

Edgar Filing: STERLING BANCORP - Form 10-Q

STERLING BANCORP  
Form 10-Q  
May 10, 2006

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2006

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-5273-1

Sterling Bancorp

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(Exact name of registrant as specified in its charter)

New York

13-2565216

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(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification)

650 Fifth Avenue, New York, N.Y.

10019-6108

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(Address of principal executive offices)

(Zip Code)

212-757-3300

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(Registrant's telephone number, including area code)

N/A

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(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  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

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

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As of April 30, 2006 there were 18,779,551 shares of common stock,  
\$1.00 par value, outstanding.

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STERLING BANCORP

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STERLING BANCORP AND SUBSIDIARIES  
Consolidated Balance Sheets  
(Unaudited)

|  | <u>March 31,<br/>2006</u> | <u>December 31,<br/>2005</u> |
|--|---------------------------|------------------------------|
| <b>ASSETS</b>  |                           |                              |
| Cash and due from banks  | \$ 53,311,689             | \$ 69,148,683                |
| Interest-bearing deposits with other banks   | 1,646,956                 | 1,212,227                    |
| Securities available for sale (at estimated fair value; pledged: \$116,110,512 in 2006 and \$111,233,053 in 2005)  | 170,963,779               | 201,259,112                  |
| Securities held to maturity (pledged: \$307,564,946 in 2006 and \$301,246,338 in 2005) (estimated fair value: \$482,433,984 in 2006 and \$504,514,084 in 2005) | 497,166,317               | 514,039,476                  |
| Total investment securities  | <u>668,130,096</u>        | <u>715,298,588</u>           |
| Loans held for sale  | <u>36,920,902</u>         | <u>40,977,538</u>            |
| Loans held in portfolio, net of unearned discounts   | 1,088,347,398             | 1,128,799,286                |
| Less allowance for loan losses   | 16,405,193                | 16,517,330                   |
| Loans, net   | <u>1,071,942,205</u>      | <u>1,112,281,956</u>         |
| Customers liability under acceptances  | 159,870                   | 589,667                      |
| Excess cost over equity in net assets of the banking subsidiary  | 21,158,440                | 21,158,440                   |
| Premises and equipment, net  | 10,695,606                | 10,903,870                   |
| Other real estate  | 1,298,346                 | 859,541                      |
| Accrued interest receivable  | 5,641,011                 | 6,116,107                    |
| Bank owned life insurance  | 27,184,635                | 26,964,575                   |
| Other assets   | 47,880,952                | 50,531,294                   |
|  | <u>\$ 1,945,970,708</u>   | <u>\$ 2,056,042,486</u>      |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>   |                           |                              |
| Deposits   |                           |                              |
| Demand deposits  | \$ 483,001,128            | \$ 510,883,966               |
| Savings, NOW and money market deposits   | 404,914,020               | 436,173,517                  |
| Time deposits  | 525,092,399               | 501,268,657                  |
| Total deposits   | <u>1,413,007,547</u>      | <u>1,448,326,140</u>         |
| Securities sold under agreements to repurchase - customers   | 63,179,113                | 61,067,073                   |
| Securities sold under agreements to repurchase - dealers   | 68,592,000                | 88,729,000                   |
| Federal funds purchased  |                           | 55,000,000                   |
| Commercial paper   | 43,092,355                | 38,191,016                   |
| Short-term borrowings - FHLB   | 55,900,000                | 35,000,000                   |
| Short-term borrowings - other  | 103,893                   | 3,851,246                    |
| Long-term borrowings - FHLB  | 50,000,000                | 60,000,000                   |
| Long-term borrowings - subordinated debentures   | 25,774,000                | 25,774,000                   |
| Total borrowings   | <u>306,641,361</u>        | <u>367,612,335</u>           |

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|  |                  |                  |
|--|------------------|------------------|
| Acceptances outstanding  | 159,870          | 589,667          |
| Accrued expenses and other liabilities   | 77,834,684       | 91,926,784       |
| Total liabilities  | 1,797,643,462    | 1,908,454,926    |
| Shareholders' equity   |                  |                  |
| Common stock, \$1 par value. Authorized 50,000,000 shares; issued 21,085,665 and 21,066,916 shares, respectively | 21,085,665       | 21,066,916       |
| Capital surplus  | 166,848,562      | 166,313,566      |
| Retained earnings  | 23,617,104       | 20,739,352       |
| Accumulated other comprehensive loss, net of tax   | (6,212,117)      | (5,229,620)      |
|  | 205,339,214      | 202,890,214      |
| Less   |                  |                  |
| Common shares in treasury at cost, 2,320,242 and 2,231,442 shares, respectively                                  | 57,011,968       | 55,280,647       |
| Unearned compensation  |                  | 22,007           |
| Total shareholders' equity   | 148,327,246      | 147,587,560      |
|  | \$ 1,945,970,708 | \$ 2,056,042,486 |

See Notes to Consolidated Financial Statements.

STERLING BANCORP AND SUBSIDIARIES  
Consolidated Statements of Income  
(Unaudited)

|   | Three Months Ended<br>March 31, |                   |
|---|---------------------------------|-------------------|
|   | 2006                            | 2005              |
| <b>INTEREST INCOME</b>                              |                                 |                   |
| Loans   | \$ 22,025,242                   | \$ 18,376,415     |
| Investment securities                               |                                 |                   |
| Available for sale                                  | 2,201,786                       | 2,501,644         |
| Held to maturity                                    | 5,743,474                       | 5,210,223         |
| Federal funds sold                                  | 39,985                          | 109,861           |
| Deposits with other banks                           | 30,081                          | 6,183             |
|   | <u>30,040,568</u>               | <u>26,204,326</u> |
| <b>INTEREST EXPENSE</b>                             |                                 |                   |
| Deposits  |                                 |                   |
| Savings, NOW and money market                       | 1,782,920                       | 629,257           |
| Time  | 4,460,851                       | 2,822,338         |
| Securities sold under agreements to repurchase      |                                 |                   |
| - customers   | 694,848                         | 337,035           |
| - dealers   | 983,988                         | 248,612           |
| Federal funds purchased                             | 135,140                         | 20,782            |
| Commercial paper                                    | 404,601                         | 160,066           |
| Short-term borrowings - FHLB                        | 193,168                         |                   |
| Short-term borrowings - other                       | 10,412                          | 5,003             |
| Long-term borrowings - FHLB                         | 586,351                         | 955,516           |
| Long-term borrowings - subordinated debt            | 523,438                         | 523,437           |
|   | <u>9,775,717</u>                | <u>5,702,046</u>  |
| Total interest expense                              | 9,775,717                       | 5,702,046         |
| Net interest income                                 | 20,264,851                      | 20,502,280        |
| Provision for loan losses                           | 2,565,000                       | 2,648,500         |
|   | <u>17,699,851</u>               | <u>17,853,780</u> |
| Net interest income after provision for loan losses | 17,699,851                      | 17,853,780        |
| <b>NONINTEREST INCOME</b>                           |                                 |                   |
| Customer related service charges and fees           | 3,640,089                       | 3,401,184         |
| Mortgage banking income                             | 2,216,552                       | 3,875,847         |
| Trust fees  | 151,722                         | 172,278           |
| Bank owned life insurance income                    | 220,060                         | 250,014           |
| Securities (losses) /gains                          | (459,497)                       | 196,680           |
| Other income  | 113,585                         | 100,197           |
|   | <u>5,882,511</u>                | <u>7,996,200</u>  |
| Total noninterest income                            | 5,882,511                       | 7,996,200         |
| <b>NONINTEREST EXPENSES</b>                         |                                 |                   |
| Salaries  | 8,305,809                       | 8,156,603         |
| Employee benefits                                   | 2,956,607                       | 1,750,205         |
|   | <u>11,262,416</u>               | <u>9,906,808</u>  |
| Total personnel expense                             | 11,262,416                      | 9,906,808         |

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|   |                   |                   |
|---|-------------------|-------------------|
| Occupancy and equipment expenses, net       | 2,316,168         | 2,078,840         |
| Advertising and marketing                   | 1,034,198         | 1,116,323         |
| Professional fees                           | 1,923,740         | 1,531,179         |
| Communications                              | 431,714           | 383,281           |
| Other expenses                              | 2,399,586         | 1,959,997         |
|   | <u>19,367,822</u> | <u>16,976,428</u> |
| Total noninterest expenses                  |                   |                   |
| Income before income taxes                  | 4,214,540         | 8,873,552         |
| Provision for income taxes                  | (2,225,593)       | 3,106,829         |
|   | <u>6,440,133</u>  | <u>5,766,723</u>  |
| Net income                                  | \$                | \$                |
|   |                   |                   |
| Average number of common shares outstanding |                   |                   |
| Basic                                       | 18,783,299        | 19,163,777        |
| Diluted                                     | 19,345,614        | 19,820,240        |
| Earnings per average common share           |                   |                   |
| Basic                                       | \$ 0.34           | \$ 0.30           |
| Diluted                                     | 0.33              | 0.29              |
| Dividends per common share                  | 0.19              | 0.18              |

See Notes to Consolidated Financial Statements.

STERLING BANCORP AND SUBSIDIARIES  
 Consolidated Statements of Comprehensive Income  
 (Unaudited)

|  | Three Months Ended<br>March 31, |                             |
|--|---------------------------------|-----------------------------|
|  | 2006                            | 2005                        |
|  | <u>                    </u>     | <u>                    </u> |
| Net Income   | \$ 6,440,133                    | \$ 5,766,723                |
| Other comprehensive income, net of tax:                                |                                 |                             |
| Unrealized holding losses arising during the period                    | (1,234,347)                     | (2,236,146)                 |
| Reclassification adjustment for losses /(gains) included in net income | 251,850                         | (106,404)                   |
|  | <u>                    </u>     | <u>                    </u> |
| Comprehensive income   | <u>\$ 5,457,636</u>             | <u>\$ 3,424,173</u>         |

*See Notes to Consolidated Financial Statements.*



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STERLING BANCORP AND SUBSIDIARIES  
Consolidated Statements of Changes in Shareholders' Equity  
(Unaudited)

|  | Three Months Ended<br>March 31, |                 |
|--|---------------------------------|-----------------|
|  | 2006                            | 2005            |
| <b>Common Stock</b>  |                                 |                 |
| Balance at January 1   | \$ 21,066,916                   | \$ 19,880,521   |
| Common shares issued under stock incentive plan                          | 18,749                          | 64,487          |
| Balance at March 31  | \$ 21,085,665                   | \$ 19,945,008   |
| <b>Capital Surplus</b>   |                                 |                 |
| Balance at January 1   | \$ 166,313,566                  | \$ 145,310,745  |
| Common shares issued under stock incentive plan and related tax benefits | 534,996                         | 952,292         |
| Balance at March 31  | \$ 166,848,562                  | \$ 146,263,037  |
| <b>Retained Earnings</b>   |                                 |                 |
| Balance at January 1   | \$ 20,739,352                   | \$ 28,664,568   |
| Net Income   | 6,440,133                       | 5,766,723       |
| Cash dividends paid - common shares                                      | (3,562,381)                     | (3,458,540)     |
| Balance at March 31  | \$ 23,617,104                   | \$ 30,972,751   |
| <b>Accumulated Other Comprehensive Income</b>                            |                                 |                 |
| Balance at January 1   | \$ (5,229,620)                  | \$ (1,921,060)  |
| Unrealized holding losses arising during the period:                     |                                 |                 |
| Before tax   | (2,040,054)                     | (4,133,362)     |
| Tax effect   | 805,707                         | 1,897,216       |
| Net of tax   | (1,234,347)                     | (2,236,146)     |
| Reclassification adjustment for losses/(gains) included in net income:   |                                 |                 |
| Before tax   | 459,497                         | (196,680)       |
| Tax effect   | (207,647)                       | 90,276          |
| Net of tax   | 251,850                         | (106,404)       |
| Balance at March 31  | \$ (6,212,117)                  | \$ (4,263,610)  |
| <b>Treasury Stock</b>  |                                 |                 |
| Balance at January 1   | \$ (55,280,647)                 | \$ (42,939,969) |
| Purchase of common shares  | (1,525,999)                     |                 |
| Surrender of shares issued under incentive compensation plan             | (205,322)                       | (249,038)       |
| Balance at March 31  | \$ (57,011,968)                 | \$ (43,189,007) |
| <b>Unearned Compensation</b>   |                                 |                 |
| Balance at January 1   | \$ (22,007)                     | \$ (291,212)    |
| Amortization of unearned compensation                                    | 22,007                          | 71,169          |

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|                               |                |                |
|-------------------------------|----------------|----------------|
| Balance at March 31           | \$             | \$ (220,043)   |
| <hr/>                         |                |                |
| Total Shareholders' Equity    |                |                |
| Balance at January 1          | \$ 147,587,560 | \$ 148,703,593 |
| Net changes during the period | 739,686        | 804,543        |
| <hr/>                         |                |                |
| Balance at March 31           | \$ 148,327,246 | \$ 149,508,136 |
| <hr/>                         |                |                |

*See Notes to Consolidated Financial Statements.*

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STERLING BANCORP AND SUBSIDIARIES  
Consolidated Statements of Cash Flows  
(Unaudited)

|   | Three Months Ended<br>March 31, |                     |
|---|---------------------------------|---------------------|
|   | 2006                            | 2005                |
| <b>Operating Activities</b>   |                                 |                     |
| Net Income  | \$ 6,440,133                    | \$ 5,766,723        |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                                 |                     |
| Provision for loan losses   | 2,565,000                       | 2,648,500           |
| Depreciation and amortization of premises and equipment                                     | 523,763                         | 454,454             |
| Securities losses (gains)   | 459,497                         | (196,680)           |
| Income from bank owned life insurance   | (220,060)                       | (250,014)           |
| Deferred income tax provision (benefit)   | 2,066,068                       | (189,692)           |
| Proceeds from sale of loans   | 149,510,690                     | 140,503,978         |
| Gains on sales of loans, net  | (2,216,552)                     | (3,875,847)         |
| Originations of loans held for sale   | (143,237,502)                   | (126,184,313)       |
| Amortization of unearned compensation   | 22,007                          | 71,169              |
| Amortization of premiums on securities  | 166,781                         | 266,241             |
| Accretion of discounts on securities  | (108,547)                       | (148,267)           |
| Decrease (Increase) in accrued interest receivable  | 475,096                         | (382,324)           |
| Decrease in accrued expenses and other liabilities  | (14,092,100)                    | (10,624,338)        |
| Decrease (Increase) in other assets   | 1,222,432                       | (2,415,307)         |
| Other, net  | 111,857                         | (636,733)           |
| <b>Net cash provided by operating activities</b>  | <b>3,688,563</b>                | <b>4,807,550</b>    |
| <b>Investing Activities</b>   |                                 |                     |
| Purchase of premises and equipment  | (315,499)                       | (506,702)           |
| Net increase in interest-bearing deposits with other banks                                  | (434,729)                       | (2,759,760)         |
| Net increase in Federal funds sold  |                                 | (35,000,000)        |
| Net decrease in loans held in portfolio   | 37,774,751                      | 43,483,901          |
| (Increase) Decrease in other real estate  | (438,805)                       | 232,238             |
| Proceeds from prepayments, redemptions or maturities of securities - held to maturity       | 16,953,372                      | 22,878,255          |
| Purchases of securities - held to maturity  | (115,870)                       | (63,978,499)        |
| Proceeds from sales of securities - available for sale                                      | 24,538,500                      | 2,932,250           |
| Proceeds from prepayments, redemptions or maturities of securities - available for sale     | 7,130,721                       | 16,658,176          |
| Purchases of securities - available for sale  | (3,506,991)                     | (8,361,260)         |
| <b>Net cash provided by (used in) investing activities</b>                                  | <b>81,585,450</b>               | <b>(24,421,401)</b> |
| <b>Financing Activities</b>   |                                 |                     |
| Net (decrease) increase in deposits   | (35,318,593)                    | 44,731,374          |
| Net decrease in borrowings  | (60,970,974)                    | (4,949,461)         |
| Purchase of treasury stock  | (1,525,999)                     |                     |
| Proceeds from exercise of stock options   | 266,940                         | 1,016,779           |
| Cash dividends paid on common stock   | (3,562,381)                     | (3,458,540)         |
| <b>Net cash (used in) provided by financing activities</b>                                  | <b>(101,111,007)</b>            | <b>37,340,152</b>   |
| <b>Net (decrease) increase in cash and due from banks</b>                                   | <b>(15,836,994)</b>             | <b>17,726,301</b>   |

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|   |               |               |
|---|---------------|---------------|
| Cash and due from banks - beginning of period | 69,148,683    | 48,842,418    |
| Cash and due from banks - end of period       | \$ 53,311,689 | \$ 66,568,719 |
| Supplemental disclosures:                     |               |               |
| Interest paid                                 | \$ 10,079,286 | \$ 5,584,920  |
| Income taxes paid                             | 1,767,655     | 7,756,600     |

*See Notes to Consolidated Financial Statements.*

STERLING BANCORP AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
(Unaudited)

- The consolidated financial statements include the accounts of Sterling Bancorp (the parent company) and its subsidiaries, principally Sterling National Bank and its subsidiaries (the bank), after elimination of material intercompany transactions. The term the Company refers to Sterling Bancorp and its subsidiaries. The consolidated financial statements as of and for the interim periods ended March 31, 2006 and 2005 are unaudited; however, in the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of such periods have been made. Certain reclassifications have been made to the 2005 consolidated financial statements to conform to the current presentation. The interim consolidated financial statements should be read in conjunction with the Company's annual report on Form 10-K for the year ended December 31, 2005. The Company effected a 5% stock dividend on December 12, 2005. Fractional shares were cashed-out and payments were made to shareholders in lieu of fractional shares. All capital and share amounts as well as basic and diluted average number of shares outstanding and earnings per average common share information for all prior reporting periods have been restated to reflect the effect of the stock dividend.
- At March 31, 2006, the Company has a stock-based employee compensation plan, which is described more fully in Note 1 and Note 14 to the consolidated financial statements in the Company's annual report on Form 10-K for the year ended December 31, 2005. Prior to January 1, 2006, the Company accounted for this plan under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based employee compensation cost was reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. In accordance with Statement of Financial Accounting Standards (SFAS) No. 148, the following table illustrates the effect on net income and earnings per average common share if the Company had applied the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, to the stock-based employee compensation plans.

| <u>Three Months Ended March 31,</u>   | <u>2005</u>         |
|---|---------------------|
| Net income available for common shareholders  | \$ 5,766,723        |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (61,395)            |
| Pro forma, net income   | <u>\$ 5,705,328</u> |
| Earnings per average common share:  |                     |
| Basic- as reported  | \$ 0.30             |
| Basic- pro forma  | 0.30                |
| Diluted- as reported  | 0.29                |
| Diluted- pro forma  | 0.29                |

As of January 1, 2006, the Company adopted SFAS No. 123R, *Share-Based Payment*, which among other provisions, eliminated the ability to account for stock-based compensation using APB 25 and requires that such transactions be recognized as compensation cost in the income statement for awards expected to be vested based on their fair values on the measurement date, which is generally the date of the grant. There are no outstanding stock-based awards for which compensation expense would have been recognized under the provisions of SFAS No. 123R.

STERLING BANCORP AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
(Unaudited)

3. The major components of domestic loans held for sale and loans held in portfolio are as follows:

|  | March 31,        |                |
|--|------------------|----------------|
|  | 2006             | 2005           |
| Loans held for sale                                |                  |                |
| Real estate-residential mortgage                   | \$ 36,920,902    | \$ 26,614,855  |
| Loans held in portfolio                            |                  |                |
| Commercial and industrial                          | \$ 597,143,536   | \$ 556,229,669 |
| Lease financing                                    | 236,788,980      | 186,476,009    |
| Real estate-residential mortgage                   | 144,790,296      | 126,004,021    |
| Real estate-commercial mortgage                    | 109,719,611      | 115,513,907    |
| Real estate-construction                           | 2,309,103        | 2,313,541      |
| Installment  | 14,189,315       | 13,372,051     |
| Loans to depository institutions                   | 15,000,000       |                |
| Loans held in portfolio, gross                     | 1,119,940,841    | 999,909,198    |
| Less unearned discounts                            | 31,593,443       | 23,301,243     |
| Loans held in portfolio, net of unearned discounts | \$ 1,088,347,398 | \$ 976,607,955 |

4. SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, established standards for the way that public business enterprises report and disclose selected information about operating segments in interim financial statements provided to stockholders.

The Company provides a broad range of financial products and services, including commercial loans, asset-based financing, factoring and accounts receivable management services, trade financing, equipment leasing, corporate and consumer deposit services, commercial and residential mortgage lending and brokerage, trust and estate administration and investment management services. The Company's primary source of earnings is net interest income, which represents the difference between interest earned on interest-earning assets and the interest incurred on interest-bearing liabilities. The Company's 2006 year-to-date average interest-earning assets were 60.4% loans (corporate lending was 40.6% and real estate lending was 17.4% of total loans, respectively) and 39.3% investment securities and money market investments. There are no industry concentrations exceeding 10% of loans, gross, in the corporate lending segment.

Approximately 67% of loans are to borrowers located in the metropolitan New York area. In order to comply with the provisions of SFAS No. 131, the Company has determined that it has three reportable operating segments: corporate lending, real estate lending and company-wide treasury.

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STERLING BANCORP AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
(Unaudited)

The following tables provide certain information regarding the Company's operating segments for the three-month periods ended March 31, 2006 and 2005:

|  | <u>Corporate<br/>Lending</u> | <u>Real Estate<br/>Lending</u> | <u>Company-wide<br/>Treasury</u> | <u>Totals</u> |
|--|------------------------------|--------------------------------|----------------------------------|---------------|
| <b>Three Months Ended March 31, 2006</b> |                              |                                |                                  |               |
| Net interest income                      | \$ 9,981,955                 | \$ 5,424,633                   | \$ 4,586,401                     | \$ 19,992,989 |
| Noninterest income                       | 3,249,126                    | 2,315,471                      | (161,649)                        | 5,402,948     |
| Depreciation and amortization            | 107,190                      | 100,731                        | 614                              | 208,535       |
| Segment income before taxes              | 4,751,320                    | 2,923,638                      | 4,294,289                        | 11,969,247    |
| Segment assets                           | 802,879,075                  | 342,949,424                    | 770,803,911                      | 1,916,632,410 |
| <b>Three Months Ended March 31, 2005</b> |                              |                                |                                  |               |
| Net interest income                      | \$ 9,715,366                 | \$ 4,854,012                   | \$ 5,719,571                     | \$ 20,288,949 |
| Noninterest income                       | 2,963,485                    | 3,937,645                      | 524,293                          | 7,425,423     |
| Depreciation and amortization            | 92,809                       | 88,960                         | 606                              | 182,375       |
| Segment income before taxes              | 4,891,636                    | 5,099,503                      | 6,073,417                        | 16,064,556    |
| Segment assets                           | 704,110,583                  | 317,412,358                    | 857,394,953                      | 1,878,917,894 |

The following table sets forth reconciliations of net interest income, noninterest income, profits and assets of reportable operating segments to the Company's consolidated totals:

|   | <b>Three Months Ended March 31,</b> |                  |
|---|-------------------------------------|------------------|
|   | <u>2006</u>                         | <u>2005</u>      |
| <b>Net interest income:</b>             |                                     |                  |
| Total for reportable operating segments | \$ 19,992,989                       | \$ 20,288,949    |
| Other <sup>[1]</sup>                    | 271,862                             | 213,331          |
| Consolidated net interest income        | \$ 20,264,851                       | \$ 20,502,280    |
| <b>Noninterest income:</b>              |                                     |                  |
| Total for reportable operating segments | \$ 5,402,948                        | \$ 7,425,423     |
| Other <sup>[1]</sup>                    | 479,563                             | 570,777          |
| Consolidated noninterest income         | \$ 5,882,511                        | \$ 7,996,200     |
| <b>Income before taxes:</b>             |                                     |                  |
| Total for reportable operating segments | \$ 11,969,247                       | \$ 16,064,556    |
| Other <sup>[1]</sup>                    | (7,754,707)                         | (7,191,004)      |
| Consolidated income before income taxes | \$ 4,214,540                        | \$ 8,873,552     |
| <b>Assets:</b>                          |                                     |                  |
| Total for reportable operating segments | \$ 1,916,632,410                    | \$ 1,878,917,894 |

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|                      |                  |                  |
|----------------------|------------------|------------------|
| Other <sup>[1]</sup> | 29,338,298       | 22,334,362       |
|                      | <hr/>            | <hr/>            |
| Consolidated assets  | \$ 1,945,970,708 | \$ 1,901,252,256 |
|                      | <hr/>            | <hr/>            |

*[1] Represents operations not considered to be a reportable segment and/or general operating expenses of the Company.*



STERLING BANCORP AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
(Unaudited)

5. The following information is provided in connection with the sales of available for sale securities:

| Three Months Ended March 31, | 2006          | 2005         |
|------------------------------|---------------|--------------|
| Proceeds                     | \$ 24,538,500 | \$ 2,932,250 |
| Gross Gains                  |               | 196,680      |
| Gross Losses                 | 459,497       |              |

6. The following table sets forth components of net periodic benefit cost for the Company's noncontributory defined benefit pension plan and unfunded supplemental retirement plan:

| Three Months Ended March 31,                   | 2006       | 2005       |
|--|------------|------------|
| <b>COMPONENTS OF NET PERIODIC BENEFIT COST</b> |            |            |
| Service cost                                   | \$ 467,499 | \$ 403,843 |
| Interest cost                                  | 616,900    | 509,493    |
| Expected return on plan assets                 | (542,976)  | (442,549)  |
| Amortization of prior service cost             | 19,691     | 19,116     |
| Recognized actuarial loss                      | 336,918    | 207,354    |
| Net periodic benefit cost                      | \$ 898,032 | \$ 697,257 |

The Company previously disclosed in its financial statements for the year ended December 31, 2005, that it expected to contribute approximately \$1,000,000 to the defined benefit pension plan in 2006. No contribution has been made as of March 31, 2006.

7. In February 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*, ( SFAS No. 155 ). SFAS No. 155 amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* ( SFAS No. 140 ). SFAS No. 155 (1) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (2) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, (3) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, (4) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and (5) 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. This statement is effective for all financial instruments acquired or issued after the beginning of the Company's first fiscal year that begins after September 15, 2006. The Company is still in the process of analyzing the impact of SFAS No. 155 on its financial statements.

In March 2006, FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets* ( SFAS No. 156 ). This statement amends SFAS No. 140 with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156 requires companies to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract. The statement permits a company to choose either the amortized cost method or fair value measurement method for each class of separately recognized

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servicing assets or servicing liabilities. This statement is effective as of the beginning of the Company's first fiscal year that begins after September 15, 2006. The Company is still in the process of analyzing the impact of SFAS No. 156 on its financial statements.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following commentary presents management's discussion and analysis of the financial condition and results of operations of Sterling Bancorp (the "parent company"), a financial holding company under the Gramm-Leach-Bliley Act of 1999, and its subsidiaries, principally Sterling National Bank (the "bank"). Throughout this discussion and analysis, the term the "Company" refers to Sterling Bancorp and its subsidiaries. This discussion and analysis should be read in conjunction with the consolidated financial statements and supplemental data contained elsewhere in this quarterly report and the Company's annual report on Form 10-K for the year ended December 31, 2005. Certain reclassifications have been made to prior years' financial data to conform to current financial statement presentations as well as to reflect the effect of the 5% stock dividend effected on December 12, 2005.

**OVERVIEW**

The Company provides a broad range of financial products and services, including business and consumer loans, commercial and residential mortgage lending and brokerage, asset-based financing, factoring/accounts receivable management services, deposit services, trade financing, equipment leasing, trust and estate administration, and investment management services. The Company has operations in the metropolitan New York area, New Jersey, Virginia and North Carolina and conducts business throughout the United States. The general state of the U.S. economy and, in particular, economic and market conditions in the metropolitan New York area have a significant impact on loan demand, the ability of borrowers to repay these loans and the value of any collateral securing these loans and may also affect deposit levels. Accordingly, future general economic conditions are a key uncertainty that management expects will materially affect the Company's results of operations.

For the three months ended March 31, 2006, the bank's average earning assets represented approximately 96.3% of the Company's average earning assets. Loans represented 58.9% and investment securities represented 40.8% of the bank's average earning assets for the first quarter of 2006.

The Company's primary source of earnings is net interest income, and its principal market risk exposure is interest rate risk. The Company is not able to predict market interest rate fluctuations, and its asset-liability management strategy may not prevent interest rate changes from having a material adverse effect on the Company's results of operations and financial condition.

Although management endeavors to minimize the credit risk inherent in the Company's loan portfolio, it must necessarily make various assumptions and judgments about the collectibility of the loan portfolio based on its experience and evaluation of economic conditions. If such assumptions or judgments prove to be incorrect, the current allowance for loan losses may not be sufficient to cover loan losses and additions to the allowance may be necessary, which would have a negative impact on net income.

There is intense competition in all areas in which the Company conducts its business. The Company competes with banks and other financial institutions, including savings and loan associations, savings banks, finance companies and credit unions. Many of these competitors have substantially greater resources and lending limits and provide a wider array of banking services. To a limited extent, the Company also competes with other providers of financial services, such as money market mutual funds, brokerage firms, consumer finance companies and insurance companies. Competition is based on a number of factors, including prices, interest rates, service, availability of products, and geographic location.

The Company regularly evaluates acquisition opportunities and conducts due diligence activities in connection with possible acquisitions. As a result, acquisition discussions, and in some cases negotiations, regularly take place and future acquisitions could occur.

#### **INCOME STATEMENT ANALYSIS**

Net interest income, which represents the difference between interest earned on interest-earning assets and interest incurred on interest-bearing liabilities, is the Company's primary source of earnings. Net interest income can be affected by changes in market interest rates as well as the level and composition of assets, liabilities and shareholders' equity. Net interest spread is the difference between the average rate earned, on a tax-equivalent basis, on interest-earning assets and the average rate paid on interest-bearing liabilities. The net yield on interest-earning assets ( net interest margin ) is calculated by dividing tax-equivalent net interest income by average interest-earnings assets. Generally, the net interest margin will exceed the net interest spread because a portion of interest-earning assets are funded by various noninterest-bearing sources, principally noninterest-bearing deposits and shareholders' equity. The increases (decreases) in the components of interest income and interest expense, expressed in terms of fluctuation in average volume and rate, are provided in the Rate/Volume Analysis shown on Page 23. Information as to the components of interest income and interest expense and average rates is provided in the Average Balance Sheets shown on page 22.

#### **Comparison of the Three Months Ended March 31, 2006 and 2005**

The Company reported net income for the three months ended March 31, 2006 of \$6.4 million, representing \$0.33 per share, calculated on a diluted basis, compared to \$5.8 million, or \$0.29 per share calculated on a diluted basis, for the first quarter of 2005. This increase reflects a lower provision for income taxes and higher interest income which were partially offset by increases in interest and noninterest expenses coupled with a decrease in noninterest income.

*Net Interest Income*

Net interest income on a tax-equivalent basis, was \$20.5 million for the first quarter of 2006 compared to \$20.7 million for the 2005 period, due to higher rates paid on interest-bearing deposit balances and borrowings partially offset by higher earning assets outstanding coupled with higher average yield on loans. The net interest margin, on a tax-equivalent basis, was 4.58% for the first three months of 2006 compared to 4.91% for the 2005 period. The decrease in the net interest margin was primarily the result of the impact of the flattening of the yield curve, the higher interest rate environment in 2006, and minimal growth of noninterest-bearing demand deposits partially offset by the impact of higher average loan outstandings.

Total interest income, on a tax-equivalent basis, aggregated \$30.2 million for the first three months of 2006, up from \$26.4 million for the 2005 period. The tax-equivalent yield on interest-earning assets was 6.85% for the first quarter of 2006 compared to 6.32% for the 2005 period.

Interest earned on the loan portfolio amounted to \$22.0 million for the first three months of 2006, up \$3.6 million from a year ago. Average loan balances amounted to \$1,089.5 million, an increase of \$96.5 million from an average of \$993.0 million in the prior year period. The increase in average loans (across virtually all segments of the Company's loan portfolio), primarily due to the Company's business development activities and the ongoing consolidation of banks in the Company's marketing area, accounted for \$1.9 million of the \$3.6 million increase in interest earned on loans. The increase in the yield on the domestic loan portfolio to 8.42% for the first quarter of 2006 from 7.72% for the 2005 period was primarily attributable to the mix of average outstanding balances among the components of the loan portfolio and the higher interest rate environment in 2006.

Interest earned on the securities portfolio, on a tax-equivalent basis, increased to \$8.2 million for the first quarter of 2006 from \$7.9 million in the prior year period. Average outstandings increased to \$708.7 million (39.3% of average earning assets) for the first quarter of 2006 from \$692.6 million (40.6% of average earning assets) in the prior year period. The average life of the securities portfolio was approximately 4.6 years at March 31, 2006 compared to 4.3 years at March 31, 2005, reflecting the impact of purchases primarily during the second and fourth quarters of 2005. In addition, approximately \$25,000,000 of Federal Home Loan Bank and Federal Farm Credit Bank securities with an average life of less than one year and a weighted average yield of less than 3.00% were sold during the 2006 quarter providing funding for the acquisition of higher yielding loans.

Total interest expense increased by \$4.1 million for the first three months of 2006 from \$5.7 million for the 2005 period, primarily due to higher rates paid for interest-bearing deposits and for borrowed funds and higher average balances for interest-bearing deposits and for borrowed funds.

Interest expense on deposits increased to \$6.2 million for the first quarter of 2006 from \$3.5 million for the 2005 period due to an increase in average balances, primarily for NOW, money market and time deposits, coupled with an

increase in the cost of those funds. Average interest-bearing deposit balances increased to \$975.8 million for the first quarter of 2006 from \$894.2 million in the 2005 period primarily as a result of the Company's branching initiatives and other business development activities. Average rate paid on interest-bearing deposits was 2.60% which was 103 basis points higher than the prior year period. The increase in average cost of deposits reflects the higher interest rate environment during 2006.

Interest expense on borrowings increased to \$3.5 million for the first quarter of 2006 from \$2.3 million for the 2005 period due to an increase in the cost of those funds coupled with higher average balances. The average rate paid in borrowings was 4.51% which was 135 basis points higher than the prior year period. The increase in average cost of borrowings reflects the higher interest rate environment during 2006. Average borrowing balances increased to \$316.8 million for the first quarter of 2006 from \$286.5 million on the 2005 period.

#### *Noninterest Income*

Noninterest income decreased to \$5.9 million for the first quarter of 2006 from \$8.0 million in the 2005 period, primarily due to lower mortgage banking income and higher losses on sales of available for sale securities. Partially offsetting these decreases were higher customer related service charges and fees for deposit services. Despite an increase of 5.4% in residential loan volume closed in the first quarter, the Company's mortgage banking income continued to show the impact of yield compression in the secondary mortgage market.

#### *Noninterest Expenses*

Noninterest expenses increased \$2.4 million for the first quarter of 2006 when compared to the 2005 period. The increase was primarily due to higher employee benefit expenses, primarily due to timing differences in connection with insurance costs and payroll taxes, and higher professional fees related to compliance efforts.

#### *Provision for Income Taxes*

The provision for income taxes decreased by \$5.3 million to a credit of \$2.2 million for the first quarter of 2006 from an expense of \$3.1 million for the 2005 period. The decrease was due to a \$3.7 million reversal of reserves for state and local taxes, net of federal tax effect, as the result of the resolution of certain state tax issues and to the lower level of pre-tax income.

### **BALANCE SHEET ANALYSIS**

#### *Securities*

The Company's securities portfolios are comprised principally of mortgage-backed securities of U.S. government corporations and government sponsored enterprises, and obligations of state and political institutions, along with other debt and equity securities. At March 31, 2006, the Company's portfolio of securities totaled \$668.1 million, of which mortgage-backed securities and collateralized mortgage obligations of U.S. government corporations and government sponsored enterprises having an average life of approximately 5.0 years amounted to \$583.0 million. The Company has the intent and ability to hold to maturity securities classified as held to maturity. These securities are carried at cost, adjusted

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for amortization of premiums and accretion of discounts. The gross unrealized gains and losses on held to maturity securities were \$0.7 million and \$15.4 million, respectively. Securities classified as available for sale may be sold in the future, prior to maturity. These securities are carried at market value. Net aggregate unrealized gains or losses on these securities are included in a valuation allowance account and are shown net of taxes, as a component of shareholders' equity. Given the generally high credit quality of the portfolio, management expects to realize all of its investment upon the maturity of such instruments and thus believes that any market value impairment is temporary. Available for sale securities included gross unrealized gains of \$0.4 million and gross unrealized losses of \$6.2 million.

The following table presents information regarding securities available for sale:

| March 31, 2006                                  | Gross<br>Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Market<br>Value |
|---|----------------------------|------------------------------|-------------------------------|-----------------|
| Mortgage-backed securities                      |                            |                              |                               |                 |
| CMOs (Federal National Mortgage Corporation)    | \$ 9,089,388               | \$                           | \$ 638,923                    | \$ 8,450,465    |
| CMOs (Federal Home Loan Mortgage Company)       | 23,568,021                 |                              | 1,386,908                     | 22,181,113      |
| Federal National Mortgage Association           | 50,736,546                 | 27,528                       | 1,928,035                     | 48,836,039      |
| Federal Home Loan Mortgage Company              | 49,026,196                 | 6,797                        | 1,989,048                     | 47,043,945      |
| Government National Mortgage Association        | 5,160,277                  | 147,164                      | 5,896                         | 5,301,545       |
| Total mortgage-backed securities                | 137,580,428                | 181,489                      | 5,948,810                     | 131,813,107     |
| Obligations of state and political institutions | 31,317,496                 | 186,324                      | 248,832                       | 31,254,988      |
| Federal Reserve Bank stock                      | 1,130,700                  |                              |                               | 1,130,700       |
| Federal Home Loan Bank stock                    | 6,440,800                  |                              |                               | 6,440,800       |
| Other securities                                | 304,442                    | 19,742                       |                               | 324,184         |
| Total   | \$ 176,773,866             | \$ 387,555                   | \$ 6,197,642                  | \$ 170,963,779  |

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The following table presents information regarding securities held to maturity:

| March 31, 2006  | Carrying Value        | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
|---|-----------------------|------------------------|-------------------------|------------------------|
| <b>Mortgage-backed securities</b>                                     |                       |                        |                         |                        |
| CMOs (Federal National Mortgage Corporation)                          | \$ 13,800,082         | \$                     | \$ 669,391              | \$ 13,130,691          |
| CMOs (Federal Home Loan Mortgage Company)                             | 24,862,038            |                        | 1,287,469               | 23,574,569             |
| Federal National Mortgage Association                                 | 239,315,098           | 306,693                | 6,909,426               | 232,712,365            |
| Federal Home Loan Mortgage Company                                    | 160,288,248           | 90,032                 | 5,818,858               | 154,559,422            |
| Government National Mortgage Association                              | 12,916,220            | 301,468                | 885                     | 13,216,803             |
| <b>Total mortgage-backed securities</b>                               | <b>451,181,686</b>    | <b>698,193</b>         | <b>14,686,029</b>       | <b>437,193,850</b>     |
| Federal Home Loan Bank  | 24,984,631            |                        | 303,382                 | 24,681,249             |
| Federal Farm Credit Bank  | 20,000,000            |                        | 437,500                 | 19,562,500             |
| <b>Total obligations of U.S. government corporations and agencies</b> | <b>496,166,317</b>    | <b>698,193</b>         | <b>15,426,911</b>       | <b>481,437,599</b>     |
| Debt securities issued by foreign governments                         | 1,000,000             |                        | 3,615                   | 996,385                |
| <b>Total</b>  | <b>\$ 497,166,317</b> | <b>\$ 698,193</b>      | <b>\$ 15,430,526</b>    | <b>\$ 482,433,984</b>  |

*Loan Portfolio*

A management objective is to maintain the quality of the loan portfolio. The Company seeks to achieve this objective by maintaining rigorous underwriting standards coupled with regular evaluation of the creditworthiness of and the designation of lending limits for each borrower. The portfolio strategies include seeking industry and loan size diversification in order to minimize credit exposure and originating loans in markets with which the Company is familiar.

The Company's commercial and industrial loan portfolio represents approximately 53% of all loans. Loans in this category are typically made to small and medium-sized businesses and range between \$25,000 and \$10 million. The Company's real estate mortgage portfolio, which represents approximately 26% of all loans, is secured by mortgages on real property located principally in the states of New York, New Jersey, Virginia and North Carolina. The Company's leasing portfolio, which consists of finance leases for various types of business equipment, represents approximately 18% of all loans. Sources of repayment are from the borrower's operating profits, cash flows and liquidation of pledged collateral. Based on underwriting standards, loans may be secured in whole or in part by collateral such as liquid assets, accounts receivable, equipment, inventory, and real property. The collateral securing any loan or lease may depend on the type of loan or lease and may vary in value based on market conditions.



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The following table sets forth the composition of the Company's loans held for sale and loans held in portfolio:

|                                    | March 31,         |               |              |               |
|------------------------------------|-------------------|---------------|--------------|---------------|
|                                    | 2006              |               | 2005         |               |
|                                    | (\$ in thousands) |               |              |               |
|                                    | Balances          | % of<br>Total | Balances     | % of<br>Total |
| Domestic                           |                   |               |              |               |
| Commercial and industrial          | \$ 596,729        | 53.0%         | \$ 555,981   | 55.5%         |
| Equipment lease financing          | 205,610           | 18.3          | 163,425      | 16.3          |
| Real estate - residential mortgage | 181,711           | 16.1          | 152,619      | 15.2          |
| Real estate- commercial mortgage   | 109,720           | 9.8           | 115,514      | 11.5          |
| Real estate - construction         | 2,309             | 0.2           | 2,314        | 0.2           |
| Installment - individuals          | 14,189            | 1.3           | 13,370       | 1.3           |
| Loans to depository institutions   | 15,000            | 1.3           |              |               |
|                                    | <hr/>             | <hr/>         | <hr/>        | <hr/>         |
| Loans, net of unearned discounts   | \$ 1,125,268      | 100.0%        | \$ 1,003,223 | 100.0%        |

*Asset Quality*

Intrinsic to the lending process is the possibility of loss. In times of economic slowdown, the risk of loss inherent in the Company's portfolio of loans may increase. While management endeavors to minimize this risk, it recognizes that loan losses will occur and that the amount of these losses will fluctuate depending on the risk characteristics of the loan portfolio which in turn depend on current and expected economic conditions, the financial condition of borrowers, the realization of collateral, and the credit management process.

Management views the allowance for loan losses as a critical accounting policy due to its subjectivity. The allowance for loan losses is maintained through the provision for loan losses, which is a charge to operating earnings. The adequacy of the provision and the resulting allowance for loan losses is determined by a management evaluation process of the loan portfolio, including identification and review of individual problem situations that may affect the borrower's ability to repay, review of overall portfolio quality through an analysis of current charge-offs, delinquency and nonperforming loan data, estimates of the value of any underlying collateral, an assessment of current and expected economic conditions and changes in the size and character of the loan portfolio. Other data utilized by management in determining the adequacy of the allowance for loan losses includes, but is not limited to, the results of regulatory reviews, the amount of, trend of and/or borrower characteristics on loans that are identified as requiring special attention as part of the credit review process, and peer group comparisons. The impact of this other data might result in an allowance which will be greater than that indicated by the evaluation process previously described. The allowance reflects management's evaluation both of loans presenting identified loss potential and of the risk inherent in various components of the loan portfolio, including loans identified as impaired as required by SFAS No. 114. Thus, an increase in the size of the portfolio or in any of its components could necessitate an increase in the allowance even though there may not be a decline in credit quality or an increase in potential problem loans. A significant change in any of the evaluation factors described above could result in future additions to the allowance. At March 31, 2006, the ratio of the allowance to loans held in portfolio, net of

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unearned discounts, was 1.51% and the allowance was \$16.4 million. At such date, the Company's nonaccrual loans amounted to \$4.3 million; \$0.4 million of such loans was judged to be impaired within the scope of SFAS No. 114. Loans 90 days past due and still accruing amounted to \$0.9 million. Based on the foregoing, as well as management's judgment as to the current risks inherent in loans held in portfolio, the Company's allowance for loan losses was deemed adequate to absorb all reasonably anticipated losses on specifically known and other possible credit risks associated with the portfolio as of March 31, 2006. Net losses within loans held in portfolio are not statistically predictable and changes in conditions in the next twelve months could result in future provisions for loan losses varying from the level taken in the first quarter of 2006. Potential problem loans, which are loans that are currently performing under present loan repayment terms but where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of the borrowers to continue to comply with the present repayment terms, aggregated \$2.0 million at March 31, 2006.

*Deposits*

A significant source of funds for the Company continues to be deposits, consisting of demand (noninterest-bearing), NOW, savings, money market and time deposits (principally certificates of deposit).

The following table provides certain information with respect to the Company's deposits:

|                         | March 31,         |            |              |            |
|-------------------------|-------------------|------------|--------------|------------|
|                         | 2006              |            | 2005         |            |
|                         | (\$ in thousands) |            |              |            |
|                         | Balances          | % of Total | Balances     | % of Total |
| Domestic                |                   |            |              |            |
| Demand                  | \$ 483,001        | 34.2%      | \$ 468,714   | 33.7%      |
| NOW                     | 172,621           | 12.2       | 152,607      | 11.0       |
| Savings                 | 23,803            | 1.7        | 28,864       | 2.1        |
| Money market            | 208,490           | 14.8       | 251,105      | 18.1       |
| Time deposits           | 522,068           | 36.9       | 484,283      | 34.9       |
| Total domestic deposits | 1,409,983         | 99.8       | 1,385,573    | 99.8       |
| Foreign                 |                   |            |              |            |
| Time deposits           | 3,025             | 0.2        | 3,010        | 0.2        |
| Total deposits          | \$ 1,413,008      | 100.0%     | \$ 1,388,583 | 100.0%     |

Fluctuations of balances in total or among categories at any date may occur based on the Company's mix of assets and liabilities as well as on customers' balance sheet strategies. Historically, however, average balances for deposits have been relatively stable. Information regarding these average balances is presented on page 22.

## **CAPITAL**

The Company and the bank are subject to risk-based capital regulations which quantitatively measure capital against risk-weighted assets, including certain off-balance sheet items. These regulations define the elements of the Tier 1 and Tier 2 components of Total Capital and establish minimum ratios of 4% for Tier 1 capital and 8% for Total Capital for capital adequacy purposes. Supplementing these regulations is a leverage requirement. This requirement establishes a minimum leverage ratio (at least 3% or 4%, depending upon an institution's regulatory status) which is calculated by dividing Tier 1 capital by adjusted quarterly average assets (after deducting goodwill). Information regarding the Company's and the bank's risk-based capital is presented on page 24. In addition, the bank is subject to the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) which imposes a number of mandatory supervisory measures. Among other matters, FDICIA established five capital categories, ranging from well capitalized to critically under capitalized, which are used by regulatory agencies to determine a bank's deposit insurance premium, approval of applications authorizing institutions to increase their asset size or otherwise expand business activities or acquire other institutions. Under FDICIA, a well capitalized bank must maintain minimum leverage, Tier 1 and Total Capital ratios of 5%, 6% and 10%, respectively. The Federal Reserve Board applies comparable tests for holding companies such as the Company. At March 31, 2006, the Company and the bank exceeded the requirements for well capitalized institutions.

## **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements contained or incorporated by reference in this quarterly report on Form 10-Q, including but not limited to, statements concerning future results of operations or financial position, borrowing capacity and future liquidity, future investment results, future credit exposure, future loan losses and plans and objectives for future operations, and other statements contained herein regarding matters that are not historical facts, are forward-looking statements as defined in the Securities Exchange Act of 1934. These statements are not historical facts but instead are subject to numerous assumptions, risks and uncertainties, and represent only our belief regarding future events, many of which, by their nature, are inherently uncertain and outside our control. Any forward-looking statements we may make speak only as of the date on which such statements are made. Our actual results and financial position may differ materially from the anticipated results and financial condition indicated in or implied by these forward-looking statements.

Factors that could cause our actual results to differ materially from those in the forward-looking statements include, but are not limited to, the following: inflation, interest rates, market and monetary fluctuations; geopolitical developments including acts of war and terrorism and their impact on economic conditions; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board; changes, particularly declines, in general economic conditions and in the local economies in which the Company operates; the financial condition of the Company's borrowers; competitive pressures on loan and deposit pricing and demand; changes in technology and their impact on the marketing of new products and services and the acceptance of these products and services by new and existing customers; the willingness of customers to substitute competitors' products and services for the Company's

products and services; the impact of changes in financial services laws and regulations (including laws concerning taxes, banking, securities and insurance); changes in accounting principles, policies and guidelines; the success of the Company at managing the risks involved in the foregoing as well as other risks and uncertainties detailed from time to time in press releases and other public filings. The foregoing list of important factors is not exclusive, and we will not update any forward-looking statement, whether written or oral, that may be made from time to time.

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STERLING BANCORP AND SUBSIDIARIES

Average Balance Sheets [1]

Three Months Ended March 31,

(Unaudited)

(dollars in thousands)

|  | 2006                |               |              | 2005                |               |              |
|--|---------------------|---------------|--------------|---------------------|---------------|--------------|
|  | Average Balance     | Interest      | Average Rate | Average Balance     | Interest      | Average Rate |
| <b>ASSETS</b>  |                     |               |              |                     |               |              |
| Interest-bearing deposits with other banks                 | \$ 3,045            | \$ 30         | 2.47%        | \$ 2,380            | \$ 6          | 1.05%        |
| Securities available for sale                              | 170,540             | 1,886         | 4.44         | 204,234             | 2,214         | 4.34         |
| Securities held to maturity                                | 506,443             | 5,744         | 4.54         | 461,968             | 5,210         | 4.51         |
| Securities tax-exempt [2]                                  | 31,716              | 520           | 6.64         | 26,432              | 470           | 7.21         |
| Total investment securities                                | 708,699             | 8,150         | 4.61         | 692,634             | 7,894         | 4.56         |
| Federal funds sold   | 3,611               | 40            | 4.43         | 18,556              | 110           | 2.37         |
| Loans, net of unearned discounts [3]                       | 1,089,505           | 22,025        | 8.42         | 993,046             | 18,376        | 7.72         |
| <b>TOTAL INTEREST-EARNING ASSETS</b>                       | <b>1,804,860</b>    | <b>30,245</b> | <b>6.85%</b> | <b>1,706,616</b>    | <b>26,386</b> | <b>6.32%</b> |
| Cash and due from banks                                    | 65,277              |               |              | 64,038              |               |              |
| Allowance for loan losses                                  | (17,236)            |               |              | (17,246)            |               |              |
| Goodwill   | 21,158              |               |              | 21,158              |               |              |
| Other assets   | 91,246              |               |              | 80,115              |               |              |
| <b>TOTAL ASSETS</b>  | <b>\$ 1,965,305</b> |               |              | <b>\$ 1,854,681</b> |               |              |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>                 |                     |               |              |                     |               |              |
| <b>Interest-bearing deposits</b>                           |                     |               |              |                     |               |              |
| <b>Domestic</b>  |                     |               |              |                     |               |              |
| Savings  | \$ 25,697           | 26            | 0.41%        | \$ 29,034           | 25            | 0.35%        |
| NOW  | 182,512             | 735           | 1.63         | 142,205             | 194           | 0.55         |
| Money market   | 241,796             | 1,022         | 1.71         | 226,516             | 410           | 0.73         |
| Time   | 522,755             | 4,453         | 3.45         | 493,471             | 2,814         | 2.31         |
| <b>Foreign</b>   |                     |               |              |                     |               |              |
| Time   | 3,024               | 8             | 1.09         | 3,002               | 8             | 1.09         |
| <b>Total interest-bearing deposits</b>                     | <b>975,784</b>      | <b>6,244</b>  | <b>2.60</b>  | <b>894,228</b>      | <b>3,451</b>  | <b>1.57</b>  |
| <b>Borrowings</b>  |                     |               |              |                     |               |              |
| Securities sold under agreements to repurchase - customers | 80,065              | 695           | 3.52         | 85,763              | 337           | 1.59         |
| Securities sold under agreements to repurchase - dealers   | 86,818              | 984           | 4.60         | 38,461              | 249           | 2.62         |
| Federal funds purchased                                    | 12,281              | 135           | 4.46         | 3,336               | 21            | 2.53         |
| Commercial paper   | 42,141              | 405           | 3.89         | 35,603              | 160           | 1.82         |
| Short-term borrowings - FHLB                               | 16,946              | 193           | 4.62         |                     |               |              |
| Short-term borrowings - other                              | 913                 | 11            | 4.63         | 775                 | 5             | 2.62         |
| Long-term borrowings - FHLB                                | 51,889              | 586           | 4.52         | 96,778              | 956           | 3.95         |

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|   |              |           |       |              |           |       |
|---|--------------|-----------|-------|--------------|-----------|-------|
| Long-term borrowings - sub debt                   | 25,774       | 523       | 8.38  | 25,774       | 523       | 8.38  |
| Total borrowings                                  | 316,827      | 3,532     | 4.51  | 286,490      | 2,251     | 3.16  |
| <b>TOTAL INTEREST-BEARING LIABILITIES</b>         | 1,292,611    | 9,776     | 3.07% | 1,180,718    | 5,702     | 1.95% |
| Noninterest-bearing deposits                      | 441,765      |           |       | 436,509      |           |       |
| Other liabilities                                 | 86,963       |           |       | 89,909       |           |       |
| Total liabilities                                 | 1,821,339    |           |       | 1,707,136    |           |       |
| Shareholders' equity                              | 143,966      |           |       | 147,545      |           |       |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> | \$ 1,965,305 |           |       | \$ 1,854,681 |           |       |
| Net interest income/spread                        |              | 20,469    | 3.78% |              | 20,684    | 4.37% |
| Net yield on interest-earning assets (margin)     |              |           | 4.58% |              |           | 4.91% |
| Less: Tax equivalent adjustment                   |              | 204       |       |              | 182       |       |
| Net interest income                               |              | \$ 20,265 |       |              | \$ 20,502 |       |

- [1] The average balances of assets, liabilities and shareholders' equity are computed on the basis of daily averages. Average rates are presented on a tax-equivalent basis. Certain reclassifications have been made to amounts for prior periods to conform to the current presentation.
- [2] Interest on tax-exempt securities is presented on a tax-equivalent basis.
- [3] Includes loans held for sale and loans held in portfolio; all loans are domestic. Nonaccrual loans are included in amounts outstanding and income has been included to the extent earned.

STERLING BANCORP AND SUBSIDIARIES  
Rate/Volume Analysis [1]  
(Unaudited)

(in thousands)

|  | <b>Increase/ (Decrease)<br/>Three Months Ended<br/>March 31, 2006 to March 31, 2005</b> |                 |                 |
|--|---|-----------------|-----------------|
|  | <b>Volume</b>   | <b>Rate</b>     | <b>Net [2]</b>  |
| <b>INTEREST INCOME</b>                                     |   |                 |                 |
| Interest-bearing deposits with other banks                 | \$ 5  | \$ 19           | \$ 24           |
| Securities available for sale                              | (376)   | 48              | (328)           |
| Securities held to maturity                                | 500   | 34              | 534             |
| Securities tax-exempt                                      | 89  | (39)            | 50              |
| Total investment securities                                | 213   | 43              | 256             |
| Federal funds sold   | (124)   | 54              | (70)            |
| Loans, net of unearned discounts [3]                       | 1,887   | 1,762           | 3,649           |
| <b>TOTAL INTEREST INCOME</b>                               | <b>\$ 1,981</b>   | <b>\$ 1,878</b> | <b>\$ 3,859</b> |
| <b>INTEREST EXPENSE</b>                                    |   |                 |                 |
| <b>Interest-bearing deposits</b>                           |   |                 |                 |
| <b>Domestic</b>  |   |                 |                 |
| Savings  | \$ (3)  | \$ 4            | \$ 1            |
| NOW  | 69  | 472             | 541             |
| Money market   | 30  | 582             | 612             |
| Time   | 176   | 1,463           | 1,639           |
| <b>Foreign</b>   |   |                 |                 |
| Time   |   |                 |                 |
| Total interest-bearing deposits                            | 272   | 2,521           | 2,793           |
| <b>Borrowings</b>  |   |                 |                 |
| Securities sold under agreements to repurchase - customers | (23)  | 381             | 358             |
| Securities sold under agreements to repurchase - dealers   | 459   | 276             | 735             |
| Federal funds purchased                                    | 89  | 25              | 114             |
| Commercial paper   | 34  | 211             | 245             |
| Short-term borrowings - FHLB                               | 193   |                 | 193             |
| Short-term borrowings - other                              | 1   | 5               | 6               |
| Long-term borrowings - FHLB                                | (490)   | 120             | (370)           |
| Long-term borrowings - sub debt                            |   |                 |                 |

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|                        |                   |                   |                   |
|------------------------|-------------------|-------------------|-------------------|
| Total borrowings       | 263               | 1,018             | 1,281             |
|                        | <u>          </u> | <u>          </u> | <u>          </u> |
| TOTAL INTEREST EXPENSE | \$ 535            | \$ 3,539          | \$ 4,074          |
|                        | <u>          </u> | <u>          </u> | <u>          </u> |
| NET INTEREST INCOME    | \$ 1,446          | \$ (1,661)        | \$ (215)          |
|                        | <u>          </u> | <u>          </u> | <u>          </u> |

- [1] This table is presented on a tax-equivalent basis.
- [2] Changes in interest income and interest expense due to a combination of both volume and rate have been allocated to the change due to volume and the change due to rate in proportion to the relationship of the change due solely to each.
- [3] Includes loans held for sale and loans held in portfolio; all loans are domestic. Nonaccrual loans are included in amounts outstanding and income has been included to the extent earned.



STERLING BANCORP AND SUBSIDIARIES  
Regulatory Capital and Ratios

Ratios and Minimums  
(dollars in thousands)

|  | Actual     |        | For Capital Adequacy Minimum |       | To Be Well Capitalized |        |
|--|------------|--------|------------------------------|-------|------------------------|--------|
|  | Amount     | Ratio  | Amount                       | Ratio | Amount                 | Ratio  |
| <u>As of March 31, 2006</u>                  |            |        |                              |       |                        |        |
| Total Capital (to Risk Weighted Assets):     |            |        |                              |       |                        |        |
| The Company                                  | \$ 174,190 | 13.78% | \$ 101,130                   | 8.00% | \$ 126,413             | 10.00% |
| The bank                                     | 141,929    | 11.87  | 95,662                       | 8.00  | 119,577                | 10.00  |
| Tier 1 Capital (to Risk Weighted Assets):    |            |        |                              |       |                        |        |
| The Company                                  | 158,381    | 12.53  | 50,565                       | 4.00  | 75,848                 | 6.00   |
| The bank                                     | 126,967    | 10.62  | 47,831                       | 4.00  | 71,746                 | 6.00   |
| Tier 1 Leverage Capital (to Average Assets): |            |        |                              |       |                        |        |
| The Company                                  | 158,381    | 8.15   | 77,766                       | 4.00  | 97,207                 | 5.00   |
| The bank                                     | 126,967    | 6.77   | 75,005                       | 4.00  | 93,757                 | 5.00   |
| <u>As of December 31, 2005</u>               |            |        |                              |       |                        |        |
| Total Capital (to Risk Weighted Assets):     |            |        |                              |       |                        |        |
| The Company                                  | \$ 172,946 | 13.28% | \$ 104,219                   | 8.00% | \$ 130,274             | 10.00% |
| The bank                                     | 135,307    | 10.99  | 98,520                       | 8.00  | 123,150                | 10.00  |
| Tier 1 Capital (to Risk Weighted Assets):    |            |        |                              |       |                        |        |
| The Company                                  | 156,659    | 12.03  | 52,110                       | 4.00  | 78,165                 | 6.00   |
| The bank                                     | 119,910    | 9.74   | 49,260                       | 4.00  | 73,890                 | 6.00   |
| Tier 1 Leverage Capital (to Average Assets): |            |        |                              |       |                        |        |
| The Company                                  | 156,659    | 7.96   | 78,680                       | 4.00  | 98,350                 | 5.00   |
| The bank                                     | 119,910    | 6.33   | 75,722                       | 4.00  | 94,653                 | 5.00   |

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### ASSET/LIABILITY MANAGEMENT

The Company's primary earnings source is its net interest income; therefore, the Company devotes significant time and has invested in resources to assist in the management of interest rate risk and asset quality. The Company's net interest income is affected by changes in market interest rates, and by the level and composition of interest-earning assets and interest-bearing liabilities. The Company's objectives in its asset/liability management are to utilize its capital effectively, to provide adequate liquidity and to enhance net interest income, without taking undue risks or subjecting the Company unduly to interest rate fluctuations.

The Company takes a coordinated approach to the management of its liquidity, capital and interest rate risk. This risk management process is governed by policies and limits established by senior management which are reviewed and approved by the Asset/Liability Committee. This committee, which is comprised of members of senior management, meets to review, among other things, economic conditions, interest rates, yield curve, cash flow projections, expected customer actions, liquidity levels, capital ratios and repricing characteristics of assets, liabilities and financial instruments.

#### *Market Risk*

Market risk is the risk of loss in a financial instrument arising from adverse changes in market indices such as interest rates, foreign exchange rates and equity prices. The Company's principal market risk exposure is interest rate risk, with no material impact on earnings from changes in foreign exchange rates or equity prices.

Interest rate risk is the exposure to changes in market interest rates. Interest rate sensitivity is the relationship between market interest rates and net interest income due to the repricing characteristics of assets and liabilities. The Company monitors the interest rate sensitivity of its balance sheet positions by examining its near-term sensitivity and its longer-term gap position. In its management of interest rate risk, the Company utilizes several financial and statistical tools, including traditional gap analysis and sophisticated income simulation models.

A traditional gap analysis is prepared based on the maturity and repricing characteristics of interest-earning assets and interest-bearing liabilities for selected time bands. The mismatch between repricings or maturities within a time band is commonly referred to as the gap for that period. A positive gap (asset sensitive) where interest rate sensitive assets exceed interest rate sensitive liabilities generally will result in the net interest margin increasing in a rising rate environment and decreasing in a falling rate environment. A negative gap (liability sensitive) will generally have the opposite result on the net interest margin. However, the traditional gap analysis does not assess the relative sensitivity of assets and liabilities to changes in interest rates and other factors that could have an impact on interest rate sensitivity or net interest income. The Company utilizes the gap analysis to complement its income simulations modeling, primarily focusing on the longer-term structure of the balance sheet.

The Company's balance sheet structure is primarily short-term in nature with a substantial portion of assets and liabilities repricing or maturing within one year. The Company's gap analysis at March 31, 2006, presented on page 30, indicates that net interest income would increase during periods of rising interest rates and decrease during periods of falling interest rates, but, as mentioned above, gap analysis may not be an accurate predictor of net interest income.

As part of its interest rate risk strategy, the Company may use financial instrument derivatives to hedge the interest rate sensitivity of assets. The Company has written policy guidelines, approved by the Board of Directors, governing the use of financial instruments, including approved counterparties, risk limits and appropriate internal control procedures. The credit risk of derivatives arises principally from the potential for a counterparty to fail to meet its obligation to settle a contract on a timely basis.

As of March 31, 2006, the Company was a party to two interest rate floor agreements with notional amounts of \$50,000,000 each and maturities of September 14, 2007 and September 14, 2008, respectively. Interest rate floor contracts require the counterparty to pay the Company at specified future dates the amount, if any, by which the specified interest (prime rate) falls below the fixed floor rates, applied to the notional amounts. The Company utilizes the financial instruments to adjust its interest rate risk position without exposing itself to principal risk and funding requirements. These financial instruments are being used as part of the Company's interest rate risk management and not for trading purposes. At March 31, 2006, all counterparties have investment grade credit ratings from the major rating agencies. Each counterparty is specifically approved for applicable credit exposure.

The interest rate floor contracts require the Company to pay a fee for the right to receive a fixed interest payment. The Company paid up-front premiums of \$141,250. At March 31, 2006, there were no amounts receivable under these contracts. At March 31, 2005, the Company was not a party to any derivative contracts.

The interest rate floor agreements were not designated as hedges for accounting purposes and therefore changes in the fair values of the instruments are required to be recognized as income or expenses in the Company's financial statements. At March 31, 2006 the aggregate fair value of the interest rate floors was \$6,144 and \$21,886 was charged to Other Expenses.

The Company utilizes income simulation models to complement its traditional gap analysis. While the Asset/Liability Committee routinely monitors simulated net interest income sensitivity over a rolling two-year horizon, it also utilizes additional tools to monitor potential longer-term interest rate risk. The income simulation models measure the Company's net interest income volatility or sensitivity to interest rate changes utilizing statistical techniques that allow the Company to consider various factors which impact net interest income. These factors include actual maturities, estimated cash flows, repricing characteristics, deposits growth/retention and, most importantly, the relative sensitivity of the Company's assets and liabilities to changes in market interest rates. This relative sensitivity is important to consider as the Company's core deposit base has not been subject to the same degree of interest rate sensitivity as its assets. The core deposit costs are internally managed and tend to exhibit less sensitivity to changes in interest rates than the Company's adjustable rate assets whose yields are based on external indices and generally change in concert with market interest rates.

The Company's interest rate sensitivity is determined by identifying the probable impact of changes in market interest rates on the yields on the Company's assets and the rates that would be paid on its liabilities. This modeling technique involves a degree of estimation based on certain assumptions that management believes to be reasonable. Utilizing this process, management projects the impact of changes in interest rates on net interest margin. The Company has established certain policy limits for the potential volatility of its net interest margin assuming certain levels of changes in market interest rates with the objective of maintaining a stable net interest margin under various probable rate scenarios. Management generally has maintained a risk position well within the policy limits. As of March 31, 2006, the model indicated the impact of a 200 basis point parallel and pro rata rise in rates over 12 months would approximate a 2.2% (\$1.9 million) increase in net interest income, while the impact of a 200 basis point decline in rates over the same period would approximate a 2.8% (\$2.4 million) decline from an unchanged rate environment.

The preceding sensitivity analysis does not represent a Company forecast and should not be relied upon as being indicative of expected operating results. These hypothetical estimates are based upon numerous assumptions including: the nature and timing of interest rate levels including yield curve shape, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment/replacement of asset and liability cash flows, and others. While assumptions are developed based upon current economic and local market conditions, the Company cannot provide any assurances as to the predictive nature of these assumptions, including how customers preferences or competitor influences might change.

Also, as market conditions vary from those assumed in the sensitivity analysis, actual results will also differ due to: prepayment/refinancing levels likely deviating from those assumed, the varying impact of interest rate change caps or floors on adjustable rate assets, the potential effect of changing debt service levels on customers with adjustable rate loans, depositor early withdrawals and product preference changes, and other variables. Furthermore, the sensitivity analysis does not reflect actions that the Asset/Liability Committee might take in responding to or anticipating changes in interest rates.

The shape of the yield curve can cause downward pressure on net interest income. In general, if and to the extent that the yield curve is flatter (i.e., the differences between interest rates for different maturities are relatively smaller) than previously anticipated, then the yield on the Company's interest-earning assets and its cash flows will tend to be lower. Management believes that a relatively flat yield curve shape could continue to adversely affect the Company's results in 2006.

***Liquidity Risk***

Liquidity is the ability to meet cash needs arising from changes in various categories of assets and liabilities. Liquidity is constantly monitored and managed at both the parent company and the bank levels. Liquid assets consist of cash and due from banks, interest-bearing deposits in banks and Federal funds sold and securities available for sale. Primary funding sources include core deposits, capital markets funds and other money market sources. Core deposits include domestic noninterest-bearing and interest-bearing retail deposits, which historically have been relatively stable. The parent company and the bank believe that they have significant unused borrowing capacity. Contingency plans exist which we believe could be implemented on a timely basis to mitigate the impact of any dramatic change in market conditions.

While the parent company generates income from its own operations, it also depends for its cash requirements on funds maintained or generated by its subsidiaries, principally the bank. Such sources have been adequate to meet the parent company's cash requirements throughout its history.

Various legal restrictions limit the extent to which the bank can supply funds to the parent company and its nonbank subsidiaries. All national banks are limited in the payment of dividends without the approval of the Comptroller of the Currency to an amount not to exceed the net profits as defined, for the year to date combined with its retained net profits for the preceding two calendar years.

At March 31, 2006, the parent company's short-term debt, consisting principally of commercial paper used to finance ongoing current business activities, was approximately \$43.1 million. The parent company had cash, interest-bearing deposits with banks and other current assets aggregating \$30.7 million. The parent company also has back-up credit lines with banks of \$24.0 million. Since 1979, the parent company has had no need to use the available back-up lines of credit.

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The following table sets forth information regarding the Company's obligations and commitments to make future payments under contract as of March 31, 2006:

| Contractual Obligations                   | Payments Due by Period |                  |                  |                  |                  |
|---|------------------------|------------------|------------------|------------------|------------------|
|   | Total                  | Less than 1 Year | 1-3 Years        | 4-5 Years        | After 5 Years    |
| (in thousands)                            |                        |                  |                  |                  |                  |
| Long-Term Debt                            | \$ 75,774              | \$ 35,774        | \$ 30,000        | \$ 10,000        |                  |
| Operating Leases                          | 25,516                 | 3,466            | 6,835            | 4,851            | 10,364           |
| <b>Total Contractual Cash Obligations</b> | <b>\$ 101,290</b>      | <b>\$ 3,466</b>  | <b>\$ 42,609</b> | <b>\$ 34,851</b> | <b>\$ 20,364</b> |

The following table sets forth information regarding the Company's obligations under other commercial commitments as of March 31, 2006:

| Other Commercial Commitments        | Amount of Commitment Expiration Per Period |                  |                  |               |               |
|-------------------------------------|--|------------------|------------------|---------------|---------------|
|                                     | Total Amount Committed                     | Less than 1 Year | 1-3 Years        | 4-5 Years     | After 5 Years |
| (in thousands)                      |  |                  |                  |               |               |
| Residential loans                   | \$ 26,635                                  | \$ 26,635        | \$               | \$            | \$            |
| Commercial Loans                    | 32,974                                     | 17,323           | 15,149           | 502           |               |
| <b>Total Loans</b>                  | <b>59,609</b>                              | <b>43,958</b>    | <b>15,149</b>    | <b>502</b>    |               |
| Standby Letters of Credit           | 29,240                                     | 26,641           | 2,599            |               |               |
| Other Commercial Commitments        | 15,052                                     | 14,914           |                  |               | 138           |
| <b>Total Commercial Commitments</b> | <b>\$ 103,901</b>                          | <b>\$ 85,513</b> | <b>\$ 17,748</b> | <b>\$ 502</b> | <b>\$ 138</b> |

**INFORMATION AVAILABLE ON OUR WEB SITE**

Our Internet address is [www.sterlingbancorp.com](http://www.sterlingbancorp.com) and the investor relations section of our web site is located at [www.sterlingbancorp.com/ir/investor.cfm](http://www.sterlingbancorp.com/ir/investor.cfm). We make available free of charge, on or through the investor relations section of our web site, annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

Also posted on our web site, and available in print upon request of any shareholder to our Investor Relations Department, are the charters for our Board of Directors' Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee, our Corporate Governance Guidelines, our Method for Interested Persons to Communicate with Non-Management Directors and a Code of Business Conduct and Ethics governing our directors, officers and employees. Within the time period required by the Securities and Exchange Commission and the New York Stock Exchange, we will post on our web site any amendment to the Code of Business Conduct and Ethics and any waiver applicable to our senior financial officers, as defined in the Code, or our executive officers or directors. In addition, information concerning purchases and sales of our equity securities by our executive officers and directors is posted on our web site.



STERLING BANCORP AND SUBSIDIARIES  
Interest Rate Sensitivity

To mitigate the vulnerability of earnings to changes in interest rates, the Company manages the repricing characteristics of assets and liabilities in an attempt to control net interest rate sensitivity. Management attempts to confine significant rate sensitivity gaps predominantly to repricing intervals of a year or less so that adjustments can be made quickly. Assets and liabilities with predetermined repricing dates are classified based on the earliest repricing period. Amounts are presented in thousands. Based on the interest rate sensitivity analysis shown below, the Company's net interest income would increase during periods of rising interest rates and decrease during periods of falling interest rates.

|  | Repricing Date      |                                    |                                   |                 |                      | Total            |
|--|---------------------|------------------------------------|-----------------------------------|-----------------|----------------------|------------------|
|  | 3 Months<br>or Less | More than<br>3 Months<br>to 1 Year | More than<br>1 Year to<br>5 Years | Over<br>5 Years | Nonrate<br>Sensitive |                  |
| <b>ASSETS</b>  |                     |                                    |                                   |                 |                      |                  |
| Interest-bearing deposits with other banks               | \$ 1,647            | \$                                 | \$                                | \$              | \$                   | \$ 1,647         |
| Investment securities                                    | 6,342               | 35,547                             | 99,137                            | 519,208         | 7,896                | 668,130          |
| Commercial and industrial loans                          | 577,625             | 6,840                              | 9,685                             | 2,994           | (415)                | 596,729          |
| Equipment lease financing                                | 3,637               | 8,021                              | 207,362                           | 17,768          | (31,178)             | 205,610          |
| Real estate-residential mortgage                         | 45,057              | 4,879                              | 103,395                           | 28,380          |                      | 181,711          |
| Real estate-commercial mortgage                          | 58,080              | 21,655                             | 28,537                            | 1,448           |                      | 109,720          |
| Real estate-construction loans                           | 2,309               |                                    |                                   |                 |                      | 2,309            |
| Installment-individuals                                  | 14,189              |                                    |                                   |                 |                      | 14,189           |
| Loans to depository institutions                         | 15,000              |                                    |                                   |                 |                      | 15,000           |
| Noninterest-earning assets & allowance for loan losses   |                     |                                    |                                   |                 | 150,926              | 150,926          |
| <b>Total Assets</b>                                      | <b>723,886</b>      | <b>76,942</b>                      | <b>448,116</b>                    | <b>569,798</b>  | <b>127,229</b>       | <b>1,945,971</b> |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>               |                     |                                    |                                   |                 |                      |                  |
| Interest-bearing deposits                                |                     |                                    |                                   |                 |                      |                  |
| Savings [1]  |                     |                                    | 23,803                            |                 |                      | 23,803           |
| NOW [1]  |                     |                                    | 172,621                           |                 |                      | 172,621          |
| Money market [1]   | 170,814             |                                    | 37,676                            |                 |                      | 208,490          |
| Time - domestic  | 203,965             | 254,222                            | 63,881                            |                 |                      | 522,068          |
| - foreign  | 1,433               | 1,592                              |                                   |                 |                      | 3,025            |
| Securities sold under agreement to repurchase - customer | 63,179              |                                    |                                   |                 |                      | 63,179           |
| Securities sold under agreement to repurchase - dealer   | 68,592              |                                    |                                   |                 |                      | 68,592           |
| Commercial paper   | 43,092              |                                    |                                   |                 |                      | 43,092           |
| Short-term borrowings - FHLB                             | 55,900              |                                    |                                   |                 |                      | 55,900           |
| Short-term borrowings - other                            | 104                 |                                    |                                   |                 |                      | 104              |
| Long-term borrowings - FHLB                              |                     |                                    | 40,000                            | 10,000          |                      | 50,000           |
| Long-term borrowings - subordinated debentures           |                     |                                    |                                   |                 | 25,774               | 25,774           |
| Noninterest-bearing liabilities & shareholders equity    |                     |                                    |                                   |                 | 709,323              | 709,323          |
| <b>Total Liabilities and Shareholders Equity</b>         | <b>607,079</b>      | <b>255,814</b>                     | <b>337,981</b>                    | <b>10,000</b>   | <b>735,097</b>       | <b>1,945,971</b> |



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|                                   |            |              |            |            |              |    |
|-----------------------------------|------------|--------------|------------|------------|--------------|----|
| Net Interest Rate Sensitivity Gap | \$ 116,807 | \$ (178,872) | \$ 110,135 | \$ 559,798 | \$ (607,868) | \$ |
| Cumulative Gap March 31, 2006     | \$ 116,807 | \$ (62,065)  | \$ 48,070  | \$ 607,868 | \$           | \$ |
| Cumulative Gap March 31, 2005     | \$ 130,636 | \$ (23,842)  | \$ 70,744  | \$ 586,783 | \$           | \$ |
| Cumulative Gap December 31, 2005  | \$ 37,715  | \$ (51,516)  | \$ 82,734  | \$ 628,269 | \$           | \$ |

[1] Historically, balances in non-maturity deposit accounts have remained relatively stable despite changes in levels of interest rates. Balances are shown in repricing periods based on management's historical repricing practices and run-off experience.

**ITEM 4. CONTROLS AND PROCEDURES**

The Company's management, with the participation of the Company's principal executive and principal financial officers, evaluated the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this quarterly report on Form 10-Q. Based on this evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that, as of the end of the period covered by this quarterly report, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

No change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the fiscal quarter ended March 31, 2006 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Under its share repurchase program, the Company buys back common shares from time to time. The following table discloses the Company's repurchases of the Company's common shares during the first quarter of 2006.

ISSUER PURCHASES OF EQUITY SECURITIES

| Period              | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price Paid<br>Per Share | Total<br>Number of<br>Shares<br>Purchased as<br>Part of Publicly<br>Announced Plans<br>or Programs | Maximum<br>Number<br>of Shares<br>that May<br>Yet Be<br>Purchased<br>Under the Plans<br>or Programs |
|---------------------|---|------------------------------------|--|---|
| January 1-31, 2006  | 48,900                                    | \$ 19.42                           | 48,900   | 363,319   |
| February 1-28, 2006 |   |                                    |  | 363,319   |
| March 1-31, 2006    |   |                                    |  | 363,319   |
| Total               | <u>48,900</u>                             |                                    | <u>48,900</u>  |   |

All shares were repurchased through the Company's share repurchase program.

The Board of Directors initially authorized the repurchase of common shares in 1997 and since then has approved increases in the number of common shares that the Company is authorized to repurchase. The latest increase was announced on June 16, 2005, when the Board of Directors increased the Company's authority to repurchase common shares by an additional 800,000 shares.

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### Item 6. Exhibits

The following exhibits are filed as part of this report:

3. (i) Restated Certificate of Incorporation filed with the State of New York Department of State, October 28, 2004 (Filed as Exhibit 3(i) to the Registrant's Form 10-Q for the quarter ended September 30, 2004 and incorporated herein by reference).
- (ii) By-Laws as in effect on August 5, 2004 (Filed as Exhibit 3(ii)(A) to the Registrant's Form 10-Q for the quarter ended June 30, 2004 and incorporated herein by reference).
11. Statement Re: Computation of Per Share Earnings.
- 31.1 Certifications of the CEO and CFO pursuant to Exchange Act Rule 13a-14(a).
- 31.2 Certifications of the CEO and CFO pursuant to Exchange Act Rule 13a-14(a).
32. Certifications of the CEO and CFO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code.

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.

STERLING BANCORP

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(Registrant)

Date May 10, 2006 /s/ Louis J. Cappelli

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Louis J. Cappelli  
Chairman and  
Chief Executive Officer

Date May 10, 2006 /s/ John W. Tietjen

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John W. Tietjen  
Executive Vice President  
and Chief Financial Officer

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STERLING BANCORP AND SUBSIDIARIES

EXHIBIT INDEX

| <b>Exhibit<br/>Number</b> | <b>Description</b>  | <b>Sequential<br/>Page No.</b> |
|---------------------------|---|--------------------------------|
| <u>11</u>                 | <u>Statement re: Computation of Per Share Earnings.</u>   | 36                             |
| <u>31.1</u>               | <u>Certifications of the CEO and CFO pursuant to Exchange Act Rule 13a-14(a).</u>                             | 37                             |
| <u>31.2</u>               | <u>Certifications of the CEO and CFO pursuant to Exchange Act Rule 13a-14(a).</u>                             | 38                             |
| <u>32</u>                 | <u>Certifications of the CEO and CFO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code.</u> | 39                             |