, as reported	$ 4,436
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(658)
Proforma net earnings	$ 3,778
Basic earnings per share:	
As reported	.54
Proforma	.46
Diluted earnings per share:	
As reported	.53

Proforma	.45

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, Continued

(14) Stock Compensation Plans, Continued

As part of its adoption of SFAS 123(R), the Company examined its historical pattern of option exercises in an effort to determine if there was any pattern based on certain employee populations. From this analysis, the Company could not identify any patterns in the exercise of options. As such, the Company used the guidance in Staff Accounting Bulletin No. 107 issued by the Securities and Exchange Commission to determine the estimated life of options issued. Historical information was the primary basis for the selection of expected volatility and expected dividend yield. The risk-free rate was selected based upon yields of U.S. Treasury issues with a term equal to the expected life of the option being valued.

A summary of stock option transactions for the years ended December 31, 2007, 2006 and 2005, follows ($ in thousands, except per share data):

	Number of Options	Weighted Avg. Per Option Exercise Price	Weighted Avg. Remaining Contract Term (in years)	Aggregate Intrinsic Value
Options Under the Employee Plan:				
Outstanding at December 31, 2004	387,979	$ 5.04		
Options granted	218,378	10.32		
Options exercised	(167,682)	3.96		
Options forfeited	(10,247)	10.03		
Outstanding at December 31, 2005	428,428	$ 8.04		
Options granted	28,260	11.09		
Options exercised	(19,300)	5.23		
Options forfeited	(5,000)	10.50		
Outstanding at December 31, 2006	432,388	$ 8.33		
Options granted	81,000	3.93		
Options exercised	(83,781)	4.65		
Options forfeited	(55,324)	10.53		
Outstanding at December 31, 2007	374,283	$ 7.87	4.02	$
Exercisable at December 31, 2007	282,675	$ 8.89	3.86	$

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, Continued

(14) Stock Compensation Plans, Continued

	Number of Options	Weighted Avg. Per Option Exercise Price	Weighted Avg. Remaining Contract Term (in years)	Aggregate Intrinsic Value
Options Under the Director Plans:				
Outstanding at December 31, 2004	142,798	$ 4.86		
Options exercised	(74,600)	4.38		
Outstanding at December 31, 2005	68,198	$ 5.38		
Options granted	27,448	10.28		
Outstanding at December 31, 2006	95,646	$ 6.79		
Options granted	48,500	7.91		
Outstanding at December 31, 2007	144,146	$ 7.17	6.54	$
Exercisable at December 31, 2007	74,422	$ 5.80	3.82	$

The total intrinsic value of options exercised during the year ended December 31, 2007 and 2006 was $323,000 and $113,000. As of December 31, 2007, the Company had 161,332 nonvested options outstanding resulting in approximately $341,000 of total unrecognized compensation cost related to these nonvested options. This cost is expected to be recognized monthly over the related vesting periods using the straight-line method through December 2011.

A summary of the restricted stock unit transactions follows:

	Number of Units
Restricted Stock Units under the 2005 Directors Plan:	
Outstanding at December 31, 2006	14,631
Stock unit dividends earned	121
Stock units forfeited	(1,955)
Stock issued	(982)
Outstanding at December 31, 2007	11,815

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, Continued

(14) Stock Compensation Plans, Continued

A summary of the status of the Company s nonvested restricted stock units as of December 31, 2006, and changes during the year ended December 31, 2007, is presented below:

Nonvested Shares	Number of Units	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2006	12,264	$ 10.86
Dividends credited	100	10.75
Forfeited	(1,955)	12.03
Vested	(3,938)	10.80
Nonvested at December 31, 2007	6,471	$ 10.54

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(15) Employee Benefit Plans

The Company maintains a qualified employee stock ownership plan (the ESOP). The ESOP is qualified under Section 4975(e)(7) of the Internal Revenue Code. In addition, the ESOP meets all applicable requirements of the Tax Reform Act of 1986 and is qualified under Section 401(k) of the Internal Revenue Code. At the discretion of the Board of Directors, the Company may make a contribution to the ESOP of up to 15% of total compensation paid to employees during the year. Employees are 100% vested after three years of service. Forfeited shares, if any, are redistributed to ESOP participants. The ESOP purchases the Company s common stock from former employees who request to liquidate their vested shares, or in the open market. The ESOP acquires shares to hold for future allocations and for the investment of cash dividends on allocated shares. At December 31, 2007, the ESOP held 42,386 unallocated shares at a total cost of $323,000. At December 31, 2006, the ESOP held 31,939 unallocated shares at a total cost of $257,000.

At the end of 2007 and 2006, $428,000 and $609,000, respectively, in unallocated, short-term funds were available for investment by the ESOP in addition to the 42,386 and 31,989 remaining unallocated shares of Federal Trust stock. For the years ended December 31, 2007 and 2006, no compensation cost or additional shares were allocated by the Board of Directors of the Company. For the year ended December 31, 2005, the Company incurred compensation costs of approximately $330,000 related to the ESOP shares allocated during that year.

In addition, the Company sponsors an employee savings plan (the 401(k) Plan), which qualifies as a 401(k) plan under the Internal Revenue Code. Under the 401(k) Plan, employees can contribute up to 15% of their pre-tax compensation to the plan. The Company makes contributions based on a matching schedule approved by the Board of Directors. Participants vest immediately in their own contributions and after three years of service in matching contributions made by the Company. One of the investment options available to 401(k) Plan participants is the Company s common stock. The 401(k) Plan Administrator will purchase the Company s common stock in open-market transactions after each pay period for those electing to invest in the Company s stock. The 401(k) Plan expenses for the years ended December 31, 2007, 2006 and 2005 were approximately $117,000, $90,000 and $85,000, respectively.

The Company also sponsors the Key Employee Stock Bonus Plan (the Bonus Plan). The Bonus Plan is authorized to acquire and issue up to 2% of the Company s outstanding common stock to non-executive officer employees of the Company. The Company makes contributions to the Bonus Plan that are approved by the Board of Directors. The Bonus Plan then purchases the Company s common stock in open-market transactions and distributes these shares to employees as they are awarded. The Company recognized no expense in connection with the Bonus Plan for the years ended December 31, 2007, 2006 or 2005.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(16) Executive Supplemental Income Plan

The Company has an executive supplemental income plan (the Plan) to provide supplemental income for certain executives after their retirement. The funding of the Plan involved the purchase of life insurance policies. The Plan is structured such that each participant is scheduled to receive specified levels of income after the retirement age of 62 to 65 for a certain number of years.

In the event a participant leaves the employment of the Company before retirement, only the benefits vested through that date would be paid to the employee. The Plan also provides for 100% vesting in the event of a change in control of Federal Trust. On a monthly basis, the Company records the mortality cost as an expense and a liability. Interest on the life insurance policies is recorded to the asset and salary continuation expenses are accrued.

The Company has approximately $2.9 million, $1.2 million, and $973,000 in deferred compensation accrued at December 31, 2007, 2006, and 2005, respectively, which is included in other liabilities in the accompanying consolidated balance sheets. The Company also recognized net earnings (expense) of approximately $(1.5 million), ($28,000) and $8,000, consisting of the earnings on bank-owned life insurance policies, net of compensation expenses accrued, in connection with the Plan during 2007, 2006 and 2005, respectively. Included in the expense recognized during 2007, was the $1.8 million present value of the vested benefit for the former Chief Executive Officer whose employment was terminated in October 2007.

(17) Termination of Employment Agreement

Included in expense recognized during 2007 was $1.1 million representing payments to be made to the former Chief Executive Officer in connection with the termination of his employment agreement in October 2007.

(18) Related Party Transactions

There were no loans to directors, officers and major stockholders (5% or more) of the Company outstanding at December 31, 2007 or December 31, 2006, and no such loans were originated in either 2007 or 2006.

Federal Trust and the Bank have one current and one former director whose firms provide legal services for the Company. One director s firm serves as corporate counsel for the Company. During the years ended December 31, 2007, 2006 and 2005, the Company paid this related party s firm approximately $153,000, $214,000 and $81,000, respectively, in legal and compliance review fees including reimbursed expenses. The other director, who served on the Board of the Bank until September 2006, provided legal services to the Bank primarily in the acquisition and ground lease negotiation of properties for future branch locations. The Bank paid this related party s firm approximately $9,000 and $29,000 during the years ended December 31, 2006 and 2005, respectively while this individual served as a director. Federal Trust has a current director whose firm provides consulting services for the Company. During 2007, the Company paid this firm $150,000 in consulting fees including reimbursable expenses.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(19) Condensed Parent Company Financial Statements

The condensed financial statements of Federal Trust are presented as follows:

Condensed Balance Sheets

($ in thousands)

	At December 31, 2007	2006
Assets:		
Cash, deposited with bank subsidiary	$ 556	122
Investment in subsidiaries	43,267	56,740
Securities available for sale	60	136
Premises and equipment, net		4,504
Other assets	1,763	1,382
Total assets	$ 45,646	62,884
Liabilities and stockholders equity:		
Liabilities:		
Other borrowings	$	500
Capital lease obligation		2,504
Junior subordinated debentures	5,155	5,155
Other liabilities	738	105
Total liabilities	5,893	8,264
Stockholders equity	39,753	54,620
Total liabilities and stockholders equity	$ 45,646	62,884

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(19) Condensed Parent Company Financial Statements, Continued

Condensed Statements of Operations

($ in thousands)

	For the Year Ended December 31, 2007	2006	2005
Revenue:			
Interest and dividend income	$ 115	98	89
Other income	66	605	665
Total income	181	703	754
Expenses:			
Directors fees	1,122	232	155
Occupancy expense	63	510	443
Interest expense	472	704	539
Other expense	530	601	280
Total expenses	2,187	2,047	1,417
Loss before income tax benefit and earnings of subsidiaries	(2,006)	(1,344)	(663)
Income tax benefit	(762)	(511)	(258)
Loss before earnings of subsidiaries	(1,244)	(833)	(405)
Equity in (loss) earnings of subsidiaries	(12,852)	4,243	4,841
Net (loss) earnings	$ (14,096)	3,410	4,436

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(19) Condensed Parent Company Financial Statements, Continued

Condensed Statements of Cash Flows

($ in thousands)

	For the Year Ended December 31, 2007	2006	2005
Cash flows from operating activities:			
Net (loss) earnings	$ (14,096)	3,410	4,436
Adjustments to reconcile net earnings to net cash used in operating activities:			
Depreciation	12	143	107
Gain on sale of investments	(20)		(96)
Share-based compensation	57	5	
Allocation of ESOP shares			330
Equity in loss (earnings) of subsidiaries	12,852	(4,243)	(4,841)
Cash provided by (used in) resulting from changes in:			
Other assets	(361)	36	(1,014)
Other liabilities	633	(13)	19
Net cash used in operating activities	(923)	(662)	(1,059)
Cash flows from investing activities:			
Investment in subsidiaries	(575)	(1,565)	(4,380)
Dividends received from subsidiary	750		
Net increase in loans			64
Purchase of securities available for sale	(51)	(58)	(76)
Proceeds from sale of securities available for sale	96		640
Sale (purchase) of premises and equipment	4,492	(255)	(166)
Net cash provided by (used in) investing activities	4,712	(1,878)	(3,918)
Cash flows from financing activities:			
Net (decrease) increase in other borrowings	(500)	(3,600)	3,215
Net proceeds from the sale of common stock	401	101	991
Private offering, net of offering costs		7,861	
Principal repayments under capital lease obligation	(2,504)	(260)	(285)
Sale of common shares for the ESOP		1	837
Dividends paid	(752)	(1,633)	(1,066)
Net cash (used in) provided by financing activities	(3,355)	2,470	3,692
Net increase (decrease) in cash	434	(70)	(1,285)
Cash at beginning of year	122	192	1,477

Cash at end of year	$	556	122	192

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(19) Condensed Parent Company Financial Statements, Continued

Condensed Statements of Cash Flows, Continued

($ in thousands)

	For the Year Ended December 31, 2007	2006	2005
Supplemental disclosures of noncash transactions:			
Change in investment in subsidiaries due to change in accumulated other comprehensive income (loss), net change in unrealized gain (loss) on securities available for sale, net of tax	$ (462)	684	(878)
Change in accumulated other comprehensive income, net change in unrealized gain (loss) on securities available for sale, net of tax	$ (31)	4	(65)
Change in investment in subsidiaries due to share based compensation	$ 16	46	

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(20) Selected Quarterly Financial Data (Unaudited)

Summarized quarterly financial data follows ($ in thousands, except for per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
December 31, 2007					
At Period End:					
Total assets	$ 707,299	721,124	726,856	690,264	
Investment securities	61,870	64,389	56,541	52,449	
Loans	593,833	599,218	603,194	563,234	
Deposits	474,498	475,202	481,407	481,729	
Federal Home Loan Bank advances	165,700	181,500	181,000	152,000	
Shareholders equity	54,652	49,945	44,286	39,686	
Book value per share	5.85	5.33	4.72	4.22	
Average Balances:					
Total assets	$ 720,268	709,750	722,229	721,039	719,829
Investment securities	64,643	63,623	63,445	59,379	61,584
Loans	604,864	592,704	604,602	599,237	600,465
Deposits	468,817	470,605	475,035	474,717	473,545
Federal Home Loan Bank advances	183,122	173,396	183,794	174,440	178,688
Shareholders equity	54,566	54,270	51,174	52,796	52,796
Period Ended:					
Interest income	$ 10,719	10,690	10,706	10,371	42,486
Interest expense	7,495	7,615	7,955	7,732	30,797
Net interest income	3,224	3,075	2,751	2,639	11,689
Provision for loan losses	150	5,145	5,115	6,002	16,412
Net interest income (expense) after provision for loan losses	3,074	(2,070)	(2,364)	(3,363)	(4,723)
Other income	476	436	341	(309)	944
Other expenses	(3,439)	(4,209)	(7,842)	(4,001)	(19,491)
Earnings (loss) before income taxes	111	(5,843)	(9,865)	(7,673)	(23,270)
Income tax benefit	(49)	(2,291)	(3,794)	(2,973)	(9,107)
Net earnings (loss)	$ 160	(3,552)	(6,071)	(4,700)	(14,163)
Earnings (loss) per share, basic	$ 0.02	(0.38)	(0.65)	(0.50)	(1.51)
Earnings (loss) per share, diluted	$ 0.02	(0.38)	(0.65)	(0.50)	(1.51)
Return on average assets	0.09%	(2.00)%	(3.36)%	(2.61)%	(1.97)%
Return on average equity	1.17%	(26.18)%	(47.45)%	(35.61)%	(26.83)%
Net interest margin	1.94%	1.91%	1.69%	1.58%	1.74%

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(20) Selected Quarterly Financial Data (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
December 31, 2006					
At Period End:					
Total assets	$ 744,726	742,689	729,952	722,964	
Investment securities	50,552	70,716	68,314	65,558	
Loans	645,090	620,186	611,701	603,917	
Deposits	489,760	489,387	499,298	472,794	
Federal Home Loan Bank advances	189,200	183,200	161,200	179,700	
Shareholders equity	45,150	53,130	53,997	54,620	
Book value per share	5.45	5.69	5.79	5.86	
Average Balances:					
Total assets	$ 736,665	747,013	734,429	727,705	735,481
Investment securities	49,886	60,566	74,330	65,635	62,941
Loans	632,530	633,786	613,412	611,858	621,670
Deposits	471,851	485,537	494,633	485,060	484,358
Federal Home Loan Bank advances	200,087	189,919	173,706	168,712	183,106
Shareholders equity	45,051	52,973	51,349	53,052	50,878
Period Ended:					
Interest income	$ 10,653	11,108	10,956	11,125	43,842
Interest expense	6,439	6,930	7,336	7,409	28,114
Net interest income	4,214	4,178	3,620	3,716	15,728
Provision for loan losses	139	95	60	345	639
Net interest income after provision for loan losses	4,075	4,083	3,560	3,371	15,089
Other income	649	553	569	455	2,226
Other expenses	2,992	3,305	3,271	2,893	12,461
Earnings before income taxes	1,732	1,331	858	933	4,854
Income taxes	581	434	237	192	1,444
Net earnings	$ 1,151	897	621	741	3,410
Earnings per share, basic	$ .14	.10	.07	.08	.38
Earnings per share, diluted	$ .13	.10	.07	.08	.37
Return on average assets	0.63%	0.48%	0.34%	0.41%	0.46%
Return on average equity	10.22%	6.77%	4.84%	5.59%	6.70%
Net interest margin	2.48%	2.43%	2.15%	2.23%	2.33%

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(21) Subsequent Event

Following its most recent examinations of the operations of Federal Trust and the Bank, the Office of Thrift Supervision noted weaknesses and failures relating primarily to the Company s real estate lending practices and asset quality, and their impact on our capital and earnings. The Company has taken action and implemented procedures that management believes will address the weaknesses identified by the Office of Thrift Supervision. Effective May 12, 2008, Federal Trust and the Bank consented to the issuance by the Office of Thrift Supervision of cease and desist orders to Federal Trust and the Bank, which orders are designed to ensure that the weaknesses noted in the recently concluded examinations are properly addressed. The orders provide that:

Federal Trust must submit for review and approval or non-objection by the Office of Thrift Supervision a capital plan to raise additional capital for the Bank by July 15, 2008 and, if the additional capital cannot be raised by such date, to enter into a merger agreement with a merger or acquisition partner by August 31, 2008;

The Bank must submit for review and approval or non-objection by the Office of Thrift Supervision a detailed business plan to strengthen and improve the Bank s operations, earnings, liquidity and capital;

Until the Office of Thrift Supervision has approved or provided its non-objection to the Bank s business plan, the Bank will not be permitted to increase its current levels of construction loans, acquisition and development loans, non-residential permanent mortgage loans, land loans and certain other loans without the prior approval of the Office of Thrift Supervision;

Until the Office of Thrift Supervision has approved or provided its non-objection to the Bank s business plan, the Bank will not be permitted to increase its total assets during any quarter in excess of an amount equal to the net interest credited on deposit liabilities during the quarter without the prior approval of the Office of Thrift Supervision;

The Bank must submit for review and approval or non-objection by the Office of Thrift Supervision an asset review program that will (i) strengthen and ensure the timely identification and proper classification of problem assets, (ii) ensure adequate and proper levels of the Allowance for Loan and Lease Losses, and (iii) establish individualized resolution plans for problem assets;

The Bank will not be permitted to declare a dividend without the prior written approval of the Office of Thrift Supervision;

The Bank must revise its legal lending limit policies and procedures to ensure compliance with applicable law and devise an action plan to correct any legal lending limit violations;

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

The Bank will not be permitted to enter into, renew or modify any agreements with Federal Trust or enter into affiliated transactions with Federal Trust, without prior approval of the Office of Thrift Supervision;

The Bank will not be permitted to enter into any third-party contracts for services outside the normal course of business without prior review and approval of the Office of Thrift Supervision;

The Board of Directors of the Bank must submit a plan to strengthen the Board of Directors oversight of management and The Bank s operations;

The Board of Directors of the Bank must conduct a review of the Bank s lending functions and assess the qualifications, experience and proficiency of the Bank s management and lending staff; and

The Board of Directors of the Bank must establish a committee comprised of non-employee directors to monitor and coordinate the Bank s compliance with the provisions of the enforcement order.

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Report of Independent Registered Public Accounting Firm

Federal Trust Corporation

Sanford, Florida:

We have audited the accompanying consolidated balance sheets of Federal Trust Corporation and Subsidiaries (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders equity and cash flows for each of the years in the three-year period ended December 31, 2007. We also have audited Internal Control Over Financial Reporting as of December 31, 2007, based on criteria established in *Internal Control-Integrated* Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness for internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements, and an opinion on the Company s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included, obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respect, the financial position of the Company as of December 31, 2007 and 2006 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ Hacker, Johnson & Smith, P.A.

HACKER, JOHNSON & SMITH, P.A.

Orlando, Florida

March 14, 2008, except for Notes (13) and (21),

which are dated June 25, 2008

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

($ in thousands, except share information)

	At	
	March 31, 2008 (Unaudited)	**December 31, 2007 (Audited)**
Assets		
Cash and due from banks	$ 43,568	$ 8,046
Interest-earning deposits	708	1,131
Cash and cash equivalents	44,276	9,177
Securities available for sale	41,155	52,449
Loans, less allowance for loan losses of $15,793 in 2008 and $13,869 in 2007	522,551	563,234
Accrued interest receivable	3,647	4,509
Premises and equipment, net	18,734	18,814
Foreclosed assets	10,093	9,522
Federal Home Loan Bank stock	8,663	8,129
Mortgage servicing rights, net	460	444
Bank-owned life insurance	7,613	7,504
Deferred tax asset	9,098	7,966
Other assets	6,589	8,516
Total assets	$ 672,879	$ 690,264
Liabilities and Stockholders Equity		
Liabilities:		
Noninterest-bearing demand deposits	$ 14,830	$ 13,916
Interest-bearing demand deposits	68,997	80,275
Money-market deposits	57,060	57,608
Savings deposits	2,233	2,422
Time deposits	310,923	327,508
Total deposits	454,043	481,729
Federal Home Loan Bank advances	165,000	152,000
Other borrowings	16	16
Junior subordinated debentures	5,155	5,155
Accrued interest payable	2,267	2,597
Official checks	1,892	2,238
Other liabilities	7,203	6,843
Total liabilities	635,576	650,578
Stockholders equity:		
Common stock, $.01 par value, 15,000,000 shares authorized; 9,436,305 shares outstanding in 2008 and 2007	94	94
Additional paid-in capital	44,540	44,515
Accumulated deficit	(5,974)	(3,755)

Unallocated ESOP shares (42,386 shares in 2008 and 2007)	(440)	(440)
Accumulated other comprehensive loss	(917)	(728)
Total stockholders equity	37,303	39,686
Total liabilities and stockholders equity	$ 672,879	$ 690,264

See Accompanying Notes to Consolidated Financial Statements.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations (Unaudited)

($ in thousands, except share information)

	Three Months Ended March 31,	
	2008	2007
Interest income:		
Loans	$ 7,999	$ 9,699
Securities	641	844
Other	366	176
Total interest income	9,006	10,719
Interest expense:		
Deposits	5,099	5,367
Other	1,867	2,128
Total interest expense	6,966	7,495
Net interest income	2,040	3,224
Provision for loan losses	1,965	150
Net interest income after provision for loan losses	75	3,074
Other income:		
Service charges and fees	125	107
Gain on sale of loans held for sale	199	72
Net gain on sale of securities available for sale	58	35
Rental income	104	85
Increase in cash surrender value of life insurance policies	109	67
Other	53	110
Total other income	648	476
Other expenses:		
Salary and employee benefits	1,986	1,922
Occupancy expense	700	511
Professional services	331	260
Deposit insurance premium	307	15
Data processing	285	230
Foreclosure expenses	152	2
Net loss on sale of foreclosed assets	81	
Marketing and advertising	63	116
Other	470	383
Total other expenses	4,375	3,439
(Loss) earnings before income taxes	(3,652)	111
Income tax benefit	(1,433)	(49)

Net (loss) earnings	$ (2,219)	$ 160
(Loss) earnings per share:		
Basic	$ (.24)	$ .02
Diluted	$ (.24)	$ .02
Weighted-average shares outstanding for (in thousands):		
Basic	9,394	9,342
Diluted	9,394	9,440
Cash dividends per share	$	$ .04

See Accompanying Notes to Consolidated Financial Statements.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders Equity

For the Three Months Ended March 31, 2008 and 2007

($ in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Unallocated ESOP Shares	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2006	9,351,542	$ 94	$ 43,858	$ 11,160	$ (257)	$ (235)	$ 54,620
Comprehensive income:							
Net earnings (unaudited)				160			160
Change in unrealized loss on securities available for sale, net of income taxes of $(23) (unaudited)						39	39
Comprehensive income (unaudited)							199
Issuance of common stock - options exercised (unaudited)	37,283		175				175
ESOP shares purchased (6,618 shares) (unaudited)			67		(67)		
Share based compensation (unaudited)			34				34
Dividends paid $.04 per share (unaudited)				(376)			(376)
Balance at March 31, 2007 (unaudited)	9,388,825	$ 94	$ 44,134	$ 10,944	$ (324)	$ (196)	$ 54,652
Balance at December 31, 2007	9,436,305	$ 94	$ 44,515	$ (3,755)	$ (440)	$ (728)	$ 39,686
Comprehensive loss:							
Net loss (unaudited)				(2,219)			(2,219)
Change in unrealized loss on securities available for sale, net of income taxes of $113 (unaudited)						(189)	(189)
Comprehensive loss (unaudited)							(2,408)
Share based compensation (unaudited)			25				25
Balance at March 31, 2008 (unaudited)	9,436,305	$ 94	$ 44,540	$ (5,974)	$ (440)	$ (917)	$ 37,303

See Accompanying Notes to Consolidated Financial Statements.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

($ in thousands)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Cash flows from operating activities:		
Net (loss) earnings	$ (2,219)	$ 160
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities:		
Depreciation and amortization	254	217
Provision for loan losses	1,965	150
Loss on sale of foreclosed assets	81	
Net amortization of premiums and discounts on securities	(47)	(29)
Net amortization of loan origination fees, costs, premiums and discounts	293	340
Amortization of mortgage servicing rights	26	56
Increase in cash surrender value of life insurance policies	(109)	(67)
Proceeds from sales of loans held for sale	601	2,908
Loans originated for resale	(634)	(2,815)
Gain on sale of loans held for sale	(199)	(72)
Loss on disposal of fixed assets	11	
Net gain on sales of securities available for sale	(58)	(35)
Deferred taxes	(1,019)	
Share based compensation	25	34
Cash provided by (used in) resulting from changes in:		
Accrued interest receivable	862	571
Other assets	1,821	429
Accrued interest payable	(330)	309
Official checks	(346)	(437)
Other liabilities	(39)	177
Net cash provided by operating activities	939	1,896
Cash flows from investing activities:		
Purchase of securities available for sale		(3,937)
Proceeds from principal repayments and sales of securities available for sale	11,097	7,751
Loan principal repayments, net of originations	25,480	30,717
Purchase of loans		(26,023)
Proceeds from sales of loans transferred to held for sale	12,051	2,491
Purchase of premises and equipment	(79)	(114)
(Purchase) redemption of Federal Home Loan Bank stock	(534)	845
Net proceeds from sale of foreclosed assets	432	
Net cash provided by investing activities	48,447	11,730
Cash flows from financing activities:		
Net increase (decrease) in deposits	(27,686)	1,704
Net increase (decrease) in Federal Home Loan Bank advances	13,000	(14,000)
Net decrease in other borrowings		(1,315)
Principal repayments under capital lease obligation		(2,504)
Net increase in advance payments from borrowers for taxes and insurance	399	369
Net proceeds from the exercise of options on common stock		175

Net cash provided by (used in) financing activities	(14,287)	(15,947)
Net increase (decrease) in cash and cash equivalents	35,099	(2,321)
Cash and cash equivalents at beginning of period	9,177	8,680
Cash and cash equivalents at end of period	$ 44,276	$ 6,359

(Continued)

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited), Continued

($ in thousands)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Supplemental disclosure of cash flow information-		
Cash paid during the period for:		
Interest	$ 7,296	$ 7,186
Income taxes	$	$
Noncash transactions:		
Foreclosed assets acquired in settlement of loans	$ 1,084	$ 2,363
Other comprehensive (loss) gain, net change in unrealized loss on securities available for sale, net of tax	$ (189)	$ 39
Transfer of loans in portfolio to loans held for sale	$ 4,227	$ 2,478
Mortgage servicing rights recognized upon sale of loans held for sale	$ 42	$ 25
ESOP shares purchased	$	$ 67
Transfer from other assets to premises and equipment	$ 106	$

See Accompanying Notes to Consolidated Financial Statements.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(1) Description of Business and Basis of Presentation

Organization. Federal Trust Corporation (Federal Trust) is the sole shareholder of Federal Trust Bank (the Bank) and Federal Trust Mortgage Company (the Mortgage Company). Federal Trust operates as a unitary savings and loan holding company. Federal Trust's primary business activity is the operation of the Bank and the Mortgage Company. The Bank is a federally-chartered stock savings bank. The Bank s deposits are insured up to applicable limits by the Federal Deposit Insurance Corporation. The Bank provides a wide range of banking services to individual and corporate customers through its 11 full-service branch offices located in Orange, Seminole, Volusia, Lake and Flagler Counties, Florida. As of April 30, 2008, the operations of the Mortgage Company, which primarily include originating mortgage loans, selling mortgage loans in the secondary market, and servicing of residential mortgage loans have been consolidated into the Bank and is functioning as a department of the Bank.

The consolidated financial statements include the accounts of Federal Trust, the Bank and the Mortgage Company (collectively referred to herein as, the Company). All significant intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments (principally consisting of normal recurring accruals) necessary to present fairly the financial position as of March 31, 2008, and the results of operations and cash flows for the three-month periods ended March 31, 2008 and 2007. The results of operations for the three-month period ended March 31, 2008, are not necessarily indicative of the results to be expected for the entire year ending December 31, 2008. These statements should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

Recent Accounting Pronouncements. In March 2008, The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161). This standard requires enhanced disclosures regarding derivative instruments and hedging activities so as to enable investors to better understand their effects on an entity s financial position, financial performance, and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The adoption of SFAS 161 will have no impact on the Company s financial condition and results of operations.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160) and SFAS No. 141(R), *Business Combinations* (SFAS 141(R)). The Standards will improve, simplify, and converge internationally the accounting for business combinations and the reporting of noncontrolling interests in consolidated financial statements. The statements are effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2008. Earlier adoption is prohibited. Management does not anticipate that SFAS 160 and SFAS 141(R) will have a material effect on the Company s financial condition or results of operations.

In June 2007, the FASB ratified the Emerging Issues Task Force (EITF) consensus on Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards* (EITF No. 06-11). EITF No. 06-11 requires that the tax benefit related to dividend equivalents paid on restricted stock and restricted stock units which are expected to vest be recorded as an increase to additional paid-in capital. EITF No. 06-11 is to be applied prospectively for tax benefits on dividends declared by the Company on or after January 1, 2008. The adoption of EITF No. 06-11 will have no impact on the Company s financial condition and results of operations.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited), Continued

(2) Loans

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

	At	
	March 31, 2008 (unaudited)	**December 31, 2007**
Residential lending:		
Mortgages [(1)]	$ 339,139	$ 359,954
Lot	41,650	39,994
Construction	14,974	21,926
Total residential lending	395,763	421,874
Commercial lending:		
Real estate secured	77,125	85,492
Land, development and construction	62,051	73,752
Commercial loans	17,932	15,866
Total commercial lending	157,108	175,110
Consumer loans	121	214
Total loans	552,992	597,198
Add (deduct):		
Allowance for loan losses	(15,793)	(13,869)
Net premiums, discounts, deferred fees and costs	2,711	3,033
Loans in process	(17,359)	(23,128)
Loans, net	$ 522,551	$ 563,234

(1) Includes approximately $7.6 million of loans held for sale at December 31, 2007. There were no loans held for sale at March 31, 2008.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited), Continued

(2) Loans, Continued

During the first quarter of 2008, we continued to experience weakness in the real estate market in Central Florida and increases in loan delinquencies. As a result, we recorded a provision for loan losses in the 2008 first quarter of $2.0 million. Our loan charge-offs during the 2008 first quarter were $50,000, we recognized $9,000 in recoveries and our allowance for loan losses increased from $13.9 million at December 31, 2007, to $15.8 million at March 31, 2008.

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Balance at beginning of period	$ 13,869	$ 5,098
Provision for loan losses	1,965	150
Charge-offs	(50)	
Recoveries	9	
Balance at end of period	$ 15,793	$ 5,248

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

	At March 31, 2008	At December 31, 2007
Non-accrual loans	$ 47,774	$ 38,223
Accruing loans past due 90 days or more	$	$
Recorded investment in impaired loans for which there is a related allowance for loan losses	$ 20,675	$ 15,299
Recorded investment in impaired loans for which there is no related allowance for loan losses	$ 36,878	$ 22,903
Allowance for loan losses related to impaired loans	$ 5,602	$ 5,556

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Interest income recognized and received on impaired loans	$ 418	$ 22

Average net recorded investment in impaired loans	$ 47,843	$ 10,570

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited), Continued

(2) Loans, Continued

	March 31, 2008	December 31, 2007
Non-accrual loans:		
Residential loans:		
Mortgages	$ 8,521	$ 4,993
Lot	9,083	6,578
Construction	6,638	7,317
Total residential loans	24,242	18,888
Commercial loans:		
Real estate secured	9,964	7,520
Land, development and construction	12,812	11,063
Commercial business	750	752
Total commercial loans	23,526	19,335
Consumer loans	6	
Total non-accrual loans	47,774	38,223
Foreclosed assets	10,093	9,522
Total non-performing assets	$ 57,867	$ 47,745
Total non-accrual loans to total loans	8.6%	6.4%
Total non-accrual loans to total assets	7.1%	5.5%
Total allowance for loan losses to total non-accrual loans	33.1%	36.3%
Total non-performing assets to total assets	8.6%	6.9%

Total non-performing assets which includes non-accrual loans and foreclosed properties, increased from $47.7 million at December 31, 2007, to $57.9 million at March 31, 2008. The increase in non-performing assets during the first quarter of 2008 included three commercial loans with principal balances totaling $5.2 million. The largest of these loans has a balance of $2.7 million and is for a residential condominium project in the Florida panhandle. Other first quarter non-performing asset activity included non-accrual loan increases of $2.6 million in residential loans to foreign national borrowers, $2.5 million in developed residential lot loans, and $926,000 for other domestic residential loans. Partially offsetting these increases in non-performing assets was the collection of $500,000 from our insurance carrier on the 2007 Transland Financial Services fraud loss, and the sale of three residences and two residential lots with carrying values totaling $508,000. We recognized an $81,500 net loss on the sale of the five foreclosed properties.

In addition to our non-performing assets discussed above, at March 31, 2008, we had $43.4 million in performing loans that exhibited weakness or concerns and were graded as classified or special mention. This total decreased $13.2 million during the first quarter, from $56.6 million at December 31, 2007. The decrease was primarily due to the payoff of one classified commercial loan for $7.4 million and the transfer to non-accrual status of two commercial loans for $4.7 million.

(Continued)

FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited), Continued

(3) Regulatory Capital

The Bank is required to maintain certain minimum regulatory capital requirements. On June 25, 2008, management revised the Bank s March 31, 2008 regulatory capital ratios to reflect a lower than originally estimated allowable deferred tax asset. The revision had no effect on the Company s total consolidated assets or stockholders equity at March 31, 2008 and no effect on the consolidated net loss or loss per share as reported for the three months ended March 31, 2008. The revision has been made to reflect the actual income tax refunds claimed compared to estimated amounts. The change reduced the capital amount as computed for the calculation of the capital ratios for the total regulatory capital by $4.3 million and for the Tier I capital amount by $4.2 million. The Bank s capital ratios decreased as follows: total capital to risk-weighted assets decreased from 9.8% to 9.0%, Tier I capital to risk-weighted assets decreased from 8.5% to 7.7% and Tier I capital decreased from 5.6% to 5.0%. The Bank continues to be categorized as adequately capitalized. The following are the March 31, 2008 revised regulatory capital calculations.

	Actual	For Minimum Capital Adequacy Purposes	To Be Well Capitalized Under Prompt Corrective Action Provisions
Total capital to risk-weighted assets	8.96%	8.00%	10.00%
Tier I capital to risk-weighted assets	7.69%	4.00%	6.00%
Tier I capital to total assets-leverage ratio	5.03%	4.00%	5.00%

The Bank s total capital to risk-weighted assets ratio of 8.96% resulted in the Bank being characterized as adequately capitalized for regulatory capital purposes.

(4) (Loss) Earnings Per Share of Common Stock

The Company follows the provisions of SFAS No. 128, *Earnings Per Share* (SFAS No. 128). SFAS No. 128 provides accounting and reporting standards for calculating (loss) earnings per share. Basic (loss) earnings per share of common stock, has been computed by dividing the net loss or earnings for the period by the weighted-average number of shares outstanding. Shares of common stock purchased by the Company's Employee Stock Ownership Plan (ESOP) are considered outstanding when the shares are allocated to participants. Diluted (loss) earnings per share is computed by dividing net loss or earnings by the weighted-average number of shares outstanding including the dilutive effect of stock options computed using the treasury stock method and the restricted stock units. Outstanding stock options and restricted stock units are not considered dilutive securities for the three-month period ended March 31, 2008, due to the net loss incurred by the Company.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited), Continued

(4) (Loss) Earnings Per Share of Common Stock, Continued

The following table presents the calculation of basic (loss) earnings per share for the three-month periods ending March 31, 2008 and 2007, and the calculation of diluted earnings per share for the three-month period ending March 31, 2007.

	Three Months Ended March 31,	
	2008	2007
Weighted-average shares outstanding before adjustment for unallocated ESOP shares	9,436	9,374
Adjustment to reflect the effect of unallocated ESOP shares	(42)	(32)
Weighted-average shares outstanding for basic earnings (loss) per share	9,394	9,342
Basic earnings (loss) per share	$ (.24)	$ .02
Total weighted-average shares outstanding for basic earnings (loss) per share computation	9,394	9,342
Additional dilutive shares using the average market value for the period utilizing the treasury stock method regarding stock options		98
Weighted-average shares and equivalents outstanding for diluted earnings (loss) per share	9,394	9,440
Diluted earnings (loss) per share	$ (.24)	$ .02

(5) Stock Compensation Plans

The Company has three stock benefit plans. The Key Employee Stock Compensation Program (the Employee Plan) is authorized to issue up to 10% of the issued shares up to a maximum of 1,020,000 shares through the exercise of 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 five to ten year terms and vest over various terms up to five years. At March 31, 2008, the Company had 427,301 options available for future grants under the Employee Plan.

The Directors Stock Option Plan (the Directors Plan) is authorized to issue up to 141,337 shares through the exercise of stock options. All options granted under the Directors Plan have five to ten-year terms, and vest over various terms up to five years. At March 31, 2008, the Company had 4,180 options available for future grants under the Directors Plan.

The 2005 Directors Stock Plan (2005 Directors Plan) is authorized to issue up to 91,800 shares through the exercise of stock options and the issuance of restricted stock shares. Awards made under the 2005 Directors Plan may be in the form of restricted shares, restricted stock units, or stock options. A restricted stock unit is the right to receive a share of common stock, after vesting, on a date selected by the director. While any restricted stock unit is outstanding the director holding the restricted stock unit will be entitled to receive a dividend in the form of additional restricted stock units, if cash or stock dividends are declared on outstanding shares of common stock. Each restricted stock unit, including fractional restricted stock units, will be converted to one share of common stock, after vesting, on the date which has been selected by the director or when the director no longer serves on the Board.

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited), Continued

(5) Stock Compensation Plans, Continued

Awards of restricted shares or restricted stock units may be awarded to a director as an annual stock retainer, which is dependent upon the amount of the director s annual cash retainer. Under terms of those respective agreements, the units vest over periods from three to four years, unless there is a change in control, at which point the units vest immediately.

Options are granted to certain employees and directors at a price equal to the market value of the stock on the dates the options were granted. In accordance with *SFAS No. 123, Share-Based Payment* SFAS 123(R) , the fair value of each option is amortized using the straight-line method over the requisite service period of each option. We have estimated the fair value of all option awards as of the grant date by applying the Black-Scholes pricing valuation model. The application of this valuation model involves assumptions that are judgmental and sensitive in the determination of compensation expense. The weighted average amounts for key assumptions used in determining the fair value of options granted during the three-months ended March 31, 2008 and 2007 follows:

	Three Months Ended March 31, 2008	2007
Expected stock price volatility	32.67%	47.95%
Risk-free interest rate	2.64%	4.66%
Weighted average expected life in years	4.0	6.5
Expected dividend yield	0.00%	1.58%
Per share weighted-average grant date fair value of options issued during the period	$ 0.64	$ 4.66

As part of its adoption of SFAS 123(R), the Company examined its historical pattern of option exercises in an effort to determine if there was any pattern based on certain employee populations. From this analysis, the Company could not identify any patterns in the exercise of options. As such, the Company used the guidance in Staff Accounting Bulletin No. 110 issued by the Securities and Exchange Commission to determine the estimated life of options issued. Historical information was the primary basis for the selection of expected volatility and expected dividend yield. The risk-free rate was selected based upon yields of U.S. Treasury issues with a term equal to the expected life of the option being valued.

A summary of stock option transactions for the three-month period ended March 31, 2008, follows: ($ in thousands, except per share data):

	Number of Options	Weighted Avg. Per Option Exercise Price	Weighted Avg. Remaining Contract Term (in years)	Aggregate Intrinsic Value
Options Under the Employee Plan:				
Outstanding at December 31, 2007	374,283	$ 7.87		
Options exercised				
Options forfeited	(200,600)	$ 9.61		
Outstanding at March 31, 2008	173,683	$ 5.87	4.47	$
Exercisable at March 31, 2008	84,115	$ 7.25	4.58	$

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited), Continued

(5) Stock Compensation Plans, Continued

	Number of Options	Weighted Avg. Per Option Exercise Price	Weighted Avg. Remaining Contract Term (in years)	Aggregate Intrinsic Value
Options Under the Directors Plans:				
(includes the Directors Plan and the 2005 Directors Plan)				
Outstanding at December 31, 2007	144,146	$ 7.17		
Options granted	5,000	$ 2.15		
Options forfeited	(9,792)	$ 7.75		
Outstanding at March 31, 2008	139,354	$ 6.95	7.56	$
Exercisable at March 31, 2008	71,554	$ 5.99	3.72	$

As of March 31, 2008, the Company had 157,368 nonvested options outstanding resulting in approximately $319,000 of total unrecognized compensation expense related to these nonvested options. This expense is expected to be recognized monthly over the related vesting periods using the straight-line method through December 2011.

A summary of the Restricted Stock Unit transactions follows:

	Number of Units
Restricted Stock Units under the 2005 Directors Plan:	
Outstanding at December 31, 2007	11,815
Stock unit dividends earned	
Stock units forfeited	
Stock issued	
Outstanding at March 31, 2008	11,815

A summary of the status of the Company s nonvested restricted stock units as of December 31, 2007, and changes during the three-months ended March 31, 2008, is presented below:

Nonvested Shares	Number of Units	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2007	6,471	$ 10.54
Dividends credited		
Forfeited		

Vested	(774)	$	11.26
Nonvested at March 31, 2008	5,697	$	10.12

(Continued)

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited), Continued

(6) Fair Value Measurements

In the first quarter of 2008, we adopted SFAS No. 157, *Fair Value Measurements* (SFAS 157), for financial assets and liabilities. This standard defines fair value, provides guidance for measuring fair value and requires certain disclosures. This standard does not require any new fair value measurements, but rather applies to all other accounting pronouncements that require or permit fair value measurements. This standard does not apply measurements related to share-based payments.

SFAS 157 discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future cash flows), and the cost approach (cost to replace the service capacity of an asset or replacement cost), focusing on the price that would be received when selling an asset or paid to transfer a liability (exit price). The statement utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities that are not active. Such inputs may include interest rates and yield curves, volatilities, prepayment speeds, credit risks, and default rates.

Level 3: Unobservable inputs to measure fair value of assets and liabilities for which there is little, if any market activity at the measurement date, using reasonable inputs and assumptions based upon the best information at the time, to the extent that inputs are available without undue cost and effort.

Our listing of financial assets and liabilities subject to fair value measurements on a recurring basis are as follows (in thousands):

		Fair Value Measurements at Reporting Date Using		
	Fair Value as of 3/31/08	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities	$ 41,155	$ 62	$ 36,875	$ 4,218

The fair values of our securities available for sale are determined by third-party service providers utilizing various methods dependent upon the specific type of investment.

(Continued)

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FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited), Continued

(6) Fair Value Measurements, Continued

The following is a summary of transactions for those financial assets and liabilities measured on a recurring basis using significant unobservable inputs for determining fair value for the three month period ended March 31, 2008 (in thousands):

Fair Value Measurements	At March 31, 2008 Using Significant Unobservable Inputs (Level 3)	
Fair value at December 31, 2007	$	4,784
Total gains or (losses):		
Included in other comprehensive income		(565)
(Amortization) and accretion		(1)
Fair value at March 31, 2008	$	4,218

(7) Legal Contingencies

Various legal claims arise from time to time in the normal course of business. In the opinion of management of the Company, none have occurred that will have a material effect on the Company s consolidated financial statements.

(8) Reclassification

Certain amounts in the prior period consolidated financial statements have been reclassified to conform with the 2008 presentation.

As of March 31, 2007, $2,491,000 of proceeds from sales of loans transferred to loans held for sale were incorrectly reported on the Consolidated Statement of Cash Flows as net cash flows from operating activities rather than net cash flows from investing activities as required by generally accepted accounting standards in the United States of America. These loan sale proceeds were reclassified to cash flows from investing activities for the three months ended March 31, 2007. This change did not affect the previously reported amount of net decrease in cash and cash equivalents.

(Continued)

FEDERAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited), Continued

(9) Subsequent Events

Additional Office of Thrift Supervision restrictions on our operations. On April 25, 2008, Federal Trust Corporation and Federal Trust Bank were notified by the Office of Thrift Supervision that the following regulatory and supervisory restrictions apply to Federal Trust Corporation and Federal Trust Bank, some of which restrictions are similar to those included in the cease and desist orders that Federal Trust Corporation and the Bank have entered into with the Office of Thrift Supervision:

- Federal Trust Corporation and Federal Trust Bank are not eligible to have applications or notices processed by the Office of Thrift Supervision on an expedited basis;
- Federal Trust Corporation and Federal Trust Bank are required to provide prior notice to the Office of Thrift Supervision for additions or changes to directors or senior executive officers;
- all employment contracts or compensation arrangements, including severance payments, to directors and senior executive officers are subject to prior review by the Office of Thrift Supervision;
- the ability of Federal Trust Corporation and Federal Trust Bank to make any compensatory payments to any person previously affiliated with Federal Trust Corporation or Federal Trust Bank following such person s termination of employment is restricted by applicable federal regulation; and
- Federal Trust Bank s growth is restricted in that it may not increase its assets during any quarter in excess of an amount equal to net interest credited on deposit liabilities.

In addition, the Office of Thrift Supervision has placed the following restrictions on Federal Trust Corporation and Federal Trust Bank, some of which restrictions are similar to those included in the cease and desist orders:

- Federal Trust Bank may not pay any dividends or make any form of capital distribution without the prior written approval of the Office of Thrift Supervision and Federal Trust Corporation may not request or accept any dividend or any form of capital distribution from Federal Trust Bank without the prior written approval of the Office of Thrift Supervision;
- Federal Trust Corporation may not declare or pay any dividend without the prior written approval of the Office of Thrift Supervision, and Federal Trust Corporation must request Office of Thrift Supervision approval for the payment of a dividend in writing at least 30 calendar days prior to the proposed dividend declaration date;
- Federal Trust Corporation may not issue any debt securities or otherwise incur any additional debt without the prior written approval of the Office of Thrift Supervision; and

Federal Trust Corporation may not make any payments of any kind, or in any form, to any person or entity in an amount exceeding $5,000 in any calendar month without the prior written approval of the Office of Thrift Supervision.

Federal Reserve Bank restrictions. On April 15, 2008, the Federal Reserve Bank placed restrictions on the activities and transactions we process with them. Those restrictions include being placed on a Real-Time Monitor status for our account and a zero limit on our daylight overdraft capacity. In addition, the Federal Reserve Bank has requested pledged collateral of $5 million to the discount window. We have also been advised that any collateral pledged currently or in the future will be subject to an additional 10% reduction against that collateral value. We have completed those forms required by the Federal Reserve Bank and transferred satisfactory collateral so as to fully comply with these requirements.

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Federal Trust Corporation

COMMON STOCK

WARRANTS

PROSPECTUS

STIFEL NICOLAUS

__________, 2008

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PART II: INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

		Amount
*	Registrant s legal fees and expenses	$ 650,000
*	Registrant s accounting fees and expenses	40,000
*	Financial and marketing advisory fees and expenses	2,194,622
*	Printing, postage, mailing and EDGAR	75,000
*	Filing fees (FINRA, AMEX, and SEC)	50,500
*	Subscription agent and registrar fees and expenses	21,000
*	Certificate printing	2,000
*	Other	60,000
*	Total	$ 3,093,122

* Estimated

Item 14. Indemnification of Directors and Officers

Article VII of the Registrant s articles of incorporation provides:

(1) The Company shall indemnify any person who was or is a party to any proceeding (other than an action by, or in the right of, the Company), by reason of the fact that he is or was a director, officer, employee, or agent of the Company or is or was serving at the request of the Company as a director, officer, employee, or agent of another corporation, partnership, joint venture trust, or other enterprise against liability incurred in connection with such proceeding, including any appeal thereof, if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interest of the Company and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any proceeding by judgment, order, settlement, or conviction or upon a plea of nolo contendre or its equivalent shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in, or not opposed to, the best interests of the corporation or, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

(2) The Company shall indemnify any person who was or is a party to any proceeding by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee, or agent of the Company or is or was serving at the request of the Company as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, against expenses and amounts paid in settlement not exceeding, in the judgment of the board of directors, the estimated expense of litigating the proceeding to conclusion, actually and reasonably incurred in connection with the defense or settlement of such proceeding, including any appeal thereof. Such indemnification shall be authorized if such person acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interest of the Company, except that no indemnification shall be made under this section in respect of any claim, issue, or matter as to which such person shall have been adjudged to be liable unless, and only to the extent that, the court in which proceeding was brought, or any other court of competent jurisdiction, shall determine upon application that, despite the adjudication of liability but in view of all circumstance in the case, such person is fairly and reasonably entitled to indemnity for such expenses which such court shall deem proper.

(3) To the extent that a director, officer, employee, or agent of the Company had been successful on the merits or otherwise in defense of any proceeding referred to in Section 1 or Section 2 of Article VII, or in defense of any claim, issue, or matter therein, he shall be indemnified against expenses actually and reasonably incurred by him in connection therewith.

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(4) Any indemnification under Section 1 or Section 2 of Article VII, unless pursuant to a determination by a court, shall be made by the Company only as authorized in the specific case upon a determination that indemnification of the director, officer, employee, or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in Section 1 or Section 2. Such determination shall be made:

(a) By the board of directors by a majority vote of a quorum consisting of directors who were not parties to such proceeding;

(b) If such quorum is not obtainable or, even if obtainable, by majority vote of a committee duly designated by the board of directors (in which directors who are parties may participate) consisting solely of two or more directors not at the time parties to the proceeding;

(c) By independent legal counsel:

(1) Selected by the board of directors prescribed in paragraph (a) or the committee prescribed in paragraph (b); or

(2) If a quorum of the directors cannot be obtained for paragraph (a) and the committee cannot be designated under paragraph (b), selected by majority vote of the full board of directors (in which directors who are parties may participate); or

(d) By the stockholders by a majority vote of a quorum consisting of stockholders who were not parties to such proceeding or, if no such quorum is obtainable, by a majority vote of stockholders who were not parties to such proceeding.

(5) The indemnification and advancement of expenses provided pursuant to Article VII are not exclusive and the Company may make any other or further indemnification or advancement of expenses of any of its directors, officers, employees, or agents, under any bylaw, agreement, vote of stockholders or disinterested directors, or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office. However, indemnification or advancement of expenses shall not be made to or on behalf of any director, officer, employee, or agent if a judgment or other final adjudication establishes that his actions or omissions to act were material to the cause of action so adjudicated and constitute:

(a) A violation of the criminal law, unless the director, officer, employee or agent had reasonable cause to believe his conduct was lawful or had no reasonable cause to believe his conduct was unlawful;

(b) A transaction from which the director, officer, employee, or agent derived an improper personal benefit;

(c) In the case of a director, a circumstance under which the liability provisions of Section 607.0834 of the Act are applicable; or

(d) Willful misconduct or a conscious disregard for the best interest of the Company in a proceeding by or in the right of the Company to procure a judgment in its favor or in a proceeding by or in the right of a shareholder.

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Item 15. Recent Sales of Unregistered Securities

On April 14, 2006, the Registrant sold 850,000 shares of its common stock to the following purchasers:

Name of Purchaser	Shares Purchased
John Sheldon Clark	80,000
Drake Associates, L.P.	15,000
El Coronado Holdings, L.L.C.	80,000
Fleet Maritime, Inc.	4,368
GPV LVII, L.L.C	2,294
Harvest 2004, L.L.C.	25,000
Hot Creek Investors, L.P.	175,000
Moors & Mendon Master Fund, L.P.	175,000
OZ Global Special Investments Master Fund, L.P.	2,381
OZ Master Fund, Ltd.	210,957
Riggs Qualified Partners, L.L.C.	30,000
Craig A. White	50,000

The Registrant sold the securities for $10.00 per share, or an aggregate of $8,500,000. Ryan Beck & Co., Inc. served as the sole sales agent in the offering and received a commission of 6.5% of the gross proceeds, plus a $50,000 cash retainer. The Registrant sold the securities in reliance on Rule 506 under the Securities Act of 1933, as the securities were only sold to accredited investors, as defined by Rule 501 under the Securities Act of 1933.

Item 16. Exhibits and Financial Statement Schedules:

The exhibits and financial statement schedules filed as part of this registration statement are as follows:

(a) List of Exhibits

1.1 Engagement Letter between Federal Trust Corporation and Stifel Nicolaus & Company, Incorporated (9)

1.2 Amendment to Engagement Letter between Federal Trust Corporation and Stifel Nicolaus & Company, Incorporated (9)

1.3 Form of Agency Agreement between Federal Trust Corporation and Stifel Nicolaus & Company, Incorporated (9)

1.4 Second Amendment to Engagement Letter between Federal Trust Corporation and Stifel Nicolaus & Company, Incorporated

1.5 Third Amendment to Engagement Letter between Federal Trust Corporation and Stifel Nicolaus & Company, Incorporated*

1.6 Form of Amended and Restated Agency Agreement between Federal Trust Corporation and Stifel Nicolaus & Company, Incorporated*

3.1 1996 Amended Articles of Incorporation and the 1995 Amended and Restated Articles of Incorporation of Federal Trust (1)

3.2 1995 Amended and Restated Bylaws of Federal Trust (1)

3.3 1998 Articles of Amendment to Articles of Incorporation of Federal Trust (2)

3.4 1999 Articles of Amendment to Articles of Incorporation of Federal Trust (3)

3.5 2008 Amendments to Bylaws (9)

3.6 2008 Articles of Amendment to Articles of Incorporation of Federal Trust (9)

4.1 Form of Common Stock Certificate of Federal Trust Corporation (1)

4.2 Form of Warrant Certificate (9)

5	Opinion of Luse Gorman Pomerenk & Schick regarding legality of securities being registered
10.1	Amended and Restated 1998 Key Employee Stock Compensation Program (4)

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10.2	Amended and Restated 1998 Directors Stock Option Plan (5)
10.3	2005 Directors Stock Plan (6)
10.4	Severance and Release Agreement with James V. Suskiewich (7)
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10.17	Standby Purchase Agreement between Federal Trust Corporation and Keefe Ventures Fund, LP
10.18	Form of Amended and Restated Standby Purchase Agreement
21	Subsidiaries of Registrant (9)
23.1	Consent of Luse Gorman Pomerenk & Schick (contained in Opinion included as Exhibit (5)
23.2	Consent of Hacker, Johnson and Smith PA
24	Power of Attorney (set forth on signature page)
99	Marketing letter

* To be filed supplementally or by amendment

(1) Incorporated by reference from Registrant s Registration Statement on Form SB-1, as declared effective on October 7, 1997 (Commission File No. 333-30883).

(2) Incorporated by reference from Registrant s Definitive Proxy Statement for its 1998 Annual Meeting of Shareholders, filed on April 28, 1998 (Commission File No. 001-31724).

(3) Incorporated by reference from Registrant s 1999 Definitive Proxy Statement for its 1999 Annual Meeting of Shareholders, filed on April 16, 1999 (Commission File No. 001-31724).

(4) Incorporated by reference from Registrant s Registration Statement on Form S-8, filed on December 10, 2002 (Commission File No. 333-101738).

(5)

Incorporated by reference from Registrant s Registration Statement on Form S-8, filed on December 10, 2002 (Commission File No. 333-101736).

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(8) Incorporated by reference from Registrant s Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2007, filed on March 17, 2008.

(9) Incorporated by reference from Registrant s Registration Statement on Form S-1, initially filed on April 2, 2008 (Commission File No. 333-150051).

(10) Incorporated by reference from Registrant s Amendment No. 1 to the Annual Report on Form 10-K/A for the Fiscal Year Ended December 31, 2007, filed on April 9, 2008.

(b) Financial Statement Schedules

No financial statement schedules are filed because the required information is not applicable or is included in the consolidated financial statements or related notes.

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Item 17. Undertakings

The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(5) For the purpose of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to rule 424(b)(1), or (4), or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(6) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized in Sanford, Florida, on July 31, 2008.

FEDERAL TRUST CORPORATION

By: \s\ Dennis T. Ward
Dennis T. Ward
President and Chief Executive Officer
(Duly Authorized Representative)

POWER OF ATTORNEY

We, the undersigned directors and officers of Federal Trust Corporation (the Company) hereby severally constitute and appoint Dennis T. Ward as our true and lawful attorney and agent, to do any and all things in our names in the capacities indicated below which said Dennis T. Ward may deem necessary or advisable to enable the Company to comply with the Securities Act of 1933, and any rules, regulations and requirements of the Securities and Exchange Commission, in connection with the registration statement on Form S-1 relating to the offering of the Company=s common stock, including specifically, but not limited to, power and authority to sign for us in our names in the capacities indicated below the registration statement and any and all amendments (including post-effective amendments) thereto; and we hereby approve, ratify and confirm all that said Dennis T. Ward shall do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

Signatures	Title	Date
\s\ Robert G. Cox	Chairman of the Board of Directors	July 31, 2008
Robert G. Cox		
\s\ Dennis T. Ward	Director, President and Chief Executive Officer (Principal Executive Officer)	July 31, 2008
Dennis T. Ward		
\s\ Gregory E. Smith	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	July 31, 2008
Gregory E. Smith		
\s\ Samuel C. Certo	Director	July 31, 2008
Samuel C. Certo		
\s\ Kenneth W. Hill	Director	July 31, 2008
Kenneth W. Hill		
\s\ A. George Igler	Director	July 31, 2008
A. George Igler		

\s\ Eric J. Reinhold	Director	July 31, 2008
Eric J. Reinhold		
\s\ Charles R. Webb	Director	July 31, 2008
Charles R. Webb		

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As filed with the Securities and Exchange Commission on August 1, 2008

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

EXHIBITS

TO THE REGISTRATION STATEMENT

ON

FORM S-1

Federal Trust Corporation

Sanford, Florida

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EXHIBIT INDEX

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