

STERLING BANCORP  
Form 10-Q  
November 09, 2006

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 **September 30, 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**  
(Exact name of registrant as specified in its charter)

**New York**  
(State or other jurisdiction of  
incorporation or organization)

**13-2565216**  
(I.R.S. Employer  
Identification)

**650 Fifth Avenue, New York, N.Y.**  
(Address of principal executive offices)

**10019-6108**  
(Zip Code)

**212-757-3300**  
(Registrant's telephone number, including area code)

**N/A**  
(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

As of October 31, 2006 there were 18,712,072 shares of common stock,  
\$1.00 par value, outstanding.

Edgar Filing: STERLING BANCORP - Form 10-Q

STERLING BANCORP

| PART I FINANCIAL INFORMATION  | <u>Page</u>  |
|---|--|
| Item 1. Financial Statements  |  |
| <u>Consolidated Financial Statements (Unaudited)</u>  | 3  |
| <u>Notes to Consolidated Financial Statements</u>   | 9  |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations |  |
| <u>Overview</u>   | 17   |
| <u>Income Statement Analysis</u>  | 19   |
| <u>Balance Sheet Analysis</u>   | 24   |
| <u>Capital</u>  | 28   |
| <u>Cautionary Statement Regarding Forward-Looking Statements</u>                              | 29   |
| <u>Average Balance Sheets</u>   | 30   |
| <u>Rate/Volume Analysis</u>   | 32   |
| <u>Regulatory Capital and Ratios</u>  | 34   |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk                            |  |
| <u>Asset/Liability Management</u>   | 35   |
| <u>Interest Rate Sensitivity</u>  | 40   |
| Item 4. <u>Controls and Procedures</u>  | 41   |
| PART II OTHER INFORMATION   |  |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                    | 42   |
| Item 5. <u>Other Information</u>  | 42   |
| Item 6. <u>Exhibits</u>   | 43   |
| SIGNATURES  |  |
| EXHIBIT INDEX   |  |
| Exhibit 10  | <u>Change in Control Severance and Retention Agreement, dated as of November 7, 2006, between the Company and Dale C. Fredston</u> |
|   | 46   |
| Exhibit 11  | <u>Statement Re: Computation of Per Share Earnings</u>   |
|   | 58   |
| Exhibit 31.1  | <u>Certification of the CEO pursuant to Exchange Act Rule 13a-14(a)</u>  |
|   | 59   |
| Exhibit 31.2  | <u>Certification of the CFO pursuant to Exchange Act Rule 13a-14(a)</u>  |
|   | 60   |
| Exhibit 32.1  | <u>Certification of the CEO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code</u>                                |
|   | 61   |
| Exhibit 32.2  | <u>Certification of the CFO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code</u>                                |
|   | 62   |



Edgar Filing: STERLING BANCORP - Form 10-Q

STERLING BANCORP AND SUBSIDIARIES  
Consolidated Balance Sheets  
(Unaudited)

| ASSETS   | September 30,<br>2006   | December 31,<br>2005    |
|--|-------------------------|-------------------------|
| Cash and due from banks  | \$ 67,735,817           | \$ 68,562,037           |
| Interest-bearing deposits with other banks   | 1,348,433               | 1,212,227               |
| Securities available for sale (at estimated fair value;<br>pledged: \$106,852,607 in 2006 and \$111,233,053 in 2005)   | 155,997,067             | 201,259,112             |
| Securities held to maturity (pledged: \$263,176,823 in 2006<br>and \$301,246,338 in 2005) (estimated fair value:<br>\$439,928,296 in 2006 and \$504,514,084 in 2005) | 450,430,433             | 514,039,476             |
| <b>Total investment securities</b>   | <b>606,427,500</b>      | <b>715,298,588</b>      |
| Loans held for sale  | 30,047,566              | 40,977,538              |
| Loans held in portfolio, net of unearned discounts   | 1,122,197,428           | 1,012,056,935           |
| Less allowance for loan losses   | 16,583,502              | 15,369,095              |
| <b>Loans, net</b>  | <b>1,105,613,926</b>    | <b>996,687,840</b>      |
| Customers liability under acceptances  | 1,724,916               | 589,667                 |
| Goodwill   | 22,842,416              | 21,158,440              |
| Premises and equipment, net  | 10,956,076              | 10,855,714              |
| Other real estate  | 2,053,192               | 859,541                 |
| Accrued interest receivable  | 5,504,466               | 6,116,107               |
| Bank owned life insurance  | 27,677,451              | 26,964,575              |
| Other assets   | 52,720,860              | 50,239,755              |
| <b>Total assets from continuing operations</b>   | <b>1,934,652,619</b>    | <b>1,939,522,029</b>    |
| Assets - discontinued operations   | 6,562,752               | 116,520,457             |
|  | <b>\$ 1,941,215,371</b> | <b>\$ 2,056,042,486</b> |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>   |                         |                         |
| <b>Deposits</b>  |                         |                         |
| Demand deposits  | \$ 507,367,362          | \$ 510,883,966          |
| Savings, NOW and money market deposits   | 404,953,872             | 436,173,517             |
| Time deposits  | 523,121,890             | 501,268,657             |
| <b>Total deposits</b>  | <b>1,435,443,124</b>    | <b>1,448,326,140</b>    |
| Securities sold under agreements to repurchase - customers   | 59,092,237              | 61,067,073              |
| Securities sold under agreements to repurchase - dealers   | 58,385,000              | 88,729,000              |
| Federal funds purchased  | 20,000,000              | 55,000,000              |
| Commercial paper   | 44,366,148              | 38,191,016              |
| Short-term borrowings - FHLB   | 30,000,000              | 35,000,000              |
| Short-term borrowings - other  | 1,110,069               | 3,851,246               |
| Long-term borrowings - FHLB  | 20,000,000              | 60,000,000              |
| Long-term borrowings - subordinated debentures   | 25,774,000              | 25,774,000              |

Edgar Filing: STERLING BANCORP - Form 10-Q

| ASSETS  | September 30,<br>2006 | December 31,<br>2005 |
|---|-----------------------|----------------------|
| Total borrowings  | 258,727,454           | 367,612,335          |
| Acceptances outstanding   | 1,724,916             | 589,667              |
| Accrued expenses and other liabilities  | 103,277,928           | 91,537,747           |
| Liabilities discontinued operations   | 1,013,570             | 389,037              |
| Total liabilities   | 1,800,186,992         | 1,908,454,926        |
| Shareholders' equity  |                       |                      |
| Common stock, \$1 par value. Authorized 50,000,000 shares;<br>issued 21,177,084 and 21,066,916 shares, respectively | 21,177,084            | 21,066,916           |
| Capital surplus   | 167,938,391           | 166,313,566          |
| Retained earnings   | 16,951,172            | 20,739,352           |
| Accumulated other comprehensive loss, net of tax  | (5,333,723)           | (5,229,620)          |
|   | 200,732,924           | 202,890,214          |
| Less  |                       |                      |
| Common shares in treasury at cost, 2,465,012<br>and 2,231,442 shares, respectively                                  | 59,704,545            | 55,280,647           |
| Unearned compensation   |                       | 22,007               |
| Total shareholders' equity  | 141,028,379           | 147,587,560          |
|   | \$ 1,941,215,371      | \$ 2,056,042,486     |

See Notes to Consolidated Financial Statements.

Edgar Filing: STERLING BANCORP - Form 10-Q

STERLING BANCORP AND SUBSIDIARIES  
Consolidated Statements of Operations  
(Unaudited)

|  | Three Months Ended<br>September 30, |                   | Nine Months Ended<br>September 30, |                   |
|--|-------------------------------------|-------------------|------------------------------------|-------------------|
|  | 2006                                | 2005              | 2006                               | 2005              |
| <b>INTEREST INCOME</b>   |                                     |                   |                                    |                   |
| Loans  | \$ 22,600,005                       | \$ 18,392,637     | \$ 63,569,045                      | \$ 50,471,112     |
| Investment securities  |                                     |                   |                                    |                   |
| Available for sale   | 1,900,888                           | 2,309,023         | 6,080,677                          | 7,277,809         |
| Held to maturity   | 5,231,002                           | 5,626,580         | 16,526,116                         | 16,569,371        |
| Federal funds sold   | 12,865                              | 60,791            | 87,736                             | 283,287           |
| Deposits with other banks                                      | 22,477                              | 16,161            | 73,121                             | 38,261            |
| <b>Total interest income</b>                                   | <b>29,767,237</b>                   | <b>26,405,192</b> | <b>86,336,695</b>                  | <b>74,639,840</b> |
| <b>INTEREST EXPENSE</b>  |                                     |                   |                                    |                   |
| Deposits   |                                     |                   |                                    |                   |
| Savings, NOW and money market                                  | 2,406,401                           | 1,182,574         | 5,861,780                          | 2,577,932         |
| Time   | 5,169,986                           | 3,771,103         | 14,345,659                         | 9,913,416         |
| Securities sold under agreements<br>to repurchase              |                                     |                   |                                    |                   |
| customers  | 974,239                             | 548,213           | 2,436,460                          | 1,301,964         |
| dealers  | 1,113,744                           | 517,973           | 3,441,885                          | 1,186,893         |
| Federal funds purchased  | 305,155                             | 209,462           | 691,376                            | 387,495           |
| Commercial paper   | 610,623                             | 237,243           | 1,553,147                          | 619,730           |
| Short-term borrowings FHLB                                     | 725,385                             | 51,649            | 1,560,750                          | 107,485           |
| Short-term borrowings other                                    | 5,327                               | 6,106             | 23,108                             | 16,566            |
| Long-term borrowings FHLB                                      | 297,176                             | 833,502           | 1,344,028                          | 2,641,892         |
| Long-term borrowings<br>subordinated debt                      | 523,438                             | 523,438           | 1,570,313                          | 1,570,313         |
| <b>Total interest expense</b>                                  | <b>12,131,474</b>                   | <b>7,881,263</b>  | <b>32,828,506</b>                  | <b>20,323,686</b> |
| Interest expense allocated to<br>discontinued operations       | (855,869)                           | (660,456)         | (2,508,092)                        | (1,687,899)       |
| <b>Net interest income</b>                                     | <b>18,491,632</b>                   | <b>19,184,385</b> | <b>56,016,281</b>                  | <b>56,004,053</b> |
| Provision for loan losses                                      | 1,510,367                           | 1,508,000         | 3,252,596                          | 4,212,000         |
| <b>Net interest income after provision<br/>for loan losses</b> | <b>16,981,265</b>                   | <b>17,676,385</b> | <b>52,763,685</b>                  | <b>51,792,053</b> |
| <b>NONINTEREST INCOME</b>                                      |                                     |                   |                                    |                   |
| Customer related service charges<br>and fees                   |                                     |                   |                                    |                   |
|  | 6,339,802                           | 3,932,277         | 15,871,707                         | 10,957,279        |
| Mortgage banking income  | 2,331,076                           | 4,601,006         | 7,115,048                          | 13,034,852        |
| Trust fees   | 147,641                             | 149,446           | 437,161                            | 472,969           |
| Bank owned life insurance income                               | 224,511                             | 460,209           | 712,876                            | 1,147,573         |
| Securities gains/(losses)                                      |                                     |                   | (444,631)                          | 196,680           |
| Other income   | 209,553                             | 87,756            | 350,982                            | 430,087           |
| <b>Total noninterest income</b>                                | <b>9,252,583</b>                    | <b>9,230,694</b>  | <b>24,043,143</b>                  | <b>26,239,440</b> |
| <b>NONINTEREST EXPENSES</b>                                    |                                     |                   |                                    |                   |
| Salaries   | 8,699,039                           | 7,863,889         | 25,572,626                         | 23,031,597        |
| Employee benefits  | 2,393,846                           | 2,426,485         | 8,066,118                          | 6,350,282         |

Edgar Filing: STERLING BANCORP - Form 10-Q

|   | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |               |
|---|-------------------------------------|--------------|------------------------------------|---------------|
|   | _____                               | _____        | _____                              | _____         |
| Total personnel expense                                   | 11,092,885                          | 10,290,374   | 33,638,744                         | 29,381,879    |
| Occupancy and equipment expenses, net                     | 2,549,552                           | 2,313,030    | 7,332,527                          | 6,529,678     |
| Advertising and marketing                                 | 973,882                             | 909,736      | 2,779,480                          | 2,960,465     |
| Professional fees   | 1,620,677                           | 702,179      | 4,136,283                          | 3,567,043     |
| Communications  | 485,987                             | 359,193      | 1,331,703                          | 1,145,705     |
| Other expenses  | 2,741,007                           | 2,655,972    | 7,573,187                          | 7,033,552     |
|   | _____                               | _____        | _____                              | _____         |
| Total noninterest expenses                                | 19,463,990                          | 17,230,484   | 56,791,924                         | 50,618,322    |
|   | _____                               | _____        | _____                              | _____         |
| Income from continuing operations<br>before income taxes  | 6,769,858                           | 9,676,595    | 20,014,904                         | 27,413,171    |
| Provision for income taxes                                | 1,766,869                           | 3,647,786    | 3,148,590                          | 10,271,594    |
|   | _____                               | _____        | _____                              | _____         |
| Income from continuing operations                         | 5,002,989                           | 6,028,809    | 16,866,314                         | 17,141,577    |
| Income/(loss) from discontinued<br>operations, net of tax | 183,686                             | 245,140      | (374,021)                          | 955,248       |
| Loss on sale of discontinued<br>operations, net of tax    | (9,604,166)                         |              | (9,604,166)                        |               |
|   | _____                               | _____        | _____                              | _____         |
| Net (loss)/income   | \$ (4,417,491)                      | \$ 6,273,949 | \$ 6,888,127                       | \$ 18,096,825 |
|   | _____                               | _____        | _____                              | _____         |

See Notes to Consolidated Financial Statements.

Edgar Filing: STERLING BANCORP - Form 10-Q

STERLING BANCORP AND SUBSIDIARIES  
 Consolidated Statements of Operations  
 (Unaudited)

continued

|  | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|------------|------------------------------------|------------|
|  | 2006                                | 2005       | 2006                               | 2005       |
| Average number of common shares outstanding                    |                                     |            |                                    |            |
| Basic  | 18,712,072                          | 19,229,677 | 18,752,107                         | 19,209,914 |
| Diluted  | 19,230,823                          | 19,851,580 | 19,274,858                         | 19,806,957 |
| Income from continuing operations,<br>per average common share |                                     |            |                                    |            |
| Basic  | \$ 0.27                             | \$ 0.31    | \$ 0.90                            | \$ 0.89    |
| Diluted  | 0.27                                | 0.30       | 0.88                               | 0.86       |
| Net (loss)/income per average common share                     |                                     |            |                                    |            |
| Basic  | (0.23)                              | 0.32       | 0.37                               | 0.94       |
| Diluted  | (0.23)(1)                           | 0.31       | 0.36                               | 0.91       |
| Dividends per common share                                     | 0.19                                | 0.18       | 0.57                               | 0.54       |

(1) Due to a loss for the period, zero incremental shares are included because the effect would be antidilutive.

See Notes to Consolidated Financial Statements.



Edgar Filing: STERLING BANCORP - Form 10-Q

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

|  | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |               |
|--|-------------------------------------|--------------|------------------------------------|---------------|
|  | 2006                                | 2005         | 2006                               | 2005          |
| Net (Loss)/Income  | \$ (4,417,491)                      | \$ 6,273,949 | \$ 6,888,127                       | \$ 18,096,825 |
| Other comprehensive (loss)/income,<br>net of tax:                        |                                     |              |                                    |               |
| Unrealized holding (losses)/gains<br>arising during the period           | 1,871,726                           | (1,211,465)  | (347,805)                          | (2,119,156)   |
| Reclassification adjustment for<br>(gains)/losses included in net income |                                     |              | 243,702                            | (106,404)     |
| Comprehensive (loss)/income  | \$ (2,545,765)                      | \$ 5,062,484 | \$ 6,784,024                       | \$ 15,871,265 |

See Notes to Consolidated Financial Statements.

Edgar Filing: STERLING BANCORP - Form 10-Q

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

|  | Nine Months Ended<br>September 30, |                 |
|--|------------------------------------|-----------------|
|  | 2006                               | 2005            |
| <b>Common Stock</b>  |                                    |                 |
| Balance at January 1   | \$ 21,066,916                      | \$ 19,880,521   |
| Common shares issued under stock incentive plan                          | 110,168                            | 262,610         |
| Balance at September 30  | \$ 21,177,084                      | \$ 20,143,131   |
| <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 | 1,624,825                          | 3,783,678       |
| Balance at September 30  | \$ 167,938,391                     | \$ 149,094,423  |
| <b>Retained Earnings</b>   |                                    |                 |
| Balance at January 1   | \$ 20,739,352                      | \$ 28,664,568   |
| Net Income   | 6,888,127                          | 18,096,825      |
| Cash dividends paid - common shares                                      | (10,676,307)                       | (10,444,287)    |
| Balance at September 30  | \$ 16,951,172                      | \$ 36,317,106   |
| <b>Accumulated Other Comprehensive Loss</b>                              |                                    |                 |
| Balance at January 1   | \$ (5,229,620)                     | \$ (1,921,060)  |
| Unrealized holding losses arising during the period:                     |                                    |                 |
| Before tax   | (422,066)                          | (3,935,894)     |
| Tax effect   | 74,261                             | 1,816,738       |
| Net of tax   | (347,805)                          | (2,119,156)     |
| Reclassification adjustment for losses/(gains) included in net income:   |                                    |                 |
| Before tax   | 444,631                            | (196,680)       |
| Tax effect   | (200,929)                          | 90,276          |
| Net of tax   | 243,702                            | (106,404)       |
| Balance at September 30  | \$ (5,333,723)                     | \$ (4,146,620)  |
| <b>Treasury Stock</b>  |                                    |                 |
| Balance at January 1   | \$ (55,280,647)                    | \$ (42,939,969) |
| Purchase of common shares  | (3,810,106)                        | (3,322,666)     |
| Surrender of shares issued under stock incentive plan                    | (613,792)                          | (1,606,279)     |

Edgar Filing: STERLING BANCORP - Form 10-Q

Nine Months Ended  
September 30,

|                                       |                 |                 |
|---------------------------------------|-----------------|-----------------|
| Balance at September 30               | \$ (59,704,545) | \$ (47,868,914) |
| Unearned Compensation                 |                 |                 |
| Balance at January 1                  | \$ (22,007)     | \$ (291,212)    |
| Amortization of unearned compensation | 22,007          | 203,193         |
| Balance at September 30               | \$              | \$ (88,019)     |
| Total Shareholders' Equity            |                 |                 |
| Balance at January 1                  | \$ 147,587,560  | \$ 148,703,593  |
| Net changes during the period         | (6,559,181)     | 4,747,514       |
| Balance at September 30               | \$ 141,028,379  | \$ 153,451,107  |

*See Notes to Consolidated Financial Statements.*

Edgar Filing: STERLING BANCORP - Form 10-Q

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

|  | Nine Months Ended<br>September 30, |                      |
|--|------------------------------------|----------------------|
|  | 2006                               | 2005                 |
| <b>Operating Activities</b>  |                                    |                      |
| Net Income   | \$ 6,888,127                       | \$ 18,096,825        |
| Loss/(Income) from discontinued operations included below in operating cash flows from discontinued operations | 9,978,187                          | (955,248)            |
|  | <u>16,866,314</u>                  | <u>17,141,577</u>    |
| Income from continuing operations  | 16,866,314                         | 17,141,577           |
| Adjustments to reconcile income from continuing operations to net cash provided by operating activities:       |                                    |                      |
| Provision for loan losses  | 3,252,596                          | 4,212,000            |
| Depreciation and amortization of premises and equipment  | 1,719,800                          | 1,495,199            |
| Securities losses (gains)  | 444,631                            | (196,680)            |
| Income from bank owned life insurance  | (712,876)                          | (1,147,573)          |
| Deferred income tax provision (benefit)  | 2,287,029                          | (746,233)            |
| Proceeds from sale of loans  | 453,049,782                        | 523,824,646          |
| Gains on sales of loans, net   | (7,115,048)                        | (13,034,852)         |
| Originations of loans held for sale  | (435,004,762)                      | (523,867,731)        |
| Amortization of unearned compensation  | 22,007                             | 203,193              |
| Amortization of premiums on securities   | 451,606                            | 758,630              |
| Accretion of discounts on securities   | (361,529)                          | (473,278)            |
| Increase (Decrease) in accrued interest receivable   | 611,641                            | (169,457)            |
| Decrease (Increase) in accrued expenses and other liabilities  | 821,064                            | (1,337,718)          |
| Increase in other assets   | (3,333,608)                        | (4,949,988)          |
| Other, net   | (609,995)                          | 305,985              |
|  | <u>32,388,652</u>                  | <u>2,017,720</u>     |
| Net cash provided by operating activities  | 32,388,652                         | 2,017,720            |
| <b>Investing Activities</b>  |                                    |                      |
| Purchase of premises and equipment   | (1,287,069)                        | (1,989,213)          |
| Net increase in interest-bearing deposits with other banks   | (136,206)                          | (1,757,334)          |
| Net increase in loans held in portfolio  | (50,233,910)                       | (88,753,764)         |
| (Increase) Decrease in other real estate   | (1,193,651)                        | 439,220              |
| Proceeds from prepayments, redemptions or maturities of securities held to maturity                            | 63,676,853                         | 77,508,464           |
| Purchases of securities held to maturity   | (115,870)                          | (127,413,506)        |
| Proceeds from sales of securities available for sale   | 25,369,800                         | 2,932,250            |
| Proceeds from prepayments, redemptions or maturities of securities available for sale                          | 32,406,104                         | 53,354,017           |
| Purchases of securities available for sale   | (12,816,790)                       | (36,447,371)         |
| Cash paid in acquisition   | (44,901,402)                       |                      |
|  | <u>10,767,859</u>                  | <u>(122,127,237)</u> |
| Net cash provided by (used in) investing activities  | 10,767,859                         | (122,127,237)        |
| <b>Financing Activities</b>  |                                    |                      |
| Net (decrease) increase in deposits  | (22,950,481)                       | 133,641,324          |
| Net (decrease) increase in borrowings  | (108,884,881)                      | 26,660,317           |
| Purchase of treasury stock   | (3,810,106)                        | (3,322,666)          |
|  | 1,734,993                          | 2,564,767            |

Edgar Filing: STERLING BANCORP - Form 10-Q

Nine Months Ended  
September 30,

|  |               |               |
|--|---------------|---------------|
| Net proceeds from issuance of common stock including the exercise of stock options |               |               |
| Cash dividends paid on common stock  | (10,676,307)  | (10,444,287)  |
| Net cash (used in) provided by financing activities                                | (144,586,782) | 149,099,455   |
| Cash flows from discontinued operations  |               |               |
| Operating cash flows   | 9,860,051     | 2,669,233     |
| Investing cash flows   | 90,744,000    | 2,808,561     |
| Total  | 100,604,051   | 5,477,794     |
| Net (decrease) increase in cash and due from banks                                 | (826,220)     | 34,467,732    |
| Cash and due from banks beginning of period  | 68,562,037    | 47,985,092    |
| Cash and due from banks end of period  | \$ 67,735,817 | \$ 82,452,824 |
| Supplemental disclosures:  |               |               |
| Interest paid  | \$ 32,745,564 | \$ 19,517,578 |
| Income taxes paid  | 7,467,452     | 13,020,100    |

See Notes to Consolidated Financial Statements.

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

1. 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 September 30, 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.
2. As of April 3, 2006, Sterling Resource Funding Corp., a subsidiary of the bank, completed the acquisition of the business and certain assets (\$64.1 million) and liabilities (\$21.0 million) of PL Services, L.P., a provider of credit and accounts receivable management services to the staffing industry, in an all cash transaction. A general allowance for loan losses in the amount of \$1.8 million was carried over. Preliminary goodwill recognized in this transaction amounted to \$1.7 million and was assigned to the Corporate Lending segment. This acquisition, when considered under relevant disclosure guidance, does not require the presentation of separate pro forma financial information.
3. In September 2006, the Company sold for cash the business conducted by Sterling Financial Services (Sterling Financial), which included a loan portfolio of approximately \$132 million.

The results of operations of Sterling Financial have been reported as a discontinued operation in the consolidated statements of operations for all periods presented in these consolidated financial statements. The Company recorded a pre-tax loss on the sale of \$15,576,289 and a tax benefit of \$5,972,123. Total revenues generated by the operations of Sterling Financial amounted to \$2,535,775 and \$2,950,767 for the quarters ended September 30, 2006 and 2005, respectively; total revenues amounted to \$8,192,645 and \$9,027,150 for the nine months ended September 30, 2006 and 2005, respectively. Income tax expense associated with discontinued operations was \$151,445 and \$210,434 for the quarters ended September 30, 2006 and 2005, respectively. For the nine months ended September 30, 2006 and 2005, the income tax (benefit) and income tax expense associated with discontinued operations, exclusive of loss on sale, were \$(308,375) and \$820,008, respectively.

The assets and liabilities of discontinued operations are presented separately in the consolidated balance sheets for the periods presented in these consolidated financial statements. The details are as follows:

|   | September 30,<br>2006 | December 31,<br>2005 |
|---|-----------------------|----------------------|
| <b>Assets</b>                           |                       |                      |
| Cash and due from banks                 | \$ 1,430,812          | \$ 586,646           |
| Loans, net of allowance for loan losses | 4,647,424             | 115,594,116          |
| Other assets                            | 484,516               | 339,695              |
|   | <hr/>                 | <hr/>                |
| Total Assets                            | \$ 6,562,752          | \$ 116,520,457       |
|   | <hr/>                 | <hr/>                |
| <b>Liabilities</b>                      |                       |                      |
| Accrued expenses and other liabilities  | \$ 1,013,570          | \$ 389,037           |
|   | <hr/>                 | <hr/>                |
| Total Liabilities                       | \$ 1,013,570          | \$ 389,037           |
|   | <hr/>                 | <hr/>                |



Edgar Filing: STERLING BANCORP - Form 10-Q

STERLING BANCORP AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

4. At September 30, 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.

|   | <b>Three Months<br/>Ended<br/>September 30, 2005</b> | <b>Nine Months<br/>Ended<br/>September 30, 2005</b> |
|---|--|---|
| Income from continuing operations   | \$ 6,028,809   | \$ 17,141,577                                       |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (65,577)   | (188,367)   |
| Pro forma, income from continuing operations  | 5,963,232  | 16,953,210  |
| Income from discontinued operations, net of tax   | 245,140  | 955,248   |
| Pro forma, net income   | \$ 6,208,372   | \$ 17,908,458                                       |
| Income from continuing operations per average common share:   |  |   |
| Basic- as reported  | \$ 0.31  | \$ 0.89   |
| Basic- pro forma  | 0.31   | 0.88  |
| Diluted- as reported  | 0.30   | 0.86  |
| Diluted- pro forma  | 0.30   | 0.85  |
| Net income per average common share   |  |   |
| Basic- as reported  | \$ 0.32  | \$ 0.94   |
| Basic- pro forma  | 0.32   | 0.93  |
| Diluted- as reported  | 0.31   | 0.91  |
| Diluted- pro forma  | 0.31   | 0.90  |

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. On June 30, 2006, 4,725 nonqualified stock options were granted to each nonmanagement member of the Company's Board of Directors; the exercise price was equal to the closing price of the Company's common shares on that date. The fair value of each option was calculated to be \$4.90 using the Black-Scholes option pricing model. These options expire five years from the date of grant and become exercisable in four annual installments starting one year from the date of grant, or upon the earlier death or disability of the grantee.



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

The Company uses the Black-Scholes option pricing model to estimate an option's fair value. The fair value of options included in the compensation charge recorded in the third quarter and nine months ended September 30, 2006 was estimated using the following assumptions: risk-free interest rate of 5.10%, dividend yield of 3.897%, expected volatility of 32.55% and weighted average expected life of 5 years. The risk-free interest rate is based on the 5-year U.S. Treasury yield in effect at the time of grant. The dividend yield reflects the Company's actual dividend yield at the date of grant. Expected volatility is based on the historical volatility of the Company's stock over the 5-year period prior to the grant date. The weighted average expected life represents the weighted average period of time that options granted are expected to be outstanding giving consideration to vesting schedules and the Company's historical exercise patterns. All options granted to nonmanagement members of the Company's Board of Directors vest evenly over four years commencing one year from the date of the grant and expire 5 years from the date of the grant. All options granted to employees vest one year from the date of grant and expire ten years from the date of grant. Compensation cost is recognized, net of estimated forfeitures, over the vesting period of the options on a straight-line basis.

Under the provisions of SFAS No. 123R, the Company recorded compensation expense of \$11,583 during the third quarter and nine months ended September 30, 2006. There was no material impact to net income, net income per share or cash flows resulting from the adoption of SFAS No. 123R as compared to what would have been recorded under APB 25. As of September 30, 2006, the total remaining unrecognized compensation cost related to stock options granted under the Company's plan was \$173,750, which is expected to be recognized over a weighted-average vesting period of 3.75 years.

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

|  | September 30,<br>2006       | December 31,<br>2005        |
|--|-----------------------------|-----------------------------|
|  | <u>                    </u> | <u>                    </u> |
| <b>Loans held for sale</b>                         |                             |                             |
| Real estate-residential mortgage                   | \$ 30,047,566               | \$ 40,977,538               |
|  | <u>                    </u> | <u>                    </u> |
| <b>Loans held in portfolio</b>                     |                             |                             |
| Commercial and industrial                          | \$ 615,777,692              | \$ 515,971,714              |
| Lease financing                                    | 245,008,614                 | 218,700,981                 |
| Real estate-residential mortgage                   | 128,345,718                 | 147,745,576                 |
| Real estate-commercial mortgage                    | 121,050,716                 | 110,871,291                 |
| Real estate-construction                           | 3,732,717                   | 2,309,103                   |
| Installment  | 14,156,075                  | 13,125,085                  |
| Loans to depository institutions                   | 27,000,000                  | 32,000,000                  |
|  | <u>                    </u> | <u>                    </u> |
| Loans held in portfolio, gross                     | 1,155,071,532               | 1,040,723,750               |
| Less unearned discounts                            | 32,874,104                  | 28,666,815                  |
|  | <u>                    </u> | <u>                    </u> |
| Loans held in portfolio, net of unearned discounts | \$ 1,122,197,428            | \$ 1,012,056,935            |
|  | <u>                    </u> | <u>                    </u> |

Edgar Filing: STERLING BANCORP - Form 10-Q

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

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<br>September 30, |            | Nine Months Ended<br>September 30, |              |
|--|-------------------------------------|------------|------------------------------------|--------------|
|  | 2006                                | 2005       | 2006                               | 2005         |
| <b>COMPONENTS OF NET PERIODIC BENEFIT COST</b> |                                     |            |                                    |              |
| Service cost                                   | \$ 445,618                          | \$ 395,231 | \$ 1,359,864                       | \$ 1,202,917 |
| Interest cost                                  | 600,700                             | 559,634    | 1,801,242                          | 1,578,620    |
| Expected return on plan assets                 | (538,923)                           | (480,328)  | (1,647,705)                        | (1,365,426)  |
| Amortization of prior service cost             | 18,985                              | 18,324     | 56,791                             | 56,556       |
| Recognized actuarial loss                      | 332,861                             | 291,769    | 989,049                            | 706,477      |
| Net periodic benefit cost                      | \$ 859,241                          | \$ 784,630 | \$ 2,559,241                       | \$ 2,179,144 |

The Company contributed \$1,000,000 to the defined benefit pension plan as of September 30, 2006.

7. The following information is provided in connection with the sales and/or calls of available for sale securities:

|              | Three Months Ended September 30, |      | Nine Months Ended September 30, |              |
|--------------|----------------------------------|------|---------------------------------|--------------|
|              | 2006                             | 2005 | 2006                            | 2005         |
| Proceeds     | \$                               | \$   | \$ 25,369,800                   | \$ 2,932,250 |
| Gross Gains  |                                  |      | 14,866                          | 196,680      |
| Gross Losses |                                  |      | 459,497                         |              |

During the first quarter of 2006 the Company sold lower yielding available for sale securities at a loss to partially fund the acquisition of PL Services, L.P.

8. 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 60.3% loans (corporate lending was 66.1% and real estate lending was 29.6% of total loans, respectively) and 39.4% investment securities and money market investments. There are no industry concentrations exceeding 10% of loans, gross, in the corporate lending segment. Approximately 69% 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.



Edgar Filing: STERLING BANCORP - Form 10-Q

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- and nine-month periods ended September 30, 2006 and 2005 (all amounts are from continuing operations except where designated as discontinued):

|  | <u>Corporate<br/>Lending</u> | <u>Real Estate<br/>Lending</u> | <u>Company-wide<br/>Treasury</u> | <u>Totals</u> |
|--|------------------------------|--------------------------------|----------------------------------|---------------|
| <b><u>Three Months Ended September 30, 2006</u></b>                |                              |                                |                                  |               |
| Net interest income  | \$ 9,667,017                 | \$ 5,420,192                   | \$ 3,150,192                     | \$ 18,237,401 |
| Noninterest income   | 6,015,711                    | 2,408,098                      | 425,911                          | 8,849,720     |
| Depreciation and amortization                                      | 168,349                      | 91,891                         | 614                              | 260,854       |
| Segment income from continuing operations<br>before income taxes   | 6,908,792                    | 3,429,499                      | 2,969,068                        | 13,307,359    |
| Segment income from discontinued operations<br>before income taxes | 335,131                      |                                |                                  | 335,131       |
| Segment assets from continuing operations                          | 778,980,378                  | 371,995,560                    | 751,887,140                      | 1,902,863,078 |
| Segment assets from discontinued operations                        | 6,562,752                    |                                |                                  | 6,562,752     |
| <b><u>Three Months Ended September 30, 2005</u></b>                |                              |                                |                                  |               |
| Net interest income  | \$ 7,885,476                 | \$ 5,928,749                   | \$ 5,143,317                     | \$ 18,957,542 |
| Noninterest income   | 3,429,042                    | 4,689,523                      | 537,257                          | 8,655,822     |
| Depreciation and amortization                                      | 109,996                      | 103,254                        | 620                              | 213,870       |
| Segment income from continuing operations<br>before income taxes   | 4,874,266                    | 5,636,868                      | 5,613,007                        | 16,124,141    |
| Segment income from discontinued operations<br>before income taxes | 455,574                      |                                |                                  | 455,574       |
| Segment assets from continuing operations                          | 692,310,205                  | 367,284,929                    | 839,492,676                      | 1,899,087,810 |
| Segment assets from discontinued operations                        | 109,083,884                  |                                |                                  | 109,083,884   |
| <b><u>Nine Months Ended September 30, 2006</u></b>                 |                              |                                |                                  |               |
| Net interest income  | \$ 27,240,511                | \$ 16,259,425                  | \$ 11,731,459                    | \$ 55,231,395 |
| Noninterest income   | 14,634,386                   | 7,345,291                      | 612,353                          | 22,592,030    |
| Depreciation and amortization                                      | 446,642                      | 293,893                        | 1,843                            | 742,378       |
| Segment income from continuing operations<br>before income taxes   | 19,856,222                   | 9,621,155                      | 10,650,366                       | 40,127,743    |
| Segment loss from discontinued operations<br>before income taxes   | 682,396                      |                                |                                  | 682,396       |
| Segment assets from continuing operations                          | 778,980,378                  | 371,995,560                    | 751,887,140                      | 1,902,863,078 |
| Segment assets from discontinued operations                        | 6,562,752                    |                                |                                  | 6,562,752     |
| <b><u>Nine Months Ended September 30, 2005</u></b>                 |                              |                                |                                  |               |
| Net interest income  | \$ 22,605,189                | \$ 16,141,238                  | \$ 16,590,184                    | \$ 55,336,611 |
| Noninterest income   | 9,251,274                    | 13,302,619                     | 1,741,781                        | 24,295,674    |
| Depreciation and amortization                                      | 293,516                      | 282,824                        | 1,838                            | 578,178       |
| Segment income from continuing operations<br>before income taxes   | 13,151,722                   | 16,018,794                     | 18,074,853                       | 47,245,369    |
| Segment income from discontinued operations<br>before income taxes | 1,775,256                    |                                |                                  | 1,775,256     |
| Segment assets from continuing operations                          | 692,310,205                  | 367,284,929                    | 839,492,676                      | 1,899,087,810 |
| Segment assets from discontinued operations                        | 109,083,884                  |                                |                                  | 109,083,884   |

Edgar Filing: STERLING BANCORP - Form 10-Q

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

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:

|  | Three Months Ended September 30, |                  | Nine Months Ended September 30, |                  |
|--|----------------------------------|------------------|---------------------------------|------------------|
|  | 2006                             | 2005             | 2006                            | 2005             |
| <b>Net interest income:</b>  |                                  |                  |                                 |                  |
| Total for reportable operating segments                            | \$ 18,237,401                    | \$ 18,957,542    | \$ 55,231,395                   | \$ 55,336,611    |
| Other <sup>(1)</sup>   | 254,231                          | 226,843          | 784,886                         | 667,442          |
| Consolidated net interest income                                   | \$ 18,491,632                    | \$ 19,184,385    | \$ 56,016,281                   | \$ 56,004,053    |
| <b>Noninterest income:</b>   |                                  |                  |                                 |                  |
| Total for reportable operating segments                            | \$ 8,849,720                     | \$ 8,655,822     | \$ 22,592,030                   | \$ 24,295,674    |
| Other <sup>(1)</sup>   | 402,863                          | 574,872          | 1,451,113                       | 1,943,766        |
| Consolidated noninterest income                                    | \$ 9,252,583                     | \$ 9,230,694     | \$ 24,043,143                   | \$ 26,239,440    |
| <b>Income from continuing operations before income taxes:</b>      |                                  |                  |                                 |                  |
| Total for reportable operating segments                            | \$ 13,307,359                    | \$ 16,124,141    | \$ 40,127,743                   | \$ 47,245,369    |
| Other <sup>(1)</sup>   | (6,537,501)                      | (6,447,546)      | (20,112,839)                    | (19,832,198)     |
| Consolidated income from continuing operations before income taxes | \$ 6,769,858                     | \$ 9,676,595     | \$ 20,014,904                   | \$ 27,413,171    |
| <b>Assets:</b>   |                                  |                  |                                 |                  |
| Total for reportable operating segments:                           |                                  |                  |                                 |                  |
| - continuing operations  | \$ 1,902,863,078                 | \$ 1,899,087,810 | \$ 1,902,863,078                | \$ 1,899,087,810 |
| - discontinued operations  | 6,562,752                        | 109,083,884      | 6,562,752                       | 109,083,884      |
| Other <sup>(1)</sup>   | 31,789,541                       | 26,959,247       | 31,789,541                      | 26,959,247       |
| Consolidated assets  | \$ 1,941,215,371                 | \$ 2,035,130,941 | \$ 1,941,215,371                | \$ 2,035,130,941 |

<sup>(1)</sup> 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)

9. In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)*, ( SFAS No. 158 ), which amends SFAS No. 87 and SFAS No. 106 to require recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The funded status is measured as the difference between plan assets at fair value and the benefit obligation (the projected benefit obligation for pension plans or the accumulated benefit obligation for other postretirement benefit plans). The Company is also required to measure the funded status of a plan as of the date of its year-end statement of financial position and to recognize changes in the funded status through comprehensive income. SFAS No. 158 also requires certain disclosures regarding the effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of gains or losses, prior service costs or credits, and the transition asset or obligation remaining from the initial application of SFAS No. 87 and SFAS No. 106. SFAS No. 158 is effective for publicly-held companies for fiscal years ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. The Company is currently analyzing the effects of SFAS No. 158 but does not expect its implementation will have a significant impact on the Company's financial condition or results of operations.

In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements*, ( SFAS No. 157 ). SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and requires expanded disclosures regarding fair value measurements. SFAS No. 157 is effective for the Company on January 1, 2008 and is not expected to have a significant impact on the Company's financial statements.

In September 2006, the FASB ratified the consensus reached by the Emerging Issues Task Force ( EITF ) on Issue No. 06-5, *Accounting for Purchases of Life Insurance - Determining the Amount that Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance* ( EITF Issue No. 06-5 ). FASB Technical Bulletin No. 85-4 requires that the amount that could be realized under the insurance contract as of the date of the statement of financial position should be reported as an asset. Since the issuance of FASB Technical Bulletin No. 85-4, there has been diversity in practice in the calculation of the amount that could be realized under insurance contracts. EITF Issue No. 06-5, which is effective January 1, 2007, concludes that the Company should consider any additional amounts (e.g., cash stabilization reserves and deferred acquisition cost taxes) included in the contractual terms of the insurance policy other than the cash surrender value in determining the amount that could be realized in accordance with FASB Technical Bulletin No. 85-4. The adoption of EITF Issue No. 06-5 is not expected to have a material impact on the Company's results of operations or financial condition.

In September 2006, the EITF reached a consensus on Issue No.06-4, *Accounting for Deferred Corporation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements*, ( EITF Issue No. 06-4 ). EITF Issue No. 06-4 is effective for fiscal years beginning after December 31, 2007. Under the provisions of EITF Issue No. 06-4, an employer should recognize a liability for future benefits for endorsement split-dollar life insurance agreements that are within the scope of this EITF Issue. The Company owns life insurance policies subject to endorsement split-dollar life insurance agreements and is currently evaluating the effect of adoption on its results of operations and financial condition.

In September 2006, the Securities and Exchange Commission ( SEC ) issued Staff Accounting Bulletin No.108 ( SAB 108 ). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be

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

considered in quantifying a potential current year misstatement. Prior to SAB 108, companies might evaluate the materiality of financial statement misstatements using either the income statement or balance sheet approach, with the income statement approach focusing on new misstatements added in the current year, and the balance sheet approach focusing on the cumulative amount of misstatement present in a company's balance sheet. Misstatements that would be material under one approach could be viewed as immaterial under another approach, and not be corrected. SAB 108 now requires that companies view financial statement misstatements as material if they are material according to either the income statement or balance sheet approach. The Company has analyzed SAB 108 and determined that upon adoption it is not expected to have impact on the Company's reported results of operations or financial condition.

In July 2006, the FASB issued Financial Accounting Standards Interpretation No. 48, ( FIN 48 ), *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently analyzing the potential effects of FIN 48 on its financial statements.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets - an amendment of FASB Statement No.140* ( SFAS No. 156 ). 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 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 analyzing the potential impact of SFAS No. 156 on its financial statements.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments- an amendment of FASB Statements No. 133 and 140* ( SFAS No. 155 ). SFAS No. 155 amends SFAS No.133, *Accounting for Derivative Instruments and Hedging Activities* ( SFAS No. 133 ), and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* ( SFAS No. 140 ). SFAS No. 155 (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. SFAS No. 155 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, which for the company is January 1, 2007.

**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.

In September 2006, the Company sold the business conducted by Sterling Financial Services ("Sterling Financial"). In accordance with the terms of the sale, Sterling Financial will provide interim servicing for a fee for no more than 120 days. All origination activities ceased by September 22, 2006. In accordance with accounting principles generally accepted in the United States, the assets, liabilities and earnings/loss of the business conducted by Sterling Financial have been shown separately as discontinued operations in the consolidated balance sheets and consolidated statements of operations for all periods presented.

For purposes of calculating the interest expense allocated to discontinued operations for the quarter and nine months ended September 30, 2006 and 2005 (the periods during which the Sterling Financial loans were outstanding), funding was deemed to be provided proportionally through all interest-bearing liabilities at an average rate equal to the cost of each applied to its average outstanding balance for the appropriate period.

For purposes of the following discussion, except for the section entitled "Discontinued Operations", average balances, average rate, income and expenses associated with Sterling Financial have been excluded from continuing operations and reported separately in the Average Balance Sheets for all periods presented.



## Edgar Filing: STERLING BANCORP - Form 10-Q

The interest expense allocated to discontinued operations was based on the actual average balances, interest expense and average rate on each category of interest-bearing liabilities, with the average rate applied to the aggregate average loan balances to determine the funding cost. Interest expense allocated to the funding supporting the Sterling Financial net loans for these periods was assigned based on the average net loan balances proportionately funded by all interest-bearing liabilities at an average rate equal to the cost of each applied to its average balance for the period. The Rate/Volume Analysis was prepared on the same basis as was the Average Balance Sheets.

For the three months ended September 30, 2006, the bank's average earning assets represented approximately 100.0% of the Company's average earning assets. Loans represented 62.4% and investment securities represented 37.4% of the bank's average earning assets for the third quarter of 2006.

For the nine months ended September 30, 2006, the bank's average earning assets represented approximately 100.0% of the Company's average earning assets. Loans represented 60.3% and investment securities represented 39.4% of the bank's average earning assets for the nine months ended September 30, 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 pages 32 and 33. Information as to the components of interest income and interest expense and average rates is provided in the Average Balance Sheets shown on pages 30 and 31.

### Comparison of the Three Months Ended September 30, 2006 and 2005

The Company reported income from continuing operations, after income taxes, for the three months ended September 30, 2006 of \$5.0 million, representing \$0.27 per share, calculated on a diluted basis, compared to \$6.0 million, or \$0.30 per share calculated on a diluted basis, for the third quarter of 2005. This decrease reflects higher interest and noninterest expenses which were only partially offset by an increase in interest income and a decrease in provision for income taxes.

#### *Net Interest Income*

Net interest income, on a tax-equivalent basis, was \$18.6 million for the third quarter of 2006 compared to \$19.3 million for the 2005 period, as the higher rates paid on interest-bearing deposits and borrowings and higher balances for borrowings in the third quarter of 2006 substantially offset the effects of higher average yield on loans and investment securities for that quarter. The net interest margin, on a tax-equivalent basis, was 4.49% for the third quarter of 2006 compared to 4.55% for the 2005 period. The net interest margin was impacted by the flattening of the yield curve, the higher interest rate environment in 2006, the lower level of noninterest-bearing demand deposits and the effect of higher average loans outstanding. The flattening yield curve and more competitive pricing practices in the Company's markets have caused the costs of deposits and borrowings to increase faster than the yield on earning assets.

Total interest income, on a tax-equivalent basis, aggregated \$29.9 million for the third quarter of 2006, up \$3.4 million from the 2005 period. The tax-equivalent yield on interest-earning assets was 7.24% for the third quarter of 2006 compared to 6.30% for the 2005 period.

## Edgar Filing: STERLING BANCORP - Form 10-Q

Interest earned on the loan portfolio amounted to \$22.6 million for the third quarter of 2006, up from \$18.4 million the prior year period. Average loan balances amounted to \$1,051.5 million, an increase of \$73.4 million from an average of \$978.1 million in the prior year period. The increase in average loans (across many segments of the Company's loan portfolio), primarily due to the acquisition of Sterling Resource Funding Corp. coupled with the Company's other business development activities and the ongoing consolidation of banks in the Company's marketing area, accounted for \$1.4 million of the \$4.2 million increase in interest earned on loans. The increase in the yield on the loan portfolio to 8.94% for the third quarter of 2006 from 7.76% for the 2005 period was primarily attributable to the mix (including the acquisition of Sterling Resource Funding Corp.) 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, decreased to \$7.3 million for the third quarter of 2006 from \$8.1 million in the prior year period. Average outstandings decreased to \$629.3 million (37.4% of average earning assets) for the third quarter of 2006 from \$719.8 million (42.1% of average earning assets) in the prior year period. The average life of the securities portfolio was approximately 4.6 years at September 30, 2006 compared to 3.8 years at September 30, 2005.

Total interest expense increased by \$4.1 million for the third quarter of 2006 from \$7.2 million for the 2005 period, primarily due to higher rates paid for interest-bearing deposits and for borrowed funds.

Interest expense on deposits increased to \$7.6 million for the third quarter of 2006 from \$5.0 million for the 2005 period primarily due to an increase in the cost of those funds. Average rate paid on interest-bearing deposits was 3.22% which was 116 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 \$4.6 million for the third quarter of 2006 from \$2.9 million for the 2005 period primarily due to an increase in the cost of those funds. The average rate paid on borrowings was 5.20% which was 149 basis points higher than the prior year period. The increase in average cost of borrowings reflects the higher interest rate environment during 2006.

### *Provision for Loan Losses*

Based on management's continuing evaluation of the loan portfolio (discussed under *Asset Quality* below), the provision for loan losses for the third quarter of 2006 was \$1.5 million, virtually unchanged from the prior year period. Factors affecting the level of provision included the growth in the loan portfolios, changes in general economic conditions and the amount of nonaccrual loans.

### *Noninterest Income*

Noninterest income was \$9.3 million for the third quarter of 2006 virtually unchanged from the 2005 period.

## Edgar Filing: STERLING BANCORP - Form 10-Q

Higher customer related service charges and fees were primarily due to revenues attributable to the acquisition of Sterling Resource Funding Corp. Partially offsetting that increase was a decrease in mortgage banking income principally due to lower volume of loans sold and the continued yield compression in the secondary market for loans which is impacting the entire industry.

### *Noninterest Expenses*

Noninterest expenses increased \$2.2 million for the third quarter of 2006 when compared to the 2005 period. The increase was primarily due to higher salaries, equipment and occupancy costs related to investments in the Sterling franchise, including the new branches and the acquisition of Sterling Resource Funding Corp. During the third quarter of 2005, professional fees were reduced by \$1.0 million due to the recovery of litigation costs originally charged to noninterest expenses in 2001.

### *Provision for Income Taxes*

The provision for income taxes decreased by \$1.8 million to \$1.8 million for the third quarter of 2006 from \$3.6 million for the 2005 period. The decrease was primarily due to the lower level of pre-tax income in the 2006 period and to a \$0.6 million reversal of state and local taxes, net of federal tax effect, as a result of the closure of certain years for local tax purposes.

### *Discontinued Operations*

In September 2006, the Company sold the business conducted by Sterling Financial. In accordance with accounting principles generally accepted in the United States, income after taxes from discontinued operations and the net loss on disposal of discontinued operations are reported in the Consolidated Statements of Operations after net income from continuing operations for all periods presented.

Income from discontinued operations was \$0.2 million for the third quarter of 2006, representing \$0.01 per share, calculated on a diluted basis, compared to \$0.2 million, or \$0.01 per share calculated on a diluted basis, for the third quarter of 2005.

The net after-tax loss on the disposal of discontinued operations was \$9.6 million, or \$0.51 per share, calculated on a diluted basis.

Income taxes were calculated at the Company's overall marginal tax rate of 45.19%. In addition, state and local taxes included the effect of the elimination of REIT benefits recognized in prior 2006 periods and the impact of required minimum state and local tax liabilities.

### **Comparisons of the Nine Months Ended September 30, 2006 and 2005**

The Company reported income from continuing operations, after income taxes, for the nine months ended September 30, 2006 of \$16.9 million, representing \$0.88 per share, calculated on a diluted basis, compared to \$17.1 million, or \$0.86 per share calculated on a diluted basis, for the first nine months of 2005. This decrease reflected higher interest and noninterest expenses and lower noninterest income, which were partially offset by an increase in interest income coupled with decreases in the provision for loan losses and the provision for income taxes.

*Net Interest Income*

Net interest income, on a tax-equivalent basis, was \$56.6 million for the first nine months of 2006 virtually unchanged from the 2005 period. Net interest income was positively impacted by higher average loans outstanding at higher average yields and negatively impacted by lower average investment securities outstandings and higher rates paid on interest-bearing deposits and borrowed funds coupled with higher balances for borrowed funds. The net interest margin, on a tax-equivalent basis, was 4.60% for the first nine months of 2006 compared to 4.69% for the 2005 period. The net interest margin was impacted by the flattening of the yield curve, the higher interest rate environment in 2006, the level of noninterest-bearing demand deposits and the effect of higher average loans outstanding. The flattening yield curve and more competitive pricing practices in the Company's markets have caused the costs of deposits and borrowings to increase faster than the yield on earning assets.

Total interest income, on a tax-equivalent basis, aggregated \$86.9 million for the first nine months of 2006, up from \$75.2 million for the 2005 period. The tax-equivalent yield on interest-earning assets was 7.10% for the first nine months of 2006 compared to 6.25% for the 2005 period.

Interest earned on the loan portfolio amounted to \$63.6 million for the first nine months of 2006, up \$13.1 million from the year ago period. Average loan balances amounted to \$1,018.9 million, an increase of \$95.8 million from an average of \$923.1 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 acquisition of Sterling Resource Funding Corp. coupled with the Company's other business development activities and the ongoing consolidation of banks in the Company's marketing area, accounted for \$5.6 million of the \$13.1 million increase in interest earned on loans. The increase in the yield on the loan portfolio to 8.84% for the first nine months of 2006 from 7.75% for the 2005 period was primarily attributable to the mix (including the acquisition of Sterling Resource Funding Corp.) 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, decreased to \$23.2 million for the first nine months of 2006 from \$24.4 million in the prior year period. Average outstandings decreased to \$666.2 million (39.4% of average earning assets for the first nine months of 2006) from \$715.5 million (43.2% of average earning assets) in the prior year period. The average life of the securities portfolio was approximately 4.6 years at September 30, 2006 compared to 3.8 years at September 30, 2005.

Total interest expense increased to \$30.3 million for the first nine months of 2006 from \$18.6 million for the 2005 period, primarily due to higher rates paid for interest-bearing deposits and for borrowed funds and higher average balances for borrowed funds.

## Edgar Filing: STERLING BANCORP - Form 10-Q

Interest expense on deposits increased to \$20.2 million for the first nine months of 2006 from \$12.5 million for the 2005 period primarily due to an increase in the cost of those funds. Average rate paid on interest-bearing deposits was 2.87% which was 106 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 \$12.6 million for the first nine months of 2006 from \$7.8 million for the 2005 period primarily due to the higher interest rate environment during 2006. The average rate paid on borrowed funds was 4.87% which was 145 basis points higher than the prior year period. The increase in average cost of borrowings reflects the high interest rate environment during 2006. Average borrowing balances increased to \$346.5 million for the first nine months of 2006 from \$305.2 million in the 2005 period.

### *Provision for Loan Losses*

Based on management's continuing evaluation of the loan portfolio (discussed under *Asset Quality* below), the provision for loan losses for the first nine months of 2006 decreased to \$3.3 million from \$4.2 million for the prior year period. Factors affecting the level of provision included the growth in the loan portfolios, changes in general economic conditions and the amount of nonaccrual loans.

### *Noninterest Income*

Noninterest income decreased to \$24.0 million for the first nine months of 2006 from \$26.2 million in the 2005 period, primarily due to lower revenues from mortgage banking activities and bank owned life insurance coupled with higher losses from sales of available for sale securities. The decrease in mortgage banking income was principally due to lower volume of loans sold and the continued yield compression in the secondary market for loans which is impacting the entire industry. Partially offsetting these decreases was increased revenues from customer related service charges and fees primarily due to revenues attributable to the acquisition of Sterling Resource Funding Corp.

### *Noninterest Expenses*

Noninterest expenses increased to \$56.8 million for the first nine months of 2006 from \$50.6 million in the 2005 period. The increase was primarily due to higher salaries, employee benefits, equipment and occupancy costs related to investments in the Sterling franchise, including the new branches and the acquisition of Sterling Resource Funding Corp. Also contributing to higher employee benefits expense were increases in pension costs coupled with higher payroll taxes and life insurance costs. During the third quarter of 2005, noninterest expenses were reduced by \$1.0 million due to the recovery of litigation costs originally charged to noninterest expenses in 2001.

### *Provision for Income Taxes*

The provision for income taxes for the first nine months of 2006 decreased by \$7.1 million from the 2005 period. The decrease was primarily due to: (1) a \$3.7 million reversal (during the first quarter of 2006) of reserves for state and local taxes, net of federal tax effect, as a result of the resolution of certain state tax issues, (2) a \$0.6 million reversal (during the third quarter of 2006) of state and local taxes, net of federal tax effect, as a result of the closure of certain tax years for local tax purposes and (3) the lower level of pre-tax income.

*Discontinued Operations*

In September 2006, the Company sold the business conducted by Sterling Financial. In accordance with accounting principles generally accepted in the United States, income after taxes from discontinued operations and the loss on disposal of discontinued operations, net of tax, are reported in the Consolidated Statements of Operations after net income from continuing operations for all periods presented.

The loss from discontinued operations was \$0.4 million for the first nine months of 2006, representing \$0.02 per share, calculated on a diluted basis compared to income of \$1.0 million, or \$0.05 per share, calculated on a diluted basis, for the 2005 period. The decrease was due to lower net interest income and a higher provision for loan losses for the first nine months of 2006 compared to the corresponding 2005 period.

The net after-tax loss on the disposal of discontinued operations was \$9.6 million, or \$0.50 per share, calculated on a diluted basis.

Income taxes were calculated at the Company's overall marginal tax rate of 45.19%. In addition, state and local taxes included the effect of the elimination of REIT benefits recognized in prior 2006 periods and the impact of required minimum state and local tax liabilities.

**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 September 30, 2006, the Company's portfolio of securities totaled \$606.4 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 4.8 years amounted to \$535.4 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 for amortization of premiums and accretion of discounts. The gross unrealized gains and losses on held to maturity securities were \$0.6 million and \$11.1 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 market recovery or the maturity of such instruments and thus believes that any market value impairment is interest rate related and therefore temporary. Available for sale securities included gross unrealized gains of \$0.4 million and gross unrealized losses of \$4.4 million.

Edgar Filing: STERLING BANCORP - Form 10-Q

The following table presents information regarding securities available for sale:

| September 30, 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 Association)    | \$ 8,911,055               | \$                           | \$ 498,140                    | \$ 8,412,915          |
| CMOs (Federal Home Loan Mortgage Company)       | 22,852,311                 |                              | 1,147,196                     | 21,705,115            |
| Federal National Mortgage Association           | 48,461,534                 | 45,969                       | 1,357,267                     | 47,150,236            |
| Federal Home Loan Mortgage Company              | 44,991,509                 | 6,669                        | 1,356,154                     | 43,642,024            |
| Government National Mortgage Association        | 4,398,885                  | 111,010                      | 4,813                         | 4,505,082             |
| <b>Total mortgage-backed securities</b>         | <b>129,615,294</b>         | <b>163,648</b>               | <b>4,363,570</b>              | <b>125,415,372</b>    |
| Obligations of state and political institutions | 23,603,754                 | 191,066                      | 45,355                        | 23,749,465            |
| Federal Reserve Bank stock                      | 1,130,700                  |                              |                               | 1,130,700             |
| Federal Home Loan Bank stock                    | 4,069,100                  |                              |                               | 4,069,100             |
| Other securities                                | 1,553,560                  | 80,084                       | 1,214                         | 1,632,430             |
| <b>Total</b>                                    | <b>\$ 159,972,408</b>      | <b>\$ 434,798</b>            | <b>\$ 4,410,139</b>           | <b>\$ 155,997,067</b> |

The following table presents information regarding securities held to maturity:

| September 30, 2006  | Carrying<br>Value  | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Market<br>Value |
|---|--------------------|------------------------------|-------------------------------|------------------------------|
| Mortgage-backed securities  |                    |                              |                               |                              |
| CMOs (Federal National Mortgage Association)                          | \$ 12,943,113      | \$                           | \$ 557,554                    | \$ 12,385,559                |
| CMOs (Federal Home Loan Mortgage Company)                             | 23,208,628         |                              | 1,078,464                     | 22,130,164                   |
| Federal National Mortgage Association                                 | 215,311,432        | 239,202                      | 4,565,520                     | 210,985,114                  |
| Federal Home Loan Mortgage Company                                    | 147,246,445        | 74,937                       | 4,498,093                     | 142,823,289                  |
| Government National Mortgage Association                              | 11,232,570         | 247,864                      | 714                           | 11,479,720                   |
| <b>Total mortgage-backed securities</b>                               | <b>409,942,188</b> | <b>562,003</b>               | <b>10,700,345</b>             | <b>399,803,846</b>           |
| Federal Home Loan Bank  | 19,988,245         |                              | 89,808                        | 19,898,437                   |
| Federal Farm Credit Bank  | 20,000,000         |                              | 268,750                       | 19,731,250                   |
| <b>Total obligations of U.S. government corporations and agencies</b> | <b>449,930,433</b> | <b>562,003</b>               | <b>11,058,903</b>             | <b>439,433,533</b>           |
| Debt securities issued by foreign governments                         | 500,000            |                              | 5,237                         | 494,763                      |



Edgar Filing: STERLING BANCORP - Form 10-Q

| September 30, 2006 | <u>Carrying<br/>Value</u> | <u>Gross<br/>Unrealized<br/>Gains</u> | <u>Gross<br/>Unrealized<br/>Losses</u> | <u>Estimated<br/>Market<br/>Value</u> |
|--------------------|---------------------------|---------------------------------------|--|---------------------------------------|
| Total              | \$ 450,430,433            | \$ 562,003                            | \$ 11,064,140                          | \$ 439,928,296                        |

*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 24% 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.

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

| September 30,                      |               |          |               |        |
|------------------------------------|---------------|----------|---------------|--------|
| 2006                               |               | 2005     |               |        |
| (\$ in thousands)                  |               |          |               |        |
| Balances                           | % of<br>Total | Balances | % of<br>Total |        |
| Domestic                           |               |          |               |        |
| Commercial and industrial          | \$ 615,324    | 53.4%    | \$ 527,466    | 50.6%  |
| Equipment lease financing          | 212,588       | 18.5     | 176,316       | 16.9   |
| Real estate - residential mortgage | 158,393       | 13.8     | 196,151       | 18.8   |
| Real estate- commercial mortgage   | 121,051       | 10.5     | 118,574       | 11.4   |
| Real estate - construction         | 3,733         | 0.3      | 2,309         | 0.2    |
| Installment - individuals          | 14,156        | 1.2      | 11,766        | 1.1    |
| Loans to depository institutions   | 27,000        | 2.3      | 10,000        | 1.0    |
| <hr/>                              |               |          |               |        |
| Loans, net of unearned discounts   | \$ 1,152,245  | 100.0%   | \$ 1,042,582  | 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 include, but are 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 September 30, 2006, the ratio of the allowance to loans held in portfolio, net of unearned discounts, was 1.48% and the allowance was \$16.6 million, including a general allowance of \$1.8 million carried over as a result of the acquisition of Sterling Resource Funding Corp. At such date, the Company's nonaccrual loans amounted to \$4.5 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 \$2.0 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 potential credit risks associated with the portfolio as of September 30, 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 nine months 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 \$0.5 million at September 30, 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:

| September 30,           |              |          |              |        |
|-------------------------|--------------|----------|--------------|--------|
| 2006                    |              | 2005     |              |        |
| (\$ in thousands)       |              |          |              |        |
| Balances                | % of Total   | Balances | % of Total   |        |
| Domestic                |              |          |              |        |
| Demand                  | \$ 507,367   | 35.3%    | \$ 540,030   | 36.6%  |
| NOW                     | 189,952      | 13.3     | 158,660      | 10.7   |
| Savings                 | 20,711       | 1.4      | 26,939       | 1.8    |
| Money market            | 194,291      | 13.6     | 226,202      | 15.3   |
| Time deposits           | 520,091      | 36.2     | 522,643      | 35.4   |
|                         |              |          |              |        |
| Total domestic deposits | 1,432,412    | 99.8     | 1,474,474    | 99.8   |
| Foreign                 |              |          |              |        |
| Time deposits           | 3,031        | 0.2      | 3,018        | 0.2    |
|                         |              |          |              |        |
| Total deposits          | \$ 1,435,443 | 100.0%   | \$ 1,477,492 | 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 pages 30 and 31.

**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 34. 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 September 30, 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.

Edgar Filing: STERLING BANCORP - Form 10-Q

STERLING BANCORP AND SUBSIDIARIES

Average Balance Sheets [1]  
Three Months Ended September 30,  
(Unaudited)

(dollars in thousands)

| ASSETS                               | 2006                |               |              | 2005                |               |              |
|--------------------------------------|---------------------|---------------|--------------|---------------------|---------------|--------------|
|                                      | Average Balance     | Interest      | Average Rate | Average Balance     | Interest      | Average Rate |
| Interest-bearing deposits            |                     |               |              |                     |               |              |
| with other banks                     | \$ 2,346            | \$ 23         | 3.80%        | \$ 3,455            | \$ 16         | 1.45%        |
| Securities available for sale        | 140,167             | 1,660         | 4.74         | 190,371             | 2,055         | 4.32         |
| Securities held to maturity          | 464,408             | 5,231         | 4.51         | 504,688             | 5,626         | 4.46         |
| Securities tax-exempt [2]            | 24,728              | 396           | 6.35         | 24,701              | 416           | 6.68         |
|                                      |                     |               |              |                     |               |              |
| Total investment securities          | 629,303             | 7,287         | 4.63         | 719,760             | 8,097         | 4.50         |
| Federal funds sold                   | 978                 | 13            | 5.15         | 6,935               | 61            | 3.43         |
| Loans, net of unearned discounts [3] | 1,051,501           | 22,600        | 8.94         | 978,139             | 18,392        | 7.76         |
|                                      |                     |               |              |                     |               |              |
| <b>TOTAL INTEREST-EARNING ASSETS</b> | <b>1,684,128</b>    | <b>29,923</b> | <b>7.24%</b> | <b>1,708,289</b>    | <b>26,566</b> | <b>6.30%</b> |
|                                      |                     |               |              |                     |               |              |
| Cash and due from banks              | 59,133              |               |              | 60,457              |               |              |
| Allowance for loan losses            | (18,516)            |               |              | (17,100)            |               |              |
| Goodwill                             | 22,958              |               |              | 21,158              |               |              |
| Other assets                         | 92,616              |               |              | 82,170              |               |              |
|                                      |                     |               |              |                     |               |              |
| Total assets-continuing operations   | 1,840,319           |               |              | 1,854,974           |               |              |
| Assets-discontinued operations       | 108,481             |               |              | 109,143             |               |              |
|                                      |                     |               |              |                     |               |              |
| <b>TOTAL ASSETS</b>                  | <b>\$ 1,948,800</b> |               |              | <b>\$ 1,964,117</b> |               |              |
|                                      |                     |               |              |                     |               |              |
| <b>LIABILITIES AND SHAREHOLDERS</b>  |                     |               |              |                     |               |              |
| <b>EQUITY</b>                        |                     |               |              |                     |               |              |
| Interest-bearing deposits            |                     |               |              |                     |               |              |
| Domestic                             |                     |               |              |                     |               |              |
| Savings                              | \$ 22,559           | 25            | 0.44%        | \$ 28,148           | 31            | 0.44%        |
| NOW                                  | 210,116             | 1,097         | 2.07         | 143,101             | 278           | 0.77         |
| Money market                         | 201,523             | 1,285         | 2.53         | 247,613             | 873           | 1.40         |
| Time                                 | 496,304             | 5,162         | 4.13         | 531,234             | 3,763         | 2.81         |
| Foreign                              |                     |               |              |                     |               |              |
| Time                                 | 3,030               | 8             | 0.99         | 3,016               | 8             | 1.42         |
|                                      |                     |               |              |                     |               |              |
| Total interest-bearing deposits      | 933,532             | 7,577         | 3.22         | 953,112             | 4,953         | 2.06         |
|                                      |                     |               |              |                     |               |              |
| Borrowings                           |                     |               |              |                     |               |              |
| Securities sold under agreements     |                     |               |              |                     |               |              |
| to repurchase - customers            | 89,672              | 975           | 4.31         | 87,049              | 548           | 2.50         |
| Securities sold under agreements     |                     |               |              |                     |               |              |
| to repurchase - dealers              | 81,701              | 1,114         | 5.41         | 57,755              | 518           | 3.56         |
| Federal funds purchased              | 22,568              | 305           | 5.29         | 23,438              | 209           | 3.55         |
| Commercial paper                     | 50,076              | 610           | 4.84         | 34,341              | 238           | 2.74         |
| Short-term borrowings - FHLB         | 52,953              | 726           | 5.43         | 5,435               | 51            | 3.77         |
| Short-term borrowings - other        | 395                 | 5             | 5.35         | 674                 | 7             | 3.58         |
| Long-term borrowings - FHLB          | 25,543              | 297           | 4.65         | 80,000              | 834           | 4.17         |
| Long-term borrowings - sub debt      | 25,774              | 523           | 8.38         | 25,774              | 523           | 8.38         |
|                                      |                     |               |              |                     |               |              |
| Total borrowings                     | 348,682             | 4,555         | 5.20         | 314,466             | 2,928         | 3.71         |

Edgar Filing: STERLING BANCORP - Form 10-Q

|   | 2006                |                  |              | 2005                |              |              |
|---|---------------------|------------------|--------------|---------------------|--------------|--------------|
| Interest-bearing liabilities allocated to discontinued operations | (99,377)            | (856)            | 3.74         | (97,137)            | (661)        | 2.66         |
| <b>TOTAL INTEREST-BEARING LIABILITIES</b>                         | <b>1,182,837</b>    | <b>11,276</b>    | <b>3.22%</b> | <b>1,170,441</b>    | <b>7,220</b> | <b>2.46%</b> |
| Noninterest-bearing deposits                                      | 424,834             |                  |              | 461,418             |              |              |
| Other liabilities   | 96,492              |                  |              | 82,278              |              |              |
| Liabilities-discontinued operations                               | 99,377              |                  |              | 97,137              |              |              |
| <b>Total liabilities</b>  | <b>1,803,540</b>    |                  |              | <b>1,811,274</b>    |              |              |
| Shareholders' equity  | 145,260             |                  |              | 152,843             |              |              |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>                 | <b>\$ 1,948,800</b> |                  |              | <b>\$ 1,964,117</b> |              |              |
| Net interest income/spread  |                     | 18,647           | 4.02%        | 19,346              |              | 3.84%        |
| Net yield on interest-earning assets (margin)                     |                     |                  | 4.49%        |                     |              | 4.55%        |
| Less: Tax equivalent adjustment                                   |                     | 155              |              | 162                 |              |              |
| <b>Net interest income</b>  |                     | <b>\$ 18,492</b> |              | <b>\$ 19,184</b>    |              |              |

[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.

Edgar Filing: STERLING BANCORP - Form 10-Q

STERLING BANCORP AND SUBSIDIARIES

Average Balance Sheets [1]  
 Nine Months Ended September 30,  
 (Unaudited)

(dollars in thousands)

| ASSETS                               | 2006                |               |              | 2005                |               |              |
|--------------------------------------|---------------------|---------------|--------------|---------------------|---------------|--------------|
|                                      | Average Balance     | Interest      | Average Rate | Average Balance     | Interest      | Average Rate |
| Interest-bearing deposits            |                     |               |              |                     |               |              |
| with other banks                     | \$ 2,390            | \$ 73         | 4.41%        | \$ 3,000            | \$ 38         | 1.71%        |
| Securities available for sale        | 151,265             | 5,231         | 4.61         | 197,229             | 6,454         | 4.36         |
| Securities held to maturity          | 486,263             | 16,526        | 4.53         | 492,838             | 16,569        | 4.48         |
| Securities tax-exempt [2]            | 28,721              | 1,400         | 6.52         | 25,415              | 1,350         | 7.10         |
|                                      | <u>666,249</u>      | <u>23,157</u> | <u>4.63</u>  | <u>715,482</u>      | <u>24,373</u> | <u>4.54</u>  |
| Total investment securities          | 666,249             | 23,157        | 4.63         | 715,482             | 24,373        | 4.54         |
| Federal funds sold                   | 2,454               | 88            | 4.71         | 13,810              | 283           | 2.71         |
| Loans, net of unearned discounts [3] | 1,018,876           | 63,569        | 8.84         | 923,133             | 50,471        | 7.75         |
|                                      | <u>1,689,969</u>    | <u>86,887</u> | <u>7.10%</u> | <u>1,655,425</u>    | <u>75,165</u> | <u>6.25%</u> |
| TOTAL INTEREST-EARNING ASSETS        | 1,689,969           | 86,887        | 7.10%        | 1,655,425           | 75,165        | 6.25%        |
| Cash and due from banks              | 62,442              |               |              | 61,895              |               |              |
| Allowance for loan losses            | (17,711)            |               |              | (17,332)            |               |              |
| Goodwill                             | 22,671              |               |              | 21,158              |               |              |
| Other assets                         | 90,439              |               |              | 80,433              |               |              |
|                                      | <u>1,847,810</u>    |               |              | <u>1,801,579</u>    |               |              |
| Total assets-continuing operations   | 1,847,810           |               |              | 1,801,579           |               |              |
| Assets-discontinued operations       | 111,676             |               |              | 110,302             |               |              |
|                                      | <u>\$ 1,959,486</u> |               |              | <u>\$ 1,911,881</u> |               |              |
| TOTAL ASSETS                         | \$ 1,959,486        |               |              | \$ 1,911,881        |               |              |
| LIABILITIES AND SHAREHOLDERS         |                     |               |              |                     |               |              |
| EQUITY                               |                     |               |              |                     |               |              |
| Interest-bearing deposits            |                     |               |              |                     |               |              |
| Domestic                             |                     |               |              |                     |               |              |
| Savings                              | \$ 23,956           | 76            | 0.42%        | \$ 28,583           | 85            | 0.40%        |
| NOW                                  | 189,741             | 2,522         | 1.78         | 146,845             | 740           | 0.67         |
| Money market                         | 216,014             | 3,264         | 2.02         | 229,700             | 1,753         | 1.02         |
| Time                                 | 507,732             | 14,323        | 3.77         | 516,273             | 9,888         | 2.56         |
| Foreign                              |                     |               |              |                     |               |              |
| Time                                 | 3,027               | 23            | 1.03         | 3,010               | 25            | 1.09         |
|                                      | <u>940,470</u>      | <u>20,208</u> | <u>2.87</u>  | <u>924,411</u>      | <u>12,491</u> | <u>1.81</u>  |
| Total interest-bearing deposits      | 940,470             | 20,208        | 2.87         | 924,411             | 12,491        | 1.81         |
| Borrowings                           |                     |               |              |                     |               |              |
| Securities sold under agreements     |                     |               |              |                     |               |              |
| to repurchase - customers            | 83,760              | 2,437         | 3.89         | 86,540              | 1,302         | 2.01         |
| to repurchase - dealers              | 91,634              | 3,442         | 5.02         | 50,237              | 1,187         | 3.16         |
| Federal funds purchased              | 18,291              | 691           | 4.98         | 15,739              | 387           | 3.25         |
| Commercial paper                     | 47,225              | 1,553         | 4.40         | 35,714              | 620           | 2.32         |
| Short-term borrowings - FHLB         | 40,264              | 1,561         | 5.18         | 4,180               | 107           | 3.44         |
| Short-term borrowings - other        | 628                 | 23            | 4.92         | 721                 | 17            | 3.07         |
| Long-term borrowings - FHLB          | 38,938              | 1,344         | 4.60         | 86,300              | 2,642         | 4.08         |
| Long-term borrowings - sub debt      | 25,774              | 1,570         | 8.38         | 25,774              | 1,570         | 8.38         |
|                                      | <u>346,514</u>      | <u>12,621</u> | <u>4.87</u>  | <u>305,205</u>      | <u>7,832</u>  | <u>3.42</u>  |
| Total borrowings                     | 346,514             | 12,621        | 4.87         | 305,205             | 7,832         | 3.42         |



Edgar Filing: STERLING BANCORP - Form 10-Q

|   | 2006                |                  |              | 2005                |                  |              |
|---|---------------------|------------------|--------------|---------------------|------------------|--------------|
| Interest-bearing liabilities allocated to discontinued operations | (101,790)           | (2,508)          | 3.36         | (99,601)            | (1,688)          | 2.23         |
| <b>TOTAL INTEREST-BEARING LIABILITIES</b>                         | <b>1,185,194</b>    | <b>30,321</b>    | <b>2.92%</b> | <b>1,130,015</b>    | <b>18,635</b>    | <b>2.26%</b> |
| Noninterest-bearing deposits                                      | 436,006             |                  |              | 448,038             |                  |              |
| Other liabilities   | 91,641              |                  |              | 83,924              |                  |              |
| Liabilities-discontinued operations                               | 101,790             |                  |              | 99,601              |                  |              |
| <b>Total liabilities</b>  | <b>1,814,631</b>    |                  |              | <b>1,761,578</b>    |                  |              |
| Shareholders' equity  | 144,855             |                  |              | 150,303             |                  |              |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>                 | <b>\$ 1,959,486</b> |                  |              | <b>\$ 1,911,881</b> |                  |              |
| Net interest income/spread  |                     | 56,566           | 4.18%        |                     | 56,530           | 3.99%        |
| Net yield on interest-earning assets (margin)                     |                     |                  | 4.60%        |                     |                  | 4.69%        |
| Less: Tax equivalent adjustment                                   |                     | 550              |              |                     | 526              |              |
| <b>Net interest income</b>  |                     | <b>\$ 56,016</b> |              |                     | <b>\$ 56,004</b> |              |

[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)

**Increase/ (Decrease)**  
**Three Months Ended**  
**September 30, 2006 to September 30, 2005**

|   | <u>Volume</u> | <u>Rate</u>     | <u>Net [2]</u>  |
|---|---------------|-----------------|-----------------|
| <b>INTEREST INCOME</b>  |               |                 |                 |
| Interest-bearing deposits with other banks                    | \$ (6)        | \$ 13           | \$ 7            |
| Securities available for sale                                 | (584)         | 189             | (395)           |
| Securities held to maturity                                   | (458)         | 63              | (395)           |
| Securities tax-exempt   |               | (20)            | (20)            |
| Total investment securities                                   | (1,042)       | 232             | (810)           |
| Federal funds sold  | (68)          | 20              | (48)            |
| Loans, net of unearned discounts [3]                          | 1,390         | 2,818           | 4,208           |
| <b>TOTAL INTEREST INCOME</b>                                  | <b>\$ 274</b> | <b>\$ 3,083</b> | <b>\$ 3,357</b> |
| <b>INTEREST EXPENSE</b>                                       |               |                 |                 |
| <b>Interest-bearing deposits</b>                              |               |                 |                 |
| <b>Domestic</b>   |               |                 |                 |
| Savings   | \$ (6)        | \$ 0            | \$ (6)          |
| NOW   | 178           | 641             | 819             |
| Money market  | (187)         | 599             | 412             |
| Time  | (262)         | 1,661           | 1,399           |
| <b>Foreign</b>  |               |                 |                 |
| Time  |               |                 |                 |
| Total interest-bearing deposits                               | (277)         | 2,901           | 2,624           |
| <b>Borrowings</b>   |               |                 |                 |
| Securities sold under agreements<br>to repurchase - customers | 18            | 409             | 427             |
| Securities sold under agreements<br>to repurchase - dealers   | 265           | 331             | 596             |
| Federal funds purchased                                       | (8)           | 104             | 96              |
| Commercial paper  | 139           | 233             | 372             |
| Short-term borrowings - FHLB                                  | 642           | 33              | 675             |
| Short-term borrowings - other                                 | (4)           | 2               | (2)             |
| Long-term borrowings - FHLB                                   | (625)         | 88              | (537)           |
| Long-term borrowings - sub debt                               |               |                 |                 |
| Total borrowings  | 427           | 1,200           | 1,627           |

Edgar Filing: STERLING BANCORP - Form 10-Q

**Increase/ (Decrease)**  
**Three Months Ended**  
**September 30, 2006 to September 30, 2005**

|  |                   |                   |                   |
|--|-------------------|-------------------|-------------------|
| Less: interest-bearing liabilities allocated<br>to discontinued operations | (10)              | (185)             | (195)             |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>TOTAL INTEREST EXPENSE</b>  | <b>\$ 140</b>     | <b>\$ 3,916</b>   | <b>\$ 4,056</b>   |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>NET INTEREST INCOME</b>   | <b>\$ 134</b>     | <b>\$ (833)</b>   | <b>\$ (699)</b>   |
|  | <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.

Edgar Filing: STERLING BANCORP - Form 10-Q

STERLING BANCORP AND SUBSIDIARIES

Rate/Volume Analysis [1]

(Unaudited)

(in thousands)

**Increase/ (Decrease)**  
**Nine Months Ended**  
**September 30, 2006 to September 30, 2005**

|  | <b>Volume</b>   | <b>Rate</b>     | <b>Net [2]</b>   |
|--|-----------------|-----------------|------------------|
| <b>INTEREST INCOME</b>                     |                 |                 |                  |
| Interest-bearing deposits with other banks | \$ (10)         | \$ 45           | \$ 35            |
| Securities available for sale              | (1,574)         | 351             | (1,223)          |
| Securities held to maturity                | (224)           | 181             | (43)             |
| Securities tax-exempt                      | 76              | (26)            | 50               |
| Total investment securities                | (1,722)         | 506             | (1,216)          |
| Federal funds sold                         | (321)           | 126             | (195)            |
| Loans, net of unearned discounts [3]       | 5,559           | 7,539           | 13,098           |
| <b>TOTAL INTEREST INCOME</b>               | <b>\$ 3,506</b> | <b>\$ 8,216</b> | <b>\$ 11,722</b> |
| <b>INTEREST EXPENSE</b>                    |                 |                 |                  |
| <b>Interest-bearing deposits</b>           |                 |                 |                  |
| <b>Domestic</b>                            |                 |                 |                  |
| Savings                                    | \$ (13)         | \$ 4            | \$ (9)           |
| NOW  | 267             | 1,515           | 1,782            |
| Money market                               | (110)           | 1,621           | 1,511            |
| Time                                       | (166)           | 4,601           | 4,435            |
| <b>Foreign</b>                             |                 |                 |                  |
| Time                                       |                 | (2)             | (2)              |
| Total interest-bearing deposits            | (22)            | 7,739           | 7,717            |
| <b>Borrowings</b>                          |                 |                 |                  |
| Securities sold under agreements           |                 |                 |                  |
| to repurchase - customers                  | (43)            | 1,178           | 1,135            |
| Securities sold under agreements           |                 |                 |                  |
| to repurchase - dealers                    | 1,315           | 940             | 2,255            |
| Federal funds purchased                    | 71              | 233             | 304              |
| Commercial paper                           | 247             | 686             | 933              |
| Short-term borrowings FHLB                 | 1,374           | 80              | 1,454            |
| Short-term borrowings other                | (2)             | 8               | 6                |
| Long-term borrowings FHLB                  | (1,598)         | 300             | (1,298)          |
| Long-term borrowings sub debt              |                 |                 |                  |
| Total borrowings                           | 1,364           | 3,425           | 4,789            |

Edgar Filing: STERLING BANCORP - Form 10-Q

|  | Increase/ (Decrease)<br>Nine Months Ended<br>September 30, 2006 to September 30, 2005 |                   |                  |
|--|---|-------------------|------------------|
| Less: interest-bearing liabilities allocated<br>to discontinued operations | (35)  | (785)             | (820)            |
| <b>TOTAL INTEREST EXPENSE</b>  | <b>\$ 1,307</b>   | <b>\$ 10,379</b>  | <b>\$ 11,686</b> |
| <b>NET INTEREST INCOME</b>   | <b>\$ 2,199</b>   | <b>\$ (2,163)</b> | <b>\$ 36</b>     |

- [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)

| As of September 30, 2006                     | Actual     |        | For Capital Adequacy Minimum |       | To Be Well Capitalized |        |
|--|------------|--------|------------------------------|-------|------------------------|--------|
|  | Amount     | Ratio  | Amount                       | Ratio | Amount                 | Ratio  |
| Total Capital (to Risk Weighted Assets):     |            |        |                              |       |                        |        |
| The Company                                  | \$ 164,841 | 12.63% | \$ 104,437                   | 8.00% | \$ 130,546             | 10.00% |
| The bank                                     | 144,287    | 11.12  | 103,818                      | 8.00  | 129,773                | 10.00  |
| Tier 1 Capital (to Risk Weighted Assets):    |            |        |                              |       |                        |        |
| The Company                                  | 148,519    | 11.38  | 52,218                       | 4.00  | 78,328                 | 6.00   |
| The bank                                     | 128,061    | 9.87   | 51,909                       | 4.00  | 77,864                 | 6.00   |
| Tier 1 Leverage Capital (to Average Assets): |            |        |                              |       |                        |        |
| The Company                                  | 148,519    | 7.71   | 77,038                       | 4.00  | 96,298                 | 5.00   |
| The bank                                     | 128,061    | 6.90   | 74,280                       | 4.00  | 92,850                 | 5.00   |
| As of December 31, 2005                      |            |        |                              |       |                        |        |
| 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 September 30, 2006, presented on page 40, 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 September 30, 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 September 30, 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 September 30, 2006, there were no amounts receivable under these contracts. At September 30, 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 September 30, 2006 the aggregate fair value of the interest rate floors was \$6,091, and \$4,309 was credited against Other Expenses for the three months ended September 30, 2006, and \$21,939 was charged to Other Expenses for the nine months ended September 30, 2006.

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 September 30, 2006, the model indicated the impact of a 200 basis point parallel and pro rata rise in rates over 12 months would approximate a 0.2% (\$0.2 million) increase in net interest income, while the impact of a 200 basis point decline in rates over the same period would approximate a 4.9% (\$4.1 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 customer's 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 would 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 September 30, 2006, the parent company's short-term debt, consisting principally of commercial paper used to finance ongoing current business activities, was approximately \$44.4 million. The parent company had cash, interest-bearing deposits with banks and other current assets aggregating \$58.8 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.

## Edgar Filing: STERLING BANCORP - Form 10-Q

The following table sets forth information regarding the Company's obligations and commitments to make future payments under contract as of September 30, 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                     | \$ 45,774              | \$               | \$        | \$ 10,000 | \$ 35,774(1)  |
| Operating Leases                   | 27,312                 | 4,168            | 8,073     | 5,354     | 9,717         |
| Total Contractual Cash Obligations | \$ 73,086              | \$ 4,168         | \$ 8,073  | \$ 15,354 | \$ 45,491     |

(1) Of which \$25,774 may be redeemed by the Company on or after March 31, 2007 at a price equal to principal amount plus accrued interest to the date of redemption.

The following table sets forth information regarding the Company's obligations under other commercial commitments as of September 30, 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            | \$ 16,840                                  | \$ 16,840        | \$        | \$        | \$            |
| Commercial Loans             | 52,827                                     | 27,439           | 24,616    | 772       |               |
| Total Loans                  | 69,667                                     | 44,279           | 24,616    | 772       |               |
| Standby Letters of Credit    | 32,928                                     | 30,656           | 2,272     |           |               |
| Other Commercial Commitments | 15,440                                     | 15,367           |           |           | 73            |
| Total Commercial Commitments | \$ 118,035                                 | \$ 90,302        | \$ 26,888 | \$ 772    | \$ 73         |

### 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

## Edgar Filing: STERLING BANCORP - Form 10-Q

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.

Edgar Filing: STERLING BANCORP - Form 10-Q

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  | \$ 1,348            | \$                                 | \$                                | \$              | \$                   | \$ 1,348         |
| Investment securities                                       | 16,738              | 14,845                             | 100,794                           | 468,528         | 5,523                | 606,428          |
| Commercial and industrial loans                             | 574,853             | 16,066                             | 18,869                            | 5,989           | (453)                | 615,324          |
| Equipment lease financing                                   | 2,132               | 7,875                              | 223,531                           | 11,471          | (32,421)             | 212,588          |
| Real estate-residential mortgage                            | 36,865              | 5,339                              | 90,779                            | 25,410          |                      | 158,393          |
| Real estate-commercial mortgage                             | 26,132              | 55,424                             | 37,393                            | 2,102           |                      | 121,051          |
| Real estate-construction loans                              | 3,733               |                                    |                                   |                 |                      | 3,733            |
| Installment-individuals                                     | 14,156              |                                    |                                   |                 |                      | 14,156           |
| Loans to depository institutions                            | 27,000              |                                    |                                   |                 |                      | 27,000           |
| Noninterest-earning assets &<br>allowance for loan losses   |                     |                                    |                                   |                 | 181,194              | 181,194          |
| <b>Total Assets</b>   | <b>702,957</b>      | <b>99,549</b>                      | <b>471,366</b>                    | <b>513,500</b>  | <b>153,843</b>       | <b>1,941,215</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                 |                     |                                    |                                   |                 |                      |                  |
| Interest-bearing deposits                                   |                     |                                    |                                   |                 |                      |                  |
| Savings [1]   |                     |                                    | 20,711                            |                 |                      | 20,711           |
| NOW [1]   |                     |                                    | 189,952                           |                 |                      | 189,952          |
| Money market [1]  | 152,072             |                                    | 42,219                            |                 |                      | 194,291          |
| Time - domestic   | 227,134             | 183,768                            | 109,057                           | 132             |                      | 520,091          |
| - foreign   | 2,636               | 395                                |                                   |                 |                      | 3,031            |
| Securities sold under agreement<br>to repurchase - customer | 56,342              | 2,750                              |                                   |                 |                      | 59,092           |
| Securities sold under agreement<br>to repurchase - dealer   | 58,385              |                                    |                                   |                 |                      | 58,385           |
| Federal funds purchased                                     | 20,000              |                                    |                                   |                 |                      | 20,000           |
| Commercial paper  | 44,366              |                                    |                                   |                 |                      | 44,366           |
| Short-term borrowings FHLB                                  | 30,000              |                                    |                                   |                 |                      | 30,000           |
| Short-term borrowings other                                 | 1,110               |                                    |                                   |                 |                      | 1,110            |
| Long-term borrowings FHLB                                   |                     |                                    | 10,000                            | 10,000          |                      | 20,000           |
| Long-term borrowings<br>subordinated debentures             |                     |                                    |                                   |                 | 25,774               | 25,774           |
| Noninterest-bearing liabilities<br>& shareholders' equity   |                     |                                    |                                   |                 | 754,412              | 754,412          |
| <b>Total Liabilities and<br/>Shareholders' Equity</b>       | <b>592,045</b>      | <b>186,913</b>                     | <b>371,939</b>                    | <b>10,132</b>   | <b>780,186</b>       | <b>1,941,215</b> |

Edgar Filing: STERLING BANCORP - Form 10-Q

|                                      | Repricing Date |             |            |            |              |    |
|--------------------------------------|----------------|-------------|------------|------------|--------------|----|
| Net Interest Rate<br>Sensitivity Gap | \$ 110,912     | \$ (87,364) | \$ 99,427  | \$ 503,368 | \$ (626,343) | \$ |
| Cumulative Gap<br>September 30, 2006 | \$ 110,912     | \$ 23,548   | \$ 122,975 | \$ 626,343 | \$           | \$ |
| Cumulative Gap<br>September 30, 2005 | \$ 130,636     | \$ (23,842) | \$ 70,744  | \$ 586,783 | \$           | \$ |
| Cumulative Gap<br>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 September 30, 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 Company did not repurchase any of its common shares during the third quarter of 2006. At September 30, 2006, the maximum number of shares that may yet be purchased under the share repurchase program was 240,319.

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.

Item 5. Other Information

On November 7, 2006, the Company entered into a Change in Control Severance and Retention Agreement ( Agreement ) with Dale C. Fredston ( Officer ), First Vice President and Corporate Secretary of the Company. The following summary is qualified in its entirety by reference to the Agreement, which is included as Exhibit 10 to this Quarterly Report on Form 10-Q and incorporated herein by reference. Capitalized terms used but not defined herein have the meanings provided in the Agreement. The Agreement provides in effect as follows (among other terms):

Upon the occurrence of any of a variety of actions that, if consummated, would constitute a Change in Control, the Officer will not voluntarily leave the employ of the Company, other than for Good Reason, until such Change in Control occurs or such action is terminated or abandoned. If within one year following a Change in Control the Officer's employment is terminated pursuant to a Qualifying Termination, the company will pay the Officer a cash severance amount equal to her highest annual base salary during the 12-month period immediately prior to the Qualifying Termination. On the other hand, if the Officer remains employed for one year after a Change in Control, the Company will pay her a retention bonus equal to her highest annual base salary during the period commencing one year prior to a Change in Control and ending on the date of payment of the retention bonus.



## Edgar Filing: STERLING BANCORP - Form 10-Q

### 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).
- 10. Change in Control Severance and Retention Agreement, dated as of November 7, 2006, between the Company and Dale C. Fredston.
- 11. Statement Re: Computation of Per Share Earnings.
- 31.1 Certification of the CEO pursuant to Exchange Act Rule 13a-14(a).
- 31.2 Certification of the CFO pursuant to Exchange Act Rule 13a-14(a).
- 32.1 Certification of the CEO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code.
- 32.2 Certification of the CFO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code.

Edgar Filing: STERLING BANCORP - Form 10-Q

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

.....  
(Registrant)

Date November 9, 2006

/s/ Louis J. Cappelli  
Louis J. Cappelli  
Chairman and  
Chief Executive Officer

Date November 9, 2006

/s/ John W. Tietjen  
John W. Tietjen  
Executive Vice President  
and Chief Financial Officer

Edgar Filing: STERLING BANCORP - Form 10-Q

STERLING BANCORP AND SUBSIDIARIES

EXHIBIT INDEX

| <u>Exhibit<br/>Number</u> | <u>Description</u>  | <u>Sequential<br/>Page No.</u> |
|---------------------------|---|--------------------------------|
| 10                        | <u>Change in Control Severance and Retention Agreement dated as of November 7, 2006, between the Company and Dale C. Fredston</u> | 46                             |
| 11                        | <u>Statement re: Computation of Per Share Earnings.</u>   | 58                             |
| 31.1                      | <u>Certification of the CEO pursuant to Exchange Act Rule 13a-14(a).</u>  | 59                             |
| 31.2                      | <u>Certification of the CFO pursuant to Exchange Act Rule 13a-14(a).</u>  | 60                             |
| 32.1                      | <u>Certification of the CEO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code.</u>                              | 61                             |
| 32.2                      | <u>Certification of the CFO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code.</u>                              | 62                             |