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 June 30, 2006

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

For the transition period from ________________ to ________________

Commission file number 0-21855

Stewardship Financial Corporation

(Exact name of registrant as specified in its charter)

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

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

Large accelerated filer [_] Accelerated filer [_] Non-accelerated filer [X]

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

The number of shares outstanding, net of treasury stock, of the registrant's Common Stock, no par value, as of August 3, 2006 was 4,802,310.

Stewardship Financial Corporation

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Consolidated Statements of Financial Condition
(Unaudited)

	June 30, 2006	December 31, 2005
Assets		
Cash and due from banks	$ 13,454,000	$ 13,158,000
Other interest-earning assets	477,000	870,000
Cash and cash equivalents	13,931,000	14,028,000
Securities available for sale	62,269,000	64,166,000
Securities held to maturity; fair value of $38,186,000 (2006) and $37,459,000 (2005)	38,856,000	37,801,000
FHLB-NY stock, at cost	1,715,000	1,939,000
Loans, net of allowance for loan losses of of $ 4,011,000 (2006) and $3,847,000 (2005)	355,793,000	341,976,000
Mortgage loans held for sale	1,338,000	2,041,000
Premises and equipment, net	6,538,000	6,464,000
Accrued interest receivable	2,579,000	2,432,000
Intangible assets, net of accumulated amortization of $629,000 (2006) and $610,000 (2005)	121,000	140,000
Bank owned life insurance	8,365,000	8,210,000
Other assets	3,862,000	3,530,000
Total assets	$ 495,367,000	$ 482,727,000
Liabilities and stockholders' equity		
Liabilities		
Deposits:		
Noninterest-bearing	$ 90,193,000	$ 94,331,000
Interest-bearing	328,763,000	309,135,000
Total deposits	418,956,000	403,466,000
Other borrowings	23,796,000	30,486,000
Subordinated debentures	7,217,000	7,217,000
Securities sold under agreements to repurchase	7,420,000	4,731,000
Accrued interest payable	1,322,000	1,086,000
Accrued expenses and other liabilities	1,627,000	2,357,000
Total liabilities	460,338,000	449,343,000
Stockholders' equity		
Common stock, no par value; 10,000,000 shares authorized;		

4,823,625 and 4,787,889 shares issued and outstanding at June 30, 2006 and December 31, 2005, respectively	28,642,000	28,211,000
Treasury stock, 22,802 and 39,581 shares outstanding at June 30, 2006 and December 31, 2005, respectively	(330,000)	(556,000)
Retained earnings	8,163,000	6,647,000
Accumulated other comprehensive loss	(1,446,000)	(918,000)
Total stockholders' equity	35,029,000	33,384,000
Total liabilities and stockholders' equity	$ 495,367,000	$ 482,727,000

See notes to unaudited consolidated financial statements.

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Stewardship Financial Corporation and Subsidiary
Consolidated Statements of Income
(Unaudited)

	Six Months Ended June 30,	
	2006	2005
Interest income:		
Loans	$12,278,000	$ 9,869,000
Securities held to maturity		
Taxable	440,000	416,000
Non-taxable	237,000	286,000
Securities available for sale		
Taxable	1,285,000	994,000
Non-taxable	13,000	17,000
FHLB-NY stock	47,000	32,000
Other interest-earning assets	18,000	101,000
Total interest income	14,318,000	11,715,000
Interest expense:		
Deposits	3,792,000	2,240,000
Borrowed money	1,087,000	594,000
Total interest expense	4,879,000	2,834,000
Net interest income before provision for loan losses	9,439,000	8,881,000
Provision for loan losses	160,000	300,000
Net interest income after provision for loan losses	9,279,000	8,581,000
Noninterest income:		
Fees and service charges	828,000	716,000
Bank owned life insurance	154,000	55,000
Merchant processing	562,000	433,000
Gain on sales of mortgage loans	95,000	101,000

Miscellaneous	263,000	240,000
Total noninterest income	1,902,000	1,545,000
Noninterest expenses:		
Salaries and employee benefits	3,332,000	2,978,000
Occupancy, net	607,000	488,000
Equipment	489,000	379,000
Data processing	571,000	552,000
Advertising	201,000	228,000
FDIC insurance premium	26,000	24,000
Amortization of intangible assets	19,000	19,000
Charitable contributions	362,000	370,000
Stationery and supplies	153,000	137,000
Merchant processing	514,000	384,000
Bank-card related services	244,000	213,000
Miscellaneous	1,123,000	994,000
Total noninterest expenses	7,641,000	6,766,000
Income before income tax expense	3,540,000	3,360,000
Income tax expense	1,264,000	1,217,000
Net income	$ 2,276,000	$ 2,143,000
Basic earnings per share	$ 0.48	$ 0.45
Diluted earnings per share	$ 0.47	$ 0.45
Weighted average number of common shares outstanding	4,769,751	4,733,215
Weighted average number of diluted common shares outstanding	4,819,994	4,787,570

Share data has been restated to reflect a 4 for 3 stock split issued July 1, 2005 and a 5% stock dividend paid November 15, 2005.

See notes to unaudited consolidated financial statements.

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Stewardship Financial Corporation and Subsidiary
Consolidated Statements of Income
(Unaudited)

	Three Months Ended June 30,	
	2006	2005
Interest income:		
Loans	$6,304,000	$5,082,000
Securities held to maturity		
Taxable	219,000	205,000
Non-taxable	119,000	142,000

Securities available for sale		
Taxable	648,000	494,000
Non-taxable	6,000	9,000
FHLB-NY stock	27,000	19,000
Other interest-earning assets	11,000	75,000
Total interest income	7,334,000	6,026,000
Interest expense:		
Deposits	2,015,000	1,265,000
Borrowed money	557,000	282,000
Total interest expense	2,572,000	1,547,000
Net interest income before provision for loan losses	4,762,000	4,479,000
Provision for loan losses	110,000	150,000
Net interest income after provision for loan losses	4,652,000	4,329,000
Noninterest income:		
Fees and service charges	449,000	365,000
Bank owned life insurance	74,000	55,000
Merchant processing	296,000	242,000
Gain on sales of mortgage loans	45,000	83,000
Miscellaneous	168,000	151,000
Total noninterest income	1,032,000	896,000
Noninterest expenses:		
Salaries and employee benefits	1,711,000	1,540,000
Occupancy, net	293,000	237,000
Equipment	247,000	186,000
Data processing	277,000	281,000
Advertising	114,000	97,000
FDIC insurance premium	13,000	12,000
Amortization of intangible assets	9,000	9,000
Charitable contributions	181,000	205,000
Stationery and supplies	77,000	67,000
Merchant processing	272,000	193,000
Bank-card related services	123,000	108,000
Miscellaneous	546,000	516,000
Total noninterest expenses	3,863,000	3,451,000
Income before income tax expense	1,821,000	1,774,000
Income tax expense	654,000	635,000
Net income	$1,167,000	$1,139,000
Basic earnings per share	$ 0.25	$ 0.24
Diluted earnings per share	$ 0.24	$ 0.24
Weighted average number of common shares outstanding	4,784,483	4,743,870

Weighted average number of diluted common shares outstanding	4,825,252	4,798,734

Share data has been restated to reflect a 4 for 3 stock split issued July 1, 2005 and a 5% stock dividend paid November 15, 2005.

See notes to unaudited consolidated financial statements.

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Stewardship Financial Corporation and Subsidiary
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
	2006	2005
Cash flows from operating activities:		
Net income	$ 2,276,000	$ 2,143,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	379,000	304,000
Amortization of premiums and accretion of discounts, net	146,000	226,000
Accretion of deferred loan fees	(58,000)	(78,000
Provision for loan losses	160,000	300,000
Originations of mortgage loans held for sale	(9,383,000)	(9,725,000
Proceeds from sale of mortgage loans	10,181,000	10,054,000
Gain on sale of loans	(95,000)	(101,000
Deferred income tax benefit	(49,000)	(117,000
Amortization of intangible assets	19,000	19,000
Nonqualified stock option expense	24,000	--
Purchase of bank owned life insurance	--	(8,000,000
increase in bank owned life insurance	(155,000)	(55,000
Increase in accrued interest receivable	(147,000)	(89,000
Decrease in accrued interest payable	236,000	193,000
Decrease (increase) in other assets	48,000	(27,000
(Decrease) increase in other liabilities	(556,000)	227,000
Net cash provided (used) by operating activities	3,026,000	(4,726,000
Cash flows from investing activities:		
Purchase of securities available for sale	(5,613,000)	(2,321,000
Proceeds from maturities and principal repayments on securities available for sale	6,595,000	3,234,000
Proceeds from sales and calls on securities available for sale	--	500,000
Purchase of securities held to maturity	(6,813,000)	(1,288,000
Proceeds from maturities and principal repayments on securities held to maturity	5,668,000	2,644,000
Purchase (Redemption) of FHLB-NY stock	224,000	(3,000
Net increase in loans	(13,919,000)	(18,528,000
Additions to premises and equipment	(453,000)	(940,000

Net cash provided by investing activities	(14,311,000)	(16,702,000
Cash flows from financing activities:		
Net decrease in noninterest-bearing deposits	(4,138,000)	(1,248,000
Net increase in interest-bearing deposits	19,628,000	45,077,000
Net increase (decrease) in securities sold under agreements to repurchase	2,689,000	(1,259,000
Net decrease in short term borrowings	(5,900,000)	(7,500,000
Payments on long term borrowings	(790,000)	(765,000
Cash dividends paid on common stock	(348,000)	(261,000
Purchase of treasury stock	(103,000)	--
Exercise of stock options	101,000	143,000
Issuance of common stock	49,000	28,000
Net cash used in financing activities	11,188,000	34,215,000
Net (decrease) increase in cash and cash equivalents	(97,000)	12,787,000
Cash and cash equivalents - beginning	14,028,000	24,792,000
Cash and cash equivalents - ending	$ 13,931,000	$ 37,579,000
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	4,643,000	2,650,000
Cash paid during the year for income taxes	1,500,000	1,505,000
Noncash financing activity - issuance of common stock under dividend reinvestment plan	412,000	346,000

See notes to unaudited consolidated financial statements.

Stewardship Financial Corporation and Subsidiary
Consolidated Statement of Changes in Stockholders' Equity
(Unaudited)

For the Period Ended June 30, 2006

	Common Stock		Treasury Stock		Retaine
	Shares	Amount	Shares	Amount	Earning
Balance -- December 31, 2005	4,787,889	$28,211,000	(39,581)	$ (556,000)	$ 6,647,
Dividends Paid	--	--	--	--	(760,
Common stock issued under stock plans			33,149	461,000	
Repurchase common stock	--	--	(16,370)	(235,000)	
Exercise of stock options	35,736	233,000	--	--	
Stock options earned	--	24,000	--	--	

Tax benefit on stock options exercised	--	174,000	--	--	
Comprehensive income:					
Net income for the six months ended June 30, 2006	--	--	--	--	2,276,
Unrealized holding losses on securities available for sale arising during the period (net tax benefit of $331,000)	--	--	--	--	
Total comprehensive income, net of tax					
Balance -- June 30, 2006	4,823,625	$28,642,000	(22,802)	$ (330,000)	$ 8,163,

	For the Period Ended June 30			
				Acc
				Comp
	Common Stock Shares	Common Stock Amount	Retained Earnings	
Balance -- December 31, 2004	4,487,977	$ 23,893,000	$ 6,746,000	$
Dividends Paid	--	--	(607,000)	
Common stock issued under stock plans	26,150	374,000	--	
Exercise of stock options	20,920	143,000	--	
Tax benefit on stock options exercised	--	70,000	--	
Comprehensive income:				
Net income for the three months ended June 30, 2005	--	--	2,143,000	
Unrealized holding losses on securities available for sale arising during the period (net tax benefit of $80,000)	--	--	--	
Total comprehensive income, net of tax				
Balance -- June 30, 2005	4,535,047	$ 24,480,000	$ 8,282,000	$

See notes to unaudited consolidated financial statements.

Stewardship Financial Corporation and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2006
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Certain information and footnote disclosures normally included in the unaudited consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

Principles of consolidation

The consolidated financial statements include the accounts of Stewardship Financial Corporation, (the "Corporation") and its wholly owned subsidiary, Atlantic Stewardship Bank (the "Bank"). The Bank includes its wholly owned subsidiary, Stewardship Investment Corp. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements. Certain prior period amounts have been reclassified to conform to the current presentation. The consolidated financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the statements of financial condition and revenues and expenses during the reporting periods. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant changes relate to the determination of the allowance for loan losses. Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance for loan losses may be necessary based on changes in economic conditions in the market area.

Share-based Payment Cost

On January 1, 2006, the Corporation adopted Statement of Financial Accounting Standards No. 123 (revised 2004) "Share-Based Payment" ("SFAS No. 123(R)") under the applied modified perspective method. With limited exceptions, SFAS No. 123(R) requires public companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award and to recognize such cost over the period during which an employee is required to provide service in exchange for the award (usually the vesting period).

Prior to the adoption of SFAS No. 123(R), and in accordance with the provisions of Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" ("SFAS No.

123"), the Corporation accounted for share-based payments under the recognition and measurement principles of Accounting Principle Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB Opinion No. 25") and related interpretations.

At June 30, 2006, the Corporation had five types of stock award programs referred to as the Employee Stock Bonus Plan, the Director Stock Plan, the Employee Stock Option Plan and the 2001 and 2006 Stock Option Plan for Non-Employee Directors. The Employee Stock Bonus Plan is intended to provide incentives which will retain highly competent key management by providing them with a bonus in the form of shares of common stock of the Corporation. The Corporation did not grant shares under this plan during the first six months of

2005 or 2006.

The Director Stock Plan permits members of the Board of Directors of the Bank to receive any monthly Board of Directors' fees in shares of the Corporation's common stock, rather than in cash. The Corporation recorded $34,000 and $10,000 in directors expense for the six months ended June 30, 2006 and 2005, respectively, and $17,000 and $5,000 in directors expense for the quarters ended June 30, 2006 and 2005, respectively, relating to this plan.

The Employee Stock Option Plan provides for options to purchase shares of Common Stock to be issued to employees of the Corporation at the discretion of the Compensation Committee of the Board of Directors. The following table represents the stock activity for the six months ended June 30, 2006 and 2005:

	2006		2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	72,370	$ 6.33	74,688	$ 6.41
Granted	--	--	--	--
Exercised	--	--	1,546	6.52
Forfeited	463	13.61	540	19.05
Outstanding at end of period	71,907	$ 6.29	72,602	$ 6.32
Options exercisable	71,907		65,886	
Weighted-average fair value of options granted during the period	--		--	

Options outstanding as of June 30, 2006 had a weighted average remaining contractual life of 2.21 years. The intrinsic value for stock options is calculated based on the exercise price of the underlying awards and the market price of our common stock as of the reporting date. The intrinsic value of the options at June 30, 2006 was $519,000.

The 2001 Stock Option Plan for Non-Employee Directors provided for options to purchase shares of common stock to be issued to non-employee Directors of the Corporation. In accordance with the provisions of SFAS No. 123(R), the Corporation recorded $24,000 of director's compensation expense for share-based payments for the six months ended June 30, 2006 with a related income tax benefit of $10,000 and expense of $7,000 for the quarter ended June 30, 2006, with related income tax benefit of $3,000. This

expense relates to non-qualified stock options that were outstanding but not yet vested as of January 1, 2006. Due to the relatively small amount of compensation expense, basic and diluted earnings per share, income from continuing operations, income before taxes, net income, cash flow from operations and cash flow from financing activities were not significantly impacted.

The 2006 Stock Option Plan for Non-Employee Directors which provides for options to purchase shares of common stock to be issued to non-employee Directors, was adopted by the shareholders at the Annual Meeting in May, 2006. Options were granted on June 30, 2006.

The following table represents the stock activity for non-employee Directors for the six months ended June 30, 2006 and 2005:

	2006		2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	43,398	$ 7.47	66,371	$ 7.33
Granted	50,000	13.50	--	--
Exercised	35,736	6.51	20,420	6.51
Expired	2,557	6.51	7,658	19.05
Outstanding at end of period	55,105	$ 13.61	38,293	$ 6.51
Options exercisable	5,105		17,872	
Weighted-average fair value of options granted during the period	$ 4.78		--	

Of the 35,736 options exercised under the 2001 Stock Option Plan for Non-Employee Directors, 20,240 shares were exercised by tendering 9,000 shares of common stock.

Options outstanding as of June 30, 2006 had a weighted average remaining contractual life of 5.45 years. The intrinsic value for stock options is calculated based on the exercise price of the underlying awards and the market price of our common stock as of the reporting date. There was no intrinsic value of the options at June 30, 2006 because the exercise price equaled or exceeded the market value of the stock at June 30, 2006. As of June 30, 2006, there was approximately $239,000 of total unrecognized compensation costs related to nonvested stock options. These costs are expected to be recognized over the next five years.

The following table sets forth the pro forma net income and earnings per share for the three months and six months of 2005 as if the fair value based method set forth in SFAS No. 123(R) had been applied to all share-based arrangements.

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net Income:		
Net income as reported	$ 1,139,000	$ 2,143,000
Stock-based compensation expense included in net Income, net of related tax effects	3,000	6,000
Total stock-based compensation expense determined Under fair value based method for all awards,		

Net of related tax effects	(18,000)	(36,000)
Pro forma net income	$ 1,124,000	$ 2,113,000
Earnings per share:		
As reported basic earnings per share	$ 0.24	$ 0.45
As reported diluted earnings per share	0.24	0.45
Pro forma basic earnings per share	0.24	0.45
Pro form diluted earnings per share	0.23	0.44

Share data has been restated to reflect a 4 for 3 stock dividend issued July, 2005 and a 5% stock dividend paid November 15, 2005.

There were stock options awarded under the 2006 Stock Option Plan for Non-Employee Directors on June 30, 2006. The fair value of options granted for Directors is estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions used:

	Director Stock Options 2001	Director Stock Options 2005	Director Stock Options 2006
Dividend yield	1.62%	1.79%	2.25%
Expected volatility	39.76%	33.19%	36.72%
Risk-free interest rate	6.65%	4.34%	5.21%
Expected life	7 years	5 years	6 years
Fair value at grant date	$2.94	$4.50	$4.78

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Note 2. Basis of presentation

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 Securities and Exchange Commission ("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 accounting principles generally accepted in the United States of America. However, all adjustments, consisting only of normal recurring adjustments, which in the opinion of management are necessary for a fair presentation of the consolidated financial statements, have been included. The results of operations for the three months and six months ended June 30, 2006 are not necessarily indicative of the results which may be expected for the entire year. All share and per share amounts have been restated for stock splits and stock dividends.

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Stewardship Financial Corporation and Subsidiary
Notes to Consolidated Financial Statements Continued
(Unaudited)

Note 3. Securities Available for Sale

The following table sets forth the amortized cost and fair value of the Corporation's securities available for sale as of June 30, 2006 and December 31, 2005. In accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities", securities available for sale are carried at fair value.

	June 30, 2006			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
U.S. government-sponsored agencies	33,987,000	--	931,000	33,056,000
Obligations of state and political subdivisions	1,362,000	--	39,000	1,323,000
Mortgage-backed securities	28,176,000	3,000	1,333,000	26,846,000
Community Reinvestment Act Fund	1,095,000	--	51,000	1,044,000
	$64,620,000	$ 3,000	$ 2,354,000	$62,269,000

	December 31, 2005			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
U.S. Treasury securities	$ 501,000	$ --	$ 5,000	$ 496,000
U.S. government-sponsored agencies	33,140,000	--	662,000	32,478,000
Obligations of state and political subdivisions	2,068,000	--	37,000	2,031,000
Mortgage-backed securities	28,879,000	8,000	777,000	28,110,000
Community Reinvestment Act Fund	1,071,000	--	20,000	1,051,000
	$65,659,000	$ 8,000	$ 1,501,000	$64,166,000

On a quarterly basis, the Corporation makes an assessment to determine whether there have been any events or economic circumstances to indicate that a security is impaired on an other-than-temporary basis. The Corporation considers many factors including the length of time the security has had a market value less than the cost basis; the intent and ability of the Corporation to hold the security for a period of time sufficient for a recovery in value; and recent events specific to the issuer or industry. Management considers the decline in market value of these securities to be temporary.

Mortgage-backed securities are comprised primarily of government agencies such as the Government National Mortgage Association ("GNMA") and government-sponsored agencies such as the Federal National Mortgage Association ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC").

Note 4. Securities Held to Maturity

The following table sets forth the amortized cost and fair value of the Corporation's securities held to maturity as of June 30, 2006 and December 31, 2005. Securities held to maturity are stated at cost, adjusted for amortization of premiums and accretion of discounts.

	June 30, 2006			
	Carrying Value	Gross Unrecognized Holding Gains	Gross Unrecognized Holding Losses	Fair Value
U.S. Treasury securities	$ 502,000	$ --	$ 7,000	$ 495,000
U.S. government-sponsored agencies	12,546,000	--	229,000	12,317,000
Obligations of state and political subdivisions	17,962,000	6,000	214,000	17,754,000
Mortgage-backed securities	7,846,000	10,000	236,000	7,620,000
	$ 38,856,000	$ 16,000	$ 686,000	$ 38,186,000

	December 31, 2005			
	Carrying Value	Gross Unrecognized Holding Gains	Gross Unrecognized Holding Losses	Fair Value
U.S. Treasury securities	$ 1,004,000	$ 2,000	$ 1,000	$ 1,005,000
U.S. government-sponsored agencies	12,113,000	1,000	180,000	11,934,000
Obligations of state and political subdivisions	15,747,000	27,000	128,000	15,646,000
Mortgage-backed securities	8,937,000	60,000	123,000	8,874,000
	$ 37,801,000	$ 90,000	$ 432,000	$ 37,459,000

On a quarterly basis, the Corporation makes an assessment to determine whether there have been any events or economic circumstances to indicate that a security is impaired on an other-than-temporary basis. The Corporation considers many factors including the length of time the security has had a market value less than the cost basis; the intent and ability of the Corporation to hold the security for a period of time sufficient for a recovery in value; and recent events specific to the issuer or industry. Management considers the decline in market value of these securities to be temporary.

Mortgage-backed securities are comprised primarily of government agencies such as the Government National Mortgage Association ("GNMA") and government-sponsored agencies such as the Federal National Mortgage Association ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC").

Note 5. Loans

The Corporation's primary market area for lending is the small and medium sized business and professional community, as well as the individuals residing, working and shopping in Bergen, Passaic and Morris counties, New

Jersey. The following table sets forth the composition of loans as of the periods indicated.

	June 30, 2006	December 31, 2005
Mortgage		
Residential	$ 45,037,000	$ 45,604,000
Commercial	167,882,000	163,309,000
Commercial	73,149,000	65,011,000
Equity	20,006,000	20,271,000
Installment	53,832,000	51,540,000
Other	334,000	506,000
Total loans	360,240,000	346,241,000
Less: Deferred loan fees	436,000	418,000
Allowance for loan losses	4,011,000	3,847,000
	4,447,000	4,265,000
Loans, net	$355,793,000	$341,976,000

Note 6. Allowance for loan losses

	Six Months Ended June 30, 2006	2005
Balance, beginning of period	$ 3,847,000	$ 3,299,000
Provision charged to operations	160,000	300,000
Recoveries of loans charged off	24,000	3,000
Loans charged off	(20,000)	(32,000)
Balance, end of period	$ 4,011,000	$ 3,570,000

Note 7. Loan Impairment

The Corporation has defined the population of impaired loans to include all nonaccrual loans. The following table sets forth information regarding the impaired loans as of the periods indicated.

	June 30, 2006	December 31, 2005
Impaired loans		
With related allowance for loan losses	$ 80,000	$ 152,000

Without related allowance for loan losses	177,000	320,000
Total impaired loans	$ 257,000	$ 472,000
Related allowance for loan losses	$ 7,000	$ 29,000

Note 8. Recent Accounting Pronouncements

SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments"

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments" (SFAS No. 155), an amendment to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133) and SFAS No 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (SFAS No. 140). SFAS No. 155 provides the framework for fair value remeasurement of any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation as well as establishes a requirement to evaluate interests in securitized financial assets to identify interests. SFAS No. 155 further amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The SFAS No. 155 guidance also clarifies which interest-only strips and principal-only strips are not subject to the requirement of SFAS No. 133 and which concentrations of credit risk in the form of subordination are not embedded derivatives. This statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. SFAS No. 155 is not expected to have a material impact on the Corporation's financial statements.

SFAS No. 156, "Accounting for Servicing of Financial Assets"

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140." (SFAS No. 156). SFAS No. 156 requires the recognition of servicing assets or servicing liabilities each time an entity undertakes an obligation to service a financial asset; requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable; and, permits an entity to choose either to (1) amortize servicing assets or servicing liabilities in proportion to and over the period of estimated net servicing income or net servicing loss and assess servicing assets or servicing liabilities for impairment or increased obligation based on fair value at each reporting date; or, (2) measure servicing assets or servicing liabilities at fair value at each reporting date and report changes in fair value in earnings in the period in which the changes occur. At its initial adoption, SFAS No. 156 permits a one-time reclassification of available for sale securities to trading securities provided that the available for sale securities are identified in some manner as offsetting exposure to changes in fair value of servicing assets or servicing liabilities subsequently being measured at fair value. SFAS No. 156 requires separate financial statement presentation of servicing assets and servicing liabilities subsequently measured at fair value and requires additional disclosures for all separately recognized servicing assets and servicing liabilities. SFAS No. 156 is effective for the Corporation on January 1, 2007. The Corporation does not expect adoption to have a significant impact on the consolidated financial statements, results of operation or liquidity of the Corporation.

FIN 48, "Accounting for Uncertainty in Income Taxes"

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109." (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It requires the recognition and measurement of uncertain tax positions using a "more-likely-than-not" approach. FIN 48 is effective for fiscal years beginning after December 15, 2006. Management has not completed its evaluation of the impact of the adoption of FIN48.

Note 9. Earnings Per Share

Basic earnings per share is calculated by dividing net income by the average daily 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 is a reconciliation of the calculation of basic and diluted earnings per share.

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Net income	$1,167	$1,139	$2,276	$2,143
Weighted average shares	4,784	4,744	4,770	4,733
Effect of dilutive stock options	50	55	50	55
Total weighted average dilutive shares	4,834	4,799	4,820	4,788
Basic earnings per share	$ 0.25	$ 0.24	$ 0.48	$ 0.45
Diluted earnings per share	$ 0.24	$ 0.24	$ 0.47	$ 0.45

All share and per share amounts have been restated to reflect a 4 for 3 stock split issued July 2005 and a 5% stock dividend paid November 15, 2005.

Note 10. Comprehensive Income

Total comprehensive income includes net income and other comprehensive income which is comprised of unrealized holding gains and losses on securities available for sale, net of taxes. The Corporation's total comprehensive income for the six months ended June 30, 2006 and 2005 was $1.7 million and $2.0 million, respectively, and for the three months ended June 30, 2006 and 2005 was $764,000 and $1.5 million, respectively. The difference between the Corporation's net income and total comprehensive income for these periods relates to the change in the net unrealized holding gains and losses on securities available for sale during the applicable period of time.

Stewardship Financial Corporation
Management's Discussion and Analysis of
Financial Condition and Results of Operations

This Form 10-Q contains certain "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, and may be identified by the use of such words as "believe," "expect," "anticipate," "should," "planned," "estimated," 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" and "us" and "our" refer to Stewardship Financial Corporation and its consolidated subsidiary, Atlantic Stewardship 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 Form 10-Q, are based upon the Corporation's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management 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, 2005 included in our Annual Report on Form 10-K for the year ended December 31, 2005, as supplemented by this report, contains a summary of the Corporation's significant accounting policies. Management also believes the Corporation's policy with respect to the methodology for the determination of the allowance for loan losses 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. The Audit Committee and the Board of Directors periodically review this critical policy and its application.

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 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 collectibility 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 that 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 collectibility 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 an adverse economic shock. Future adjustments to the allowance for loan losses may be necessary due to economic, operating, regulatory and other conditions beyond the Corporation's control.

Financial Condition

Total assets increased by $12.6 million, or 2.6%, from $482.7 million at December 31, 2005 to $495.4 million at June 30, 2006. Net loans increased by $13.8 million, or 4.0%, despite the Corporation participating approximately $7.1 million of commercial mortgages during the first quarter of 2006. Securities available for sale decreased $1.9 million, partially offset by an increase in securities held to maturity of $1.1 million. The composition of the loan portfolio is basically unchanged at June 30, 2006 when compared with the portfolio at December 31, 2005.

Deposits totaled $419.0 million at June 30, 2006, an increase of $15.5 million, or 3.8%, from $403.5 million at December 31, 2005. Interest-bearing deposits increased by $19.6 million, or 6.3%, to $328.8 million, partially offset by noninterest-bearing deposits decreasing by $4.1 million, or 4.4%, to $90.2 million at June 30, 2006. The Corporation is experiencing strong competition in attracting deposits due to the current interest environment and flat yield curve. The Corporation opened its tenth branch in Montville, Morris County, New Jersey in February 2006 and this new market has helped to obtain a strong core deposit base. In addition, the Corporation entered the brokered certificate of deposit market which provided $15.6 million in certificates of deposit with average remaining maturities of 4.5 months and average yields of 4.94%.

The Corporation has received approvals to begin the building of our new Wyckoff branch, anticipated to open in the second quarter of 2007. The Corporation is also looking at several new deposit products for introduction during this year to help provide attractive services to existing and new customers that will fund the loan growth anticipated for the remainder of the year. The challenges of the rising interest rate environment and the strong competitive market for deposits is expected to continue for the remainder of the year and will require the Corporation to continue to look at a blend of new deposit products and borrowings in order to fund the balance sheet.

Results of Operations

Six Months Ended June 30, 2006 and 2005

General

The Corporation reported net income of $2.28 million, or $0.47 diluted earnings per share for the six months ended June 30, 2006, compared to $2.14 million, or $0.45 diluted earnings per share for the same period in 2005. The $133,000 increase was primarily due to increases in net interest income and noninterest income and a decrease in the provision for loan loss, partially offset by an increase in noninterest expense.

Net interest income

Net interest income increased by $558,000, or 6.3%, for the six months ended June 30, 2006 as compared with the corresponding period in 2005. The increase was primarily due to an increase in average net interest-earning assets, partially offset by a decrease in the net interest margin.

The following table reflects the components of the Corporation's net interest income for the six months ended June 30, 2006 and 2005 including, (1) average assets, liabilities, and stockholders' equity, (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%. 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.

Analysis of Net Interest Income (

For the Six Months Ended Jun

	2006			
	Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid	Average Balance
			(Dollars in thousands)	
Assets				
Interest-earning assets:				
Loans (1)	$ 352,037	$ 12,278	7.03%	$ 303,839
Taxable investment securities (1)	85,874	1,772	4.16	76,912
Tax-exempt investment securities (1) (2)	16,614	364	4.38	19,526
Other interest-earning assets	432	18	8.40	7,318
Total interest-earning assets	454,957	14,432	6.40	407,595
Non-interest-earning assets:				
Allowance for loan losses	(3,959)			(3,459
Other assets	31,517			26,620
Total assets	$ 482,515			$ 430,756
Liabilities and Stockholders' Equity				
Interest-bearing liabilities:				
Interest-bearing demand deposits	$ 116,764	$ 887	1.53%	$ 134,656

Savings deposits	43,858	127	0.58	49,667
Time deposits	147,764	2,778	3.79	97,853
Repurchase agreements	6,068	125	4.15	2,929
FHLB Borrowing	33,286	719	4.36	18,091
Subordinated debenture	7,217	243	6.79	7,217
Total interest-bearing liabilities	354,957	4,879	2.77	310,413
Non-interest-bearing liabilities:				
Demand deposits	89,375			86,390
Other liabilities	3,828			2,527
Stockholders' equity	34,355			31,426
Total liabilities and stockholders' equity	$ 482,515			$ 430,756
Net interest income (taxable equivalent basis)		$ 9,553		
Tax equivalent adjustment		(114)		
Net interest income		9,439		
Net interest spread (taxable equivalent basis)			3.63%	
Net yield on interest-earning assets (taxable equivalent basis) (3)			4.23%	

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(1) For purpose of these calculations, nonaccruing loans are included in the average balance. Fees are included in loan interest. 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.

Total interest income on a tax equivalent basis increased by $2.6 million, or 21.7%, primarily due to an increase in the average earning assets and an increase in yields on interest-earning assets. An increase in the yields in the loan and investment portfolio and a shift of assets into loans provided an increase in tax equivalent yields on interest earning assets of 53 basis points from 5.87% for the six months ended June 30, 2005 to 6.40% for the same period in 2006. The average balance of interest-earning assets increased by $47.4 million, or 11.6%, from $407.6 million for the six months ended June 30, 2005 to $455.0 million for the same period in 2006, primarily due to strong loan demand and an increase in taxable investment securities. The Corporation continued to experience an increase in loan demand which caused loans on average to increase by $48.2 million to an average of $352.0 million for the six months ended June 30, 2006, from an average of $303.8 million for the comparable period in 2005. Taxable investment securities increased by $9.0 million to an average of $85.9 million as the Corporation deployed short-term assets into securities.

Interest paid on deposits and borrowed money increased by $2.0 million, or 72.1%, due to an increase in deposits and an increase in rates paid on deposits. The average balance of total interest-bearing deposits and borrowed money increased to $355.0 million for the six months ended June 30, 2006 from $310.4

million for the comparable 2005 period, primarily as a result of the Corporation's expanding customer base, issuance of brokered certificates of deposit and new product offerings. Yields on deposits and borrowed money increased from 1.84% for the six month period ended June 30, 2005 to 2.77% for the comparable period in 2006. Rising short-term interest rates and an extremely competitive market has caused the Corporation to raise yields on deposits in order to fund the asset base.

Provision for loan losses

The Corporation maintains an allowance for loan losses at a level considered by management to be adequate to cover the inherent losses associated with its loan portfolio, after giving consideration to changes in general market conditions, current charge-off experience, level of nonperforming loans and in the nature and volume of the Corporation's loan activity. The allowance for loan losses is based on estimates, and provisions are charged to operations during the period in which such additions are deemed necessary.

The provision charged to operations totaled $160,000 and $300,000 during the six months ended June 30, 2006 and 2005, respectively. The decrease in the provision was primarily due to lower loan growth in 2006 than observed in 2005 and an improvement in nonperforming loans since December 31, 2005. See the "Asset Quality" section for a summary of allowance for loan losses and nonperforming assets. 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 and general market conditions.

Noninterest income

Noninterest income increased by $357,000, or 23.1%, from $1.55 million for the six month period ended June 30, 2005 to $1.90 million for the comparable period in 2006. Income derived from the merchant credit card processing program increased by $129,000 due to an expanding merchant base and deposit related fees increased by $112,000 for the six month period ended June 30, 2006 compared to the same period for 2005 primarily due to the implementation of an overdraft protection program which was offered to customers beginning March 1, 2006. This program allows eligible customers with an overdraft line available for check writing and ATM, ACH, and Debit card transactions. The Bank purchased bank owned life insurance in April, 2005 which contributed $154,000 to noninterest income during the six month period ended June 30, 2006, compared with $55,000 for the comparable period in 2005.

Noninterest expense

Noninterest expense increased by approximately $875,000, or 12.9%, to $7.64 million for the six months ended June 30, 2006, compared to $6.77 million for the same period in 2005. Salaries and employee benefits, the major component of noninterest expense, increased by $354,000, or 11.9%, during the six months ended June 30, 2006. This increase was due to general increases for merit and performance and increases in staffing to support the new Montville branch, the lending department and the executive administration. Occupancy and equipment expense increased by $229,000, or 26.4%, primarily to support the new Montville branch and the newly relocated Waldwick branch which opened in the fall of 2005. The increase in the merchant card processing business caused merchant processing expense to increase by $130,000 in the six months ended June 30, 2006.

Income taxes

Income tax expense totaled $1.26 million for the three months ended June 30, 2006, for an effective tax rate of 35.7%. For the three months ended June 30, 2005, income tax expense totaled $1.22 million, for an effective tax rate of 36.2%. The effective tax rate has decreased due to the effect of the tax deferred status of the bank owned life insurance income.

Results of Operations

Three Months Ended June 30, 2006 and 2005

General

The Corporation reported net income of $1.17 million, or $0.24 diluted earnings per share for the three months ended June 30, 2006, compared to $1.14 million, or $0.24 diluted earnings per share for the same period in 2005. The $28,000 increase was primarily due to increases in net interest income and noninterest income and a decrease in the provision for loan loss, partially offset by an increase in noninterest expense.

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Net interest income

Net interest income increased by $283,000, or 6.3%, for the three months ended June 30, 2006 as compared with the corresponding period in 2005. The increase was primarily due to an increase in average net interest-earning assets and a decrease in the net interest margin.

The following table reflects the components of the Corporation's net interest income for the quarters ended June 30, 2006 and 2005 including, (1) average assets, liabilities, and stockholders' equity, (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%. 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.

Analysis of Net Interest Inco

For the Three Months Ende

	2006			
	Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid	Averag Balanc

(Dollars in thousand

Assets				
Interest-earning assets:				
Loans (1)	$ 355,341	$ 6,304	7.12%	$ 310,8
Taxable investment securities (1)	85,118	894	4.21	75,8
Tax-exempt investment securities (1) (2)	16,413	182	4.44	19,5
Other interest-earning assets	597	11	7.39	10,5
Total interest-earning assets	457,469	7,391	6.48	416,7
Non-interest-earning assets:				
Allowance for loan losses	(3,986)			(3,5
Other assets	32,761			26,5
Total assets	$ 486,244			$ 439,8
Liabilities and Stockholders' Equity				
Interest-bearing liabilities:				
Interest-bearing demand deposits	$ 114,840	$ 481	1.68%	$ 137,
Savings deposits	43,084	63	0.59	49,2
Time deposits	151,860	1,471	3.89	105,7
Repurchase agreements	6,515	70	4.31	2,4
FHLB Borrowing	32,842	365	4.46	16,0
Subordinated debenture	7,217	122	6.78	7,2
Total interest-bearing liabilities	356,358	2,572	2.89	318,2
Non-interest-bearing liabilities:				
Demand deposits	91,370			87,1
Other liabilities	3,851			2,7
Stockholders' equity	34,665			31,7
Total liabilities and stockholders' equity	$ 486,244			$ 439,8
Net interest income (taxable equivalent basis)		$ 4,819		
Tax equivalent adjustment		(57)		
Net interest income		4,762		
Net interest spread (taxable equivalent basis)			3.59%	
Net yield on interest-earning assets (taxable equivalent basis) (3)			4.23%	

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(1) For purpose of these calculations, nonaccruing loans are included in the average balance. Fees are included in loan interest. 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.

Total interest income on a tax equivalent basis increased by $1.3 million, or 21.2%, primarily due to an increase in the average earning assets and an increase in yields on interest-earning assets. The average balance of interest-earning assets increased by $40.7 million, or 9.8%, from $416.8 million for the three months ended June 30, 2005 to $457.5 million for the same period in 2006, primarily caused by strong loan demand and an increase in taxable investment securities. The Corporation continued to experience an increase in loan demand which caused loans on average to increase by $44.5 million to an average of $355.3 million for the three months ended June 30, 2006, from an average of $310.8 million for the comparable period in 2005. Taxable investment securities increased by $9.3 million to an average of $85.1 million.

Interest paid on deposits and borrowed money increased by $1.0 million, or 66.2%, due to an increase in deposits and an increase in rates paid on deposits. The average balance of total interest-bearing deposits and borrowed money increased to $356.4 million for the three months ended June 30, 2006 from $318.2 million for the comparable period in 2005, primarily as a result of the Corporation's expanding customer base, issuance of brokered certificates of deposit and new product offerings. Yields on deposits and borrowed money increased from 1.95% for the three month period ended June 30, 2005 to 2.89% for the comparable period in 2006. Rising short-term interest rates and an extremely competitive market has caused the Corporation to raise yields on deposits in order to fund the asset base.

Provision for loan losses

The Corporation maintains an allowance for loan losses at a level considered by management to be adequate to cover the inherent losses associated with its loan portfolio, after giving consideration to changes in general market conditions, current charge-off experience, level of nonperforming loans and in the nature and volume of the Corporation's loan activity. The allowance for loan losses is based on estimates, and provisions are charged to operations during the period in which such additions are deemed necessary.

The provision charged to operations totaled $110,000 and $150,000 during the three months ended June 30, 2006 and 2005, respectively. See the "Asset Quality" section for a summary of allowance for loan losses and nonperforming assets. 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 and general market conditions.

Noninterest income

Noninterest income increased by $136,000, or 15.2%, from $896,000 for the three month period ended June 30, 2005 to $1.0 million for the comparable period in 2006. Income derived from the merchant credit card processing program increased by $54,000 due to an expanding merchant base and deposit related fees increased by $84,000 for the three month period ended June 30, 2006 compared to the same period for 2005 due to the implementation of an overdraft protection program. Offsetting these increases was a decrease in gain on mortgages sold of $38,000, caused by lower volume of loans originated for sale during the quarter ended June 30, 2006 when compared with the quarter ended June 30, 2005.

Noninterest expense

Noninterest expense increased by approximately $412,000, or 11.9%, to $3.9 million for the three months ended June 30, 2006, compared to $3.5 million for the same period in 2005. Salaries and employee benefits, the major component of noninterest expense, increased by $171,000, or 11.1%, during the three months ended June 30, 2006. This increase was due to general increases for merit and performance and increases in staffing to support the new Montville branch, the lending department and the executive administration. Occupancy and equipment expense increased by $117,000, or 27.7%, primarily to support the new Montville branch and the newly relocated Waldwick branch which opened in the fall of 2005. The increase in the merchant card processing business caused merchant processing expense to increase by $79,000 for the quarter ended June 30, 2006.

Income taxes

Income tax expense totaled $654,000 for the three months ended June 30, 2006, for an effective tax rate of 35.9%. For the three months ended June 30, 2005, income tax expense totaled $635,000, for an effective tax rate of 35.8%.

Asset Quality

The Corporation's principal earning assets are its loans to businesses and individuals located in northern New Jersey. Inherent in the lending function is the risk of deterioration in the borrowers' ability to repay their loans under their existing loan agreements. 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 the last four quarters:

	06/30/06	03/31/06	12/31/05	09/30/05
	(Dollars in Thousands)			
Nonaccrual loans: (1)	$ 258	$ 184	$ 472	$ 316
Loans past due 90 days or more: (2)	11	5	55	26
Restructured loans:	--	--	--	--
Total nonperforming loans	$ 269	$ 189	$ 527	$ 342
Allowance for loan losses	$ 4,011	$ 3,920	$ 3,299	$ 3,714
Nonaccrual loans to total loans	0.07%	0.05%	0.14%	0.09%
Nonperforming loans to total loans	0.08%	0.06%	0.15%	0.10%
Nonperforming loans to total assets	0.05%	0.04%	0.11%	0.07%
Allowance for loan losses to total loans	1.11%	1.13%	1.11%	1.14%

(1) Generally represents loans to which the payments of interest or principal are 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 to which payments of interest or principal are 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.

There were no loans at June 30, 2006 other than those included in the above table, where the Corporation was aware of any credit conditions of any borrowers that would indicate a strong possibility of the borrowers not complying with the present terms and conditions of repayment and which may result in such loans being included as non-accrual, past due or restructured at a future date.

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

Market Risk

The Corporation's primary exposure to market risk arises from changes in market interest rates ("interest rate risk"). The Corporation's profitability is largely dependent upon its ability to manage interest rate risk. Interest rate risk can be defined as the exposure of the Corporation's

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net interest income to adverse movements in interest rates. Although the Corporation manages other risks, such as credit and liquidity risk, in the normal course of its business, management considers interest rate risk to be its most significant market risk and it could potentially have the largest material effect on the Corporation's financial condition. The Corporation manages its interest rate risk by utilizing an asset/liability simulation model and by measuring and managing its interest sensitivity gap. Interest sensitivity gap is determined by analyzing the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within the same period of time. The Asset Liability Committee reviews and discusses these measurements on a monthly basis.

The Corporation does not have any material exposure to foreign currency exchange rate risk or commodity price risk. The Corporation did not enter into any market sensitive instruments for trading purposes nor did it engage in any hedging transactions utilizing derivative financial instruments during the six months ended June 30, 2006.

The Corporation is, however, a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These instruments, which include commitments to extend credit and standby letters of credit, involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statement of condition. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates and may require collateral from the borrower if deemed necessary by the Corporation. Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party up to a stipulated amount and with specified terms and conditions. Commitments to extend credit and standby letters of credit are not recorded on the Corporation's consolidated balance sheet until the instrument is exercised.

Capital Adequacy

The Corporation is subject to capital adequacy guidelines promulgated by the Board of Governors of the Federal Reserve System ("FRB"). The Bank is subject to similar capital adequacy requirements imposed by the Federal Deposit Insurance Corporation. The FRB has issued regulations to define the adequacy of capital based upon the sensitivity of assets and off-balance sheet exposures to risk factors. Four categories of risk weights (0%, 20%, 50%, and 100%) were established to be applied to different types of balance sheet assets and off-balance sheet exposures. The aggregate of the risk-weighted items (risk-based assets) is the denominator of the ratio, the numerator is risk-based capital. Under the regulations, risk-based capital has been classified into two categories. Tier 1 capital includes common and qualifying perpetual preferred stockholders' equity less goodwill. Tier 2 capital includes mandatory convertible debt, allowance for loan losses, subject to certain limitations, and certain subordinated and term debt securities. Total qualifying capital consists of Tier 1 capital and Tier 2 capital, however, the amount of Tier 2 capital may not exceed the amount of Tier 1 capital. At June 30, 2006, the

minimum risk-based capital requirements to be considered adequately capitalized were 4% for Tier 1 capital and 8% for total capital.

Federal banking regulators have also adopted leverage capital guidelines to supplement the risk-based measures. The leverage ratio is determined by dividing Tier 1 capital as defined under the risk-based guidelines by average total assets (non risk-adjusted) for the preceding quarter. At June 30, 2006 the minimum leverage ratio requirement to be considered well capitalized was 4%. The following table reflects the Corporation's capital ratios at June 30, 2006.

	Required	Actual	Excess
Risk-based Capital			
Tier 1	4.00%	11.27%	7.27%
Total	8.00%	12.31%	4.31%
Leverage Ratio	4.00%	8.97%	4.97%

Liquidity and Capital Resources

The Corporation's primary sources of funds are deposits, repayments 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 short-term investments, such as federal funds sold. The Corporation anticipates that it will have sufficient funds available to meet its current loan commitments. At June 30, 2006, the Corporation has outstanding loan commitments of $30.1 million and unused lines and letters of credit totaling $96.6 million. Certificates of deposit scheduled to mature in one year or less, at June 30, 2006, totaled $76.3 million. Management believes that a significant portion of such deposits will remain with the Corporation. Cash and cash equivalents decreased $97,000 during the first six months of 2006. Net operating and financing activities provided $3.0 million and $11.2 million, respectively, and investing activities used $14.3 million.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Disclosure about quantitative and qualitative market risk is located in the Market Risk section of Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 4. Controls and Procedures

The Corporation's management, with the participation of the Corporation's chief executive officer and principal accounting officer, has evaluated the effectiveness of the Corporation's disclosure controls and procedures as of June 30, 2006. Based on this evaluation, the Corporation's chief executive officer and principal accounting officer concluded that the Corporation disclosure controls and procedures are effective for recording, processing, summarizing and reporting the information the Corporation is required to disclose in the reports it files under the Securities Exchange Act of 1934, within the time periods specified in the SEC's rules and forms. Such evaluation did not identify any change in the Corporation's internal control over financial reporting that occurred during the period ended June 30, 2006 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Stewardship Financial Corporation
Part II -- Other Information

Item 1A. Risk Factors

There have been no material changes in risk factors described in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005.

Item 4. Submission of Matters to a Vote of Security Holders

The Corporation held an Annual Meeting of Shareholders on May 9, 2006. At that meeting, the Corporation's shareholders elected three directors for a three year term that will expire in May 2009, or until their successors are duly elected and qualified. The voting results were as follows:

	Votes for	Votes Withheld
Election of Director		
Robert J. Turner	3,529,228	17,992
William J. Vander Eems	3,539,680	7,539
Paul Van Ostenbridge	3,540,771	6,449

There were no broker non-votes on any of the above matters. The following individuals whose terms expire in either 2007 or 2008, or until their successors are duly elected and qualified, continue to serve as directors: William C. Hanse, Margo Lane, Arie Leegwater, John L. Steen, Harold Dyer, Abe Van Wingerden, Michael Westra and Howard Yeaton.

The shareholders reviewed and voted on the 2006 Director Stock Option Plan for Nonemployee Directors with 2,660,804 shares voting for, 357,351 shares voting against, 56,858 shares abstaining, and 463,206 broker non-votes.

The shareholders ratified the appointment of Crowe Chizek and Company LLC as the Corporation's independent auditors for the fiscal year ending December 31, 2006 with 3,530,062 shares voting for, 755 shares voting against, and 16,401 shares abstaining.

Item 6. Exhibits

(a) Exhibits

See Exhibit Index following this report.

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: August 14, 2006

By: /s/ Paul Van Ostenbridge

Paul Van Ostenbridge
President and Chief Executive Officer

(authorized officer on behalf of registrant)

Date: August 14, 2006	By: /s/ Julie E. Holland
	Julie E. Holland Senior Vice President and Treasurer (principal accounting officer)

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EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
31.1	Certification of Paul Van Ostenbridge required by Rule 13a-14(a) or Rule 15d-14(a)
31.2	Certification of Julie Holland required by Rule 13a-14(a) or Rule 15d-14(a)
32.1	Certification of Paul Van Ostenbridge and Julie Holland required by Rule 13a-14(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

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