

COMPARATIVE STATEMENTS OF INCOME

	Three Months Ended	
	March 31,	
	2018	2017

(In thousands, except per share data)
(Unaudited)

INTEREST INCOME:

Interest income	\$8,539	\$ 7,424
Interest expense	1,716	1,244
Net interest income before provision	6,823	6,180
Provision for loan losses.....	(335)	300
Net interest income after provision for loan losses.....	7,158	5,880

NONINTEREST INCOME:

Fees and service charges.....	507	535
Bank owned life insurance	138	115
Gain on calls and sales of securities.....	6	—
Gain on sales of mortgage loans	22	17
Miscellaneous	52	132
Total noninterest income	725	799

NONINTEREST EXPENSE:

Salaries and employee benefits	3,109	2,844
Occupancy, net.....	442	409
Equipment.....	181	162
Data processing.....	484	469
Advertising.....	157	136
FDIC insurance premium.....	64	77
Charitable contributions.....	180	125
Bank-card related services.....	127	142
Other real estate owned, net.....	—	15
Miscellaneous.....	684	735
Total noninterest expenses.....	5,428	5,114
Income before income tax expense.....	2,455	1,565
Income tax expense.....	647	574

Net income.....	<u>\$ 1,808</u>	<u>\$ 991</u>
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Basic and diluted earnings per common share	\$ 0.21	\$ 0.16
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Ratios of net income based on annualized data:

Average total assets.....	0.80%	0.49%
Average common stockholders' equity....	9.92%	7.71%

SFC
STEWARDSHIP FINANCIAL CORPORATION
AND SUBSIDIARY

QUARTERLY REPORT
MARCH 31, 2018

TRADING SYMBOL: NASDAQ: SSFN

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Dear Shareholders and Friends,

We are pleased to provide an update on Stewardship Financial Corporation.

Total assets at March 31, 2018 were \$922.4 million compared to \$928.8 million of assets at December 31, 2017. Growth in the loan portfolio from new originations was offset by several large loan payoffs during the current quarter. Certain of the payoffs during the quarter represented lower yielding loans and now provides an opportunity to redeploy the assets into higher yielding loans.

Total deposits were \$772.2 million at March 31, 2018, reflecting net growth of \$8.1 million since December 31, 2017. The Corporation continues to experience growth in both noninterest-bearing and interest-bearing deposits.

Net income for the three months ended March 31, 2018 was \$1.8 million, or \$0.21 per share, compared to \$991,000, or \$0.16 per share, for the three months ended March 31, 2017.

Net interest income and net interest margin were \$6.8 million and 3.15% for the first quarter of 2018 compared to \$6.2 million and 3.23% for the comparable period a year earlier. Notwithstanding a tighter margin, our reported net interest income reflected the benefit from the increase in assets on a year-over-year basis.

Results for the three months ended March 31, 2018 benefited from the Corporation recording a negative provision for loan losses of \$335,000 as compared to the positive \$300,000 provision for loan losses for the three months ended March 31, 2017. The March 2018 reversal of a portion of the allowance for loan losses is reflective of continued improvement in both the Corporation's loss experience and overall economic conditions, including the real estate climate in the Corporation's primary business markets.

The Corporation reported noninterest income of \$725,000 for the three months ended March 31, 2018 compared to \$799,000 for the comparable prior year three-month period. The three months ended March 31, 2018 included a negative \$74,000 mark to market adjustment of a CRA investment which is classified as an equity security. Such security has been owned for years for CRA purposes, but under newly enacted accounting rules, equity securities now require a quarterly mark to market through the income statement.

Total noninterest expenses were \$5.4 million for the three months ended March 31, 2018 compared to the \$5.1 million incurred in the prior year period. The Corporation continues to appropriately control expenses as the balance sheet grows. The largest increase in expense was seen in salaries and employee benefits, which increased \$265,000 in the current quarter when compared to the three months ended March 31, 2017. In addition to normal salary increases, the increase includes the costs associated with the establishment of a Small Business Administration (SBA) Lending Department - fully staffed with experienced employees. Costs associated with a harsh winter in 2018 are reflected as an increase in occupancy expenses.

The first quarter of 2018 results included the impact of a reduction in the Federal corporate income tax rate from 35% to 21% as a result of the enactment of the Tax Cuts and Jobs Act ("Tax Act") in December 2017. For the current year period the effective tax rate was 26.4% compared to an effective tax rate of 36.7% for the three months ended March 31, 2017.

We continue to strive to build on our past success and remain committed to creating stronger momentum as the year progresses. We thank our shareholders, customers and bank associates for their continued confidence and support of the Corporation and our tithing mission.

Sincerely,
Michael A. Westra
Chairman

Paul Van Ostenbridge
President and
Chief Executive Officer

COMPARATIVE STATEMENTS OF FINANCIAL CONDITION

	March 31, 2018	December 31, 2017
	(In thousands)	
	(Unaudited)	
ASSETS		
Cash and cash equivalents	\$ 22,178	\$ 21,270
Securities available for sale	106,467	109,259
Securities held to maturity	51,894	52,442
Other equity investments	3,706	3,756
FHLB-NY stock	3,039	3,715
Loans held for sale	-	370
Loans, net of allowance for loan losses of \$8,445 (2018) and \$8,762 (2017)	699,276	702,561
Bank owned life insurance	21,222	21,084
Other assets	14,659	14,309
Total assets	\$ 922,441	\$ 928,766
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 178,572	\$ 172,861
Interest-bearing	593,644	591,238
Total deposits	772,216	764,099
Other borrowings	48,760	63,760
Subordinated debentures and		
subordinated notes	23,333	23,317
Other liabilities	3,760	3,925
Total liabilities	848,069	855,101
SHAREHOLDERS' EQUITY		
Common stock	60,975	60,742
Retained earnings	15,439	14,307
Accumulated other		
comprehensive loss, net	(2,042)	(1,384)
Total Shareholders' equity	74,372	73,665
Total liabilities and Shareholders' equity	\$ 922,441	\$ 928,766