STEWARDSHIP FINANCIAL CORP
Form 10-Q
May 16, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2016

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

For the transition period from __________ to __________

Commission file number 1-33377

Stewardship Financial Corporation

(Exact name of registrant as specified in its charter)

New Jersey (State or other jurisdiction of incorporation or organization)	22-3351447 (I.R.S. Employer Identification No.)
630 Godwin Avenue, Midland Park, NJ (Address of principal executive offices)	07432 (Zip Code)

(201) 444-7100

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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 "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The number of shares outstanding, net of treasury stock, of the Registrant's Common Stock, no par value, as of May 13, 2016 was 6,108,986.

Stewardship Financial Corporation

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Stewardship Financial Corporation and Subsidiary

Consolidated Statements of Financial Condition

	March 31, 2016 (Unaudited)	December 31, 2015
Assets		
Cash and due from banks	$ 13,012,000	$ 10,731,000
Other interest-earning assets	307,000	179,000
Cash and cash equivalents	13,319,000	10,910,000
Securities available-for-sale	97,637,000	93,354,000
Securities held to maturity; estimated fair value of $63,447,000 (2016) and $61,281,000 (2015)	62,427,000	60,738,000
Federal Home Loan Bank of New York stock, at cost	2,608,000	2,608,000
Loans held for sale	783,000	1,522,000
Loans, net of allowance for loan losses of $8,540,000 (2016) and $8,823,000 (2015)	519,407,000	517,556,000
Premises and equipment, net	6,726,000	6,799,000
Accrued interest receivable	2,017,000	1,967,000
Other real estate owned, net	1,013,000	880,000
Bank owned life insurance	14,212,000	14,111,000
Other assets	6,508,000	7,443,000
Total assets	$ 726,657,000	$ 717,888,000
Liabilities and Shareholders' equity		
Liabilities		
Deposits:		
Noninterest-bearing	$ 154,201,000	$ 147,828,000
Interest-bearing	458,225,000	456,925,000
Total deposits	612,426,000	604,753,000
Federal Home Loan Bank of New York advances	40,000,000	40,000,000
Subordinated Debentures and Subordinated Notes	23,203,000	23,186,000
Accrued interest payable	494,000	791,000
Accrued expenses and other liabilities	1,342,000	1,585,000
Total liabilities	677,465,000	670,315,000

Shareholders' equity		
Common stock, no par value; 10,000,000 shares authorized; 6,113,213 and 6,085,528 shares issued and outstanding at March 31, 2016, and December 31, 2015, respectively	41,574,000	41,410,000
Retained earnings	7,724,000	7,008,000
Accumulated other comprehensive (loss), net	(106,000)	(845,000)
Total Shareholders' equity	49,192,000	47,573,000
Total liabilities and Shareholders' equity	$726,657,000	$717,888,000

See accompanying notes to consolidated financial statements.

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Stewardship Financial Corporation and Subsidiary

Consolidated Statements of Income

(Unaudited)

	Three Months Ended March 31, 2016	2015
Interest income:		
Loans	$5,652,000	$5,446,000
Securities held to maturity:		
Taxable	270,000	213,000
Nontaxable	103,000	130,000
Securities available-for-sale:		
Taxable	377,000	362,000
Nontaxable	6,000	6,000
FHLB dividends	32,000	30,000
Other interest-earning assets	9,000	7,000
Total interest income	6,449,000	6,194,000
Interest expense:		
Deposits	557,000	452,000
FHLB-NY Borrowings	203,000	217,000
Subordinated Debentures and Subordinated Notes	413,000	124,000
Total interest expense	1,173,000	793,000
Net interest income before provision for loan losses	5,276,000	5,401,000
Provision for loan losses	(350,000)	(100,000)
Net interest income after provision for loan losses	5,626,000	5,501,000
Noninterest income:		
Fees and service charges	529,000	479,000
Bank owned life insurance	101,000	96,000
Gain on calls and sales of securities, net	24,000	152,000
Gain on sales of mortgage loans	18,000	10,000
Gain on sale of other real estate owned	—	53,000
Miscellaneous	147,000	128,000
Total noninterest income	819,000	918,000
Noninterest expenses:		
Salaries and employee benefits	2,715,000	2,708,000
Occupancy, net	398,000	467,000
Equipment	150,000	156,000
Data processing	472,000	453,000
Advertising	151,000	212,000

FDIC insurance premium	106,000	113,000
Charitable contributions	70,000	70,000
Stationery and supplies	33,000	43,000
Legal	44,000	88,000
Bank-card related services	131,000	123,000
Other real estate owned	74,000	86,000
Miscellaneous	558,000	530,000
Total noninterest expenses	4,902,000	5,049,000
Income before income tax expense	1,543,000	1,370,000
Income tax expense	552,000	453,000
Net income	991,000	917,000
Dividends on preferred stock	—	171,000
Net income available to common shareholders	$991,000	$746,000
Basic and diluted earnings per common share	$0.16	$0.12
Weighted average number of basic and diluted common shares outstanding	6,092,351	6,045,683

See accompanying notes to consolidated financial statements.

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Stewardship Financial Corporation and Subsidiary

Consolidated Statements of Comprehensive Income

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Net income	$991,000	$917,000
Other comprehensive income (loss), net of tax:		
Change in unrealized holding gains (losses) on securities available for sale	672,000	463,000
Reclassification adjustment for gains in net income	(15,000)	(91,000)
Accretion of loss on securities reclassified to held to maturity	45,000	87,000
Change in fair value of interest rate swap	37,000	34,000
Total other comprehensive income	739,000	493,000
Total comprehensive income	$1,730,000	$1,410,000

See accompanying notes to consolidated financial statements.

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Stewardship Financial Corporation and Subsidiary

Consolidated Statement of Changes in Shareholders' Equity

(Unaudited)

	Three Months Ended March 31, 2016					
	Preferred Stock	Common Stock Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net	Total
Balance -- December 31, 2015	$—	6,085,528	$41,410,000	$7,008,000	$(845,000)	$47,573,000
Cash dividends declared on common stock	—	—	—	(122,000)	—	(122,000)
Payment of discount on dividend reinvestment plan	—	—	(1,000)	—	—	(1,000)
Common stock issued under dividend reinvestment plan	—	2,656	15,000	—	—	15,000
Common stock issued under stock plans	—	1,761	10,000	—	—	10,000
Issuance of restricted stock	—	34,332	198,000	(198,000)	—	—
Amortization of restricted stock, net	—	(11,064)	(63,000)	45,000	—	(18,000)
Tax benefit from restricted stock vesting	—	—	5,000	—	—	5,000
Net income	—	—	—	991,000	—	991,000
Other comprehensive income	—	—	—	—	739,000	739,000
Balance -- March 31, 2016	$—	6,113,213	$41,574,000	$7,724,000	$(106,000)	$49,192,000

	Three Months Ended March 31, 2015					
	Preferred Stock	Common Stock Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net	Total
Balance -- December 31, 2014	$14,984,000	6,034,933	$41,125,000	$3,817,000	$(957,000)	$58,969,000
Cash dividends declared on common stock	—	—	—	(121,000)	—	(121,000
Payment of discount on dividend reinvestment plan	—	—	(1,000)	—	—	(1,000
Cash dividends declared on preferred stock	—	—	—	(171,000)	—	(171,000
Common stock issued under dividend reinvestment plan	—	2,970	15,000	—	—	15,000
Common stock issued under stock plans	—	3,059	14,000	—	—	14,000
Issuance of restricted stock	—	50,974	279,000	(279,000)	—	—
Amortization of restricted stock, net	—	(7,062)	(38,000)	32,000	—	(6,000
Tax benefit from restricted stock vesting	—	—	3,000	—	—	3,000

Amortization of issuance costs	2,000	—	—	(2,000)	—	—
Net income	—	—	—	917,000	—	917,000
Other comprehensive income	—	—	—	—	493,000	493,000
Balance -- March 31, 2015	$14,986,000	6,084,874	$41,397,000	$4,193,000	$(464,000)	$60,112,000

See accompanying notes to consolidated financial statements.

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Stewardship Financial Corporation and Subsidiary

Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended March 31, 2016	2015
Cash flows from operating activities:		
Net income	$991,000	$917,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	95,000	81,000
Amortization of premiums and accretion of discounts, net	150,000	180,000
Amortization of restricted stock	(18,000)	(6,000)
Amortization of subordinated debenture issuance costs	17,000	—
Accretion (amortization) of deferred loan fees	8,000	10,000
Provision for loan losses	(350,000)	(100,000)
Originations of mortgage loans held for sale	(1,058,000)	(1,328,000)
Proceeds from sale of mortgage loans	1,815,000	540,000
Gain on sales of mortgage loans	(18,000)	(10,000)
Gain on calls and sales of securities	(24,000)	(152,000)
Gain on sale of other real estate owned	—	(53,000)
Deferred income tax (benefit) expense	228,000	(873,000)
Increase in accrued interest receivable	(50,000)	127,000
Decrease in accrued interest payable	(297,000)	(2,000)
Earnings on bank owned life insurance	(101,000)	(96,000)
Decrease in other assets	294,000	906,000
Decrease in other liabilities	(206,000)	(982,000)
Net cash provided by (used in) operating activities	1,476,000	(841,000)
Cash flows from investing activities:		
Purchase of securities available-for-sale	(8,409,000)	(27,000)
Proceeds from maturities and principal repayments on securities available-for-sale	3,039,000	3,163,000
Proceeds from sales and calls on securities available-for-sale	2,050,000	27,845,000
Purchase of securities held to maturity	(9,499,000)	(7,149,000)
Proceeds from maturities and principal repayments on securities held to maturity	1,516,000	3,429,000
Proceeds from calls on securities held to maturity	6,340,000	3,100,000
Sale of FHLB-NY stock	—	751,000
Net increase in loans	(1,662,000)	(12,691,000)
Proceeds from sale of other real estate owned	—	1,041,000
Additions to premises and equipment	(22,000)	(557,000)
Net cash provided by (used in) investing activities	(6,647,000)	18,905,000
Cash flows from financing activities:		
Net increase in noninterest-bearing deposits	6,373,000	4,685,000

Net increase in interest-bearing deposits	1,300,000	5,161,000
Decrease in long term borrowings	—	(16,700,000)
Cash dividends paid on common stock	(122,000)	(121,000)
Cash dividends paid on preferred stock	—	(171,000)
Payment of discount on dividend reinvestment plan	(1,000)	(1,000)
Issuance of common stock for cash	25,000	29,000
Tax benefit from restricted stock vesting	5,000	3,000
Net cash provided by (used in) financing activities	7,580,000	(7,115,000)
Net increase in cash and cash equivalents	2,409,000	10,949,000
Cash and cash equivalents - beginning	10,910,000	10,086,000
Cash and cash equivalents - ending	$13,319,000	$21,035,000

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Stewardship Financial Corporation and Subsidiary

Consolidated Statements of Cash Flows (continued)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	$1,470,000	$795,000
Cash paid during the period for income taxes	$39,000	$30,000
Transfers from loans to other real estate owned	$153,000	$—

See accompanying notes to consolidated financial statements.

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Stewardship Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

March 31, 2016

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Certain information and note disclosures normally included in the unaudited consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Stewardship Financial Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the SEC on March 24, 2016 (the "2015 Annual Report").

The interim unaudited consolidated financial statements included herein have been prepared in accordance with instructions for Form 10-Q and the rules and regulations of the SEC and, therefore, do not include information or footnotes necessary for a complete presentation of consolidated financial condition, results of operations, and cash flows in conformity with GAAP. However, all adjustments, consisting only of normal recurring adjustments, which in the opinion of management are necessary for a fair presentation of the interim consolidated financial statements, have been included. The results of operations for the three months ended March 31, 2016 are not necessarily indicative of the results which may be expected for the entire year.

Principles of consolidation

The consolidated financial statements include the accounts of Stewardship Financial Corporation and its wholly-owned subsidiary, Atlantic Stewardship Bank (the "Bank"), together referred to as "the Corporation". The Bank includes its wholly-owned subsidiaries, Stewardship Investment Corporation, Stewardship Realty LLC, Atlantic Stewardship Insurance Company, LLC and several other subsidiaries formed to hold title to properties acquired through foreclosure or deed in lieu of foreclosure. The Bank's subsidiaries have an insignificant impact on the Bank's daily operations. All intercompany accounts and transactions have been eliminated in the consolidated financial statements.

The consolidated financial statements of the Corporation have been prepared in conformity with GAAP. In preparing the consolidated financial statements, management is required to make estimates and assumptions, based on available information, that affect the amounts reported in the consolidated financial statements and disclosures provided. Actual results could differ significantly from those estimates.

Material estimates

Material estimates that are particularly susceptible to significant changes relate to the determination of the allowance for loan losses and deferred income taxes. Management believes the Corporation's policies with respect to the methodology for the determination of the allowance for loan losses and the evaluation of deferred income taxes involves a higher degree of complexity and requires management to make difficult and subjective judgments, which often require assumptions or estimates about highly uncertain matters. Changes in these judgments, assumptions or estimates could materially impact results of operations. These critical policies and their application are periodically reviewed with the Audit Committee and the Board of Directors.

Adoption of New Accounting Standards

In April 2015, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2015-03, "Interest – Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs." This ASU is part of the FASB's initiative to reduce complexity in accounting standards. To simplify presentation of debt issuance costs, the amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The amendments in ASU 2015-03 are effective for fiscal years, including interim periods, beginning after December 15, 2015. The adoption of the amendments in this standard did not have a material impact on the Corporation's consolidated financial statements.

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In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Liabilities." This ASU addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. This amendment supersedes the guidance to classify equity securities with readily determinable fair values into different categories, requires equity securities to be measured at fair value with changes in the fair value recognized through net income, and simplifies the impairment assessment of equity investments without readily determinable fair values. The amendment requires public business entities that are required to disclose the fair value of financial instruments measured at amortized cost on the balance sheet to measure that fair value using the exit price notion. The amendment requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option. The amendment requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or in the accompanying notes to the financial statements. The amendment reduces diversity in current practice by clarifying that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available for sale securities in combination with the entity’s other deferred tax assets. This amendment is effective for fiscal years, including interim periods, beginning after December 15, 2017. Entities should apply the amendment by means of a cumulative-effect adjustment as of the beginning of the fiscal year of adoption, with the exception of the amendment related to equity securities without readily determinable fair values, which should be applied prospectively to equity investments that exist as of the date of adoption. The Corporation intends to adopt the accounting standard during the first quarter of 2018, and is currently evaluating the impact that the adoption of the guidance will have on the Corporation's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases (Subtopic 842).” This ASU requires all lessees to recognize a lease liability and a right-of-use asset, measured at the present value of the future minimum lease payments, at the lease commencement date. Lessor accounting remains largely unchanged under the new guidance. The amendments in ASU 2016-02 are effective for fiscal years, including interim periods, beginning after December 15, 2018. Early adoption of ASU 2016-02 is permitted. The Corporation is currently assessing the impact that the adoption of the guidance will have on the Corporation's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, “Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting”. The objective of this ASU is to simplify accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Under the Update, all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) should be recognized as income tax expense or benefit in the income statement. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity also should recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. An entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current accounting) or account for forfeitures when they occur. Within the Cash Flow Statement, excess tax benefits should be classified along with other income tax cash flows as an operating activity, and cash paid by an employer when directly withholding shares for tax-withholding purposes should be classified as a financing activity. The amendments in ASU 2016-09 are effective for fiscal years, including interim periods, beginning after December 15, 2016. Early adoption of ASU 2016-09 is permitted. The Corporation is currently assessing the impact that the adoption of the guidance will have on the Corporation's consolidated financial statements.

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Note 2. Securities – Available-for-Sale and Held to Maturity

The fair value of the available-for-sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income were as follows:

	March 31, 2016			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
U.S. government-sponsored agencies	$35,238,000	$141,000	$73,000	$35,306,000
Obligations of state and political subdivisions	1,409,000	17,000	—	1,426,000
Mortgage-backed securities - residential	44,850,000	443,000	77,000	45,216,000
Asset-backed securities (a)	9,767,000	—	197,000	9,570,000
Corporate debt	2,500,000	10,000	91,000	2,419,000
Total debt securities	93,764,000	611,000	438,000	93,937,000
Other equity investments	3,806,000	—	106,000	3,700,000
	$97,570,000	$611,000	$544,000	$97,637,000

	December 31, 2015			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
U.S. government-sponsored agencies	$31,266,000	$81,000	$393,000	$30,954,000
Obligations of state and political subdivisions	1,409,000	2,000	1,000	1,410,000
Mortgage-backed securities - residential	45,520,000	213,000	496,000	45,237,000
Asset-backed securities (a)	9,877,000	—	176,000	9,701,000
Corporate debt	2,500,000	—	81,000	2,419,000
Total debt securities	90,572,000	296,000	1,147,000	89,721,000
Other equity investments	3,778,000	—	145,000	3,633,000
	$94,350,000	$296,000	$1,292,000	$93,354,000

(a) Collateralized by student loans

Cash proceeds realized from sales and calls of securities available-for-sale for the three months ended March 31, 2016 were $2,050,000. For the three months ended March 31, 2015, cash proceeds realized from sales and calls of securities available-for-sale were $27,845,000. There were no gross gains and no gross losses realized on sales or calls during the three months ended March 31, 2016. There were gross gains totaling $213,000 and gross losses totaling $61,000 realized on sales and calls during the three months ended March 31, 2015.

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The following is a summary of the held to maturity securities and related gross unrealized gains and losses:

	March 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value
U.S. Treasury	$999,000	$12,000	$—	$1,011,000
U.S. government-sponsored agencies	18,684,000	153,000	—	18,837,000
Obligations of state and political subdivisions	10,698,000	218,000	—	10,916,000
Mortgage-backed securities - residential	32,046,000	650,000	13,000	32,683,000
	$62,427,000	$1,033,000	$13,000	$63,447,000

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value
U.S. Treasury	$999,000	$—	$11,000	$988,000
U.S. government-sponsored agencies	15,109,000	132,000	24,000	15,217,000
Obligations of state and political subdivisions	11,219,000	268,000	—	11,487,000
Mortgage-backed securities - residential	33,411,000	295,000	117,000	33,589,000
	$60,738,000	$695,000	$152,000	$61,281,000

Cash proceeds realized from calls of securities held to maturity for the three months ended March 31, 2016 were $6,340,000. Cash proceeds realized from calls of securities held to maturity for the three months ended March 31, 2015 were $3,100,000.

There were gross gains totaling $24,000 and no gross losses realized on calls during the three months ended March 31, 2016. There were no gross gains and no gross losses realized on calls during the three months ended March 31, 2015.

Mortgage-backed securities are a type of asset-backed security secured by a mortgage or collection of mortgages, purchased by government agencies such as the Government National Mortgage Association and government sponsored agencies such as the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, which then issue securities that represent claims on the principal and interest payments made by borrowers on the loans in the pool.

Issuers may have the right to call or prepay obligations with or without call or prepayment penalties. This might cause actual maturities to differ from the contractual maturities.

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The following table presents the amortized cost and fair value of the debt securities portfolio by contractual maturity. As issuers may have the right to call or prepay obligations with or without call or prepayment premiums, the actual maturities may differ from contractual maturities. Securities not due at a single maturity date, such as mortgage-backed securities and asset-backed securities, are shown separately.

	March 31, 2016	
	Amortized Cost	Fair Value
Available-for-sale		
Within one year	$501,000	$502,000
After one year, but within five years	10,780,000	10,785,000
After five years, but within ten years	21,516,000	21,566,000
After ten years	6,350,000	6,298,000
Mortgage-backed securities - residential	44,850,000	45,216,000
Asset-backed securities	9,767,000	9,570,000
Total	$93,764,000	$93,937,000
Held to maturity		
Within one year	$3,128,000	$3,162,000
After one year, but within five years	9,071,000	9,290,000
After five years, but within ten years	17,232,000	17,316,000
After ten years	950,000	996,000
Mortgage-backed securities - residential	32,046,000	32,683,000
Total	$62,427,000	$63,447,000

The following tables summarize the fair value and unrealized losses of those investment securities which reported an unrealized loss at March 31, 2016 and December 31, 2015, and if the unrealized loss position was continuous for the twelve months prior to March 31, 2016 and December 31, 2015.

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Available-for-Sale

March 31, 2016	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government-sponsored agencies	$5,477,000	$(21,000)	$6,298,000	$(52,000)	$11,775,000	$(73,000)
Obligations of state and political subdivisions	—	—	—	—	—	—
Mortgage-backed securities - residential	5,448,000	(2,000)	8,220,000	(75,000)	13,668,000	(77,000)
Asset-backed securities	6,658,000	(82,000)	2,912,000	(115,000)	9,570,000	(197,000)
Corporate debt	—	—	1,409,000	(91,000)	1,409,000	(91,000)
Other equity investments	—	—	3,640,000	(106,000)	3,640,000	(106,000)
Total temporarily impaired securities	$17,583,000	$(105,000)	$22,479,000	$(439,000)	$40,062,000	$(544,000)

December 31, 2015	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government-sponsored agencies	$18,396,000	$(183,000)	$7,296,000	$(210,000)	$25,692,000	$(393,000)
Obligations of state and political subdivisions	984,000	(1,000)	—	—	984,000	(1,000)
Mortgage-backed securities - residential	8,599,000	(69,000)	16,278,000	(427,000)	24,877,000	(496,000)
Asset-backed securities	6,791,000	(56,000)	2,910,000	(120,000)	9,701,000	(176,000)
Corporate debt	—	—	1,419,000	(81,000)	1,419,000	(81,000)
Other equity investments	—	—	3,573,000	(145,000)	3,573,000	(145,000)
Total temporarily impaired securities	$34,770,000	$(309,000)	$31,476,000	$(983,000)	$66,246,000	$(1,292,000)

Held to Maturity

March 31, 2016	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury	$—	$ —	$—	$ —	$—	$ —
U.S. government-sponsored agencies	—	—	—	—	—	—
Mortgage-backed securities - residential	1,578,000	(9,000)	1,025,000	(4,000)	2,603,000	(13,000)
Total temporarily impaired securities	$1,578,000	$ (9,000)	$1,025,000	$ (4,000)	$2,603,000	$ (13,000)

December 31, 2015	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury	$988,000	$(11,000)	$—	$—	$988,000	$(11,000)
U.S. government-sponsored agencies	4,955,000	(24,000)	—	—	4,955,000	(24,000)
Mortgage-backed securities - residential	15,183,000	(90,000)	1,066,000	(27,000)	16,249,000	(117,000)
Total temporarily impaired securities	$21,126,000	$(125,000)	$1,066,000	$(27,000)	$22,192,000	$(152,000)

Other-Than-Temporary-Impairment

At March 31, 2016, there were available-for-sale investments comprising three U.S. government-sponsored agency securities, nine mortgage-backed securities, one asset-backed security, two corporate debt securities, and one other equity investments security in a continuous loss position for twelve months or longer. There were held to maturity investments consisting of two mortgage-backed securities in a continuous loss position for twelve months or longer at March 31, 2016. Management has assessed the securities that were in an unrealized loss position at March 31, 2016 and December 31, 2015 and has determined that any decline in fair value below amortized cost primarily relates to changes in interest rates and market spreads and was temporary.

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In making this determination management considered the following factors in estimating the cash flows expected to be collected from the security: the period of time the securities were in an unrealized loss position; the percentage decline in comparison to the securities' amortized cost; any adverse conditions specifically related to the security, an industry or a geographic area; the rating or changes to the rating by a credit rating agency; the financial condition of the issuer and guarantor and any recoveries or additional declines in fair value subsequent to the balance sheet date. Management expects to collect all amounts contractually due and none of the debt securities can be prepaid at less than the par values.

Management does not intend to sell these securities in an unrealized loss position and it is not more likely than not that we will be required to sell these securities before the recovery of their amortized cost bases, which may be at maturity.

Note 3. Loans and Allowance for Loan Losses

At March 31, 2016 and December 31, 2015, respectively, the loan portfolio consisted of the following:

	March 31, 2016	December 31, 2015
Commercial:		
Secured by real estate	$40,148,000	$37,993,000
Other	28,780,000	26,867,000
Commercial real estate	334,478,000	334,489,000
Commercial construction	4,944,000	4,609,000
Residential real estate	79,563,000	82,955,000
Consumer:		
Secured by real estate	28,981,000	29,224,000
Other	555,000	580,000
Government Guaranteed Loans - guaranteed portion	10,460,000	9,626,000
Other	102,000	134,000
Total gross loans	528,011,000	526,477,000
Less: Deferred loan costs (fees), net	64,000	98,000
Allowance for loan losses	8,540,000	8,823,000
	8,604,000	8,921,000
Loans, net	$519,407,000	$517,556,000

The Corporation has purchased the guaranteed portion of several government guaranteed loans. Due to the guarantee of the principal amount of these loans, no allowance for loan losses is established for these government guaranteed loans.

At March 31, 2016 and December 31, 2015, loan participations sold by the Corporation to other lending institutions totaled approximately $8,390,000 and $8,527,000, respectively. These amounts are not included in the totals presented above.

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Activity in the allowance for loan losses is summarized as follows:

	For the three months ended March 31, 2016				
	Balance, beginning of period	Provision charged to operations	Loans charged off	Recoveries of loans charged off	Balance, end of period
Commercial	$3,698,000	$(16,000)	$(2,000)	$40,000	$3,720,000
Commercial real estate	4,660,000	(275,000)	—	28,000	4,413,000
Commercial construction	114,000	(2,000)	—	—	112,000
Residential real estate	109,000	(3,000)	—	—	106,000
Consumer	118,000	—	—	1,000	119,000
Other loans	3,000	(2,000)	—	—	1,000
Unallocated	121,000	(52,000)	—	—	69,000
Total	$8,823,000	$(350,000)	$(2,000)	$69,000	$8,540,000

	For the three months ended March 31, 2015				
	Balance, beginning of period	Provision charged to operations	Loans charged off	Recoveries of loans charged off	Balance, end of period
Commercial	$3,704,000	$162,000	$(271,000)	$108,000	$3,703,000
Commercial real estate	5,017,000	72,000	—	27,000	5,116,000
Commercial construction	150,000	(277,000)	—	233,000	106,000
Residential real estate	142,000	4,000	—	—	146,000
Consumer	189,000	(39,000)	—	1,000	151,000
Other loans	2,000	(2,000)	—	—	—
Unallocated	398,000	(20,000)	—	—	378,000
Total	$9,602,000	$(100,000)	$(271,000)	$369,000	$9,600,000

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on the impairment method as of March 31, 2016 and December 31, 2015.

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	March 31, 2016							
	Commercial	Commercial Real Estate	Commercial Construction	Residential Real Estate	Consumer	Government Guaranteed	Other Loans	Una
Allowance for loan losses:								
Ending allowance balance attributable to loans								
Individually evaluated for impairment	$71,000	$730,000	$—	$—	$—	$—	$—	$—
Collectively evaluated for impairment	3,649,000	3,683,000	112,000	106,000	119,000	—	1,000	69
Total ending allowance balance	$3,720,000	$4,413,000	$112,000	$106,000	$119,000	$—	$1,000	$69
Loans:								
Loans individually evaluated for impairment	$2,846,000	$8,890,000	$—	$—	$84,000	$—	$—	$—
Loans collectively evaluated for impairment	66,082,000	325,588,000	4,944,000	79,563,000	29,452,000	10,460,000	102,000	—
Total ending loan balance	$68,928,000	$334,478,000	$4,944,000	$79,563,000	$29,536,000	$10,460,000	$102,000	$—

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	December 31, 2015								
	Commercial	Commercial Real Estate	Commercial Construction	Residential Real Estate	Consumer	Gov't Guaranteed	Other Loans	Unallocated	T
Allowance for loan losses:									
Ending Allowance balance attributable to loans									
Individually evaluated for impairment	$81,000	$638,000	$—	$—	$—	$—	$—	$—	$
Collectively evaluated for impairment	3,617,000	4,022,000	114,000	109,000	118,000	—	3,000	121,000	
Total ending allowance balance	$3,698,000	$4,660,000	$114,000	$109,000	$118,000	$—	$3,000	$121,000	$
Loans:									
Loans individually evaluated for impairment	$3,348,000	$8,113,000	$—	$—	$84,000	$—	$—	$—	$
Loans collectively evaluated for impairment	61,512,000	326,376,000	4,609,000	82,955,000	29,720,000	9,626,000	134,000	—	
Total ending Loan balance	$64,860,000	$334,489,000	$4,609,000	$82,955,000	$29,804,000	$9,626,000	$134,000	$—	$

The following table presents the recorded investment in nonaccrual loans at the dates indicated:

	March 31, 2016	December 31, 2015

Commercial:		
Secured by real estate	$917,000	$ 1,300,000
Other	13,000	14,000
Commercial real estate	1,290,000	484,000
Consumer:		
Secured by real estate	84,000	84,000
Total nonaccrual loans	$2,304,000	$ 1,882,000

At March 31, 2016 and December 31, 2015, there were no loans that were past due 90 days and still accruing.

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The following table presents loans individually evaluated for impairment by class of loan at and for the periods indicated:

	At and for the three months ended March 31, 2016				
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial:					
Secured by real estate	$2,839,000	$2,348,000		$2,539,000	$24,000
Other	—	—		69,000	—
Commercial real estate	3,124,000	3,143,000		3,013,000	30,000
Consumer:					
Secured by real estate	84,000	84,000		84,000	—
With an allowance recorded:					
Commercial:					
Secured by real estate	193,000	193,000	$69,000	251,000	2,000
Other	305,000	305,000	2,000	240,000	5,000
Commercial real estate	5,750,000	5,747,000	730,000	5,487,000	57,000
	$12,295,000	$11,820,000	$801,000	$11,683,000	$118,000

During the three months ended March 31, 2016, no interest income was recognized on a cash basis.

	At and for the year ended December 31, 2015				
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial:					
Secured by real estate	$3,244,000	$2,729,000		$3,683,000	$156,000
Other	137,000	137,000		61,000	2,000
Commercial real estate	3,245,000	2,885,000		2,890,000	121,000
Commercial construction	—	—		215,000	—
Residential real estate	—	—		74,000	—
Consumer:					
Secured by real estate	84,000	84,000		226,000	—
With an allowance recorded:					
Commercial:					
Secured by real estate	390,000	308,000	$80,000	405,000	14,000

Other	174,000	174,000	1,000	463,000	31,000
Commercial real estate	5,228,000	5,228,000	638,000	5,534,000	211,000
	$12,502,000	$11,545,000	$ 719,000	$13,551,000	$535,000

During the year ended December 31, 2015, no interest income was recognized on a cash basis.

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The following table presents the aging of the recorded investment in past due loans by class of loans as of March 31, 2016 and December 31, 2015. Nonaccrual loans are included in the disclosure by payment status.

	March 31, 2016					
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial:						
Secured by real estate	$283,000	$ —	$ 633,000	$916,000	$39,232,000	$40,148,000
Other	—	—	—	—	28,780,000	28,780,000
Commercial real estate	—	—	271,000	271,000	334,207,000	334,478,000
Commercial construction	—	—	—	—	4,944,000	4,944,000
Residential real estate	—	—	—	—	79,563,000	79,563,000
Consumer:						
Secured by real estate	9,000	—	84,000	93,000	28,888,000	28,981,000
Other	7,000	—	—	7,000	548,000	555,000
Government Guaranteed	—	—	—	—	10,460,000	10,460,000
Other	—	—	—	—	102,000	102,000
Total	$299,000	$ —	$ 988,000	$1,287,000	$526,724,000	$528,011,000

	December 31, 2015					
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial:						
Secured by real estate	$—	$ —	$1,011,000	$1,011,000	$36,982,000	$37,993,000
Other	—	—	—	—	26,867,000	26,867,000
Commercial real estate	271,000	—	—	271,000	334,218,000	334,489,000
Commercial construction	—	—	—	—	4,609,000	4,609,000
Residential real estate	—	—	—	—	82,955,000	82,955,000
Consumer:						
Secured by real estate	112,000	—	41,000	153,000	29,071,000	29,224,000
Other	—	—	—	—	580,000	580,000
Government Guaranteed	—	—	—	—	9,626,000	9,626,000
Other	—	—	—	—	134,000	134,000
Total	$383,000	$ —	$1,052,000	$1,435,000	$525,042,000	$526,477,000

Troubled Debt Restructurings

In order to determine whether a borrower is experiencing financial difficulty necessitating a restructuring, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Corporation's internal underwriting policy. A loan is considered to be in payment default once it is contractually 90 days past due under the modified terms.

At March 31, 2016 and December 31, 2015, the Corporation had $10.1 million and $10.2 million, respectively, of loans whose terms have been modified in troubled debt restructurings. Of these loans, $9.5 million and $9.7 million were performing in accordance with their new terms at March 31, 2016 and December 31, 2015, respectively. The remaining troubled debt restructurings are reported as nonaccrual loans. Specific reserves of $695,000 and $708,000 have been allocated for the troubled debt restructurings at March 31, 2016 and December 31, 2015, respectively. As of March 31, 2016 and December 31, 2015, the Corporation has committed $138,000, of additional funds to a single customer with an outstanding line of credit that is classified as a troubled debt restructuring.

There are no troubled debt restructurings for which there was a payment default within twelve months following the modification.

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There were no new loans classified as a troubled debt restructuring during the three months ended March 31, 2016 or March 31, 2015.

Credit Quality Indicators

The Corporation categorizes certain loans into risk categories based on relevant information about the ability of the borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Corporation analyzes loans individually by classifying the loans as to credit risk. This analysis includes non-homogeneous loans, such as commercial, commercial real estate and commercial construction loans. This analysis is performed at the time the loan is originated and annually thereafter. The Corporation uses the following definitions for risk ratings.

Special Mention – A Special Mention asset has potential weaknesses that deserve management's close attention, which, if left uncorrected, may result in deterioration of the repayment prospects for the asset or the Bank's credit position at some future date. Special Mention assets are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

Substandard – Substandard loans are inadequately protected by the current net worth and paying capacity of the borrower or by the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the repayment and liquidation of the debt. These loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful – A Doubtful loan has all of the weaknesses inherent in those classified as Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions, and values, highly questionable or improbable. The likelihood of loss is extremely high, but because of certain important and reasonably specific factors, an estimated loss is deferred until a more exact status can be determined.

Loss – A loan classified Loss is considered uncollectible and of such little value that its continuance as an asset is not warranted. This classification does not necessarily mean that an asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off a basically worthless asset even though partial recovery may be effected in the future.

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Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. As of March 31, 2016 and December 31, 2015, and based on the most recent analysis performed at those times, the risk category of loans by class is as follows:

	March 31, 2016					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial:						
Secured by real estate	$37,844,000	$1,387,000	$917,000	$ —	$ —	$40,148,000
Other	27,651,000	740,000	389,000	—	—	28,780,000
Commercial real estate	326,543,000	3,426,000	4,509,000	—	—	334,478,000
Commercial construction	4,944,000	—	—	—	—	4,944,000
Total	$396,982,000	$5,553,000	$5,815,000	$ —	$ —	$408,350,000

	December 31, 2015					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial:						
Secured by real estate	$35,263,000	$1,431,000	$1,299,000	$ —	$ —	$37,993,000
Other	25,725,000	745,000	397,000	—	—	26,867,000
Commercial real estate	326,737,000	4,034,000	3,718,000	—	—	334,489,000
Commercial construction	4,609,000	—	—	—	—	4,609,000
Total	$392,334,000	$6,210,000	$5,414,000	$ —	$ —	$403,958,000

The Corporation considers the performance of the loan portfolio and its impact on the allowance for loans losses. For residential real estate and consumer loan segments, the Corporation also evaluates credit quality based on payment activity. The following table presents the recorded investment in residential real estate and consumer loans based on payment activity as of March 31, 2016 and December 31, 2015.

	March 31, 2016		
	Current	Past Due and Nonaccrual	Total
Residential real estate	$79,563,000	$ —	$79,563,000
Consumer:			
Secured by real estate	27,584,000	1,397,000	28,981,000
Other	548,000	7,000	555,000
Total	$107,695,000	$ 1,404,000	$109,099,000

	December 31, 2015		
	Current	Past Due and Nonaccrual	Total
Residential real estate	$82,415,000	$ 540,000	$82,955,000
Consumer:			
Secured by real estate	27,730,000	1,494,000	29,224,000
Other	578,000	2,000	580,000
Total	$110,723,000	$ 2,036,000	$112,759,000

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Note 4. Fair Value of Financial Instruments

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values of investment securities are determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). As the Corporation is responsible for the determination of fair value, it performs quarterly analyses on the prices received from the pricing service to determine whether the prices are reasonable estimates of fair value. Specifically, the Corporation compares the prices received from the pricing service to a secondary pricing source. The Corporation's internal price verification procedures have not historically resulted in adjustment in the prices obtained from the pricing service.

The interest rate swaps are reported at fair values obtained from brokers who utilize internal models with observable market data inputs to estimate the values of these instruments (Level 2 inputs).

The Corporation measures impairment of collateralized loans and other real estate owned ("OREO") based on the estimated fair value of the collateral less estimated costs to sell the collateral, incorporating assumptions that experienced parties might use in estimating the value of such collateral (Level 3 inputs). At the time a loan or OREO is considered impaired, it is valued at the lower of cost or fair value. Generally, impaired loans carried at fair value have been partially charged-off or receive specific allocations of the allowance for loan losses. OREO is initially recorded at fair value less estimated selling costs. For collateral dependent loans and OREO, fair value is commonly based on real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, the net book value recorded for the collateral on the borrower's financial statements, or aging reports. Collateral is then adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the borrower and borrower's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Appraisals are generally obtained to support the fair value of collateral. Appraisals for both collateral-dependent impaired loans and OREO are performed by licensed appraisers whose qualifications and licenses have been reviewed and verified by the Corporation. The Corporation utilizes a third party to order appraisals and, once received, reviews the assumptions and approaches utilized in the appraisal as well as the resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics.

Real estate appraisals typically incorporate measures such as recent sales prices for comparable properties. In addition, appraisers may make adjustments to the sales price of the comparable properties as deemed appropriate based on the age, condition or general characteristics of the subject property. Management generally applies a 12% discount to real estate appraised values to cover disposition / selling costs and to reflect the potential price reductions in the market necessary to complete an expedient transaction and to factor in the impact of the perception that a transaction being completed by a bank may result in further price reduction pressure.

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Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

		Fair Value Measurements Using:		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	At March 31, 2016			
Assets:				
Available-for-sale securities				
U.S. government - sponsored agencies	$35,306,000	$—	$35,306,000	$ —
Obligations of state and political subdivisions	1,426,000	—	1,426,000	—
Mortgage-backed securities - residential	45,216,000	—	45,216,000	—
Asset-backed securities	9,570,000	—	9,570,000	—
Corporate debt	2,419,000	—	2,419,000	—
Other equity investments	3,700,000	3,640,000	60,000	—
Total available-for-sale securities	$97,637,000	$3,640,000	$93,997,000	$ —
	At December 31, 2015			
Assets:				
Available-for-sale securities				
U.S. government - sponsored agencies	$30,954,000	$—	$30,954,000	$—
Obligations of state and political subdivisions	1,410,000	—	1,410,000	—
Mortgage-backed securities - residential	45,237,000	—	45,237,000	—
Asset-backed securities	9,701,000	—	9,701,000	—
Corporate debt	2,419,000	—	2,419,000	—
Other equity investments	3,633,000	3,573,000	60,000	—
Total available-for-sale securities	$93,354,000	$3,573,000	$89,781,000	$—
Liabilities:				
Interest rate swap	$62,000	$—	$62,000	$—

There were no transfers of assets between Level 1 and Level 2 during the three months ended March 31, 2016 or during the year ended December 31, 2015. There were no changes to the valuation techniques for fair value measurements as of March 31, 2016 and December 31, 2015.

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Assets and Liabilities Measured on a Non-Recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

	Fair Value Measurements Using:			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	At March 31, 2016			
Assets:				
Impaired loans				
Commercial:				
Secured by real estate	$850,000	$ —	$ —	$ 850,000
Other Real Estate Owned	431,000	—	—	431,000
	$1,281,000	$ —	$ —	$ 1,281,000

	At December 31, 2015			
Assets:				
Impaired loans				
Commercial:				
Secured by real estate	$367,000	$—	$—	$367,000
Consumer				
Secured by real estate	84,000	—	—	84,000
Other Real Estate Owned	880,000	—	—	880,000
	$1,331,000	$—	$—	$1,331,000

Collateral-dependent impaired loans measured for impairment using the fair value of the collateral had a recorded investment value of $956,000, with a valuation allowance of $106,000, resulting in an increase of the provision for loan losses of $106,000 for the three months ended March 31, 2016.

Collateral-dependent impaired loans measured for impairment using the fair value of the collateral had a recorded investment value of $461,000, with a valuation allowance of $10,000, resulting in an increase of the allocation for loan losses of $16,000 for the year ended December 31, 2015.

OREO had a recorded investment value of $451,000 with a $20,000 valuation allowance at March 31, 2016. At December 31, 2015, OREO had a recorded investment value of $880,000 with a no valuation allowance. Additional valuation allowances of $20,000 were recorded during the three months ended March 31, 2016. There were no additional valuation allowances recorded during the three months ended March 31, 2015.

For the Level 3 assets measured at fair value on a non-recurring basis at March 31, 2016 and December 31, 2015, the significant unobservable inputs used in the fair value measurements were as follows:

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March 31, 2016

Assets	Fair Value	Valuation Technique	Unobservable Inputs	Range
Impaired loans	$850,000	Comparable real estate sales and / or the income approach.	Adjustments for differences between comparable sales and income data available.	0% - 5%
			Estimated selling costs.	7%
Other real estate owned	$431,000	Comparable real estate sales and / or the income approach.	Adjustments for differences between comparable sales and income data available.	0% - 7%
			Estimated selling costs.	7%

December 31, 2015

Assets	Fair Value	Valuation Technique	Unobservable Inputs	Range
Impaired loans	$ 451,000	Comparable real estate sales and / or the income approach.	Adjustments for differences between comparable sales and income data available.	5% - 9%
			Estimated selling costs.	7%
Other real estate owned	$ 990,000	Comparable real estate sales and / or the income approach.	Adjustments for differences between comparable sales and income data available.	0%
			Estimated selling costs.	7%

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Fair value estimates for the Corporation's financial instruments are summarized below:

		Fair Value Measurements Using:		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	At March 31, 2016			
Financial assets:				
Cash and cash equivalents	$13,319,000	$13,319,000	$—	$—
Securities available-for-sale	97,637,000	3,640,000	93,997,000	—
Securities held to maturity	62,427,000	—	63,447,000	—
FHLB-NY stock	2,608,000	N/A	N/A	N/A
Mortgage loans held for sale	783,000	—	—	783,000
Loans, net	519,407,000	—	—	529,999,000
Accrued interest receivable	2,017,000	—	562,000	1,455,000
Financial liabilities:				
Deposits	612,426,000	464,049,000	148,840,000	—
FHLB-NY advances	40,000,000	—	40,332,000	—
Subordinated debentures and subordinated notes	23,203,000	—	—	23,092,000
Accrued interest payable	494,000	1,000	390,000	103,000

		Fair Value Measurements Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	December 31, 2015			
Financial assets:				
Cash and cash equivalents	$10,910,000	$10,910,000	$—	$—
Securities available-for-sale	93,354,000	3,573,000	89,781,000	—
Securities held to maturity	60,738,000	—	61,281,000	—
FHLB-NY stock	2,608,000	N/A	N/A	N/A
Mortgage loans held for sale	1,522,000	—	—	1,522,000
Loans, net	517,556,000	—	—	527,479,000
Accrued interest receivable	1,967,000	1,000	535,000	1,432,000
Financial liabilities:				

Deposits	604,753,000	459,327,000	145,560,000	—
FHLB-NY advances	40,000,000	—	40,222,000	—
Subordinated Debentures and Subordinated Notes	23,186,000	—	—	23,206,000
Accrued interest payable	791,000	1,000	387,000	403,000
Interest rate swap	62,000	—	62,000	—

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and cash equivalents – The carrying amount approximates fair value and is classified as Level 1.

Securities available-for-sale and held to maturity – The methods for determining fair values were described previously.

Mortgage loans held for sale – Loans in this category have been committed for sale to third party investors at the current carrying amount resulting in a Level 3 classification.

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Loans, net – Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as residential and commercial mortgages, commercial and other installment loans. The fair value of loans is estimated by discounting cash flows using estimated market discount rates which reflect the credit and interest rate risk inherent in the loans resulting in a Level 3 classification. Fair values estimated in this manner do not fully incorporate an exit-price approach to fair value, but instead are based on a comparison to current market rates for comparable loans.

FHLB-NY stock - It is not practicable to determine the fair value of FHLB-NY stock due to restrictions placed on the transferability of the stock.

Accrued interest receivable – The carrying amount approximates fair value.

Deposits – The fair value of deposits, with no stated maturity, such as noninterest-bearing demand deposits, savings, NOW and money market accounts, is equal to the amount payable on demand resulting in a Level 1 classification. The fair value of certificates of deposit is based on the discounted value of cash flows resulting in a Level 2 classification. The discount rate is estimated using market discount rates which reflect interest rate risk inherent in the certificates of deposit. Fair values estimated in this manner do not fully incorporate an exit-price approach to fair value, but instead are based on a comparison to current market rates for comparable deposits.

FHLB-NY advances – With respect to FHLB-NY borrowings, the fair value is based on the discounted value of cash flows. The discount rate is estimated using market discount rates which reflect the interest rate risk and credit risk inherent in the term borrowings resulting in a Level 2 classification.

Subordinated debentures and subordinated notes – The fair value of the Subordinated Debentures (see Note 6) and the Subordinated Notes (see Note 6) is based on the discounted value of the cash flows. The discount rate is estimated using market rates which reflect the interest rate and credit risk inherent in the Subordinated Debentures and the Subordinated Notes resulting in a Level 3 classification.

Accrued interest payable – The carrying amount approximates fair value.

Interest rate swap – The fair value of derivatives, which is included in Accrued Expenses and Other Liabilities on the Consolidated Statements of Financial Condition, are based on valuation models using observable market data as of the measurement date (Level 2).

Commitments to extend credit – The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit worthiness of the counter parties. At March 31, 2016 and December 31, 2015 the fair value of such commitments were not material.

Limitations

The preceding fair value estimates were made at March 31, 2016 and December 31, 2015 based on pertinent market data and relevant information concerning the financial instruments. These estimates do not include any premiums or discounts that could result from an offer to sell at one time the Corporation's entire holdings of a particular financial instrument or category thereof. Since no market exists for a substantial portion of the Corporation's financial instruments, fair value estimates were necessarily based on judgments with respect to future expected loss experience, current economic conditions, risk assessments of various financial instruments, and other factors. Given the subjective nature of these estimates, the uncertainties surrounding them and the matters of significant judgment that must be applied, these fair value estimates cannot be calculated with precision. Modifications in such assumptions could meaningfully alter these estimates.

Since these fair value approximations were made solely for on- and off-balance sheet financial instruments at March 31, 2016 and December 31, 2015, no attempt was made to estimate the value of anticipated future business. Furthermore, certain tax implications related to the realization of unrealized gains and losses could have a substantial impact on these fair value estimates and have not been incorporated into the estimates.

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Note 5. Earnings Per Share

Basic earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Common stock equivalents are not included in the calculation. Diluted earnings per share is computed similar to that of basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if all potential dilutive common shares were issued.

The following reconciles the income available to common shareholders (numerator) and the weighted average common stock outstanding (denominator) for both basic and diluted earnings per share.

	Three Months Ended March 31,	
	2016	2015
Net income	$991,000	$917,000
Dividends on preferred stock	—	171,000
Net income available to common stockholders	$991,000	$746,000
Weighted average common shares outstanding - basic	6,092,351	6,045,683
Effect of dilutive securities - stock options	N/A	N/A
Weighted average common shares outstanding - diluted	6,092,351	6,045,683
Basic earnings per common share	$0.16	$0.12
Diluted earnings per common share	$0.16	$0.12

There were no stock options to purchase shares of common stock for the three months ended March 31, 2016 and 2015.

Note 6. Subordinated Debt

			Carrying Amount	
Issue	Maturity	Rate	March 31, 2016	December 31, 2015
9/17/2003	9/17/2033	Fixed / Floating Rate Junior Subordinated Debentures	$7,217,000	$7,217,000
8/28/2015	8/25/2025	Fixed Rate Subordinated Notes	15,986,000	15,969,000

	$23,203,000	$23,186,000

In 2003, the Corporation formed Stewardship Statutory Trust I (the "Trust"), a statutory business trust, which on September 17, 2003 issued $7.0 million Fixed/Floating Rate Capital Securities ("Capital Securities"). The Trust used the proceeds to purchase from the Corporation, $7,217,000 of Fixed/Floating Rate Junior Subordinated Deferrable Interest Debentures (the "Subordinated Debentures") maturing September 17, 2033. The Trust is obligated to distribute all proceeds of a redemption whether voluntary or upon maturity, to holders of the Capital Securities. The Corporation's obligation with respect to the Capital Securities, and the Debentures, when taken together, provide a full and unconditional guarantee on a subordinated basis by the Corporation of the Trust's obligations to pay amounts when due on the Capital Securities. The Corporation is not considered the primary beneficiary of this Trust (variable interest entity); therefore, the Trust is not consolidated in the Corporation's consolidated financial statements, but rather the Subordinated Debentures are shown as a liability. Prior to September 17, 2008, the Capital Securities and the Subordinated Debentures both had a fixed interest rate of 6.75%. Beginning September 17, 2008, the rate floats quarterly at a rate of three month LIBOR plus 2.95%. At March 31, 2016 and December 31, 2015, the rate on both the Capital Securities and the Subordinated Debentures was 3.59% and 3.48%, respectively. The Corporation has the right to defer payments of interest on the Subordinated Debentures by extending the interest payment period for up to 20 consecutive quarterly periods. The Subordinated Debentures may be included in Tier 1 capital (with certain limitations applicable) under current regulatory guidelines and interpretations.

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On August 28, 2015, the Corporation completed a private placement of $16.6 million in aggregate principal amount of fixed rate subordinated notes (the "Subordinated Notes") to certain institutional accredited investors pursuant to a Subordinated Note Purchase Agreement dated August 28, 2015 between the Corporation and such investors. The Subordinated Notes have a maturity date of August 28, 2025 and bear interest at the rate of 6.75% per annum, payable semi-annually, in arrears, on March 1 and September 1 of each year during the time that the Subordinated Notes remain outstanding. The Subordinated Notes include a right of prepayment, without penalty, on or after August 28, 2020 and, in certain limited circumstances, before that date. The indebtedness evidenced by the Subordinated Notes, including principal and interest, is unsecured and subordinate and junior in right of the Company's payment to general and secured creditors and depositors of the Bank. The Subordinated Notes have been structured to qualify as Tier 2 capital for regulatory purposes. The Subordinated Notes totaled $16.0 million at March 31, 2016, which includes $614,000 of remaining unamortized debt issuance costs. The debt issuance costs are being amortized over the expected life of the issue. The net cash proceeds of the Subordinated Notes were used to redeem on September 1, 2015, the Corporation's Senior Non-Cumulative Perpetual Preferred Stock, Series B (the "Series B Preferred Shares") which were issued by the Corporation to the U.S. Department of the Treasury (the "Treasury) on September 1, 2011 in connection with the Corporation's participation in the Treasury's Small Business Lending Fund program ("SBLF"), a $30 billion fund established under the Small Business Jobs Act of 2010 to encourage small business lending by providing capital to qualified community banks with assets of less than $10 billion.

Note 7. Accumulated Other Comprehensive Income

The components of comprehensive income, both gross and net of tax, are presented for the periods below:

	Three Months Ended March 31, 2016			March 31, 2015		
	Gross	Tax Effect	Net	Gross	Tax Effect	Net
Net income	$1,543,000	$(552,000)	$991,000	$1,370,000	$(453,000)	$917,000
Other comprehensive (loss) income:						
Change in unrealized holding gains (losses) on securities available-for-sale	1,087,000	(415,000)	672,000	751,000	(288,000)	463,000
Reclassification adjustment for gains in net income	(24,000)	9,000	(15,000)	(152,000)	61,000	(91,000)
Accretion of loss on securities reclassified to held to maturity	72,000	(27,000)	45,000	139,000	(52,000)	87,000
Change in fair value of interest rate swap	62,000	(25,000)	37,000	57,000	(23,000)	34,000
Total other comprehensive						

income	1,197,000	(458,000)	739,000	795,000	(302,000)	493,000
Total comprehensive income	$2,740,000	$(1,010,000)	$1,730,000	$2,165,000	$(755,000)	$1,410,000

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The following table presents the after-tax changes in the balances of each component of accumulated other comprehensive income for the three months ended March 31, 2016 and 2015.

	Three Months Ended March 31, 2016 Components of Accumulated Other Comprehensive Income (Loss)			Total
	Unrealized Gains and (Losses) on Available-for-Sale (AFS) Securities	Loss on securities reclassified from Available-for-Sale to Held to Maturity	Unrealized Gains and (Losses) on Derivatives	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2015	$(610,000)	$ (198,000)	$ (37,000)	$ (845,000)
Other comprehensive income (loss) before reclassifications	672,000	45,000	37,000	754,000
Amounts reclassified from other comprehensive income	(15,000)	—	—	(15,000)
Other comprehensive income (loss), net	657,000	45,000	37,000	739,000
Balance at March 31, 2016	$47,000	$ (153,000)	$ —	$ (106,000)

	Three Months Ended March 31, 2015 Components of Accumulated Other Comprehensive Income (Loss)			Total
	Unrealized Gains and (Losses) on Available-for-Sale (AFS) Securities	Loss on securities reclassified from Available-for-Sale to Held to Maturity	Unrealized Gains and (Losses) on Derivatives	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2014	$(392,000)	$ (377,000)	$(188,000)	$ (957,000)
Other comprehensive income (loss) before reclassifications	463,000	87,000	34,000	584,000
Amounts reclassified from other comprehensive income	(91,000)	—	—	(91,000)
Other comprehensive income (loss), net	372,000	87,000	34,000	493,000
Balance at March 31, 2015	$(20,000)	$ (290,000)	$(154,000)	$ (464,000)

The following table presents amounts reclassified from each component of accumulated other comprehensive income on a gross and net of tax basis for the three months ended March 31, 2016 and 2015.

Components of Accumulated Other Comprehensive Income (Loss)	Three Months Ended March 31, 2016	2015	Income Statement Line Item
Unrealized gains on AFS securities before tax	$ 24,000	$ 152,000	Gains on securities transactions, net
Tax effect	(9,000)	(61,000)	
Total net of tax	15,000	91,000	
Total reclassifications, net of tax	$ 15,000	$ 91,000	

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

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain "forward-looking statements" with respect to Stewardship Financial Corporation (the "Corporation") within the meaning of the Private Securities Litigation Reform Act of 1995, which forward looking statements may be identified by the use of such words as "expect," "believe", "anticipate," "should," "plan," "estimate," and "potential." Examples of forward-looking statements include, but are not limited to, estimates with respect to the financial condition, results of operations and business of the Corporation that are subject to various factors which could cause actual results to differ materially from these estimates. These factors include: changes in general, economic and market conditions, legislative and regulatory conditions, or the development of an interest rate environment that adversely affects the Corporation's interest rate spread or other income anticipated from operations and investments. As used in this Form 10-Q, "we", "us" and "our" refer to the Corporation and its consolidated subsidiary, Atlantic Stewardship Bank (the "Bank"), depending on the context.

Critical Accounting Policies and Estimates

"Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as disclosures found elsewhere in this Quarterly Report on Form 10-Q, are based upon the Corporation's consolidated financial statements, which have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP"). The preparation of these financial statements requires the Corporation to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Note 1 to the Corporation's Audited Consolidated Financial Statements for the year ended December 31, 2015 included in the Corporation's 2015 Annual Report contains a summary of the Corporation's significant accounting policies. Management believes the Corporation's policy with respect to the methodology for the determination of the allowance for loan losses and the evaluation of deferred income taxes involves a higher degree of complexity and requires management to make difficult and subjective judgments, which often require assumptions or estimates about highly uncertain matters. Changes in these judgments, assumptions or estimates could materially impact results of operations. This critical accounting policy and its application are periodically reviewed with the Audit Committee and the Board of Directors.

Allowance for Loan Losses. The allowance for loan losses is based upon management's evaluation of the adequacy of the allowance, including an assessment of known and inherent risks in the loan portfolio, giving consideration to the size and composition of the loan portfolio, actual loan loss experience, level of delinquencies, detailed analysis of individual loans for which full collectability may not be assured, the existence and estimated net realizable value of any underlying collateral and guarantees securing the loans, and current economic and market conditions. Although management uses the best information available, the level of the allowance for loan losses remains an estimate, which is subject to significant judgment and short-term change. Various regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for loan losses. Such agencies may require the Corporation to make additional provisions for loan losses based upon information available to them at the time of their examination. Furthermore, the majority of the Corporation's loans are secured by real estate in the State of New Jersey. Accordingly, the collectability of a substantial portion of the carrying value of the Corporation's loan portfolio is susceptible to changes in local market conditions and may be adversely affected should real estate values decline or the northern New Jersey area experience adverse economic changes. Future adjustments to the allowance for loan losses may be necessary due to economic, operating, regulatory and other conditions beyond the Corporation's control.

Deferred Income Taxes. The Corporation records income taxes in accordance with ASC 740, "Income Taxes," as amended, using the asset and liability method. Accordingly, deferred tax assets and liabilities: (i) are recognized for the expected future tax consequences of events that have been recognized in the financial statements or tax returns; (ii) are attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases; and (iii) are measured using enacted tax rates expected to apply in the years when those temporary differences are expected to be recovered or settled. Where applicable, deferred tax assets are reduced by a valuation allowance for any portions determined not likely to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period of enactment. The valuation allowance is adjusted, by a charge or credit to income tax expense, as changes in facts and circumstances warrant.

Financial Condition

Total assets increased $8.8 million to $726.7 million at March 31, 2016 from $717.9 million at December 31, 2015. Cash and cash equivalents increased $2.4 million to $13.3 million at March 31, 2016 from $10.9 million at December 31, 2015, reflecting some additional liquidity from deposit growth. Securities available-for-sale increased $4.3 million to $97.6 million and securities held to maturity increased $1.7 million to $62.4 million. Net loans increased $1.8 million to $519.4 million at March 31, 2016 compared to $517.6 million at December 31, 2015, reflecting new loan originations, partially offset by normal principal amortization and payoffs. Loans held for sale totaled $783,000 at March 31, 2016 compared to $1.5 million at December 31, 2015. Other real estate owned (OREO) increased $133,000 to $1.0 million at March 31, 2016 compared to $880,000 at December 31, 2015 reflecting the foreclosure of an additional property.

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Deposits totaled $612.4 million at March 31, 2016, an increase of $7.7 million from $604.7 million at December 31, 2015. The growth in deposits consisted of a $6.4 million increase in noninterest-bearing accounts and a $1.3 million increase in interest-bearing accounts.

Results of Operations

General

The Corporation reported net income available to common shareholders of $991,000, or $0.16 diluted earnings per common share for the three months ended March 31, 2016, compared to net income available to common shareholders of $746,000, or $0.12 diluted earnings per common share for the comparable prior year period.

Net Interest Income

Net interest income, on a tax equivalent basis, for the three months ended March 31, 2016 was $5.3 million compared to $5.4 million recorded in the prior year period. The net interest rate spread and net yield on interest-earning assets for the three months ended March 31, 2016 were 2.89% and 3.11%, respectively, compared to 3.23% and 3.41% for the three months ended March 31, 2015.

The declines in both the net interest rate spread and net yield on interest-earning assets reflect the impact of the $16.6 million of Subordinated Notes issued on August 28, 2015 to certain institutional accredited investors (see Note 6 to the unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q). While the cost of the Subordinated Notes reduces net interest income, the increased interest expense for the quarter, on an after tax basis, is less than the dividends that would have accrued for the quarter on the Corporation's Series B Preferred Shares (see Note 6 to the consolidated financial statements included in this Quarterly Reporit on Form 10-Q), which were redeemed by the Corporation using the net cash proceeds for the Subordinated Notes, resulting in an overall benefit to net income available to common shareholders for the quarter. The dividend rate on the Series B Preferred Shares would have accrued at a rate of 4.56% for January and February 2016 but, beginning on March 1, 2016 and for all dividend periods thereafter, the dividend rate would have increased to and become fixed at 9% per annum, making the issuance of the Subordinated Notes an even more positive impact to net income available to common shareholders in the future.

In addition, in general, the net interest rate spread and net yield on interest-earning assets for the current year period also reflects a decline in loan interest rates as well as a flat to slight decline in the interest rates on deposits and borrowings. The reduced loan yields primarily reflect the historically low market rates in the current environment.

The following table reflects the components of the Corporation's net interest income for the three months ended March 31, 2016 and 2015 including: (1) average assets, liabilities and shareholders' equity based on average daily balances, (2) interest income earned on interest-earning assets and interest expense paid on interest-bearing liabilities, (3) average yields earned on interest-earning assets and average rates paid on interest-bearing liabilities and (4) net yield on interest-earning assets. Nontaxable income from investment securities and loans is presented on a tax-equivalent basis assuming a statutory tax rate of 34% for the periods presented. This was accomplished by adjusting non-taxable income upward to make it equivalent to the level of taxable income required to earn the same amount after taxes.

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Analysis of Net Interest Income (Unaudited)

For the Three Months Ended March 31,

	2016			2015		
	Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid
	(Dollars in thousands)					
Assets						
Interest-earning assets:						
Loans (1) (2)	$527,969	$ 5,662	4.31%	$484,040	$ 5,456	4.57%
Taxable investment securities (1)	144,545	679	1.89	143,064	605	1.72
Tax-exempt investment securities (1) (2)	12,304	163	5.33	15,340	204	5.39
Other interest-earning assets	6,071	9	0.60	9,043	7	0.31
Total interest-earning assets	690,889	6,513	3.79	651,487	6,272	3.90
Non-interest-earning assets:						
Allowance for loan losses	(8,844)			(10,054)		
Other assets	41,893			41,963		
Total assets	$723,938			$683,396		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$226,572	$ 139	0.25%	$208,472	$ 139	0.27%
Savings deposits	83,992	21	0.10	77,604	20	0.10
Time deposits	147,444	397	1.08	134,242	293	0.89
FHLB-NY borrowing	41,285	203	1.98	54,949	217	1.60
Subordinated debentures and subordinated notes	23,195	413	7.16	7,217	124	6.97
Total interest-bearing liabilities	522,488	1,173	0.90	482,484	793	0.67
Non-interest-bearing liabilities:						
Demand deposits	150,444			138,081		
Other liabilities	2,438			3,138		
Stockholders' equity	48,567			59,693		
Total liabilities and stockholders' equity	$723,937			$683,396		
Net interest income (taxable equivalent basis)		5,340			5,479	
Tax equivalent adjustment		(64)			(78)	
Net interest income		$ 5,276			$ 5,401	

Net interest spread (taxable equivalent basis)	2.89%	3.23%
Net yield on interest-earning assets (taxable equivalent basis) (3)	3.11%	3.41%

(1) For purpose of these calculations, nonaccruing loans are included in the average balance. Loans and total interest-earning assets are net of unearned income. Securities are included at amortized cost.
(2) The tax equivalent adjustments are based on a marginal tax rate of 34%.
(3) Net interest income (taxable equivalent basis) divided by average interest-earning assets.

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For the three months ended March 31, 2016, total interest income, on a tax equivalent basis, was $6.5 million compared to $6.3 million for the same prior year period. The increase was due to an increase in the average balances of interest-earning assets partially offset by a decrease in the yield on interest-earning assets. Average interest-earning assets increased $39.4 million for the three months ended March 31, 2016 compared to the prior year period. The change in average interest-earning assets primarily reflects an increase from the comparable prior year period in average loans slightly offset by a decrease in securities. Average loans increased $43.9 million for the three months ended March 31, 2016 while average securities decreased $1.6 million when compared to the prior year average. The average rate earned on interest-earning assets was 3.79% for the three months ended March 31, 2016 compared to an average rate of 3.90% for the three months ended March 31, 2015. The decline in the asset yields reflects the effect of a prolonged low interest rate environment.

Interest expense increased $380,000 for the three months ended March 31, 2016, compared to the same period for 2015. The issuance of the Subordinated Notes on August 28, 2015 had the effect of increasing average interest-bearing liabilities and added approximately $296,000 to interest expense for the current three month period. An increase in the other components of average interest-bearing liabilities also contributed to the increase in interest expense for the three months ended March 31, 2016. The average balance of interest-bearing deposits increased $37.7 million for the three months ended March 31, 2016 from the comparable 2015 period. Partially offsetting this increase, for the three months ended March 31, 2016, FHLB-NY borrowings accounted for a $13.7 million decrease in average interest-bearing liabilities. For the three months ended March 31, 2016, the total cost for interest-bearing liabilities was 0.90% compared to 0.67% for the comparable prior year period. As noted previously, the issuance of the Subordinated Notes contributed to the overall increase in the current year period. Excluding the Subordinated Debentures and the Subordinated Notes, the cost for interest-bearing deposits, repurchase agreements and FHLB-NY borrowings was 0.61% compared to 0.57% for the comparable prior year period, reflecting a slight increase in the cost for interest-bearing deposits and FHLB-NY borrowings.

Provision for Loan Losses

The Corporation maintains an allowance for loan losses at a level considered by management to be adequate to cover the probable losses to be incurred associated with its loan portfolio. The Corporation’s policy with respect to the methodology for the determination of the allowance for loan losses involves a high degree of complexity and requires management to make difficult and subjective judgments. The adequacy of the allowance for loan losses is based upon management’s evaluation of the known and inherent risks in the portfolio, consideration of the size and composition of the loan portfolio, actual loan loss experience, the level of delinquencies, detailed analysis of individual loans for which full collectability may not be assured, the existence and estimated net realizable value of any underlying collateral and guarantees securing the loans, and current economic and market conditions.

The allowance for loan losses contains an unallocated reserve amount to cover inherent losses which may not otherwise have been measured. Due to the complexity in determining the estimated amount of allowance for loan losses, these unallocated reserves reflect management's attempt to ensure that the overall allowance reflects an appropriate level of reserves. During the three months ended March 31, 2016, the Corporation's unallocated reserves decreased by $52,000. Management believes that the reduction in unallocated reserves at March 31, 2016 is appropriate as the Corporation has demonstrated a sustained level of performance in the loan portfolio.

For the three months ended March 31, 2016, the Corporation recorded a $350,000 negative loan loss provision compared to a $100,000 negative provision to loan losses for the three months ended March 31, 2015. The negative provision for loan losses reflects the continued improvement in the credit quality of the portfolio. In addition, for the three months ended March 31, 2016, the Corporation recorded net recoveries of $67,000. Nonperforming loans of $2.3 million at March 31, 2016, or 0.44% of total gross loans, reflected a slight increase from $1.9 million of nonperforming loans, or 0.36% of total gross loans, at December 31, 2015.

The allowance for loan losses was $8.5 million, or 1.62% of total gross loans, as of March 31, 2016 compared to $8.8 million, or 1.68% of total gross loans, as of December 31, 2015. The allowance for loan losses related to impaired loans increased from $719,000 at December 31, 2015 to $801,000 at March 31, 2016. During the three months ended March 31, 2016, the Corporation charged-off $2,000 of loan balances and recovered $69,000 in previously charged-off loans compared to $271,000 and $369,000, respectively, during the same period in 2015.

The Corporation monitors its loan portfolio and intends to continue to provide for loan loss reserves based on its ongoing periodic review of the loan portfolio, charge-off activity and general market conditions. There can be no assurances that the current level of no provision will continue in the future.

See "Asset Quality" section below for a summary of the allowance for loan losses and nonperforming assets.

Noninterest Income

Noninterest income was $819,000 for the three months ended March 31, 2016, compared to $918,000 for the prior year period. For the three months ended March 31, 2016, noninterest income included only $24,000 of gains on calls and sales of securities compared to $152,000 in the comparable prior year period. In addition, the three months ended March 31, 2016 did not include any gains on sales of other real estate owned compared to $53,000 of gains during the three months ended March 31, 2015. However, noninterest income for the three months ended March 31, 2016 includes $50,000 year over year increase in fees and service charges as a result of changes to the standard amounts assessed on deposit accounts.

Noninterest Expense

Noninterest expenses for the three months ended March 31, 2016 was $4.9 million, compared to $5.0 million in the comparable prior year period. Decreases in occupancy, advertising and legal were partially offset by increases data processing expenses and miscellaneous expense. The decrease in occupancy expense includes lower snow removal costs in the current year when compared to the prior year.

Income Tax Expense

Income tax expense totaled $552,000 for the three months ended March 31, 2016, representing an effective tax rate of 35.8%. For the three months ended March 31, 2015, income tax expense totaled $453,000, equating to an effective tax rate of 33.1%. For the 2016 first quarter period, tax expense reflects a higher overall projected effective tax rate as a result of the Corporation's tax exempt income representing a smaller percentage of pretax income.

Asset Quality

The Corporation's principal earning asset is its loan portfolio. Inherent in the lending function is the risk of deterioration in the borrowers' ability to repay loans under existing loan agreements. The Corporation manages this risk by maintaining reserves to absorb probable incurred loan losses. In determining the adequacy of the allowance for loan losses, management considers the risks inherent in its loan portfolio and changes in the nature and volume of its loan activities, along with general economic and real estate market conditions. Although management endeavors to establish a reserve sufficient to offset probable incurred losses in the portfolio, changes in economic conditions, regulatory policies and borrowers' performance could require future changes to the allowance.

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Risk elements include nonaccrual loans, past due and restructured loans, potential problem loans, loan concentrations and other real estate owned. The following table shows the composition of nonperforming assets at the end of each of the last four quarters:

	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015
	(Dollars in thousands)			
Nonaccrual loans (1)	$2,304	$ 1,882	$ 2,574	$2,539
Loans past due 90 days or more and accruing (2)	—	—	—	—
Total nonperforming loans	2,304	1,882	2,574	2,539
Other real estate owned	1,013	880	587	219
Total nonperforming assets	$3,317	$ 2,762	$ 3,161	$2,758
Allowance for loan losses	$8,540	$ 8,823	$ 8,805	$9,299
Nonperforming loans to total gross loans	0.44%	0.36%	0.50%	0.50%
Nonperforming assets to total assets	0.46%	0.38%	0.45%	0.39%
Allowance for loan losses to total gross loans	1.62%	1.68%	1.70%	1.83%
Allowance for loan losses to nonperforming loans	370.66%	468.81%	342.07%	366.25%

(1) Generally represents loans as to which the payment of principal or interest is in arrears for a period of more than 90 days. Interest previously accrued on these loans and not yet paid is reversed and charged against income during the current period. Interest earned thereafter is only included in income to the extent that it is received in cash.

(2) Represents loans as to which payment of principal or interest is contractually past due 90 days or more but which are currently accruing income at the contractually stated rates. A determination is made to continue accruing income on those loans which are sufficiently collateralized and on which management believes all interest and principal owed will be collected.

A loan is generally placed on nonaccrual when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. The identification of nonaccrual loans reflects careful monitoring of the loan portfolio. The Corporation is focused on resolving nonperforming loans and mitigating future losses in the portfolio. All delinquent loans continue to be reviewed by management.

At March 31, 2016, the nonaccrual loans were comprised of 13 loans, primarily commercial real estate loans, commercial loans and construction loans. While the Corporation maintains strong underwriting requirements, the number and amount of nonaccrual loans is a reflection of the prolonged weakened economic conditions and the corresponding effects it has had on our commercial borrowers and the current real estate environment. Certain loans, including restructured loans, are current, but in accordance with applicable guidance and other weakness concerns, management has continued to keep these loans on nonaccrual status.

During the three months ended March 31, 2016, nonaccrual loans increased slightly to $2.3 million. The increase reflects a few new loans that were placed on nonaccrual offset by payments received and loans returned to an accrual status. The ratio of allowance for loan losses to nonperforming loans decreased to 370.66% at March 31, 2016 from 468.81% at December 31, 2015. The ratio of allowance for loan losses to nonperforming loans is reflective of a detailed analysis and the probable losses to be incurred that we have identified with these nonperforming loans. This metric reflects the effect of the increase in nonaccrual loans and a decline in the allowance for loan losses.

Evaluation of all nonperforming loans includes the updating of appraisals and specific evaluation of such loans to determine estimated cash flows from business and/or collateral. We have assessed these loans for collectability and considered, among other things, the borrower's ability to repay, the value of the underlying collateral, and other market conditions to ensure the allowance for loan losses is adequate to absorb probable losses to be incurred. The majority of our nonperforming loans are secured by real estate collateral. While we have continued to record appropriate charge-offs, the existing underlying collateral coverage for a considerable portion of the nonperforming loans currently supports collection of a significant portion of our remaining principal.

For loans not included in nonperforming loans, at March 31, 2016, the level of loans past due 30-89 days was $15,000 compared to $1.0 million at December 31, 2015. We will continue to monitor delinquencies for early identification of new problem loans.

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The Corporation maintains an allowance for loan losses at a level considered by management to be adequate to cover the probable losses to be incurred associated with its loan portfolio. The Corporation's policy with respect to the methodology for the determination of the allowance for loan losses involves a high degree of complexity and requires management to make difficult and subjective judgments.

The adequacy of the allowance for loan losses is based upon management's evaluation of the known and inherent risks in the portfolio, consideration to the size and composition of the loan portfolio, actual loan loss experience, the level of delinquencies, detailed analysis of individual loans for which full collectability may not be assured, the existence and estimated net realizable value of any underlying collateral and guarantees securing the loans, and current economic and market conditions.

In establishing the allowance for loan losses, the Corporation utilizes a two-tier approach by (1) identifying problem loans and allocating specific loss allowances on such loans and (2) establishing a general loan loss allowance on the remainder of its loan portfolio. The Corporation maintains a loan review system that allows for a periodic review of its loan portfolio and the early identification of potential problem loans. Such a system takes into consideration, among other things, delinquency status, size of loans, type of collateral and financial condition of the borrowers.

Allocations of specific loan loss allowances are established for identified loans based on a review of various information including appraisals of underlying collateral. Appraisals are performed by independent licensed appraisers to determine the value of impaired, collateral-dependent loans. Appraisals are periodically updated to ascertain any further decline in value. General loan loss allowances are based upon a combination of factors including, but not limited to, actual loss experience, composition of the loan portfolio, current economic conditions and management's judgment.

For the three months ended March 31, 2016, a negative loan loss provision was recorded in the amount of $350,000 compared to a negative loan loss provision of $100,000 recorded for the three months ended March 31, 2015. The total allowance for loan losses of 1.62% of total loans was comparable to a ratio of 1.68% at December 31, 2015.

When management expects that some portion or all of a loan balance will not be collected, that amount is charged-off as a loss against the allowance for loan losses. For the three months ended March 31, 2016 net recoveries of $67,000 were recorded compared to a net recovery of $98,000 for the three months ended March 31, 2015. Recorded charge-offs reflect partial writedowns or full charge-offs on nonaccrual loans due to the initial and ongoing evaluations of market values of the underlying real estate collateral in accordance with Accounting Standards Codification ("ASC") 310-40. Regardless of our actions of recording partial and full charge-offs on loans, we continue to aggressively pursue collection, including legal action.

While regular monthly payments continue to be made on many of the nonaccrual loans, certain charge-offs result, nevertheless, from the borrowers' inability to provide adequate documentation evidencing their ability to continue to service their debt. Therefore, consideration has been given to any underlying collateral and appropriate charge-offs recorded based, in general, on the deficiency of such collateral. In general, the charge-offs reflect partial writedowns and full charge-offs on nonaccrual loans due to the initial evaluation of market values of the underlying real estate collateral in accordance with ASC 310-40. Management believes the charge-off of these reserves provides a clearer indication of the value of nonaccrual loans.

At March 31, 2016 and December 31, 2015, the Corporation had $10.1 million and $10.2 million, respectively, of loans the terms of which have been modified in troubled debt restructurings. Of these loans, $9.5 million and $9.7 million were performing in accordance with their new terms at March 31, 2016 and December 31, 2015, respectively. The remaining troubled debt restructurings are reported as nonaccrual loans. Specific reserves of $695,000 and $708,000 have been allocated for the troubled debt restructurings at March 31, 2016 and December 31, 2015, respectively. As of March 31, 2016 and December 31, 2015, the Corporation had $138,000 of additional committed funds to these borrowers.

As of March 31, 2016, there were $5.8 million of other loans not included in the preceding table or discussion of troubled debt restructurings where credit conditions of borrowers, including real estate tax delinquencies, caused management to have concerns about the possibility of the borrowers not complying with the present terms and conditions of repayment and which may result in disclosure of such loans as nonperforming loans at a future date. These loans have been considered by management in conjunction with the analysis of the adequacy of the allowance for loan losses.

The Corporation's lending activities are concentrated in loans secured by real estate located in northern New Jersey. Accordingly, the collectability of a substantial portion of the Corporation's loan portfolio is susceptible to changes in real estate market conditions in northern New Jersey.

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Capital Adequacy

The Corporation is subject to capital adequacy guidelines promulgated by the Board of Governors of the Federal Reserve System (“FRB Board”). The Bank is subject to somewhat comparable but different capital adequacy requirements imposed by the Federal Deposit Insurance Corporation (the “FDIC”). The federal banking agencies have adopted risk-based capital guidelines for banks and bank holding companies. The risk-based capital guidelines are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance sheet exposure, and to minimize disincentives for holding liquid assets. Under these guidelines, assets and off-balance sheet items are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items.

Federal banking regulators have also adopted leverage capital guidelines to supplement the risk-based measures. Leverage capital to average total assets is determined by dividing Tier 1 Capital as defined under the risk-based capital guidelines by average total assets (non-risk adjusted).

Guidelines for Banks

In December 2010 and January 2011, the Basel Committee on Banking Supervision (the “Basel Committee”) published the final texts of reforms on capital and liquidity, which are generally referred to as “Basel III”. The Basel Committee is a committee of central banks and bank supervisors and regulators from the major industrialized countries that develops broad policy guidelines for the regulation of banks and bank holding companies. In July 2013, the FDIC and the other federal bank regulatory agencies adopted final rules (the “Basel Rules”) to implement certain provisions of Basel III and the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Basel Rules revise the leverage and risk-based capital requirements and the methods for calculating risk-weighted assets. The Basel Rules apply to all depository institutions, top-tier bank holding companies with total consolidated assets of $1 billion or more and top-tier savings and loan holding companies.

Among other things, the Basel Rules (a) establish a new common equity Tier 1 Capital (“CET1”) to risk-weighted assets ratio minimum of 4.5% of risk-weighted assets, (b) raise the minimum Tier 1 Capital to risk-based assets requirement (“Tier 1 Capital Ratio) from 4% to 6% of risk-weighted assets and (c) assign a higher risk weight of 150% to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities. The minimum ratio of Total Capital to risk-weighted assets (including certain off-balance sheet activities, such as standby letters of credit) is 8%. At least 6% of the Total Capital is required to be “Tier 1 Capital”, which consists of common shareholders’ equity and certain preferred stock, less certain items and other intangible assets. The remainder, “Tier 2 Capital,” may consist of (a) the allowance for loan losses of up to 1.25% of risk-weighted assets, (b) excess of qualifying preferred stock, (c) hybrid capital instruments, (d) debt, (e) mandatory convertible securities and (f) qualifying subordinated debt. “Total Capital” is the sum of Tier 1 Capital and Tier 2 Capital less reciprocal holdings of other banking organizations’ capital instruments, investments in unconsolidated subsidiaries and any other deductions as determined by the federal banking regulatory agencies on a case-by-case basis or as a matter of policy after formal rule-making. A small bank holding company that has the highest regulatory examination rating and is not contemplating significant growth or expansion must maintain a minimum level of Tier 1 Capital to average total consolidated assets leverage ratio of at least 3%. All other bank holding companies are expected to maintain a leverage ratio of at least 100 to 200 basis points above the stated minimum.

The Basel Rules also require unrealized gains and losses on certain available-for-sale securities to be included for purposes of calculating regulatory capital unless a one-time opt-out is exercised. Additional constraints are also imposed on the inclusion in regulatory capital of mortgage-servicing assets and deferred tax assets. The Basel Rules limit a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of CET1 to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The purpose of the capital conservation buffer is to ensure that banking organizations conserve capital when it is needed most, allowing them to weather periods of economic stress. Banking institutions with a CET1 Ratio, Tier 1 Capital Ratio and Total Capital Ratio above the minimum capital ratios but below the minimum capital ratios plus the capital conservation buffer will face constraints on their ability to pay dividends, repurchase equity and pay discretionary bonuses to executive officers based on the amount of the shortfall. The Basel Rules became effective for the Bank on January 1, 2015. The capital conservation buffer requirement will be phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective.

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Bank assets are given risk-weights of 0%, 20%, 50%, 100%, and 150%. In addition, certain off-balance sheet items are given similar credit conversion factors to convert them to asset equivalent amounts to which an appropriate risk-weight will apply. These computations result in the total risk-weighted assets. Most loans are assigned to the 100% risk category, except for performing first mortgage loans fully secured by residential property which carry a 50% risk-weighting. Loan exposures past due 90 days or more or on nonaccrual are assigned a risk-weighting of at least 100%. Most investment securities (including, primarily, general obligation claims of states or other political subdivisions of the United States) are assigned to the 20% category, except for municipal or state revenue bonds, which have a 50% risk-weight, and direct obligations of the U.S. Treasury or obligations backed by the full faith and credit of the U.S. government, which have a 0% risk-weight. In converting off-balance sheet items, direct credit substitutes, including general guarantees and standby letters of credit backing nonfinancial obligations, and undrawn commitments (including commercial credit lines with an initial maturity of more than one year) have a 50% risk-weighting. Short-term undrawn commitments and commercial letters of credit with an initial maturity of under one year have a 20% risk-weighting and certain short-term unconditionally cancelable commitments are not risk-weighted.

Guidelines for Small Bank Holding Companies

In April 2015, the FRB Board updated and amended its Small Bank Holding Company Policy Statement. Under the revised Small Bank Holding Company Policy Statement, Basel III capital rules and reporting requirements will not apply to small bank holding companies (“SBHC”), such as the Corporation, that have total consolidated assets of less than $1 billion. The minimum risk-based capital requirements for a SBHC to be considered adequately capitalized are 4% for Tier 1 capital and 8% for total capital to risk-weighted assets.

The regulations for SBHCs classify risk-based capital into two categories: “Tier 1 Capital” which consists of common and qualifying perpetual preferred shareholders’ equity less goodwill and other intangibles and “Tier 2 Capital” which consists of (a) the allowance for loan losses of up to 1.25% of risk-weighted assets, (b) the excess of qualifying preferred stock, (c) hybrid capital instruments, (d) debt, (e) mandatory convertible securities and (f) qualifying subordinated debt. Total qualifying capital consists of Tier 1 Capital and Tier 2 Capital less reciprocal holdings of other banking organizations’ capital instruments, investments in unconsolidated subsidiaries and any other deductions as determined by the FRB on a case-by-case basis or as a matter of policy after formal rule-making. However, the amount of Tier 2 Capital may not exceed the amount of Tier 1 Capital. The Corporation must maintain a minimum level of Tier 1 Capital to average total consolidated assets leverage ratio of 3%, which is the leverage ratio reserved for top-tier bank holding companies having the highest regulatory examination rating and not contemplating significant growth or expansion.

Bank holding company assets are given risk-weights of 0%, 20%, 50%, and 100%. In addition, certain off-balance sheet items are given similar credit conversion factors to convert them to asset equivalent amounts to which an appropriate risk-weight will apply. These computations result in the total risk-weighted assets.

As of March 31, 2016, the Corporation and the Bank exceeded all regulatory capital requirements as follows:

	Actual	Required for Capital Adequacy Purposes	To Be Well Capitalized Under Prompt Corrective Action Regulations
Tier 1 Leverage ratio			
Corporation	7.77%	4.00%	N/A
Bank	9.52%	4.00%	5.00%
Risk-based capital			
Common Equity Tier 1			
Corporation	N/A	N/A	N/A
Bank	12.47%	4.50%	6.50%
Tier 1			
Corporation	10.28%	4.00%	N/A
Bank	12.47%	6.00%	8.00%
Total			
Corporation	14.45%	8.00%	N/A
Bank	13.73%	8.00%	10.00%

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Liquidity and Capital Resources

The Corporation’s primary sources of funds are deposits, amortization and prepayments of loans and mortgage-backed securities, maturities of investment securities and funds provided from operations. While scheduled loan and mortgage-backed securities amortization and maturities of investment securities are a relatively predictable source of funds, deposit flow and prepayments on loans and mortgage-backed securities are greatly influenced by market interest rates, economic conditions and competition. The Corporation’s liquidity, represented by cash and cash equivalents, is a product of its operating, investing and financing activities.

The primary source of cash from operating activities is net income. Liquidity management is both a daily and long-term function of business management. Excess liquidity is generally invested in interest-earning cash accounts or short-term investments, such as federal funds sold.

Cash and cash equivalents increased $2.4 million during the first three months of 2016. Net operating and financing activities provided $1.5 million and $7.6 million, respectively, while investing activities used $6.6 million.

We anticipate that the Corporation will have sufficient funds available to meet its current contractual commitments. Should we need temporary funding, the Corporation has the ability to borrow overnight with the Federal Home Loan Bank-NY (“FHLB-NY”). The Corporation’s overall borrowing capacity is contingent on available collateral to secure borrowings and the ability to purchase additional activity-based capital stock of the FHLB-NY. The Corporation may also borrow from the Discount Window of the Federal Reserve Bank of New York based on the market value of collateral pledged. In addition, the Corporation has available overnight variable repricing lines of credit with other correspondent banks totaling $38 million on an unsecured basis.

With respect to the payment of dividends on common stock, the Corporation has historically paid a quarterly cash dividend; however, management recognizes that the payment of future dividends could be impacted by losses or reduced earnings and the Corporation cannot assure the payment of future dividends. On April 20, 2016, the Corporation announced that its Board of Directors had declared a $0.03 per share cash dividend payable on its common stock to shareholders of record as of May 2, 2016. The dividend is to be paid on May 16, 2016.

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ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable to smaller reporting companies.

ITEM 4. Controls and Procedures

Evaluation of internal controls and procedures

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, our principal executive officer and principal financial officer have concluded that our internal disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Changes in Internal Controls over Financial Reporting

Pursuant to Rule 13a-15(d) under the Exchange Act, our management, with the participation of our principal executive officer and principal financial officer, has evaluated our internal controls over financial reporting and based upon such evaluation concluded that there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II -- Other Information

Item 6. Exhibits

See Exhibit Index following this report.

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SIGNATURES

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

Stewardship Financial Corporation

Date: May 16, 2016	By:/s/ Paul Van Ostenbridge Paul Van Ostenbridge President and Chief Executive Officer (Principal Executive Officer)
Date: May 16, 2016	By:/s/ Claire M. Chadwick Claire M. Chadwick Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

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EXHIBIT INDEX

Exhibit Number	Description of Exhibits
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following material from Stewardship Financial Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Financial Condition, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statement of Changes in Shareholders' Equity, (v) Consolidated Statements of Cash Flows and (vi) Notes to Consolidated Financial Statements, tagged as blocks of text[1]

[1] This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any filing, except to the extent the Corporation specifically incorporates it by reference.