STERLING BANCORP
Form 10-K
March 09, 2012

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

FORM 10-K
Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2011	Commission File No. 1-5273-1

STERLING BANCORP
(Exact name of Registrant as specified in its charter)

New York	**13-2565216**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
650 Fifth Avenue, New York, N.Y.	**10019-6108**
(Address of principal executive offices)	(Zip Code)

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS	**NAME OF EACH EXCHANGE ON WHICH REGISTERED**
Common Shares, $1 par value per share	New York Stock Exchange
Cumulative Trust Preferred Securities 8.375% (Liquidation Amount $10 per Preferred Security) of Sterling Bancorp Trust I and Guarantee of Sterling Bancorp with respect thereto	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: NONE

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No þ

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No þ

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 þ No o

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company as defined in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer o Accelerated Filer þ Non-Accelerated Filer o Smaller Reporting Company o

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

On June 30, 2011, the aggregate market value of the common equity held by non-affiliates of the Registrant was $279,253,917.

The Registrant has one class of common shares, of which 30,924,832 shares were outstanding at February 23, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of Sterling Bancorp s definitive Proxy Statement to be filed pursuant to Regulation 14A are incorporated by reference in Part III.

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Exhibits Submitted in a Separate Volume.

PART I

ITEM 1. BUSINESS

The disclosures set forth in this item are qualified by ITEM 1A. RISK FACTORS on pages 15 26 and the section captioned FORWARD-LOOKING STATEMENTS AND FACTORS THAT COULD AFFECT FUTURE RESULTS on page 30 and other cautionary statements set forth elsewhere in this report.

Sterling Bancorp (the parent company or the Registrant) is a bank holding company and a financial holding company as defined by the Bank Holding Company Act of 1956, as amended (the BHCA), which was organized in 1966. Sterling Bancorp and its subsidiaries derive substantially all of their revenue and income from providing banking and related financial services and products to customers primarily in New York, New Jersey and Connecticut (the New York metropolitan area). Throughout this report, the terms the Company or Sterling refer to Sterling Bancorp and its consolidated subsidiaries, while the terms the parent company or the Registrant refer to Sterling Bancorp but not its subsidiaries. The Company has operations in the New York metropolitan area and conducts business throughout the United States.

The parent company owns, directly or indirectly, all of the outstanding shares of Sterling National Bank (the bank), its principal subsidiary, and all of the outstanding shares of Sterling Banking Corporation and Sterling Bancorp Trust I (the trust). Sterling National Mortgage Company, Inc. (SNMC), Sterling Factors Corporation (Factors), Sterling Trade Services, Inc. (Trade Services), Sterling Resource Funding Corp. (Resource Funding) and Sterling Real Estate Holding Company, Inc. are wholly-owned subsidiaries of the bank. The operations of SNMC, Factors and Resource Funding were merged into the bank as of July 1, 2011, October 1, 2011 and January 1, 2012, respectively. These actions were taken to simplify marketing and business development efforts, present a unified service offering to customers and streamline organizational structure. Also, as of January 26, 2012, business activities of Trade Services ceased and the subsidiary was liquidated and its activities were consolidated into the bank.

Although Sterling Bancorp is a corporate entity, legally separate and distinct from its affiliates, bank holding companies such as Sterling Bancorp are generally required to act as a source of financial strength for their subsidiary banks. The principal source of Sterling Bancorp s income is dividends from its subsidiaries. There are certain regulatory restrictions on the extent to which these subsidiaries can pay dividends or otherwise supply funds to Sterling Bancorp. See the section captioned SUPERVISION AND REGULATION for further discussion of these matters.

On April 3, 2009, Factors, a subsidiary of the bank, acquired substantially all of the assets and customer lists of DCD Capital, LLC and DCD Trade Services, LLC. The acquired assets and customer lists are now operating as a division of Factors under the name Sterling Trade Capital.

In September 2006, the Company sold the business conducted by Sterling Financial Services (Sterling Financial). In accordance with U.S. GAAP, the assets, liabilities and earnings/loss of the business conducted by Sterling Financial have been shown separately as discontinued operations.

For purposes of the following discussion, average balances, averages rates, income and expenses associated with Sterling Financial have been excluded from continuing operations and reported separately for all periods presented.

During the latter half of 2011, the Company combined its operating segments into one reportable segment, Community Banking. All of the Company s activities are interrelated, and each activity is dependent and assessed based on the manner in which it supports the other activities of the Company. For example, lending is dependent upon the ability of the bank to fund itself with retail deposits and other borrowings and to manage interest rate and credit risk. Accordingly, all significant operating decisions are based upon analysis of the Company as one operating segment or unit. The Company derives a substantial portion of its revenue and income from providing banking and related financial services and products to customers located primarily in the New York metropolitan area. The financial information in this report reflects the single segment through which the Company conducts its business.

BUSINESS OPERATIONS

The Bank

Sterling National Bank was organized in 1929 under the National Bank Act and commenced operations in New York City. The bank maintains twelve offices in New York: nine offices in New York City (six branches and an international banking facility in Manhattan and three branches in Queens); two branches in Nassau County (one in Great Neck and the other in Woodbury, New York) and one branch in Yonkers, New York. The executive office is located at 650 Fifth Avenue, New York, New York.

The bank provides a broad range of banking and financial products and services, including business and consumer lending, asset-based financing, residential mortgage warehouse funding, factoring/accounts receivable management services, equipment financing, commercial and residential mortgage lending and brokerage, deposit services, and trade financing.

For the year ended December 31, 2011, the bank s average earning assets represented approximately 98.9% of the Company s average earning assets. Loans represented 59.8% and investment securities represented 35.7% of the bank s average earning assets in 2011.

Commercial Lending, Asset-Based Financing, Residential Mortgage Warehouse Funding, and Factoring/Accounts Receivable Management. The bank provides loans to small and medium-sized businesses. The businesses are diversified across industries, including commercial, industrial and financial companies, and government and non-profit entities. Loans generally range in size up to $20 million and can be tailored to meet customers specific long- and short-term needs, and include secured and unsecured lines of credit, business installment loans, business lines of credit, and debtor-in-possession financing. Loans are often collateralized by assets, such as accounts receivable, inventory, marketable securities, other liquid collateral, equipment and other assets.

The bank provides financing and human resource business process outsourcing support services, exclusively for the temporary staffing industry. The bank provides full back-office, computer, tax and accounting services, as well as financing, to independently-owned staffing companies located throughout the United States. The average contract term is 18 months for approximately 200 staffing companies.

The bank offers residential mortgage warehouse funding services to mortgage bankers. Such funding consists of a line of credit (a warehouse line) used by the mortgage banker as a form of temporary financing during the period between the closing of a mortgage loan until its sale into the secondary market, which period typically lasts from 15 to 30 days. The bank provides warehouse lines in amounts ranging from $5 million to $20 million to an approved client base, which as of December 31, 2011, consisted of approximately 15 mortgage bankers operating nationally. The warehouse lines are secured by high quality first mortgage loans, which include conventional FannieMae and FreddieMac, jumbo and FHA loans.

The bank provides accounts receivable management services. The purchase of a client s accounts receivable is traditionally known as factoring and results in payment by the client of a nonrefundable factoring fee, which is generally a percentage of the factored receivables or sales volume and is designed to compensate for the bookkeeping and collection services provided and, if applicable, its credit review of the client s customer and assumption of customer credit risk. When the bank factors (*i.e.,* purchases) an account receivable from a client, it records the receivable as an asset (included in Loans held in portfolio, net of unearned discounts), records a liability for the funds due to the client (included in noninterest-bearing demand deposits) and credits to noninterest income the nonrefundable factoring fee (included in Accounts receivable management/factoring commissions and other fees). The bank also may advance funds to its client prior to the collection of receivables, charging interest on such advances (in addition to any factoring fees) and normally satisfying such advances by the collection of receivables. The accounts receivable factored are primarily for clients engaged in the apparel and textile industries.

As of December 31, 2011, the outstanding loan balance (net of unearned discounts) for commercial and industrial lending, asset-based financing, residential mortgage warehouse funding and factored receivables was $1,042.5 million, representing approximately 68.5% of the bank s total loan portfolio.

There are no industry concentrations in the commercial and industrial loan portfolio that exceed 10% of gross loans. Approximately 68% of the bank s loans are to borrowers located in the New York metropolitan area. The bank has no foreign loans.

Equipment Financing. The bank offers equipment financing services in the New York metropolitan area and across the United States through direct leasing programs, third-party sources and vendor programs. The bank finances full payout leases for various types of business equipment, written on a recourse basis with personal guarantees of the principals, with terms generally ranging from 24 to 60 months. At December 31, 2011, the outstanding balance (net of unearned discounts) for equipment financing receivables was $150.8 million, with a remaining average term of 35 months, representing approximately 9.9% of the bank s total loan portfolio.

Residential and Commercial Mortgages. The bank s real estate loan portfolio consists of real estate loans on one-to-four family residential properties, multi-family residential properties and nonresidential commercial properties. The residential mortgage banking and brokerage business is conducted through offices located principally in New York. Residential mortgage loans, substantially all of which are for single-family residences, are focused on conforming credit, government insured FHA and other high-quality loan products and are originated primarily in the New York metropolitan area, Virginia and other mid-Atlantic states, almost all of these for resale. In addition, the Company retains in portfolio fixed and floating rate residential mortgage loans, primarily on properties located in the New York metropolitan area, which were originated by its mortgage banking subsidiary. Commercial real estate lending, including financing on multi-family residential properties and nonresidential commercial properties, is offered on income-producing investor properties and owner-occupied properties, professional co-ops and condos. At December 31, 2011, the outstanding loan balance for real estate mortgage loans was $299.4 million, representing approximately 19.7% of the bank s total loans outstanding.

Deposit Services. The bank attracts deposits from customers located primarily in the New York metropolitan area, offering a broad array of deposit products, including checking accounts, money market accounts, negotiable order of withdrawal (NOW) accounts, savings accounts, rent security accounts, retirement accounts, and certificates of deposit. The bank s deposit services include account management and information, disbursement, reconciliation, collection and concentration, ACH and others designed for specific business purposes. The deposits of the bank are insured to the extent permitted by law pursuant to the Federal Deposit Insurance Act, as amended.

Trade Finance. Through its international division and international banking facility, the bank offers financial services to its customers and correspondents in the world s major financial centers. These services consist of financing import and export transactions, issuing letters of credit, processing documentary collections and creating banker s acceptances. In addition, active bank account relationships are maintained with leading foreign banking institutions in major financial centers.

Foreign activities of the Company are not considered to be material with predominantly all revenues and assets attributable to customers located in the United States. As of December 31, 2011, there were no loans to or deposits from customers located outside the United States.

The composition of total revenues (interest income and non-interest income) of the bank and its subsidiaries for the three most recent fiscal years was as follows:

Years Ended December 31,	**2011**	2010	2009
Interest and fees on loans	**52%**	49%	48%
Interest and dividends on investment securities	**16**	18	22
Noninterest income	**31**	33	29
Other	**1**		1
	100%	100%	100%

At December 31, 2011, the Company had 515 full-time equivalent employees, consisting of 240 officers and 275 supervisory and clerical employees. The bank considers its relations with its employees to be satisfactory.

COMPETITION

There is intense competition in all areas in which the Company conducts its business. As a result of the deregulation of the financial services industry under the Gramm-Leach-Bliley Act of 1999, 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 may have higher lending limits and provide a wider array of banking services than the Company does. 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. The Company generally competes on the basis of level of customer service, responsiveness to customer needs, availability and pricing of products, and geographic location.

SUPERVISION AND REGULATION

General

The banking industry is highly regulated. Statutory and regulatory controls are designed primarily for the protection of depositors and the banking system, and not for the purpose of protecting the shareholders of the parent company. The following discussion is not intended to be a complete list of all the activities regulated by the banking laws or of the impact of such laws and regulations on the bank and the Company. It is intended only to briefly summarize some material provisions. Changes in applicable law or regulation, and in their interpretation and application by regulatory agencies, cannot be predicted, but they may have a material effect on the business and results of the Company.

The parent company is a bank holding company and a financial holding company under the BHCA and is subject to supervision, examination and reporting requirements of the Board of Governors of the Federal Reserve System (the Federal Reserve Board). Sterling is also subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the Exchange Act), as administered by the Securities and Exchange Commission (the SEC). Sterling Bancorp is listed on the New York Stock Exchange (NYSE) under the trading symbol STL and is subject to the rules of the NYSE for listed companies.

As a national bank, the bank is principally subject to the supervision, examination and reporting requirements of the Office of the Comptroller of the Currency (the OCC), as well as the Federal Deposit Insurance Corporation (the FDIC). Insured

banks, including the bank, are subject to extensive regulation of many aspects of their business. These regulations relate to, among other things: (a) the nature and amount of loans that may be made by the bank and the rates of interest that may be charged; (b) types and amounts of other investments; (c) branching; (d) permissible activities; (e) reserve requirements; and (f) dealings with officers, directors and affiliates.

Sterling Banking Corporation is subject to supervision and regulation by the New York State Department of Financial Services (formerly the Banking Department of the State of New York).

Bank Holding Company Regulation

The BHCA requires the prior approval of the Federal Reserve Board for the acquisition by a bank holding company of 5% or more of the voting stock or substantially all of the assets of any bank or bank holding company. Also, under the BHCA, bank holding companies are prohibited, with certain exceptions, from engaging in, or from acquiring 5% or more of the voting stock of any company engaging in, activities other than (1) banking or managing or controlling banks, (2) furnishing services to or performing services for their subsidiaries, or (3) activities that the Federal Reserve Board has determined to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

As discussed below under Financial Holding Company Regulation, the Gramm-Leach-Bliley Act of 1999 amended the BHCA to permit a broader range of activities for bank holding companies that qualify as financial holding companies.

Financial Holding Company Regulation

The Gramm-Leach-Bliley Act:

- allows bank holding companies, the depository institution subsidiaries of which meet management, capital and the Community Reinvestment Act (the CRA) standards, to engage in a substantially broader range of non-banking financial activities than was previously permissible, including (a) insurance underwriting and agency, (b) making merchant banking investments in commercial companies, (c) securities underwriting, dealing and market making, and (d) sponsoring mutual funds and investment companies;

- allows insurers and other financial services companies to acquire banks; and

- establishes the overall regulatory structure applicable to bank holding companies that also engage in insurance and securities operations.

In order for a bank holding company to engage in the broader range of activities that are permitted by the Gramm-Leach-Bliley Act, (1) the bank holding company and all of its depository institution subsidiaries must be and remain well capitalized and well managed and have received at least a satisfactory CRA rating, and (2) it must file a declaration with the Federal Reserve Board that it elects to be a financial holding company.

Requirements and standards to remain well capitalized are discussed below. To maintain financial holding company status, the bank must have at least a satisfactory rating under the CRA. Under the CRA, during examinations of the bank, the OCC is required to assess the bank s record of meeting the credit needs of the communities serviced by the bank, including low- and moderate-income communities. Banks are given one of four ratings under the CRA: outstanding, satisfactory, needs to improve or substantial non-compliance. The bank received a rating of outstand on the most recent exam completed by the OCC.

Pursuant to an election made under the Gramm-Leach-Bliley Act, the parent company has been designated as a financial holding company. As a financial holding company, Sterling may conduct, or acquire a company (other than a U.S. depository institution or foreign bank) engaged in, activities that are financial in nature, as well as additional activities that the Federal Reserve Board determines (in the case of incidental activities, in conjunction with the United States Department of the Treasury (the U.S. Treasury)), are incidental or complementary to financial activities, without the prior approval of the Federal Reserve Board. Under the Gramm-Leach-Bliley Act, activities that are financial in nature include insurance, securities underwriting and dealing, merchant banking, and sponsoring mutual funds and investment companies. Under the merchant banking authority added by the Gramm-Leach-Bliley Act, financial holding companies may invest in companies that engage in activities that are not otherwise permissible financial activities, subject to certain limitations, including that the financial holding company makes the investment with the intention of limiting the investment duration and does not manage the company on a day-to-day basis.

Generally, financial holding companies must continue to meet all the requirements for financial holding company status in order to maintain the ability to undertake new activities or acquisitions that are financial in nature and the ability to continue those activities that are not generally permissible for bank holding companies. If the parent company ceases to so qualify, it would be required to obtain the prior approval of the Federal Reserve Board to engage in non-banking activities or to acquire more than 5% of the voting stock of any company that is engaged in non-banking activities. With certain exceptions, the Federal Reserve Board can only provide prior approval to applications involving activities that it had previously determined, by regulation or order, are so closely related to banking as to be properly incident thereto. Such activities are more limited than the range of activities that are deemed financial in nature.

Dodd-Frank Act

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). The Dodd-Frank Act has resulted, and will continue to result, in sweeping changes in the regulation of financial institutions aimed at strengthening the sound operation of the financial services sector. The Dodd-Frank Act s provisions that have received the most public attention generally have been those applying to or more likely to affect larger institutions. However, it contains numerous other provisions that affect all banks and bank holding companies, identified below. The Dodd-Frank Act includes provisions that, among other things:

- Centralize responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, responsible for implementing, examining and enforcing compliance with federal consumer protection laws.

- Restrict the preemption of state law by federal law and disallow subsidiaries and affiliates of national banks, such as the bank, from availing themselves of such preemption.

- Apply the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies.

- Require the OCC to seek to make its capital requirements for national banks, such as Sterling National Bank, countercyclical so that capital requirements increase in times of economic expansion and decrease in times of economic contraction.

- Require financial holding companies, such as the parent company, to be well capitalized and well managed. Bank holding companies and banks must also be both well capitalized and well managed in order to acquire banks located outside their home state.

- Implement corporate governance revisions, including with regard to executive compensation and proxy access by shareholders, that apply to all public companies, not just financial institutions.

- Make permanent the $250 thousand limit for federal deposit insurance and increase the cash limit of Securities Investor Protection Corporation protection from $100 thousand to $250 thousand and provide unlimited federal deposit insurance until December 31, 2012 for non-interest bearing demand transaction accounts at all insured depository institutions.

- Repeal the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.

- Prohibit banking entities from engaging in proprietary trading or acquiring or retaining an interest in a private equity or hedge fund (the Volcker Rule).

- Change the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital, eliminate the ceiling and the size of the Deposit Insurance Fund (the DIF), and increase the floor applicable to the size of the DIF.

- Increase the authority of the Federal Reserve to examine the Company and its non-bank subsidiaries.

In October 2011, federal regulators proposed rules to implement the Volcker Rule that included an extensive request for comments on the proposal, with a due date of February 13, 2012. The proposed rules are highly complex, and many aspects of the Volcker Rule remain unclear. We are analyzing how the proposed rules would affect us and, as proposed, do not anticipate that the Volcker Rule will have a material effect on the operations of the Company, as the Company does not engage in the businesses prohibited by the Volcker Rule. The Company may incur costs if it is required to adopt additional policies and systems to ensure compliance with the Volcker Rule, but any such costs are not expected to be material. However, the full impact on us will not be known with certainty until the rules are finalized and we have designed and implemented our compliance and related programs. The Volcker Rule provisions are scheduled to take effect no later than July 2012, and companies will be required to come into compliance within two years after the effective date (subject to possible extensions).

Some of these provisions may have the consequence of increasing our expenses, decreasing our revenues, and changing the activities in which we choose to engage. The environment in which banking organizations will operate after the financial crisis, including legislative and regulatory changes affecting capital, liquidity, supervision, permissible activities, corporate governance and compensation, changes in fiscal policy and steps to eliminate government support for banking organizations, may have long-term effects on the business model and profitability of banking organizations that cannot now be foreseen. The specific impact of the Dodd-Frank Act on our current activities or new financial activities we may consider in the future, our financial performance and the markets in which we operate will depend on the manner in which the relevant agencies develop and implement the required rules and the reaction of market participants to these regulatory developments. Many aspects of the Dodd-Frank Act are subject to rule-making and will take effect over several years, making it difficult to anticipate the overall financial impact on the Company, its customers or the financial industry more generally. We will continue to assess our business, risk management, and compliance practices to conform to developments in the regulatory environment.

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Payment of Dividends

The parent company depends for its cash requirements on funds maintained or generated by its subsidiaries, principally the bank.

Various legal restrictions limit the extent to which the bank can fund the parent company and its nonbank subsidiaries. All national banks are limited in the payment of dividends without the approval of the OCC to an amount not to exceed the net profits (as defined) for that year-to-date combined with its retained net profits for the preceding two calendar years, less any required transfers to surplus. Federal law also prohibits national banks from paying dividends that would be greater than the bank s undivided profits after deducting statutory bad debt in excess of the bank s allowance for loan losses. Under the foregoing restrictions, and while maintaining its well capitalized status, as of December 31, 2011, the bank could pay dividends of approximately $47.1 million to the parent company, without obtaining regulatory approval. This is not necessarily indicative of amounts that may be paid or are available to be paid in future periods.

Under the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), a depository institution, such as the bank, may not pay dividends if payment would cause it to become undercapitalized or if it is already undercapitalized. The payment of dividends by the parent company and the bank may also be affected or limited by other factors, such as the requirement to maintain adequate capital. The appropriate federal regulatory authority is authorized to determine under certain circumstances relating to the financial condition of a bank holding company or a bank that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. The appropriate federal regulatory authorities have indicated that paying dividends that deplete a bank s capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only out of current operating earnings. In addition, in the current financial and economic environment, the Federal Reserve Board has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

Transactions with Affiliates

Federal laws strictly limit the ability of banks to engage in transactions with their affiliates, including their bank holding companies. Regulations promulgated by the Federal Reserve Board limit the types and amounts of these transactions (including loans due and extensions of credit from their U.S. bank subsidiaries) that may take place and generally require those transactions to be on an arm s-length basis. In general, these regulations require that any covered transactions between a subsidiary bank and its parent company or the non-bank subsidiaries of the bank holding company are limited to 10% of a bank subsidiary s capital and surplus and, with respect to such parent company and all such nonbank subsidiaries, to an aggregate of 20% of the bank subsidiary s capital and surplus. Further, loans and extensions of credit generally are required to be secured by eligible collateral in specified amounts. The Dodd-Frank Act significantly expanded the coverage and scope of the limitations on affiliate transactions within a banking organization including, for example, the requirement that the 10% of capital limit on these transactions apply to financial subsidiaries as well. Covered transactions are defined by statute to include a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the Federal Reserve Board) from the affiliate, certain derivative transactions that create a credit exposure to an affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate.

Federal law also limits a bank s authority to extend credit to its directors, executive officers and 10% shareholders, as well as to entities controlled by such persons. Among other things, extensions of credit to insiders are required to be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons. Also, the terms of such extensions of credit may not involve more than the normal risk of repayment or present other unfavorable features and may not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the bank s capital.

Banks are subject to prohibitions on certain tying arrangements. A depository institution is prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

Capital Adequacy

As a bank holding company, the parent company is subject to consolidated regulatory capital requirements administered by the Federal Reserve Board. The bank is subject to similar capital requirements administered by the OCC. The federal regulatory authorities risk-based capital guidelines are based upon the 1988 capital accord (Basel I) of the Basel

Committee. The Basel Committee is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines for use by each country s supervisors in determining the supervisory policies they apply. The requirements are intended to ensure that banking organizations have adequate capital given the risk levels of assets and off-balance sheet financial instruments. Under the requirements, banking organizations are required to maintain minimum ratios for Tier 1 capital and total capital to risk-weighted assets (including certain off-balance sheet items, such as letters of credit). For purposes of calculating the ratios, a banking organization s assets and some of its specified off-balance sheet commitments and obligations are assigned to various risk categories. A depository institution s or holding company s capital, in turn, is classified in tiers, depending on type:

Core Capital (Tier 1). Currently, Tier 1 capital includes common equity, retained earnings, qualifying non-cumulative perpetual preferred stock, minority interests in equity accounts of consolidated subsidiaries, and, under existing standards, a limited amount of qualifying trust preferred securities, and qualifying cumulative perpetual preferred stock at the holding company level, less goodwill, most intangible assets and certain other assets.

Supplementary Capital (Tier 2). Currently, Tier 2 capital includes, among other things, perpetual preferred stock not meeting the Tier 1 definition, qualifying mandatory convertible debt securities, qualifying subordinated debt, and allowances for loan and lease losses, subject to limitations.

The Dodd-Frank Act applies the same leverage and risk-based capital requirements that apply to insured depository institutions to bank holding companies such as the Company, which, among other things as applied to the Company, going forward will preclude the Company from including in Tier 1 capital trust preferred securities or cumulative preferred stock, if any, issued on or after May 19, 2010 and to deduct, over three years beginning January 1, 2013, all trust preferred securities (including trust preferred securities issued by Sterling Bancorp Trust I) from the Company s Tier 1 capital. As of the date of this report the Company did not have any trust preferred securities issued on or after May 19, 2010 or any cumulative preferred stock outstanding.

As a bank holding company, the parent company is currently required to maintain Tier 1 capital and total capital (the sum of Tier 1 and Tier 2 capital) equal to at least 4.0% and 8.0%, respectively, of its total risk-weighted assets (including various off-balance-sheet items, such as standby letters of credit). National banks are required to maintain similar capital levels under capital adequacy guidelines. For a depository institution to be considered well capitalized under the regulatory framework for prompt corrective action, its Tier 1 and total capital ratios must be at least 6.0% and 10.0% on a risk-adjusted basis, respectively. The elements currently comprising Tier 1 capital and Tier 2 capital and the minimum Tier 1 capital and total capital ratios may in the future be subject to change, as discussed in greater detail below.

Bank holding companies and banks are also required to comply with minimum leverage ratio requirements. The leverage ratio is the ratio of a banking organization s Tier 1 capital to its total adjusted quarterly average assets (as defined for regulatory purposes). The requirements necessitate a minimum leverage ratio of 3.0% for financial holding companies and national banks that have the highest supervisory rating. All other financial holding companies and national banks are required to maintain a minimum leverage ratio of 4.0%, unless a different minimum is specified by an appropriate regulatory authority. For a depository institution to be considered well capitalized under the regulatory framework for prompt corrective action, its leverage ratio must be at least 5.0%. The bank regulatory agencies have encouraged banking organizations, including healthy, well-run banking organizations, to operate with capital ratios substantially in excess of the stated ratios required to maintain well capitalized status. This has resulted from, among other things, current economic conditions, the global financial crisis and the likelihood, as described below, of increased formal capital requirements for banking organizations. In light of the foregoing, the Company and the bank expect that they will maintain capital ratios substantially in excess of these ratios.

In 2004, the Basel Committee published a new capital accord (Basel II) to replace Basel I. Basel II provides two approaches for setting capital standards for credit risk an internal ratings-based approach tailored to individual institutions circumstances and a standardized approach that bases risk weightings on external credit assessments to a much greater extent than permitted in existing risk-based capital guidelines. Basel II also sets capital requirements for operational risk and refines the existing capital requirements for market risk exposures.

In the United States, regulators have required the advanced approaches of Basel II to be implemented only by certain large or internationally active banking organizations, or core banks defined as those with consolidated total assets of $250 billion or more or consolidated on-balance sheet foreign exposures of $10 billion or more. Other U.S. banking organizations can elect to adopt the requirements of this rule (if they meet applicable qualification requirements), but they are not required to apply them. The rule also allows a banking organization s primary federal supervisor to determine that the application of the rule would not be appropriate in light of the bank s asset size, level of complexity, risk profile, or scope of operations. The Company is not required to comply with the advanced approaches of Basel II.

The Dodd-Frank Act requires the Federal Reserve Board, the OCC and the FDIC to adopt regulations imposing a continuing floor of the Basel I-based capital requirements in cases where the Basel II-based capital requirements and any changes in capital regulations resulting from Basel III (see below) otherwise would permit lower requirements. In December 2010, the Federal Reserve Board, the OCC and the FDIC issued a joint notice of proposed rulemaking that would implement this requirement.

In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation, now officially identified by the Basel Committee as Basel III. Basel III, when implemented by the U.S. banking agencies and fully phased-in, will require bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity.

The Basel III final capital framework, among other things, (i) introduces as a new capital measure Common Equity Tier 1 (CET1), (ii) specifies that Tier 1 capital consists of CET1 and Additional Tier 1 capital instruments meeting specified requirements, (iii) defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expands the scope of the adjustments as compared to existing regulations.

When fully phased-in on January 1, 2019, Basel III will require banks to maintain (i) as a newly adopted international standard, a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer (which is added to the 4.5% CET1 ratio as that buffer is phased-in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7% upon full implementation), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased-in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation), (iii) a minimum ratio of Total Capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased-in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation) and (iv) as a newly adopted international standard, a minimum leverage ratio of 3%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (as the average for each quarter of the month-end ratios for the quarter).

Basel III also provides for a countercyclical capital buffer, generally to be imposed when bank regulatory agencies determine that excess aggregate credit growth has become associated with a build-up of systemic risk, that would be a CET1 add-on to the capital conservation buffer in the range of 0% to 2.5% when fully implemented (potentially resulting in total buffers of between 2.5% and 5%).

The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the short fall.

The implementation of the Basel III capital framework will commence on January 1, 2013. On that date, banking institutions will be required to meet the following minimum capital ratios:

- 3.5% CET1 to risk-weighted assets.
- 4.5% Tier 1 capital to risk-weighted assets.
- 8.0% Total capital to risk-weighted assets.

Management believes, as of December 31, 2011, that the parent company and the bank would meet all capital adequacy requirements under the Basel III capital framework on a fully phased-in basis if such requirements were currently effective.

The Basel III final framework provides for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Under current capital standards, the effects of accumulated other comprehensive income items included in capital are excluded for the purposes of determining regulatory capital ratios. Under the Basel III capital framework, the effects of accumulated other comprehensive items are not excluded, which could result in significant variations in level of capital depending upon the impact of interest rate fluctuations on the fair value of the Company s investment securities portfolio.

Implementation of the deductions and other adjustments to CET1 will begin on January 1, 2014 and will be phased-in over a five-year period (20% per year). The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and be phased-in over a four-year

period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

Although the U.S. banking agencies have not yet published a notice of proposed rulemaking to implement Basel III in the United States, they have indicated informally that rules implementing the Basel III capital framework will be published for comment during the first half of 2012. As of the date of this report, the application of the Basel III liquidity framework to bank holding companies with less than $50 billion of total consolidated assets is less certain. Accordingly, the regulations ultimately adopted and made applicable to the Company may be different from the Basel III final framework as published in December 2010. Requirements to maintain higher levels of capital or to maintain higher levels of liquid assets could adversely impact the Company s net income and return on equity.

Liquidity Requirements

Historically, regulation and monitoring of bank and bank holding company liquidity has been addressed as a supervisory matter, without required formulaic measures. The Basel III liquidity framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward would be required by regulation. One test, referred to as the liquidity coverage ratio (LCR), is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity s expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other test, referred to as the net stable funding ratio (NSFR), is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements will incent banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt as a component of assets and increase the use of long-term debt as a funding source. The Basel III liquidity framework contemplates that the LCR will be subject to an observation period continuing through mid-2013 and, subject to any revisions resulting from the analyses conducted and data collected during the observation period, implemented as a minimum standard on January 1, 2015. Similarly, it contemplates that the NSFR will be subject to an observation period through mid-2016 and, subject to any revisions resulting from the analyses conducted and data collected during the observation period, implemented as a minimum standard by January 1, 2018. These new standards are subject to further rulemaking and their terms may well change before implementation.

Prompt Corrective Action

The Federal Deposit Insurance Act, as amended (FDIA), requires, among other things, the federal banking agencies to take prompt corrective action in respect of depository institutions that do not meet minimum capital requirements. The FDIA includes the following five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. A depository institu capital tier will depend upon how its capital levels compare with various relevant capital measures and certain other factors, as established by regulation. The relevant capital measures are the total capital ratio, the Tier 1 capital ratio and the leverage ratio.

A bank will be: (i) well capitalized if the institution has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, and a leverage ratio of 5.0% or greater, and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (ii) adequately capitalized if the institution has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 4.0% or greater, and a leverage ratio of 4.0% or greater and is not well capitalized ; (iii) undercapitalized if the institution has a total risk-based ratio that is less than 8.0%, a Tier 1 risk-based capital ratio of less than 4.0% or a leverage ratio of less than 4.0%; (iv) significantly undercapitalized if the institution has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 3.0% or a leverage ratio of less than 3.0%; and (v) critically undercapitalized if the institution s tangible equity is equal to or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than that indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. As of December 31, 2011, the Company and the bank were well capitalized, based on the ratios and guidelines described above. A bank s capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank s overall financial condition or prospects for other purposes.

The FDIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be undercapitalized. Undercapitalized institutions are subject to growth limitations and are required to submit a capital restoration plan. The agencies may not accept such a plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution s capital. In addition, for a capital restoration plan to be acceptable, the depository institution s parent holding company must guarantee that the institution will comply with such a capital restoration plan. The aggregate liability of the parent holding company is limited to the lesser of (i) an amount equal to 5.0% of the depository institution s total assets at the time it became undercapitalized and (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized.

Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. Critically undercapitalized institutions are subject to the appointment of a receiver or conservator.

Support of the Bank

Federal Reserve Board policy historically required a bank holding company to serve as a source of financial and managerial strength to its subsidiary banks. The Dodd-Frank Act codified this policy as a statutory requirement. As a result, the Federal Reserve Board may require the parent company to stand ready to use its resources to provide adequate capital funds to its banking subsidiaries during periods of financial stress or adversity. This support may be required at times by the Federal Reserve Board even though not expressly required by regulation and even though the parent company may not be in a financial position to provide such support. In addition, any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary banks. The BHCA provides that, in the event of a bank holding company s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment. Furthermore, under the National Bank Act, if the capital stock of the bank is impaired by losses or otherwise, the OCC is authorized to require payment of the deficiency by assessment upon the parent company. If the assessment is not paid within three months, the OCC could order a sale of the capital stock of the bank held by the parent company to make good the deficiency.

FDIC Insurance

The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that, as described below, takes into account, among other things, a bank s capital level and supervisory rating (its CAMELS rating).

Under the Federal Deposit Insurance Reform Act of 2005, which became law in 2006, the bank received a one-time assessment credit that can be applied against future premiums through 2010, subject to certain limitations. Any increase in insurance assessments could have an adverse impact on the earnings of insured institutions, including the bank. The bank paid a deposit insurance premium in 2011 amounting to $2.1 million.

In addition, the bank is required to make payments for the servicing of obligations of the Financing Corporation (FICO) issued in connection with the resolution of savings and loan associations, so long as such obligations remain outstanding. The bank paid a FICO assessment in 2011 amounting to $183 thousand. The FICO annualized assessment rate for the first quarter of 2012 is 0.66 cents per $100 of deposits.

On November 17, 2009, the FDIC implemented a final rule requiring insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012. Such prepaid assessments were collected by the FDIC on December 30, 2009, along with each institution s quarterly risk-based deposit insurance assessment for the third quarter of 2009. As of December 31, 2011, $2.9 million in pre-paid deposit insurance is included in Other assets in the accompanying consolidated balance sheet.

In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. At least semi-annually, the FDIC will update its loss and income projections for the fund and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking if required.

In November 2010, the FDIC issued a final rule to implement provisions of the Dodd-Frank Act that provide for temporary unlimited coverage for non-interest-bearing transaction accounts. The separate coverage for non-interest-bearing transaction accounts became effective on December 31, 2010 and terminates on December 31, 2012.

On April 1, 2011, assessment base changed from total domestic deposits to average total assets minus average tangible equity, pursuant to a rule issued by the FDIC as required by the Dodd-Frank Act. Additionally, the initial base assessment rate schedule was revised effective April 1, 2011 to range from 5 to 35 basis points on an annualized basis (basis points representing cents per $100). After the effect of potential base-rate adjustments, the total base assessment rate could range from 2.5 to 45 basis points on an annualized basis. The potential adjustments to an institution s initial base assessment rate include (i) a potential decrease of up to 5 basis points for certain long-term unsecured debt (unsecured debt adjustment) and, except for well-capitalized institutions with a CAMELS rating of 1 or 2, (ii) (except for well-capitalized institutions with a CAMELS rating of 1 or 2) a potential increase of up to 10 basis points for brokered deposits in excess of 10% of domestic deposits (brokered deposit adjustment). As the DIF reserve ratio grows, the rate schedule will be adjusted downward. Additionally, a new adjustment for depository institution debt was instituted whereby an institution will pay an additional premium equal to 50 basis points on every dollar (above 3% of an institution s Tier 1 capital) of long-term, unsecured debt held that was issued by another insured depository institution (excluding debt guaranteed under the Temporary Liquidity Guarantee Program). Either an increase in the risk category of the bank or adjustments to the base assessment rates could have a material adverse effect on our earnings.

Under the FDIA, insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order, or condition imposed by the FDIC.

In its resolution of the problems of an insured depository institution in default or in danger of default, the FDIC is generally required to satisfy its obligations to insured depositors at the least possible cost to the DIF. In addition, the FDIC may not take any action that would have the effect of increasing the losses to the deposit insurance fund by protecting depositors for more than the insured portion of deposits or creditors other than depositors.

Incentive Compensation

The Dodd-Frank Act requires U.S. financial regulators, including the Federal Reserve Board, to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at certain regulated entities, including bank holding companies and national banks, having at least $1 billion in total assets, that encourage inappropriate risks by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees or benefits or that could lead to material financial loss to the entity. In addition, these regulators must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The initial version of these regulations was proposed by the U.S. financial regulators in February 2011 and the regulations may become effective in 2012. If the regulations are adopted in the form initially proposed, they will impose limitations on the manner in which we may structure compensation for our executives and directors, and require us to adopt additional policies and procedures.

In June 2010, the Federal Reserve, OCC and FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The incentive compensation guidelines, which cover all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, are based upon the key principles that a banking organization s incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization s ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization s board of directors. These three principles are incorporated into the proposed joint compensation regulations under the Dodd-Frank Act, discussed above.

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not large, complex banking organizations. These reviews will be tailored to each organization based on the scope and complexity of the organization s activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization s supervisory ratings, which can affect the organization s ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization s safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

In addition, in the first half of 2011, the SEC adopted rules concerning say-on-pay votes and golden parachute compensation arrangements. These rules require us to make enhanced disclosures to the SEC, and require us to provide our shareholders with a nonbinding say-on-pay vote to approve the compensation of the named executive officers, a non-binding vote to determine how often the say-on-pay vote will occur and, in certain circumstances, a non-binding vote to approve, and proxy disclosure of, golden parachute compensation arrangements.

The scope and content of the U.S. banking regulators policies on executive compensation are continuing to develop and are likely to continue evolving in the near future. It cannot be determined at this time whether compliance with such policies will adversely affect the ability of Sterling and its subsidiaries to hire, retain and motivate its and their key employees.

Depositor Preference

The FDIA provides that, in the event of the liquidation or other resolution of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

Liability of Commonly Controlled Institutions

The FDIA provides that a depository institution insured by the FDIC can be held liable by the FDIC for any loss incurred, or reasonably expected to be incurred, in connection with the default of a commonly controlled FDIC-insured depository institution or in connection with any assistance provided by the FDIC to a commonly controlled institution in danger of default (as defined in the FDIA).

Community Reinvestment Act

The CRA requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low- and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings. In order for a financial holding company to commence any new activity permitted by the BHCA, or to acquire any company engaged in any new activity permitted by the BHCA, each insured depository institution subsidiary of the financial holding company must have received a rating of at least satisfactory in its most recent examination under the CRA. Furthermore, banking regulators take into account CRA ratings when considering approval of a proposed transaction.

Financial Privacy

In accordance with the Gramm-Leach-Bliley Act, federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. The privacy provisions of the Gramm-Leach-Bliley Act affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

Anti-Money Laundering Initiatives and the USA Patriot Act

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA Patriot Act of 2001 (the USA Patriot Act) substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The U.S. Treasury has issued a number of implementing regulations which apply to various requirements of the USA Patriot Act to financial institutions such as the Company. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution, including the imposition of enforcement actions and civil monetary penalties.

Office of Foreign Assets Control Regulation

The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These sanctions, which are administered by the U.S. Treasury Department Office of Foreign Assets Control (OFAC), take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on U.S. persons engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (for example, property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal, financial and reputational consequences.

Legislative Initiatives and Regulatory Reform

From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change banking statutes and the operating environment of the Company in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions and other financial institutions. The Company cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it, or any implementing regulations, would have on the financial condition or results of operations of the Company. A change in statutes, regulations or regulatory policies applicable to the Company could have a material effect on the business of the Company.

As a result of the continued volatility and instability in the financial system, the Congress, the bank regulatory authorities and other government agencies have called for or proposed additional regulation and restrictions on the activities, practices and operations of banks and their holding companies. The Congress and the federal banking agencies have broad authority to require all banks and holding companies to adhere to more rigorous or costly operating procedures, corporate governance procedures, or to engage in activities or practices which they would not otherwise elect.

We cannot predict whether or in what form further legislation and/or regulations may be adopted or the extent to which Sterling s business may be affected thereby.

Safety and Soundness Standards

Federal banking agencies promulgate safety and soundness standards relating to, among other things, internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees, and benefits. With respect to internal controls, information systems and internal audit systems, the standards describe the functions that adequate internal controls and information systems must be able to perform, including: (i) monitoring adherence to prescribed policies; (ii) effective risk management; (iii) timely and accurate financial, operations, and regulatory reporting; (iv) safeguarding and managing assets; and (v) compliance with applicable laws and regulations. The standards also include requirements that: (i) those performing internal audits be qualified and independent; (ii) internal controls and information systems be tested and reviewed; (iii) corrective actions be adequately documented; and (iv) results of an audit be made available for review of management actions. In addition, federal banking agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the prompt corrective action provisions of the FDIA. See *Prompt Corrective Action* above. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Consequences of Non-compliance with Supervision or Regulation

Federal banking law grants substantial enforcement powers to federal banking regulators. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities.

The bank and its institution-affiliated parties, including its directors, management, employees, agents, independent contractors, consultants such as attorneys and accountants and others who participate in the conduct of the financial institution s affairs, are subject to potential civil and criminal penalties for violations of law, regulations or written orders of a government agency. In addition, regulators are provided with greater flexibility to commence enforcement actions against institutions and institution-affiliated parties. Possible enforcement actions include the termination of deposit insurance and cease-and-desist orders. Such orders may, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnifications or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets, rescind agreements or contracts, or take other actions as determined by the ordering agency to be appropriate.

Under provisions of the federal securities laws, a determination by a court or regulatory agency that certain violations have occurred at a company or its affiliates can result in fines, restitution, a limitation of permitted activities, disqualification to continue to conduct certain activities and an inability to rely on certain favorable exemptions. Certain types of infractions and violations can also affect a public company in its timing and ability to expeditiously issue new securities into the capital markets.

SELECTED CONSOLIDATED STATISTICAL INFORMATION

I. Distribution of Assets, Liabilities and Shareholders Equity; Interest Rates and Interest Differential

The information appears on pages 48 and 49 in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

II. Investment Portfolio

A summary of the Company s investment securities by type with related carrying values at the end of each of the three most recent fiscal years appears beginning on page 39 in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS. Information regarding book values and range of maturities by type of security and weighted average yields for totals of each category appears on pages 40 and 42 in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

III. Loan Portfolio

A table setting forth the composition of the Company s loan portfolio, net of unearned discounts, at the end of each of the five most recent fiscal years appears beginning on page 42 in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

A table setting forth the maturities and sensitivity to changes in interest rates of the Company s commercial and industrial loans at December 31, 2011 appears on page 42 in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

It is the policy of the Company to consider all customer requests for extensions of original maturity dates (rollovers), whether in whole or in part, as though each was an application for a new loan subject to standard approval criteria, including credit evaluation. Additional information appears under *Loan Portfolio* beginning on page 41 in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS and under Loans in Note 1 and in Note 5 of the Company s consolidated financial statements.

A table setting forth the aggregate amount of domestic nonaccrual, past due and restructured loans of the Company at the end of each of the five most recent fiscal years appears on page 43 in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ; there were no foreign loans accounted for on a nonaccrual basis. Information regarding loans that have undergone a troubled debt restructuring and impaired loans is presented under *Loans and Allowance for Loan Losses* in Note 5 of the Company s consolidated financial statements. Loan concentration information is presented in Note 5 of the Company s consolidated financial statements. Information regarding Federal Reserve and Federal Home Loan Bank stock is presented in Note 1 of the Company s consolidated financial statements.

IV. Summary of Loan Loss Experience

A summary of loan loss experience appears in Note 5 of the Company s consolidated financial statements and beginning on page 42 under *Asset Quality* in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS. A table setting forth certain information with respect to the Company s loan loss experience for each of the five most recent fiscal years appears on page 45 in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The Company considers its allowance for loan losses to be adequate based upon the size and risk characteristics of the outstanding loan portfolio at December 31, 2011. Net losses within the loan portfolio are not, however, statistically predictable and are subject to various external factors that are beyond the control of the Company. Consequently, changes in conditions in the next twelve months could result in future provisions for loan losses varying from the provision recorded in 2011.

A table presenting the Company s allocation of the allowance at the end of each of the five most recent fiscal years appears on page 47 in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS. This allocation is based on estimates by management that may vary based on management s evaluation of the risk characteristics of the loan portfolio. The amount allocated to a particular loan category may not necessarily be indicative of actual future charge-offs in that loan category.

V. Deposits

Average deposits and average rates paid for each of the three most recent years are presented on page 48 in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Outstanding time certificates of deposit issued from domestic and foreign offices and interest expense on domestic and foreign deposits are presented in Note 7 of the Company s consolidated financial statements.

The table providing selected information with respect to the Company s deposits for each of the three most recent fiscal years appears on page 47 in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Interest expense for the three most recent fiscal years is presented in Note 7 of the Company s consolidated financial statements.

VI. Return on Assets and Equity

The Company s returns on average total assets and average shareholders equity, dividend payout ratio and average shareholders equity to average total assets for each of the five most recent years is presented in SELECTED FINANCIAL DATA on page 29.

VII. Short-Term Borrowings

Balance and rate data for significant categories of the Company s short-term borrowings for each of the three most recent years is presented in Note 8 and in Note 9 of the Company s consolidated financial statements.

INFORMATION AVAILABLE ON OUR WEB SITE

The Company s Internet address is www.sterlingbancorp.com and the investor relations section of our web site is located at www.sterlingbancorp.com/ir/investor.cfm. The Company makes available free of charge, on or through the investor relations section of the Company s 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 Exchange Act as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC.

Also posted on the Company s 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, our policy on excessive or luxury expenditures and a Code of Business Conduct and Ethics governing our directors, officers and employees. Within the time period required by the SEC and the NYSE, the Company will post on our web site any amendment to the Code of Business Conduct and Ethics and any waiver applicable to our senior financial officers, as defined in the Code, or our executive officers or directors. In addition, information concerning purchases and sales of our equity securities by our executive officers and directors is posted on our web site. The contents of the Company s web site are not incorporated by reference into this annual report on Form 10-K.

ITEM 1A. RISK FACTORS

An investment in the parent company s common shares is subject to risks inherent to the Company s business. The most significant risks and uncertainties that management believes affect the Company are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report. The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties that management is not aware of or focused on, or that management currently deems less significant, may also impair the Company s business, financial condition or results of operations. This report is qualified in its entirety by these risk factors.

If any of the following risks adversely affect the Company s business, financial condition or results of operations, the value of the parent company s common shares could decline significantly and you could lose all or part of your investment.

RISKS RELATED TO THE COMPANY S BUSINESS

The Company s Business May Be Adversely Affected by Conditions in the Financial Markets and Economic Conditions Generally

From December 2007 through June 2009, the United States experienced a recession and a slowing of economic activity. Business activity across a wide range of industries and regions was greatly reduced. The real estate sector, and the related segments of the construction business sector, were particularly severely affected. Local governments and many businesses were in serious difficulty, due to the lack of consumer spending and the lack of liquidity in the credit markets. Unemployment had increased significantly.

Since mid-2007, and particularly during the second half of 2008 and the first half of 2009, the financial services industry and the securities markets generally were materially and adversely affected by significant declines in the values of nearly all asset classes and by a serious lack of liquidity. This was initially triggered by declines in home prices and the values of subprime mortgages, but spread to all mortgage and real estate asset classes, to leveraged bank loans and to nearly all asset classes, including equities.

The U.S. financial system has stabilized, but internationally, the weakness of certain foreign banks and the increasing danger of sovereign defaults has led to continuing high levels of uncertainty and volatility in the international financial markets. In particular, concerns about the European Union s sovereign debt crisis have also caused uncertainty for financial markets globally. Such risks could indirectly affect the Company by affecting its hedging or other counterparties, as well as the Company s customers with European businesses or assets denominated in the euro or companies in the Company s market with European businesses or affiliates.

Although economic conditions have improved, certain sectors, such as real estate and manufacturing, remain weak and unemployment remains high. Despite the actions of the U.S. Government and the Federal Reserve Board, both with respect to monetary policy, fiscal policy and increased regulations meant to restore investor confidence, the overall business environment in 2011 was adverse for many households and businesses in the United States and worldwide.

The Company s financial performance generally, and in particular the ability of borrowers to pay interest on and repay the principal of outstanding loans and the value of collateral securing those loans, is highly dependent upon the business environment in the markets where the Company operates, in the New York metropolitan area and in the United States as a whole. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, high business and investor confidence and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by: declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; natural disasters; or a combination of these or other factors. The business environment in the New York metropolitan area, the United States and worldwide has improved since the recession, but there can be no assurance that these conditions will continue to improve in the near term. A slowing of improvement or a return to deteriorating economic conditions could adversely affect the credit quality of the Company s loans, business results of operations and financial condition.

Continued Market Volatility May Adversely Impact Our Business, Financial Condition and Results of Operations and Our Ability to Manage Risk

The capital and credit markets experienced unprecedented volatility and disruption during the 2008 financial crisis. Under these extreme conditions, our hedging and other risk management strategies may not be as effective at mitigating securities trading losses as they would be under less volatile market conditions. Further market volatility could produce downward pressure on our stock price and credit availability without regard to our underlying financial strength. The broad decline in stock prices throughout the financial services industry, which has also affected our common shares, could require a goodwill impairment test. A substantial goodwill impairment charge could have an adverse impact on our results of operations. Severe market events have historically been difficult to predict, however, and we could realize significant losses if unprecedented extreme market events were to reoccur. For a discussion of risk, see ASSET/LIABILITY MANAGEMENT beginning on page 50 in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS. If markets experience further upheavals, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to manage risk and on our business, financial condition and results of operations.

We May Experience Write-downs of Investment Securities that We Own and Other Losses Related to Volatile and Illiquid Market Conditions, Reducing Our Earnings

We maintain an investment securities portfolio of various holdings, types and maturities. These securities are generally classified as available for sale and, consequently, are recorded on our balance sheet at fair value with unrealized gains or losses reported as a component of accumulated other comprehensive income, net of tax. Our portfolio includes residential mortgage-backed securities, agency notes, municipal obligations and corporate debt securities, the values of which are subject to market price volatility to the extent unhedged. This volatility affects the amount of our capital. In addition, if such investments suffer credit losses, we may recognize the credit losses as an other-than-temporary impairment which could impact our revenue in the quarter in which we recognize the losses. If we experience losses related to our investment securities portfolio in the future, it could ultimately adversely affect our results of operations and capital levels. For information regarding our investment securities portfolio, see BALANCE SHEET ANALYSIS Securities beginning on page 38 and for information regarding the sensitivity of and risks associated with the market value of portfolio investments and interest rates, refer to ASSET/LIABILITY MANAGEMENT Market Risk beginning on page 50, both of which are in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Improvements in Economic Indicators Disproportionately Affecting the Financial Services Industry May Lag Improvements in the General Economy

The improvement of certain economic indicators, such as unemployment and real estate asset values and rents, may nevertheless continue to lag behind the overall economy. These economic indicators typically affect certain industries, such as real estate and financial services, more significantly. For example, improvements in commercial real estate fundamentals typically lag broad economic recovery by 12 to 18 months. The Company s clients include entities active in these industries. Furthermore, financial services companies with a substantial lending business are dependent upon the ability of their borrowers to make debt service payments on loans. Should unemployment or real estate asset values fail to recover for an extended period of time, the Company could be adversely affected.

The Company Is Subject to Interest Rate Risk

The Company s earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond the Company s control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Open Market Committee. Changes in monetary policy, including changes in interest rates, could influence not only the interest the Company receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) the Company s ability to originate loans and obtain deposits, (ii) the fair value of the Company s financial assets and liabilities, and (iii) the average duration of the Company s mortgage-backed securities portfolio. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, the Company s net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on the Company s results of operations, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on the Company s financial condition and results of operations. For further discussion related to the Company s management of interest rate risk, see ASSET/LIABILITY MANAGEMENT beginning on page 50 in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The Company Is Subject to Lending Risk

There are inherent risks associated with the Company s lending activities. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions in the markets where the Company operates as well as those throughout the United States. Increases in interest rates and/or a return to weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans. The Company is also subject to various laws and regulations that affect its lending activities. Failure to comply with applicable laws and regulations could subject the Company to regulatory enforcement action that could result in the assessment of significant civil money penalties against the Company. In addition, under various laws and regulations relating to mortgage lending and terms of various agreements the Company is a party to, the Company may be required to repurchase loans or indemnify loan purchasers as a result of breaches of representations and warranties, borrower fraud, or certain borrower defaults.

As of December 31, 2011, approximately 60.8% of the Company s loan portfolio consisted of commercial and industrial, factored receivables, construction and commercial real estate loans. These types of loans are generally viewed as having more risk of default than residential real estate loans or consumer loans. These types of loans are also typically larger than residential real estate loans and consumer loans. Because the Company s loan portfolio contains a significant number of commercial and industrial, construction and commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in non-performing loans. An increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for loan losses and an increase in loan charge-offs, all of which could have a material adverse effect on the Company s financial condition and results of operations. Further, if repurchase and indemnity demands with respect to the Company s loan portfolio increase, its liquidity, results of operations and financial condition will be adversely affected. For further discussion related to commercial and industrial, construction and commercial real estate loans, see *Loan Portfolio* beginning on page 41 in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The Company s Allowance for Loan Losses May Be Insufficient

The Company maintains an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, that represents management s best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The level of the allowance reflects management s continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present economic, political and regulatory conditions; and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires the Company to make significant estimates of current credit risks and trends, all of which may undergo material changes. Continuing deterioration of economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside the Company s control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review the Company s allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for loan losses, the Company will need additional provisions to increase the allowance for loan losses. Any increases in the allowance for loan losses will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on the Company s financial condition and results of operations. For further discussion related to the Company s process for determining the appropriate level of the allowance for loan losses, see *Asset Quality* beginning on page 42 in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The Company May Not Be Able to Meet the Cash Flow Requirements of Its Depositors and Borrowers or Meet Its Operating Cash Needs to Fund Corporate Expansion and Other Activities

Liquidity is the ability to meet cash flow needs on a timely basis at a reasonable cost. The liquidity of the bank is used to make loans and leases and to repay deposit liabilities as they become due or are demanded by customers. Liquidity policies and limits are established by the board of directors. The overall liquidity position of the bank and the parent company are regularly monitored to ensure that various alternative strategies exist to cover unanticipated events that could affect liquidity. Funding sources include Federal funds purchased, securities sold under repurchase agreements and non-core deposits. The bank is a member of the Federal Home Loan Bank of New York, which provides funding through advances to members that are collateralized with mortgage-related assets. The Company maintains a portfolio of securities that can be used as a secondary source of liquidity. The bank also can borrow through the Federal Reserve Bank s discount window.

If the Company is unable to access any of these funding sources when needed, we might be unable to meet customers needs, which could adversely impact our financial condition, results of operations, cash flows, and level of regulatory-qualifying capital. For further discussion, see *Liquidity Risk* beginning on page 52 in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The Parent Company Relies on Dividends from Its Subsidiaries

The parent company is a separate and distinct legal entity from its subsidiaries. It receives dividends from its subsidiaries. These dividends are the principal source of funds to pay dividends on the parent company s common shares and principal of and interest on its debt. Various federal and/or state laws and regulations limit the amount of dividends that the bank and certain non-bank subsidiaries may pay to the parent company. Also, the parent company s right to participate in a distribution of assets upon a subsidiary s liquidation or reorganization is subject to the prior claims of the subsidiary s creditors. In the event the bank is unable to pay dividends to the parent company, the parent company may not be able to service debt, pay obligations or pay dividends on the parent company s common shares. The inability of the parent company to receive dividends from the bank could have a material adverse effect on the Company s business, financial condition and results of operations. See SUPERVISION AND REGULATION on pages 3 14 and Note 16 of the Company s consolidated financial statements.

The Company May Need to Raise Additional Capital in the Future and Such Capital May Not Be Available When Needed or at All

The Company may need to raise additional capital in the future to provide it with sufficient capital resources and liquidity to meet its commitments and business needs, particularly if its asset quality or earnings were to deteriorate significantly. The Company s ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of the Company s control, and the Company s financial performance. Economic conditions and the loss of confidence in financial institutions may increase the Company s cost of funding and limit access to certain customary sources of capital, including inter-bank borrowings, repurchase agreements and borrowings from the Federal Reserve Bank s discount window.

The Company cannot assure that such capital will be available on acceptable terms or at all. Any occurrence that may limit the Company s access to the capital markets, such as a decline in the confidence of debt purchasers, depositors of the bank or counterparties participating in the capital markets, or a downgrade of the parent company or the bank s ratings, may adversely affect the Company s capital costs and its ability to raise capital and, in turn, its liquidity. Moreover, if the Company needs to raise capital in the future, it may have to do so when many other financial institutions are also seeking to raise capital and would have to compete with those institutions for investors. An inability to raise additional capital on acceptable terms when needed could have a materially adverse effect on the Company s liquidity business, financial condition and results of operations.

The Company Is Subject to a Variety of Operational Risks, Including Reputational Risk, Legal and Compliance Risk, the Risk of Fraud or Theft by Employees or Outsiders

The Company is exposed to many types of operational risks, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees or outsiders, unauthorized transactions by employees or operational errors, including clerical or record-keeping errors or those resulting from faulty or disabled computer or telecommunications systems. Negative public opinion can result from its actual or alleged conduct in any number of activities, including lending practices, corporate governance and acquisitions and from actions taken by government regulators and community organizations in response to those activities. The 2008 financial crisis and current political and public sentiment regarding financial institutions have resulted in a significant amount of adverse media coverage of financial institutions. Harm to our reputation can result from numerous sources, including adverse publicity arising from events in the financial markets, our perceived failure to comply with legal and regulatory requirements, the purported actions of our employees or alleged financial reporting irregularities involving ourselves or our competitors. Additionally, a failure to deliver appropriate standards of service and quality or a failure to appropriately describe our products and services can result in customer dissatisfaction, lost revenue, higher operating costs and litigation. Actions by the financial services industry generally or by other members of or individuals in the financial services industry can also negatively impact our reputation. For example, public perception that some consumers may have been treated unfairly by financial institutions has damaged the reputation of the financial services industry as a whole.

Negative public opinion can adversely affect its ability to attract and keep customers and can expose the Company to litigation and regulatory action. Actual or alleged conduct by the Company can result in negative public opinion about its other business. Negative public opinion could also affect its credit ratings, which are important to its access to unsecured wholesale borrowings.

Because the nature of the financial services business involves a high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. The Company s necessary dependence upon automated systems to record and process its transaction volume may further increase the risk that technical flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. The Company also may be subject to disruptions of its operating systems arising from events that are wholly or partially beyond its control (for example, computer viruses or electrical or telecommunications outages), which may give rise to disruption of service to customers and to financial loss or liability. While the Company has policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of its information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The Company is further exposed to the risk that its external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees as the Company is) and to the risk that its (or its vendors) business continuity and data security systems prove to be inadequate. The occurrence of any of these risks could result in a diminished ability of the Company to operate its business, potential liability to clients, reputational damage and regulatory intervention, which could adversely affect its business, financial condition and results of operations, perhaps materially.

The Company Relies on Other Companies to Provide Key Components of Its Business Infrastructure

Third parties provide key components of the Company s business infrastructure, for example, system support, Internet connections and network access. While the Company has selected these third-party vendors carefully, it does not control their actions. Any problems caused by these third parties, including those resulting from their failure to provide services for any reason or their poor performance of services, could adversely affect its ability to deliver products and services to its customers and otherwise conduct its business. Replacing these third-party vendors could also entail significant delay and expense.

The Company Is Subject to Environmental Liability Risk Associated with Lending Activities

A portion of the Company s loan portfolio is secured by real property. During the ordinary course of business, the Company may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Company may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require the Company to incur substantial expense and may materially reduce the affected property s value or limit the Company s ability to use or sell the affected property. Future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase the Company s exposure to environmental liability. Although the Company has policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on the Company s financial condition and results of operations.

The Company s Profitability Depends Significantly on Local and Overall Economic Conditions

The Company s success depends significantly on the economic conditions of the communities it serves and the general economic conditions of the United States. The Company has operations in New York City and the New York metropolitan area, and conducts business in Virginia and other mid-Atlantic states and throughout the United States. The economic conditions in these areas and throughout the United States have a significant impact on the demand for the Company s products and services as well as the ability of the Company s customers to repay loans, the value of the collateral securing loans and the stability of the Company s deposit funding sources. Poor economic conditions, whether caused by recession, inflation, unemployment, changes in securities markets, acts of terrorism, outbreak of hostilities or other international or domestic occurrences, acts of God or other factors could impact these local economic conditions and, in turn, have a material adverse effect on the Company s financial condition and results of operations.

The Company May Be Adversely Affected by the Soundness of Other Financial Institutions

Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. The Company has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose the Company to credit risk in the event of a default by a counterparty or client. In addition, the Company s credit risk may be exacerbated when the collateral held by the Company cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit, or derivative, if any, exposure due to the Company. Any such losses could have a material adverse effect on the Company s financial condition and results of operations.

Severe Weather, Natural Disasters or Other Acts of God, Acts of War or Terrorism and Other External Events Could Significantly Impact the Company s Business

Severe weather, natural disasters or other acts of God, acts of war or terrorism and other adverse external events could have a significant impact on the Company s ability to conduct business. Such events could affect the stability of the Company s deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause the Company to incur additional expenses. Although management has established disaster recovery policies and procedures, the occurrence of any such event could have a material adverse effect on the Company s business, which, in turn, could have a material adverse effect on the Company s financial condition and results of operations.

The Company Operates in a Highly Competitive Industry and Market Area

The Company faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have more financial resources. Such competitors primarily include national, regional, and community banks within the various markets the Company operates. Additionally, various out-of-state banks have entered the market areas in which the Company currently operates. The Company also faces competition from many other types of financial institutions, including, without limitation, savings and loan associations, credit unions, finance companies, brokerage firms, insurance companies, factoring companies and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Also, technology and other changes have lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks. For example, consumers can maintain funds that would have historically been held as bank deposits in brokerage accounts or mutual funds. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as disintermediation, could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. Many of the Company s competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than the Company does.

The Company s ability to compete successfully depends on a number of factors, including, among other things:

- The ability to develop, maintain and build upon customer relationships based on top quality service, high ethical standards and safe, sound assets.
- The ability to expand the Company s market position.
- The scope, relevance and pricing of products and services offered to meet customer needs and demands.
- The rate at which the Company introduces new products and services relative to its competitors.
- Customer satisfaction with the Company s level of service.
- Industry and general economic trends.

Failure to perform in any of these areas could significantly weaken the Company s competitive position, which could adversely affect the Company s growth and profitability, which, in turn, could have a material adverse effect on the Company s financial condition and results of operations.

The Company Is Subject to Extensive Government Regulation and Supervision

The Company, primarily through the parent company and the bank and certain non-bank subsidiaries, is subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors funds, federal deposit insurance funds and the banking system as a whole, not shareholders. These regulations affect the Company s lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. The Dodd-Frank Act, enacted in July 2010, instituted major changes to the banking and financial institutions regulatory regimes, currently and in the near future, in light of the recent performance of and government intervention in the financial services sector. U.S. regulatory agencies banking, securities and commodities are steadily publishing notices of proposed regulations required by the Dodd-Frank Act, and new bodies created by the Dodd-Frank Act (including the Financial Stability Oversight Council and the Consumer Financial Protection Bureau) are commencing operations. The related findings of various regulatory and commission studies, the interpretations issued as part of the rulemaking process and the final regulations that are issued with respect to various elements of the new law may cause changes that impact the profitability of our business activities and require that we change certain of our business practices and plans. Other changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect the Company in substantial and unpredictable ways. Such changes could subject the Company to additional costs, limit the types of financial services and products the Company may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on the Company s business, financial condition and results of operations. While the Company has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur. See SUPERVISION AND REGULATION on pages 3 14.

Increases in FDIC Insurance Premiums May Adversely Affect the Company s Earnings

Since 2008, higher levels of bank failures have dramatically increased resolution costs of the FDIC and depleted the Deposit Insurance Fund. In addition, the permanent increase of insured amount of deposit accounts up to $250,000 from $100,000 per each customer and the temporary unlimited insurance of noninterest-bearing demand transaction accounts have placed additional stress on the Deposit Insurance Fund.

In order to maintain a strong funding position and restore reserve ratios of the Deposit Insurance Fund, the FDIC has increased assessment rates of insured institutions. In addition, on November 12, 2009, the FDIC adopted a rule requiring banks to prepay three years worth of premiums to replenish the depleted fund.

The Company is generally unable to control the amount of premiums that it is required to pay for FDIC insurance. If there are additional bank or financial institution failures the Company may be required to pay even higher FDIC premiums than the recently increased levels. Additionally, the failure by the parent company or the bank to maintain its well capitalized status could also lead to higher FDIC

assessments. Such increases and any future increases or required prepayments of FDIC insurance premiums may adversely impact its earnings.

The Company s Controls and Procedures May Fail or Be Circumvented

The Company s internal controls, disclosure controls and procedures, and corporate governance policies and procedures can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Company s controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company s business, results of operations and financial condition.

The Company May Be Subject to a Higher Effective Tax Rate if Sterling Real Estate Holding Company, Inc. Fails to Qualify as a Real Estate Investment Trust (REIT)

Sterling Real Estate Holding Company Inc. (SREHC) operates as a REIT for federal income tax purposes. SREHC was established to acquire, hold and manage mortgage assets and other authorized investments to generate net income for distribution to its shareholders.

For an entity to qualify as a REIT, it must satisfy the following six asset tests under the Internal Revenue Code each quarter: (1) 75% of the value of the REIT s total assets must consist of real estate assets, cash and cash items, and government securities; (2) not more than 25% of the value of the REIT s total assets may consist of securities, other than those includible under the 75% test; (3) not more than 5% of the value of its total assets may consist of securities of any one issuer, other than those securities includible under the 75% test or securities of taxable REIT subsidiaries; (4) not more than 10% of the outstanding voting power of any one issuer may be held, other than those securities includible under the 75% test or securities of taxable REIT subsidiaries; (5) not more than 10% of the total value of the outstanding securities of any one issuer may be held, other than those securities includible under the 75% test or securities of taxable REIT subsidiaries; and (6) a REIT cannot own securities in one or more taxable REIT subsidiaries which comprise more than 25% of its total assets. At December 31, 2011, SREHC met all six quarterly asset tests.

Also, a REIT must satisfy the following two gross income tests each year: (1) 75% of its gross income must be from qualifying income closely connected with real estate activities; and (2) 95% of its gross income must be derived from sources qualifying for the 75% test plus dividends, interest, and gains from the sale of securities. In addition, a REIT must distribute at least 90% of its taxable income for the taxable year, excluding any net capital gains, to maintain its non-taxable status for federal income tax purposes. For 2011, SREHC had met the two annual income tests and the distribution test.

If SREHC fails to meet any of the required provisions and, therefore, does not qualify to be a REIT, the Company s effective tax rate would increase.

The Company Would Be Subject to a Higher Effective Tax Rate if Sterling Real Estate Holding Company, Inc. Is Required to Be Included in a New York Combined Return

New York State tax law generally requires a REIT that is majority-owned by a New York State bank to be included in the bank s combined New York State tax return. The Company believes that it qualifies for the small-bank exception to this rule. If, contrary to this belief, Sterling Real Estate Holding Company, Inc. were required to be included in the Company s New York State combined tax return, the Company s effective tax rate would increase.

Under the small-bank exception, dividends received by the bank from SREHC, a real estate investment trust, are subject to a 60% dividends-received deduction, which results in only 40% of the dividends being subject to New York State tax. Currently, the New York City banking corporation tax operates in the same manner in this respect. The possible reform of the New York State franchise and banking corporation tax laws mentioned below could require SREHC to file a combined New York State return with the Company and substantially eliminate the benefit of the 60% dividends-received deduction by causing generally all of SREHC s income to be subject to New York State tax as part of the Company s combined return.

Possible New York State Legislative Changes May Negatively Affect the Amount of Taxes We Pay in Future Years

The New York State Department of Taxation and Finance developed, and released to the public in 2010 and 2011, a detailed proposal to reform the New York State corporate franchise and banking laws. If that released proposal were enacted, it would substantially alter how the Company and the bank are taxed in New York State, including substantially eliminating the benefit of the 60% dividends-received deduction. In December 2011, New York State Governor Cuomo created the New York State Tax Reform and Fairness Commission, with a mandate to conduct a comprehensive and objective review of the State s taxation policy and consider ways to eliminate tax loopholes, promote administration efficiency and enhance tax collection and enforcement. The Commission members have not yet been appointed and it is not possible to predict what the results of the Commission s work will be, and what impact, if any, the Commission s results will have. Nor is it possible to predict whether any tax legislation that would impact the Company and the bank s effective

New York State (and New York City) tax rates will be proposed or enacted.

The Recent Repeal of Federal Prohibitions on Payment of Interest on Demand Deposits Could Increase the Company s Interest Expense

All federal prohibitions on the ability of financial institutions to pay interest on demand deposit accounts were repealed as part of the Dodd-Frank Act beginning on July 21, 2011. As a result, some financial institutions commenced offering interest on demand deposits to compete for customers. The Company does not yet know what interest rates other institutions may offer as the market rates begin to increase. The Company s interest expense will increase and its net interest margin will decrease if it begins offering interest on demand deposits to attract additional customers or maintain current customers, which could have a material adverse effect on the Company s business, financial condition and results of operations.

New Lines of Business or New Products and Services May Subject the Company to Additional Risks

The Company may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services, the Company may invest significant time and resources but it may take time for revenues to develop. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of the Company s system of internal controls. Failure to manage these risks successfully in the development and implementation of new lines of business or new products or services could have a material adverse effect on the Company s business, results of operations and financial condition.

Potential Acquisitions May Disrupt the Company s Business and Dilute Shareholder Value

The Company seeks merger or acquisition partners that are compatible and have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale or expanded services. Acquiring other banks, businesses or branches involves various risks commonly associated with acquisitions, including, among other things:

Potential exposure to unknown or contingent liabilities of the target company.

Exposure to potential asset quality issues of the target company.

Difficulty and expense of integrating the operations and personnel of the target company.

Potential disruption to the Company s business.

Potential diversion of the Company s management time and attention.

The possible loss of key employees and customers of the target company.

Difficulty in estimating the value of the target company.

Potential changes in banking or tax laws or regulations that may affect the target company.

The Company regularly evaluates merger and acquisition opportunities and conducts due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash, debt or equity securities may occur at any time. To the extent we enter into an agreement to acquire an entity, there can be no guarantee that the transaction will close when anticipated, or at all. In particular, at times we must seek federal regulatory approvals before we can acquire another organization, which can delay or disrupt such acquisitions. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of the Company s tangible book value and net income per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence and/or other projected benefits from an acquisition could have a material adverse effect on the Company s financial condition and results of operations.

The Company May Not Be Able to Attract and Retain Skilled People

The Company s success depends, in large part, on its ability to attract and retain key people. Competition for the best people in most activities engaged in by the Company can be intense, and the Company may not be able to hire people or to retain them. The unexpected loss of services of one or more of the Company s key personnel could have a material adverse impact on the Company s business because of their skills, knowledge of the Company s market, years of industry experience and the difficulty of promptly finding qualified replacement personnel. The Company has employment agreements with two of its senior officers.

Our ability to attract and retain key executives and other employees may be hindered as a result of regulations applicable to incentive compensation and other aspects of our compensation programs promulgated by the Federal Reserve and other regulators in the United States, regulations on incentive compensation to be promulgated by various U.S. regulators pursuant to the Dodd-Frank Act and other existing and potential regulations. These regulations, which include and are expected to include mandatory deferral and clawback requirements, do not and will not apply to some of our competitors and to other institutions with which we compete for talent. Our ability to recruit and retain key talent may be adversely affected by these regulations.

If the Company s Information Systems Experience an Interruption or Breach in Security that Results in a Loss of Confidential Client Information or Impacts Our Ability to Provide Services to Our Clients, Our Business and Results of Operations May Be Adversely Affected

The Company relies heavily on communications and information systems to conduct its business. The security of our computer systems, software and networks, and those functions that we may outsource, may be vulnerable to breaches, hacker attacks, unauthorized access and misuse, computer viruses and other cyber security risks and events that could result in failures or disruptions in our business, customer relationship management, general ledger, deposit and loan systems. Our businesses that rely heavily on technology are particularly vulnerable to security breaches and technology disruptions. Breaches of security may occur through intentional or unintentional acts by those having authorized or unauthorized access to our or our clients or counterparties confidential information, including employees and customers, as well as hackers. A breach of security that results in the loss of confidential client information may require us to reimburse clients for data and credit monitoring efforts and would be costly and time-consuming, and may negatively impact our results of operations and reputation. Additionally, security breaches or disruptions of our information system could impact our ability to provide services to our clients, which could expose us to liability for damages, result in the loss of customer business, damage our reputation, subject us to regulatory scrutiny or expose us to civil litigation, any of which could have a material adverse effect on our financial condition and results of operations. Certain security breaches or other cyber incidents may remain undetected for an extended period of time, which may amplify the damages to our clients and/or us arising from such breaches or incidents. In addition, the failure to upgrade or maintain our computer systems, software and networks, as necessary, could also make us susceptible to breaches and unauthorized access and misuse. There can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. We may be required to expend significant additional resources to modify, investigate or remediate vulnerabilities or other exposures arising from information systems security risks.

The Company Depends on the Accuracy and Completeness of Information About Customers and Counterparties

In deciding whether to extend credit or enter into other transactions, the Company may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. The Company may also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a material adverse impact on the Company s business and, in turn, the Company s financial condition and results of operations.

The Company Continually Encounters Technological Change

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The Company s future success depends, in part, upon its ability to address the needs of customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Company s operations. Many of the Company s competitors have substantially greater resources to invest in technological improvements. The Company may not be able to implement effectively new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to keep pace successfully with technological change affecting the financial services industry could have a material adverse impact on the Company s business and, in turn, the Company s financial condition and results of operations.

The Company Is Subject to Claims and Litigation Pertaining to Fiduciary Responsibility and Lender Liability

From time to time, customers make claims and take legal action pertaining to the Company s performance of its fiduciary responsibilities. Whether customer claims and legal action related to the Company s performance of its fiduciary responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to the Company they may result in significant financial liability and/or adversely affect the market perception of the Company and its products and services as well as impact customer demand for those products and services. Any fiduciary liability or reputation damage could have a material adverse effect on the Company s business, which, in turn, could have a material adverse effect on the Company s financial condition and results of operations.

In addition, in recent years, a number of judicial decisions have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories, collectively termed lender liability. Generally, lender liability is founded on the premise that a lender has either violated a duty, whether implied or contractual, of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. Substantial legal liability or significant regulatory action against the Company or its subsidiaries could materially adversely affect its business, financial condition or results of operations and/or cause significant harm to its reputation.

The Company s Reported Financial Results Depend on Management s Selection of Accounting Methods and Certain Assumptions and Estimates

The Company s accounting policies and methods are fundamental to the methods by which the Company records and reports its financial condition and results of operations. Its management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with generally accepted accounting principles and reflect management s judgment of the most appropriate manner to report its financial condition and results. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which may be reasonable under the circumstances, yet may result in its reporting materially different results than would have been reported under a different alternative.

Certain accounting policies are critical to presenting its financial condition and results. They require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. These critical accounting policies include: the allowance for credit losses; the determination of fair value for financial instruments; the valuation of goodwill and other intangible assets; the accounting for pension and post-retirement benefits and the accounting for income taxes. Because of the uncertainty of estimates involved in these matters, the Company may be required to do one or more of the following: significantly increase the allowance for credit losses and/or sustain credit losses that are significantly higher than the reserve provided; recognize significant impairment on its goodwill and other intangible asset balances; or significantly increase its accrued tax liability.

Changes in the Company s Accounting Policies or in Accounting Standards Could Materially Affect How the Company Reports Its Financial Results and Condition

From time to time, the Financial Accounting Standards Board (FASB) and SEC change the financial accounting and reporting standards that govern the preparation of the Company s financial statements. These changes can be hard to predict and can materially impact how the Company records and reports its financial condition and results of operations. In some cases, the Company could be required to apply a new or revised standard retroactively, resulting in the Company restating prior period financial statements.

RISKS ASSOCIATED WITH THE PARENT COMPANY S COMMON SHARES

The Parent Company s Share Price Can Be Volatile

Share price volatility may make it more difficult to resell the parent company s common shares when desired and at an attractive price. The parent company s share price can fluctuate significantly in response to a variety of factors, including, among other factors:

- Actual or anticipated variations in quarterly results of operations.
- Recommendations by securities analysts.
- Expectation of or actual equity dilution.
- Operating and share price performance of other companies that investors deem comparable to the Company.
- News reports relating to trends, concerns and other issues in the financial services industry.
- Perceptions in the marketplace regarding the Company and/or its competitors.
- New technology used, or services offered, by competitors.

Significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors.

Failure to integrate acquisitions or realize anticipated benefits from acquisitions.

Changes in government regulation.

Geopolitical conditions such as acts or threats of terrorism or military conflicts.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause the parent company s share price to decrease regardless of operating results.

The Trading Volume in the Parent Company s Common Shares Is Less Than That of Other Larger Financial Services Companies

Although the parent company s common shares are listed for trading on the NYSE, the trading volume in its common shares is less than that of other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of the parent company s common shares at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Company has no control. Given the trading volume of the parent company s common shares, significant sales of the parent company s common shares, or the expectation of these sales, could cause the parent company s share price to fall.

An Investment in the Parent Company s Common Shares Is Not an Insured Deposit

The parent company s common shares are not bank deposits and, therefore, are not insured against loss by the Federal Deposit Insurance Corporation, any other deposit insurance fund or by any other public or private entity. Investment in the parent company s common shares are inherently risky for the reasons described in this Risk Factors section and elsewhere in this report and is subject to the same market forces that affect the price of common shares in any company. As a result, if you acquire the parent company s common shares, you may lose some or all of your investment.

The Parent Company s Certificate of Incorporation and By-Laws as Well as Certain Banking Laws May Have an Anti-Takeover Effect

Provisions of the parent company s certificate of incorporation and by-laws, and federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire the parent company, even if doing so would be perceived to be beneficial to the parent company s shareholders. The combination of these provisions effectively inhibits a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of the parent company s common shares.

The Parent Company May Not Pay Dividends on Its Common Shares

Holders of shares of the parent company s common shares are only entitled to receive such dividends as its board of directors may declare out of funds legally available for such payments. Although the parent company has historically declared cash dividends on its common shares, it is not required to do so and may reduce or eliminate its common share dividend in the future. This could adversely affect the market price of its common shares.

Future Issuances of Additional Common Shares or Other Equity Securities Could Result in Dilution of Ownership of the Parent Company s Existing Shareholders

The parent company may from time to time explore capital raising opportunities and may determine to issue additional common shares or other equity securities to increase its capital, support growth, or to make acquisitions. We intend to take advantage of favorable market conditions to increase our capital. Further, the parent company may issue stock options or other stock grants to retain and motivate its employees. These issuances of equity securities could dilute the voting and economic interests of its existing shareholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The principal office of the Company occupies one floor at 650 Fifth Avenue, New York, N.Y., consisting of approximately 14,400 square feet. The lease for this office expires April 30, 2016. Rental commitments to the expiration date approximate $3.8 million.

At December 31, 2011, the bank also maintains operating leases for ten branch offices, the international banking facility, and additional space in New York City, Nassau, Suffolk and Westchester counties (New York) with an aggregate of approximately 135 thousand square feet. Effective in 2011, certain lease agreements terminated and the bank has entered into new agreements for additional space, bringing the amount of space committed to an aggregate of approximately 135 thousand square feet. The aggregate office rental commitments for these premises, including the new space under lease in 2011, approximates $44.0 million. These leases have expiration dates ranging from 2012 through 2025 with varying renewal options. The bank owns free and clear (not subject to a mortgage) a building in which it maintains a branch located in Forest Hills, Queens, N.Y.

ITEM 3. LEGAL PROCEEDINGS

In the normal course of business there are various legal proceedings pending against the Company. Management, after consulting with counsel, is of the opinion that there should be no material liability with respect to such proceedings and accordingly no provision has been made in the Company s consolidated financial statements. During the 2011 fourth quarter, the Company recorded a charge related to the settlement of certain litigation.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 4A. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders in the fourth quarter of the fiscal year covered by this report.

EXECUTIVE OFFICERS OF THE REGISTRANT

This table sets forth information regarding the parent company s executive officers:

Name of Executive	Title	Age	Held Executive Office Since
Louis J. Cappelli	Chairman of the Board and Chief Executive Officer, Director	81	1967
John C. Millman	President, Director	69	1986
John W. Tietjen	Executive Vice President and Chief Financial Officer	67	1989
Howard M. Applebaum	Senior Vice President	53	2002
Eliot S. Robinson	Executive Vice President of Sterling National Bank	69	1998

All executive officers who are employees of the parent company are elected annually by the Board of Directors and serve at the pleasure of the Board. The executive officer who is not an employee of the parent company is elected annually by, and serves at the pleasure of, the Board of Directors of the bank. There are no arrangements or understandings between any of the foregoing executive officers and any other person or persons pursuant to which he was selected as an executive officer.

The Company s 2011 Domestic Company Section 303A Annual CEO Certification was filed (without qualifications) with the NYSE.

PART II

ITEM 5. MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The parent company s common shares are traded on the NYSE under the symbol STL. Information regarding the quarterly prices of the common shares is presented in Note 25 on page 114. Information regarding the average common shares outstanding and dividends per common share is presented in the Consolidated Statements of Income on page 59. Information regarding the Company s stock incentive plans is presented in Note 17 on page 96. Information regarding legal restrictions on the ability of the bank to pay dividends is presented in Note 16 on page 96. Although such restrictions do not apply to the payment of dividends by the parent company to its shareholders, such dividends may be limited by other factors, such as the requirement to maintain adequate capital under the risk-based capital regulations described in Note 22 beginning on page 110. As of February 23, 2012, there were 1,218 shareholders of record of our common shares.

During the fiscal years ended December 31, 2011 and 2010, the following dividends were declared on our common shares:

Cash Dividends Per Share	**2011**	2010
First Quarter	**$ 0.09**	$ 0.09
Second Quarter	**0.09**	0.09
Third Quarter	**0.09**	0.09
Fourth Quarter	**0.09**	0.09
Total	**$ 0.36**	$ 0.36

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 parent company is authorized to repurchase. The latest increase was announced on February 15, 2007, when the Board of Directors increased the Company s authority to repurchase common shares by an additional 800,000 shares. This increased the Company s authority to repurchase shares to approximately 933,000 common shares.

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 fourth quarter of 2011. At December 31, 2011, the maximum number of shares that may yet be repurchased under the share repurchase program was 870,963.

For information regarding securities authorized for issuance under the Company s equity compensation plan, see Item 12 on page 119. The following performance graph compares for the fiscal years ended December 31, 2007, 2008, 2009, 2010 and 2011 (a) the yearly cumulative total shareholder return (i.e., the change in share price plus the cumulative amount of dividends, assuming dividend reinvestment, divided by the initial share price, expressed as a percentage) on Sterling s common shares, with (b) the cumulative total return of the Standard & Poor s 500 Stock Index, and with (c) the cumulative total return on the KBW Regional Banks Index (a market-capitalization weighted bank-stock index):

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Sterling Bancorp, the S&P 500 Index, and the KBW

***$100 invested on 12/31/06 in stock or index, including reinvestment of dividends.**
Fiscal year ending December 31.

	12/06	12/07	12/08	12/09	12/10	12/11
Sterling Bancorp	100.00	72.81	79.20	43.17	65.77	56.63
S&P 500	100.00	105.49	66.46	84.05	96.71	98.75
KBW Regional Bank Index	100.00	78.03	63.55	49.48	59.58	56.51

ITEM 6. SELECTED FINANCIAL DATA

The information appears on page 29. All such information should be read in conjunction with the consolidated financial statements and notes thereto and discussions of factors that may materially affect the comparability of information and material uncertainties in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FORWARD-LOOKING STATEMENTS AND FACTORS THAT COULD AFFECT FUTURE RESULTS on page 30.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information appears on pages 30 56 and supplementary quarterly data appears in Note 25 of the Company s consolidated financial statements. All such information should be read in conjunction with the consolidated financial statements and the notes thereto.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information appears on pages 50 54 under the caption ASSET/LIABILITY MANAGEMENT. All such information should be read in conjunction with the consolidated financial statements and notes thereto.

Sterling Bancorp
SELECTED FINANCIAL DATA [1]

(dollars in thousands except per share data)	**2011**	2010	2009	2008	2007
SUMMARY OF OPERATIONS					
Total interest income	**$ 97,064**	$ 97,190	$ 105,920	$ 118,071	$ 121,433
Total interest expense	**12,987**	15,583	19,295	33,388	47,560
Net interest income	**84,077**	81,607	86,625	84,683	73,873
Provision for loan losses	**12,000**	28,500	27,900	8,325	5,853
Net securities gains	**1,726**	3,928	5,561		188
Other-than-temporary losses				(1,684)	
Noninterest income, excluding net securities gains and other-than-temporary losses	**42,334**	43,705	38,589	34,984	35,224
Noninterest expenses	**94,345**	91,556	88,545	84,476	79,478
Income before taxes	**21,792**	9,184	14,330	25,182	23,954
Provision for income taxes	**4,196**	2,158	4,908	9,176	8,560
Income from continuing operations	**17,596**	7,026	9,422	16,006	15,394
Loss from discontinued operations, net of tax					(795)
Net income	**17,596**	7,026	9,422	16,006	14,599
Dividends on preferred shares and accretion	**2,074**	2,589	2,773	102	
Net income available to common shareholders	**15,522**	4,437	6,649	15,904	14,599
Income from continuing operations available to common shareholders					
Per average common share basic	**0.51**	0.18	0.37	0.89	0.84
diluted	**0.51**	0.18	0.37	0.88	0.82
Net income available to common shareholders					
Per average common share basic	**0.51**	0.18	0.37	0.89	0.79
diluted	**0.51**	0.18	0.37	0.88	0.78
Dividends per common share	**0.36**	0.36	0.56	0.76	0.76
YEAR END BALANCE SHEETS					
Interest-bearing deposits with other banks	**126,448**	40,503	36,958	13,949	980
Investment securities	**677,871**	789,315	737,065	793,924	618,490
Loans held for sale	**43,372**	32,049	33,889	23,403	23,756
Loans held in portfolio, net of unearned discounts	**1,473,309**	1,314,234	1,195,415	1,184,585	1,152,796
Total assets	**2,493,297**	2,360,457	2,165,609	2,179,101	1,979,650
Noninterest-bearing demand deposits	**765,800**	570,290	546,337	464,585	501,023
Savings NOW and money market deposits	**565,423**	562,207	592,015	564,205	467,446
Time deposits	**657,848**	615,267	442,315	329,034	524,189
Short-term borrowings	**65,798**	60,894	131,854	363,404	205,418
Advances FHLB and long-term debt	**148,507**	169,947	155,774	175,774	65,774
Shareholders equity	**220,821**	222,742	161,950	160,480	121,071
AVERAGE BALANCE SHEETS					
Interest-bearing deposits with other banks	**93,561**	31,960	36,804	5,727	3,033
Investment securities	**830,968**	768,184	719,485	744,169	582,327
Loans held for sale	**27,954**	35,354	41,225	23,286	43,919
Loans held in portfolio, net of unearned discounts	**1,351,407**	1,227,049	1,154,041	1,120,362	1,049,206
Total assets	**2,508,184**	2,244,569	2,114,221	2,066,628	1,875,615
Noninterest-bearing demand deposits	**596,608**	489,184	441,087	427,105	424,425
Savings NOW and money market deposits	**596,007**	564,061	562,780	522,807	498,827
Time deposits	**729,053**	559,203	375,742	451,031	556,869
Short-term borrowings	**77,143**	112,207	271,075	279,840	131,573
Advances FHLB and long-term debt	**155,332**	158,351	174,981	163,479	44,130
Shareholders equity	**224,820**	213,153	158,225	119,791	124,140
RATIOS					
Return on average total assets	**0.70%**	0.31%	0.45%	0.77%	0.82%
Return on average shareholders equity	**7.83**	3.30	5.95	13.36	12.40
Dividend payout ratio	**63.21**	126.29	107.52	85.43	89.35

Average shareholders equity to average total assets	**8.96**	9.50	7.48	5.80	6.62
Net interest margin (tax-equivalent basis)	**3.92**	4.25	4.63	4.60	4.48
Loans/assets, year end[2]	**60.83**	57.03	56.77	55.44	59.43
Net charge-offs/loans, year end[3]	**0.69**	2.25	1.95	0.54	0.50
Nonperforming loans/loans, year end[2]	**0.42**	0.49	1.46	0.61	0.54
Allowance/loans, year end[3]	**1.36**	1.39	1.66	1.35	1.31
Allowance/nonaccrual loans	**315.02**	274.50	110.54	218.00	236.33

[1] All data presented is from continuing operations unless indicated otherwise. Certain reclassifications have been made to prior years financial data to conform to current financial statement presentations.

[2] In this calculation, the term loans means loans held for sale and loans held in portfolio.

[3] In this calculation, the term loans means loans held in portfolio.

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, a financial holding company under the Bank Holding Company Act of 1956, as amended by the Gramm-Leach-Bliley Act of 1999, and its subsidiaries, principally Sterling National Bank. Throughout this discussion and analysis, the term the Company refers to Sterling Bancorp and its consolidated subsidiaries and the term the bank refers to Sterling National Bank and its consolidated subsidiaries, while the term the parent company refers to Sterling Bancorp but not its subsidiaries. This discussion and analysis should be read in conjunction with the consolidated financial statements and selected financial data contained elsewhere in this annual report. Certain reclassifications have been made to prior years financial data to conform to current financial statement presentations. Throughout management s discussion and analysis of financial condition and results of operations, dollar amounts in tables are presented in thousands, except per share data.

FORWARD-LOOKING STATEMENTS AND FACTORS THAT COULD AFFECT FUTURE RESULTS

Certain statements contained or incorporated by reference in this annual report on Form 10-K, 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, change in laws and regulations applicable to the Company, adequacy of funding sources, actuarial expected benefit payment, valuation of foreclosed assets, our ability to hold to maturity securities designated as held to maturity, regulatory and economic environment 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 the Company 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, and the Company makes no commitment to update or revise forward-looking statements in order to reflect new information or subsequent events or changes in expectations.

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 risks and uncertainties described in ITEM 1A. RISK FACTORS on pages 15 26; other risks and uncertainties described from time to time in press releases and other public filings; and the Company s performance in managing the risks involved in any of the foregoing. The foregoing list of important factors is not exclusive, and the Company will not update any forward-looking statement, whether written or oral, that may be made from time to time.

RECENT MARKET DEVELOPMENTS

In response to the financial crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, on October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the EESA) was signed into law. Pursuant to EESA, the United States Department of the Treasury (the U.S. Treasury) was given the authority to, among other things, purchase up to $700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets.

On October 14, 2008, the Secretary of the Department of the Treasury announced that the U.S. Treasury will purchase equity stakes in a wide variety of banks and thrifts. Under the program, known as the Troubled Asset Relief Program (TARP) Capital Purchase Program, from the $700 billion authorized by EESA, the U.S. Treasury made $250 billion of capital available to U.S. financial institutions in the form of preferred shares. In conjunction with the purchase of preferred shares, the U.S. Treasury received, from participating financial institutions, warrants to purchase common shares with an aggregate market price equal to 15% of the preferred investment. Participating financial institutions were required to adopt the U.S. Treasury s standards for executive compensation and corporate governance for the period during which the U.S. Treasury holds equity issued under the TARP Capital Purchase Program. On December 23, 2008, the Company elected to participate in the TARP Capital Purchase Program, under which the Company issued preferred shares and a warrant to purchase common shares to the U.S. Treasury. In the second quarter of 2011, the Company repurchased in full the preferred shares and the warrant to purchase common shares.

On November 21, 2008, the Board of Directors of the FDIC adopted a final rule relating to the Temporary Liquidity Guarantee Program (TLG Program). The TLG Program was announced by the FDIC on October 14, 2008, preceded by the determination of systemic risk by the Secretary of the Department of Treasury (after consultation with the President), as an initiative to counter the system-wide crisis in the nation s financial sector. Under the TLG Program (as amended from time to time thereafter) the FDIC would (i) guarantee, through the earlier of maturity or June 30, 2012, certain newly issued senior unsecured debt issued by participating institutions and (ii) provide full FDIC deposit insurance coverage for non-interest bearing transaction deposit accounts, Negotiable Order of Withdrawal (NOW) accounts paying less than 0.5% interest per annum and Interest on Lawyers Trust Accounts (IOLA) accounts held at participating FDIC-insured institutions. The transaction account guarantee program described in clause (ii) expired on June 30, 2010. Coverage under the TLG Program was available for the first 30 days without charge. The fee assessment for coverage of senior unsecured debt ranged from 50 basis points to 100 basis points per annum, depending on the initial maturity of the debt. The fee assessment for deposit insurance coverage was 10 basis points per quarter on amounts in covered accounts exceeding $250,000. The Company elected to opt out of the debt guarantee program under the TLG Program.

On February 10, 2009, the Treasury Secretary announced a new comprehensive financial stability plan which included: (i) a capital assistance program that has invested in convertible preferred stock of certain qualifying institutions, (ii) a consumer and business lending initiative to fund new consumer loans, small business loans and commercial mortgage asset-backed securities issuances, (iii) a public-private investment fund intended to leverage public and private capital with public financing to purchase legacy toxic assets from financial institutions, and (iv) assistance for homeowners to reduce mortgage payments and interest rates and establishing loan modification guidelines for government and private programs.

In order to restore the depleted Deposit Insurance Fund and maintain a sound reserve ratio, the FDIC imposed higher base assessment rates and special one-time assessments and required prepayment of deposit insurance premium. The FDIC stated that, after its semi-annual reviews, it may further increase assessment rates or take other actions to bring the Deposit Insurance Fund s reserve ratio back to a desirable level.

In June of 2009, the Obama administration proposed a wide range of regulatory reforms that included, among other things, proposals (i) that federal bank regulators require loan originators or sponsors to retain part of the credit risk of securitized exposures, (ii) for the creation of a federal consumer financial protection agency that would, among other things, be charged with applying consistent regulations to similar products (such as imposing certain notice and consent requirements on consumer overdraft lines of credit), (iii) that there be comprehensive regulation of OTC derivatives, (iv) that the controls on the ability of banking institutions to engage in transactions with affiliates be tightened, and (v) that financial holding companies be required to be well capitalized and well managed on a consolidated basis.

On October 22, 2009, the Federal Reserve Board issued a comprehensive proposal on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The proposal covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group.

In November 2009, the FDIC implemented a final rule requiring insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012.

On July 21, 2010, President Obama signed into law Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). The Dodd-Frank Act has resulted, and will continue to result, in sweeping changes in the regulation of financial institutions aimed at strengthening the sound operation of the financial services sector. Certain provisions of the Dodd-Frank Act that affect all banks and bank holding companies include: (i) creation of the Consumer Financial Protection Bureau, responsible for implementing, examining and enforcing compliance with federal consumer protection laws; (ii) limitation on the preemption of state banking law by federal law; (iii) application of the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies; (iv) making capital requirements for national banks counter-cyclical; (v) imposition of well capitalized and well managed requirements to bank holding companies and restricting out-of-state acquisition by bank holding companies and banks that do not meet such standards; (vi) implementation of corporate governance revisions, (vii) making permanent the federal deposit insurance limit per customer and implementing certain measures to strengthen the Deposit Insurance Fund (the DIF), (viii) repeal of the federal prohibition on the payment of interest on demand deposits, (ix) prohibition on banking entities from engaging in proprietary trading or acquiring or retaining an interest in a private equity or hedge fund (the Volcker Rule), and (x) increase of the Federal Reserve s supervisory authority, among others.

In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act.

In November 2010, the FDIC issued a final rule to implement provisions of the Dodd-Frank Act that provide for temporary unlimited coverage for noninterest-bearing transaction accounts.

In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation, now officially identified by the Basel Committee as Basel III. Basel III, when implemented by the U.S. banking agencies and fully phased-in, will require bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity. Also in December 2010, the Federal Reserve Board, the OCC and the FDIC issued a joint notice of proposed rule-making that would impose a continuing floor of the Basel I-based capital requirements in cases where the Basel II-based capital requirements and any changes in capital regulations resulting from Basel III (see below) otherwise would permit lower requirements.

Pursuant to the Dodd-Frank Act, the initial version of regulations prohibiting incentive-based payment arrangements at certain regulated entities that encourage inappropriate risks by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees or benefits or that could lead to material financial loss to the entity and requiring enhanced disclosure to regulators of incentive-based compensation arrangements was proposed by the U.S. financial regulators in February 2011, and the regulations may become effective in 2012.

In the first half of 2011, the SEC adopted rules concerning say-on-pay votes and golden parachute compensation arrangements. These rules require us to make enhanced disclosures to the SEC, and require us to provide our shareholders with a nonbinding say-on-pay vote to approve the compensation of the named executive officers, a non-binding vote to determine how often the say-on-pay vote will occur and, in certain circumstances, a non-binding vote to approve, and proxy disclosure of, golden parachute compensation arrangements.

In October 2011, federal regulators proposed rules to implement the Volcker Rule. The proposed rules are highly complex, and many aspects of the Volcker Rule remain unclear. The Volcker Rule provisions are scheduled to take effect no later than July 2012.

For more detailed discussion on recent legislative and regulatory developments, see SUPERVISION AND REGULATION on pages 3 14.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The accounting and reporting policies followed by the Company conform, in all material respects, to U.S. generally accepted accounting principles (U.S. GAAP). In preparing the consolidated financial statements, management has made estimates, assumptions and judgments based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements may reflect different estimates, assumptions and judgments. Certain policies inherently have greater reliance on the use of estimates, assumptions and judgments and, as such, have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation allowance to be established, or when an asset or liability must be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when readily available. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. The Company adjusts such estimates and assumptions when the Company believes facts and circumstances dictate. Illiquid credit markets, volatile equity, foreign currency and energy markets and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in the future periods.

The Company s accounting policies are fundamental to understanding management s discussion and analysis of financial condition and results of operations. The most significant accounting policies followed by the Company are presented in Note 1 beginning on page 64. The accounting for factoring transactions also is discussed under BUSINESS OPERATIONS The Bank Commercial Lending, Asset-Based Financing, Residential Mortgage Warehouse Lending and Factoring/Accounts Receivable Management on pages 1 and 2.

The Company has identified its policies on the valuation of securities, the allowance for loan losses and income tax liabilities to be critical because management has to make subjective and/or complex judgments about matters that are inherently uncertain and could be subject to revision as new information becomes available. Additional information on these policies can be found in Note 1 to the consolidated financial statements.

Management utilizes various inputs to determine the fair value of its securities portfolio. Fair value of securities is based upon market prices, where available (Level 1 inputs). If such quoted market prices are not available, fair value is based upon market prices determined by an outside, independent entity that primarily uses, as inputs, observable market-based parameters (Level 2 inputs). Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company s creditworthiness, among other things, as well as unobservable parameters (Level 3 inputs). Any such valuation adjustments are applied consistently over time. The Company s valuation methodologies may produce a fair value calculation that may not be indicative of net realized value or reflective of future fair values. While management believes the Company s valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Additional discussion of valuation methodologies is presented in Note 21 of the Company s consolidated financial statements.

A periodic review is conducted by management to determine if the decline in the fair value of any security appears to be other-than-temporary. Factors considered in determining whether the decline is other-than-temporary include, but are not limited to: the length of time and the extent to which fair value has been below cost; the financial condition and near-term prospects of the issuer; and the Company s intent to sell. If the decline is deemed to be other-than-temporary, and the Company does not have the intent to sell, and will not likely be required to sell, the security is written down to new cost basis and the resulting credit component of the loss is reported in noninterest income and the remainder of the loss is recorded in shareholders equity. If the Company intends to sell or will be required to sell, the full amount of the other-than-temporary impairment is recorded in noninterest income. Additional discussion of management s evaluation process and other-than-temporary-impairment charges is presented in Note 1 and in Note 4.

The allowance for loan losses represents management s estimate of probable credit losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The methodology used to determine the allowance for loan losses is outlined in Note 1 to the consolidated financial statements and a discussion of the factors driving changes in the amount of the allowance for loan losses is included under the caption *Asset Quality* beginning on page 42.

The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity s financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in the Company s consolidated financial statements or tax returns. Fluctuations in the actual outcome of these future tax consequences could impact the Company s consolidated financial condition or results of operations. In connection with determining its income tax provision under Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification) Topic 740: *Income Taxes*, the Company maintains a reserve related to certain tax positions and strategies that management believes contain an element of uncertainty. The Company evaluates each of its tax positions and strategies periodically to determine whether the reserve continues to be appropriate. Additional discussion on the accounting for income taxes is presented in Note 1 and in Note 19 of the Company s consolidated financial statements.

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, trade financing, equipment financing and deposit services. The Company has operations in the New York metropolitan area and conducts business throughout the United States. The general state of the U.S. economy and, in particular, economic and market conditions in the New York metropolitan 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.

On April 3, 2009, Sterling Factors Corporation, a subsidiary of the bank, acquired substantially all of the assets and customer lists of DCD Capital, LLC and DCD Trade Services, LLC. The acquired assets and customer lists are now operating as a division under the name Sterling Trade Capital.

In 2011, the bank s average earning assets represented approximately 98.9% of the Company s average earning assets. Loans represented 59.8% and investment securities represented 35.7% of the bank s average earning assets in 2011.

The Company s primary source of earnings is net interest income, and its principal market risk exposure is interest rate risk. The Federal Reserve Board influences the general market rates of interest, including the deposit and loan rates offered by many financial institutions. The Company s loan portfolio is significantly affected by changes in the prime interest rate. The prime interest rate, which is the rate offered on loans to borrowers with strong credit, remained at 3.25% during 2011, 2010 and 2009. The intended federal funds rate, which is the cost of immediately available overnight funds, remained at zero to 0.25% during 2011, 2010 and 2009. The Company s balance sheet has historically been asset sensitive, meaning that earning assets generally reprice more quickly than interest-bearing liabilities. Therefore, the Company s net interest margin is likely to increase in sustained periods of rising interest rates and decrease in sustained periods of declining interest rates. 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, services, 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.

Taxable-equivalent adjustments are the result of increasing income from tax-free loans and investments by an amount equal to the taxes that would be paid if the income were fully taxable-based on a 35% federal tax rate, thus making tax-exempt yields comparable to taxable asset yields.

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-earning assets. Generally, the net interest margin will exceed the net interest spread because a portion of interest-earning assets are funded by various noninterest-bearing sources, principally noninterest-bearing deposits and shareholders equity. The increases (decreases) in the components of interest income and interest expense, expressed in terms of fluctuation in average volume and rate, are provided in the RATE/VOLUME ANALYSIS shown on page 49. Information as to the components of interest income and interest expense and average rates is provided in the AVERAGE BALANCE SHEETS shown on page 48.

COMPARISON OF THE YEARS 2011 AND 2010

The Company reported net income available to common shareholders for 2011 of $15.5 million, representing $0.51 per share calculated on a diluted basis, compared to $4.4 million, or $0.18 per share calculated on a diluted basis, for 2010. The $11.1 million increase in net income available to common shareholders was primarily due to a $2.5 million increase in net interest income, a $16.5 million decrease in the provision for loan losses and a $0.5 million decrease in dividends and accretion related to the preferred shares issued to the U.S. Treasury under the TARP Capital Purchase Program, which more than offset a $3.6 million decrease in noninterest income, a $2.8 million increase in noninterest expenses and a $2.0 million higher provision for income taxes.

Net Interest Income

Net interest income, on a tax-equivalent basis, was $87.5 million for 2011 compared to $84.2 million for 2010. Net interest income benefited from higher average loan and investment securities balances and lower cost of funding. Partially offsetting those benefits was the impact of lower yield on loans and investment securities and higher interest-bearing deposit balances. The net interest margin, on a tax-equivalent basis, was 3.92% for 2011 compared to 4.25% for 2010. The net interest margin was impacted by the lower interest rate environment in 2011, the higher level of noninterest-bearing demand deposits and the effect of higher average loans outstanding.

Total interest income, on a tax-equivalent basis, aggregated $100.5 million for 2011, compared to $99.8 million from 2010. The tax-equivalent yield on interest-earning assets was 4.51% for 2011 compared to 5.04% for 2010.

Interest earned on the loan portfolio increased to $73.2 million for 2011 from $70.1 million for the prior year period. Average loan balances amounted to $1,379.4 million, an increase of $117.0 million from an average of $1,262.4 million in the prior year period. The increase in average loans, primarily due to the Company s business development activities, accounted for a $7.2 million increase in interest earned on loans. The yield on the loan portfolio decreased to 5.65% for 2011 from 5.98% for 2010 period, which was primarily attributable to the lower interest rate environment in 2011 and the mix of average outstanding balances among the components of the loan portfolio.

Interest earned on the securities portfolio, on a tax-equivalent basis, decreased to $26.7 million for 2011 from $29.2 million in 2010. Average outstandings increased to $831.0 million (35.9% of average earning assets) for 2011 from $768.2 million (37.1% of average earning assets) in 2010. The average yield on investment securities decreased to 3.21% for 2011 from 3.80% in 2010. The change in both balances and yield reflect the impact of the Company s asset/liability management strategy designed to shorten the average life of the portfolio to position itself for rising interest rates in the future as well as maintain liquidity to grow the loan portfolio. The short-term part of the strategy was implemented by the sale of available for sale securities, principally mortgage backed securities with longer term average lives offset by the purchase of short-term corporate debt. The long-term part of the strategy was implemented through the purchase of obligations of U.S. government corporations and government sponsored enterprises and obligations of state and political subdivisions with maturities up to 15 years.

Total interest expense decreased by $2.6 million for 2011 from $15.6 million for the 2010 period, primarily due to the impact of lower rates paid, coupled with lower balances for borrowings partially offset by the impact of higher interest-bearing deposit balances.

Interest expense on deposits decreased to $8.4 million for 2011 from $9.6 million for the 2010 period, due to a decrease in the cost of those funds partially offset by the impact of higher interest-bearing deposit balances. The average rate paid on interest-bearing deposits was 0.64%, which was 21 basis points lower than the prior year period. The decrease in average cost of deposits reflects the impact of deposit pricing strategies and the Company s purchase of certificates of deposit from the Certificate of Deposit Account Registry Service (CDARS) and various listing services which provided certificate of deposit balances at lower rates. Average interest-bearing deposits were $1,325.1 million for 2011 compared to $1,123.3 million for 2010, reflecting the impact of the Company s business development activities as well as funds received from CDARS and various listing services.

Interest expense on borrowings decreased to $4.5 million for 2011 from $6.0 million for 2010 period, primarily due to lower cost of those funds, partially offset by the impact of the changes in mix. The average rate paid for borrowed funds was 1.96%, which was 26 basis points lower than the prior-year period. The decrease in the average cost of borrowings reflects the lower interest rate environment in 2011. During the 2011 first quarter, the bank restructured a portion of its Federal Home Loan Bank fixed rate advances by repaying $100 million of existing borrowings and replacing them with $100 million of lower cost, floating rate advances. This transaction resulted in $4.2 million in prepayment penalties that were deferred and will be recognized in interest expense as an adjustment to the cost of these borrowings in future periods. The existing borrowings were a combination of fixed rate and amortizing advances with an average cost of 2.58% and an average duration of 3.2 years. The new borrowings are all floating-rate advances with a current average cost of 1.5%, including the deferred adjustment, with an average duration of three months. The relevant accounting treatment for this transaction was provided by ASC 470-50. This transaction was executed as an earnings and interest rate risk strategy, resulting in lower FHLB advance costs and a reduction of average duration. Average borrowings decreased to $232.5 million for 2011 from $270.6 million in the prior-year period, reflecting lesser reliance by the Company on wholesale funding.

Provision for Loan Losses

Based on management s continuing evaluation of the loan portfolio (discussed under *Asset Quality* beginning on page 42), the provision for loan losses for 2011 was $12.0 million, compared to $28.5 million for 2010. Factors affecting the lower provision for the year of 2011 included current economic conditions and a lower level of net charge-offs and lower nonaccrual loan balances.

The level of the allowance reflects changes in the size of the portfolio or in any of its components as well as management s continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, and political and regulatory conditions. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management s judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company s control, including the performance of the Company s loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

During 2011, the allowance for loan losses increased $1.8 million from $18.2 million at December 31, 2010, principally due to increases in the allowance allocated to residential real estate mortgages ($1.0 million) and loans to nondepository financial institutions ($0.8 million). The increase in the allowance allocated to residential real estate mortgages was primarily due to higher levels of nonaccrual loans. The increase in the allowance allocated to loans to nondepository financial institutions was primarily due to a single borrower who provides financing to real estate projects that was downgraded during 2011 to substandard.

Noninterest Income

Noninterest income decreased to $44.1 million for 2011 from $47.6 million in the 2010 period. The decrease principally resulted from securities gains recognized in the 2011 period compared to securities gains recognized in the 2010 period. Also contributing to the decrease was lower mortgage banking and deposit service charge income partially offset by higher income related to accounts receivable management and factoring services. Securities gains declined and reflected a modification of the asset/liability management program commenced in 2009 that was designed to reduce the average life of the investment securities portfolio which was replaced by the strategy that was described under Net Interest Income on page 35. The Company sold approximately $170.9 million of securities with a weighted average life of about 2.9 years. The proceeds were used to fund loan growth or were reinvested in obligations of state and political subdivisions and U.S. government agencies with maturities of approximately 18 years and 5 years, respectively, and in short-term corporate securities. The decrease in mortgage banking income was primarily due to lower volume of loans sold as well as a charge taken in the fourth quarter for incurred and probable repurchase obligations. Deposit service charges were lower primarily due to higher balances maintained in customer accounts. Commissions and other fees earned from accounts receivable management and factoring services were higher primarily due to the impact of increased volumes at our factoring unit and billings by clients providing temporary staffing.

Noninterest Expenses

Noninterest expenses for 2011 increased $2.8 million when compared to 2010. The increase was primarily due to the impact of higher personnel and occupancy expenses reflecting the Company s continued investment in the franchise. Additionally, in the fourth quarter, the Company recorded a charge related to the settlement of certain litigation and recognized an expense related to the write-down of certain assets to realizable value.

Provision for Income Taxes

The provision for income taxes for 2011 increased to $4.2 million, reflecting an effective tax rate of 19.3%, compared with $2.2 million for 2010, reflecting an effective tax rate of 23.5%. The higher provision was due to the higher level of taxable income, the impact of which was partially offset by the net benefit recognized, in the fourth quarter as the result of the completion of federal tax audits for the periods 2002 through 2009.

COMPARISON OF THE YEARS 2010 AND 2009

The Company reported net income available to common shareholders for 2010 of $4.4 million, representing $0.18 per share calculated on a diluted basis, compared to $6.6 million, or $0.37 per share calculated on a diluted basis, for 2009. The $2.2 million decrease in net income available to common shareholders was primarily due to a $8.7 million decrease in interest income, a $3.0 million increase in noninterest expenses and a $0.6 million increase in the provision for loan losses, which more than offset a $3.5 million increase in noninterest income, a $3.7 million decrease in interest expense, a $2.8 lower provision for income taxes and a reduction of $0.2 million decrease in dividends and accretion related to the preferred shares issued to the U.S. Treasury under the TARP Capital Purchase Program.

Net Interest Income

Net interest income, on a tax-equivalent basis, was $84.2 million for 2010 compared to $87.6 million for 2009. Net interest income benefited from higher average loan and investment securities balances, lower borrowings and lower cost of funding. Partially offsetting those benefits was the impact of lower yields on loans and investment securities, coupled with higher interest-bearing deposit balances. The net interest margin, on a tax-equivalent basis, was 4.25% for 2010 compared to 4.63% for 2009. The net interest margin was impacted by the lower interest rate environment in 2010, the higher level of noninterest-bearing demand deposits and the effect of higher average loans and investment securities outstanding.

Total interest income, on a tax-equivalent basis, aggregated $99.8 million for 2010, down $7.2 million from 2009. The tax-equivalent yield on interest-earning assets was 5.04% for 2010 compared to 5.65% for 2009.

Interest earned on the loan portfolio decreased to $70.1 million for 2010 from $71.8 million for the prior year period. Average loan balances amounted to $1,262.4 million, an increase of $67.1 million from an average of $1,195.3 million in the prior year period. The increase in average loans, primarily due to the Company s business development activities, accounted for a $3.7 million increase in interest earned on loans. The yield on the loan portfolio decreased to 5.98% for 2010 from 6.38% for 2009 period, which was primarily attributed to the mix of average outstanding balances among the components of the loan portfolio.

Interest earned on the securities portfolio, on a tax-equivalent basis, decreased to $29.2 million for 2010 from $34.6 million in 2009. Average outstandings increased to $768.2 million (37.1% of average earning assets) for 2010 from $719.5 million (36.7% of average earning assets) in 2009. The average yield on investment securities decreased to 3.80% for 2010 from 4.80% in 2009. The decrease in both balances and yield reflect the impact of the Company s asset/ liability management strategy designed to shorten the average life of the portfolio to position the Company for rising interest rates in future periods while taking advantage of the current uptick in long-term rates. The short-term part of the strategy was implemented through the sale of available for sale securities, principally mortgage-backed securities, with longer-term average lives offset by the purchase of short-term corporate debt and obligations of U.S. government corporations and government-sponsored enterprises. The long-term part of the strategy was implemented through the purchase of obligations of state and political subdivisions with maturities of approximately 10 years.

Total interest expense decreased by $3.7 million for 2010 from $19.3 million for 2009 period, primarily due to the impact of lower rates paid, coupled with lower balances for borrowings, partially offset by the impact of higher interest-bearing deposit balances.

Interest expense on deposits decreased to $9.6 million for 2010 from $11.9 million for the 2009 period, primarily due to a decrease in the cost of those funds. The average rate paid on interest-bearing deposits was 0.85%, which was 42 basis points lower than the prior-year period. The decrease in average cost of interest-bearing deposits reflects the impact of deposit pricing strategies and the Company s purchase of certificates of deposit from CDARS which provided deposit balances at lower rates than paid for traditional certificate of deposit products. Average interest-bearing deposits were $1,123.3 million for 2010 compared to $938.5 million for 2009, reflecting an increase in certificates of deposit, largely to the CDARS program which is a lower cost product than traditional certificates of deposit.

Interest expense on borrowings decreased to $6.0 million for 2010 from $7.4 million for 2009 primarily due to lower balances partially offset by the impact of changes in mix. Average borrowings decreased to $270.6 million for 2010 from $446.1 million in the prior-year period, reflecting a lesser reliance by the Company on wholesale borrowed funds. The change in mix resulted in an increase in the blended cost of borrowing to 2.22% from 1.66%.

Provision for Loan Losses

In light of recent economic developments and continued economic uncertainty, during the third quarter of 2010 the Company decided, after consultation with external professionals and regulators, to implement an accelerated resolution of certain categories of nonaccrual loans. As a result, net

charge-offs during 2010 of loans to small business borrowers (primarily in the lease financing portfolio) increased $6.3 million when compared to the comparable 2009 period. Based on management s continuing evaluation of the loan portfolio (discussed under *Asset Quality* beginning on page 42), the provision for loan losses for 2010 was $28.5 million, compared to $27.9 million for the prior-year period.

The level of the allowance reflects changes in the size of the portfolio or in any of its components as well as management s continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, and political and regulatory conditions. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management s judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company s control, including the performance of the Company s loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

During 2010, the allowance for loan losses decreased primarily due to a reduction in the allowance allocated to lease financing receivables, partially offset by increases in the allowance allocated to commercial and industrial loans, factored receivables, real estate residential mortgage, and real estate commercial mortgage and real estate construction and land development. The allowance allocated to lease financing receivables decreased primarily as a result of the lower level of lease financing receivables nonaccrual balances. The increase of the allowance allocated to commercial and industrial loans was primarily the result of the unsteady economic recovery resulting in higher charge-offs in 2010 compared to 2009 partially offset by lower nonaccrual levels at December 31, 2010 compared to December 31, 2009. The allowance allocated to factored receivables increased based on the continued weakening in the consumer sectors resulting in higher charge-offs in 2010 compared to 2009. The increase in the allowance allocated to real estate residential mortgage loans was primarily due to the persistent decline in residential real estate values coupled with an increase in the specific valuation allowance for impaired residential mortgage loans. As a result of the disruption in the commercial real estate markets, resulting in an increase in nonaccrual levels and higher specific reserves for classified loans at December 31, 2010 when compared to December 31, 2009, the allowance allocated to real estate commercial mortgage and to real estate construction and land development was increased.

Noninterest Income

Noninterest income increased to $47.6 million for 2010 from $44.2 million in 2009. The increase principally resulted from higher income related to accounts receivable management and factoring services offset partly by lower mortgage banking income and securities gains. Commissions and other fees earned from accounts receivable management and factoring services were higher primarily due to the impact of increased volumes at our factoring unit and billings by clients providing temporary staffing also contributed to the improved level of fee income. Mortgage banking declined due to a lower volume of loans closed and a change in the mix of products being sold. Securities gains declined and reflected a modification of the asset liability management program commenced in 2009 that was designed to reduce the average life of the investment securities portfolio which was replaced by the strategy that was described under Net Interest Income on page 35. The Company sold approximately $165.8 million of securities with a weighted average life of approximately 2.4 years.

Noninterest Expenses

Noninterest expenses were $91.6 million for 2010, compared to $88.5 million in 2009, primarily reflecting higher compensation and occupancy expenses related to the growth of the business and increased business development activities.

Provision for Income Taxes

The provision for income taxes for 2010 decreased to $2.2 million from $4.9 million for 2009. The decrease was primarily due to lower taxable income and a lower effective income tax rate in the 2010 period (23.5%) compared to the 2009 period (34.2%). The decrease in the effective tax rate was primarily related to the higher proportion of tax-exempt income achieved in 2010 compared to 2009 coupled with a lower level of pre-tax income.

BALANCE SHEET ANALYSIS

Securities

At December 31, 2011, the Company s portfolio of securities totaled $677.9 million, of which obligations of U.S. government corporations and government-sponsored enterprises amounted to $301.1 million which is approximately 44.4% of the total. The Company has the intent and ability to hold to maturity securities classified as held to maturity, at which time it will receive full value for these securities. 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 $17.9 million and $-0-, respectively. Securities classified as available for sale may be sold in the future, prior to maturity. These securities are carried at fair value. Net aggregate unrealized gains or losses on these securities are included, 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 impairment in value is interest-rate-related and therefore temporary. Available for sale securities included gross unrealized gains of $3.2 million and gross unrealized losses of $5.0 million. As of December 31, 2011, management does not have the intent to sell any of the securities classified as available for sale in the table on page 40 and management believes that it is more likely than not that the Company will not have to sell any such securities before a recovery of cost.

The following table sets forth the composition of the Company s investment securities by type, with related carrying values at the end of each of the three most recent fiscal years:

December 31,	**2011**		2010		2009	
	Balances	**% of Total**	Balances	% of Total	Balances	% of Total
Obligations of U.S. government corporations and government-sponsored enterprises						
Residential mortgage-backed securities						
CMOs (Federal National Mortgage Association)	**$ 3,942**	**0.58%**	$ 7,504	0.95%	$ 13,740	1.86%
CMOs (Federal Home Loan Mortgage Corporation)	**28,213**	**4.16**	47,422	6.01	22,698	3.08
CMOs (Government National Mortgage Association)	**5,667**	**0.84**	7,290	0.92	9,048	1.23
Federal National Mortgage Association	**49,148**	**7.25**	78,822	9.98	125,673	17.05
Federal Home Loan Mortgage Corporation	**23,719**	**3.50**	40,628	5.15	71,715	9.73
Government National Mortgage Association	**4,230**	**0.62**	5,052	0.64	13,146	1.78
Total residential mortgage-backed securities	**114,919**	**16.95**	186,718	23.65	256,020	34.73
Agency notes						
Federal National Mortgage Association	**105,482**	**15.56**	115,133	14.59	116,603	15.82
Federal Home Loan Bank	**45,094**	**6.65**	24,932	3.16	102,799	13.95
Federal Home Loan Mortgage Corporation	**35,374**	**5.22**	92,479	11.72	29,418	3.99
Federal Farm Credit Bank	**251**	**0.04**	15,109	1.91	14,899	2.02
Total obligations of U.S. government corporations and government-sponsored enterprises	**301,120**	**44.42**	434,371	55.03	519,739	70.51
Obligations of state and political subdivisions New York bank qualified	**160,503**	**23.68**	157,013	19.89	83,337	11.31
Single issuer, trust preferred securities	**27,059**	**3.99**	3,933	0.50	4,483	0.61
Corporate debt securities	**173,307**	**25.57**	189,058	23.95	129,200	17.53
Equity and other securities	**15,882**	**2.34**	4,940	0.63	56	0.01
Total marketable securities	**677,871**	**100.00**	789,315	100.00	736,815	99.97
Debt securities issued by foreign governments					250	0.03
Total	**$ 677,871**	**100.00%**	$ 789,315	100.00%	$ 737,065	100.00%

The following table presents information regarding the average life and yields of certain available for sale (AFS) and held to maturity (HTM) securities:

	Weighted Average Life		Weighted Average Yield	
December 31, 2011	AFS	HTM	AFS	HTM
Residential mortgage-backed securities	**2.1 years**	**3.2 years**	**1.83%**	**4.61%**
Agency notes (with original call dates ranging between 3 and 36 months)	**1.0 years**	**1.0 years**	**0.62**	**1.49**
Corporate debt securities	**1.5 years**		**2.52**	
Obligations of state and political subdivisions	**5.4 years**	**6.9 years**	**5.68**[1]	**5.82**[1]

[1] Tax equivalent

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The following tables present information regarding securities available for sale and securities held to maturity at December 31, 2011, based on contractual maturity. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. The average yield on obligations of state and political subdivisions securities is presented on a tax-equivalent basis.

Available for sale	Amortized Cost	Fair Value	Weighted Average Yield
Obligations of U.S. government corporations and government-sponsored enterprises			
Residential mortgage-backed securities			
CMOs (Federal Home Loan Mortgage Corporation)	$ 21,642	$ 21,739	1.86%
CMOs (Government National Mortgage Association)	5,666	5,667	1.08
Federal National Mortgage Association	2,137	2,211	3.30
Federal Home Loan Mortgage Corporation	38	37	6.18
Government National Mortgage Association	98	98	0.96
Total residential mortgage-backed securities	29,581	29,752	1.82
Agency notes			
Federal National Mortgage Association			
Due after 1 year but within 5 years	501	501	0.50
Federal Home Loan Bank			
Due within 1 year	101	102	0.30
Federal Home Loan Mortgage Corporation			
Due after 1 year but within 5 years	376	383	1.00
Federal Farm Credit Bank			
Due after 1 year but within 5 years	251	251	1.10
Total obligations of U.S. government corporations and government-sponsored enterprises	30,810	30,989	1.78
Obligations of state and political institutions			
Due within 1 year	1,623	1,639	5.28
Due after 1 year but within 5 years	1,230	1,278	4.98
Due after 5 years but within 10 years	3,895	4,297	5.49
Due after 10 years	14,423	15,563	5.84
Total obligations of state and political institutions	21,171	22,777	5.69
Single-issuer trust preferred securities			
Due after 10 years	28,506	27,059	6.17
Corporate debt securities			
Due within 6 months	36,945	36,845	1.54
Due after 6 months but within 1 year	34,650	34,371	2.26
Due after 1 year but within 2 years	54,772	54,306	2.87
Due after 2 years but within 5 years	45,929	44,248	2.97
Due after 5 years but within 10 years	3,255	3,169	4.13
Due after 10 years	369	368	4.36
Total corporate debt securities	175,920	173,307	2.52
Equity and other securities	15,322	15,882	2.43
Total available for sale	$ 271,729	$ 270,014	2.89

Held to maturity	Carrying Value	Fair Value	Weighted Average Yield
Obligations of U.S. government corporations and government-sponsored enterprises			
Residential mortgage-backed securities			
CMOs (Federal National Mortgage Association)	$ 3,942	$ 4,134	5.78%
CMOs (Federal Home Loan Mortgage Corporation)	6,474	6,779	4.71
Federal National Mortgage Association	46,937	50,714	4.44
Federal Home Loan Mortgage Corporation	23,682	25,351	4.37
Government National Mortgage Association	4,132	4,735	6.48
Total residential mortgage-backed securities	85,167	91,713	4.60
Agency notes			
Federal National Mortgage Association			
Due after 1 year but within 5 years	15,000	15,077	1.83
Due after 5 years but within 10 years	19,995	20,024	1.93
Due after 10 years	69,986	70,083	1.41
Federal Home Loan Bank			
Due after 1 year but within 5 years	5,000	5,003	1.00
Due after 5 years but within 10 years	39,992	40,023	1.18
Federal Home Loan Mortgage Corporation			
Due after 1 year but within 5 years	10,000	10,006	1.00
Due after 5 years but within 10 years	24,991	25,025	1.92
Total obligations of U.S. government corporations and government-sponsored enterprises	270,131	276,954	2.47
Obligations of state and political institutions			
Due within 5 years but within 10 years	2,203	2,437	5.18
Due after 10 years	135,523	146,384	5.83
Total obligations of state and political institutions	137,726	148,821	5.82
Total held to maturity	$ 407,857	$ 425,775	3.60

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 and factored receivables portfolios represent approximately 52% of all loans. Loans in this category are typically made to individuals and small and medium-sized businesses in amounts generally up to $20 million. Loans to nondepository financial institutions, which include the Company s residential mortgage warehouse funding product and loans to finance companies, represent approximately 16% of all loans. The Company s equipment financing portfolio, which consists of finance leases for various types of business equipment, represents approximately 10% of all loans. The Company s real estate loan portfolios, which represent approximately 21% of all loans, are secured by mortgages on real property located principally in the states of New York, New Jersey, Connecticut, Virginia and North Carolina. Sources of repayment are from the borrower s operating profits, cash flows and liquidation of pledged collateral. Based on underwriting standards, loans and leases 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 and may vary in value based on market conditions. Loans to borrowers located in the states of New York and New Jersey represent approximately 51% and 14%, respectively, of all loans. Loans to borrowers located in any other state do not exceed 10% of all loans.

The following table sets forth the composition of the Company s loans held for sale and loans held in portfolio, net of unearned discounts, at the end of each of the five most recent fiscal years; there were no foreign loans outstanding at the end of each of the five most recent fiscal years.

December 31,	**2011**		2010		2009		2008		2007	
	Balances	**% of Total**	Balances	% of Total	Balances	% of Total	Balances	% of Total	Balances	% of Total
Domestic										
Commercial and industrial	**$ 624,124**	**41.15%**	$ 618,223	45.92%	$ 550,285	44.76%	$ 531,471	44.00%	$ 518,265	44.05%
Loans to nondepository institutions	**246,587**	**16.26**	112,882	8.38	35,591	2.90	N/A		N/A	
Factored receivables	**171,831**	**11.33**	161,789	12.02	139,927	11.38	89,145	7.38	80,007	6.80
Equipment financing receivables	**150,782**	**9.94**	144,235	10.72	195,056	15.87	255,743	21.17	249,702	21.22
Real estate										
Residential mortgage portfolio	**170,153**	**11.22**	127,695	9.49	124,681	10.14	142,135	11.76	129,465	11.00
Residential mortgage held for sale	**43,372**	**2.86**	32,049	2.38	33,889	2.76	23,403	1.94	23,756	2.02
Commercial mortgage	**85,825**	**5.66**	96,991	7.20	92,614	7.53	96,883	8.02	99,093	8.42
Construction and land development	**13,621**	**0.90**	25,624	1.90	24,277	1.97	25,249	2.09	37,161	3.16
Loans to individuals	**10,376**	**0.68**	11,370	0.84	12,984	1.06	18,959	1.57	12,103	1.03
Loans to depository institutions	**10**		15,425	1.15	20,000	1.63	25,000	2.07	27,000	2.30
Total	**$ 1,516,681**	**100.00%**	$ 1,346,283	100.00%	$ 1,229,304	100.00%	$ 1,207,988	100.00%	$ 1,176,552	100.00%

Based on contractual maturity date, the following table sets forth information regarding the Company s commercial and industrial, factored receivables and construction and land development loans, as of December 31, 2011:

	Due One Year or Less	Due One to Five Years	Due After Five Years	Total Gross Loans
Commercial and industrial	$ 516,214	$ 87,992	$ 21,857	$ 626,063
Factored receivables	172,082			172,082
Real estate construction and land development	13,030	591		13,621

All commercial and industrial loans due after one year have predetermined interest rates.

All real estate construction and land development loans due after one year have floating or adjustable interest rates.

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 future economic conditions, the financial condition of borrowers, the realization of collateral, and the credit management process.

Nonaccrual loans at December 31, 2011 decreased $286 thousand compared to December 31, 2010. This primarily reflected decreases of $180 thousand and $522 thousand in commercial and industrial loans and lease financing receivables, respectively, partially offset by an increase of $377 thousand in residential real estate mortgage loans. Net loan charge-offs in 2011 were $19.4 million lower than those in 2010 (primarily reflecting decreases in net charge-offs of $15.6 million for lease financing receivables and $4.1 million for commercial and industrial loans partially offset by a $0.8 million increase for residential real estate mortgage loans). A worsening of existing economic conditions will likely result in levels of charge-offs and nonaccrual loans that will be higher than those in the historical levels.

The following table sets forth the amount of domestic nonaccrual and past due loans of the Company at the end of each of the five most recent fiscal years; there were no foreign loans accounted for on a nonaccrual basis. At December 31, 2011, approximately $6.4 million of equipment financing receivables and residential real estate loans were troubled debt restructurings. See Note 5 beginning on page 77 for additional discussion. Loans contractually past due 90 days or more as to principal or interest and still accruing are loans that are both well-secured or guaranteed by financially responsible third parties and are in the process of collection.

December 31,	**2011**	2010	2009	2008	2007
Gross loans	**$ 1,534,779**	$ 1,365,296	$ 1,254,946	$ 1,245,263	$ 1,249,128
Nonaccrual loans					
Commercial and industrial	**$ 834**	$ 1,014	$ 4,231	$ 816	$ 610
Factored receivables					
Equipment financing receivables	**370**	892	11,960	3,387	2,571
Real estate residential mortgage	**1,991**	1,614	1,786	3,078	2,786
Real estate commercial mortgage	**3,124**	3,124			
Real estate construction and land development					
Loans to individuals	**39**			63	416
Total nonaccrual loans	**6,358**	6,644	17,977	7,344	6,383
Past due 90 days or more (other than the above)	**165**	314	1,194	821	1,329
Restructured loans (other than the above)	**5,851**	5,829	5,176	70	
Total	**$ 12,374**	$ 12,787	$ 24,347	$ 8,235	$ 7,712
Interest income that would have been earned on nonaccrual loans outstanding	**$ 780**	$ 902	$ 1,463	$ 731	$ 655
Applicable interest income actually realized on nonaccrual loans outstanding	**$ 200**	$ 204	$ 743	$ 321	$ 222
Nonaccrual and past due loans as a percentage of total gross loans	**0.43%**	0.51%	1.53%	0.66%	0.62%

Interest income that would have been earned in 2011 on restructured loans amounted to $582 thousand. Interest income actually realized in 2011 on restructured loans was $335 thousand.

At December 31, 2011, commercial and industrial nonaccruals represented 0.13% of commercial and industrial loans. There were 2 loans made to borrowers located in 1 state with balances ranging between approximately $39.0 thousand and $794.9 thousand.

At December 31, 2011, equipment financing nonaccruals represented 0.25% of lease financing receivables. The lessees of the equipment are located in 6 states. There were 11 leases ranging between approximately $0.3 thousand and $110.0 thousand. The value of the underlying collateral related to lease financing nonaccruals varies depending on the type and condition of equipment. While most leases are written on a recourse basis, with personal guarantees of the principals, the current value of the collateral is often less than the lease financing balance. Collection efforts include repossession and/or sale of leased equipment, payment discussions with the lessee, the principals and/or guarantors, and obtaining judgments against the lessee, the principals and/or guarantors. The balance is charged off at the earlier of the date when the lease is past due 120 days or the date when it is determined that collection efforts are no longer productive. Factors considered in determining whether collection efforts are no longer productive include any amounts currently being collected, the status of discussions or negotiations with the lessee, the principal and/or guarantors, the cost of continuing efforts to collect, the status of any foreclosure or other legal actions, the value of the collateral, and any other pertinent factors.

At December 31, 2011, residential real estate nonaccruals represented 1.17% of residential real estate loans held in portfolio. There were 12 loans ranging between approximately $0.3 thousand and $658.0 thousand secured by properties located in 4 states.

At December 31, 2011, commercial real estate nonaccruals represented 3.64% of commercial real estate loans. There was one loan for $745.3 thousand and another for $2.4 million secured by property located in 1 state.

At December 31, 2011, other real estate owned consisted of 6 properties valued between $100.0 thousand and $554.6 thousand located in 3 states.

The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management s best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The Company s allowance for loan losses methodology includes allowance allocations calculated in accordance with FASB Codification Topic 310, *Receivables* and allowance allocations calculated in accordance with FASB Codification Topic 450, *Contingencies*. Accordingly, the methodology is based on historical loss experience by type of credit and internal risk grade, specific homogenous pools and specific loss allocations, with adjustments for current events and conditions. The Company s process for the appropriate level of the allowance for loan losses is designed to account for credit deterioration as it occurs. The provision for loan losses reflects loan quality trends, including the levels of and trends related to nonaccrual loans, past due loans, potential problem loans, classified and criticized loans and net charge-offs or recoveries, among other factors. The provision for loan losses also reflects the totality of actions taken on all loans for a particular period. In other words, the amount of the provision reflects not only the necessary increases in the allowance for loan losses related to newly identified criticized loans, but it also reflects actions taken related to other loans including, among other things, any necessary increases or decreases in required allowances for specific loans or loan pools. See Note 5 Loans and Allowance for Loan Losses in the accompanying notes to consolidated financial statements included elsewhere in this report for further details regarding the methodology for estimating the appropriate level of the allowance for loan losses.

At December 31, 2011, the ratio of the allowance to loans held in portfolio, net of unearned discounts, was 1.36% and the allowance was $20.0 million. Loans 90 days past due and still accruing amounted to $165 thousand. At such date, the Company s nonaccrual loans amounted to $6.4 million; $3.7 million of such loans were judged to be impaired within the scope of FASB Codification Topic 310, *Receivables*, and had a valuation allowance totaling $1.1 million, which is included within the overall allowance for loan losses. 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 probable losses on specifically known and other credit risks associated with the portfolio as of December 31, 2011. 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 provision taken in 2011. We did not have any 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.

The following table sets forth certain information with respect to the Company s loan loss experience for each of the five most recent fiscal years:

Years Ended December 31,	**2011**	2010	2009	2008	2007
Average loans held in portfolio, net of unearned discounts, during year	**$ 1,351,407**	$ 1,227,049	$ 1,154,041	$ 1,120,362	$ 1,049,206
Allowance for loan losses:					
Balance at beginning of year	**$ 18,238**	$ 19,872	$ 16,010	$ 15,085	$ 16,288
Charge-offs:					
Commercial and industrial	**2,909**	7,212	4,945	2,610	2,620
Factored receivables	**358**	665	514	581	243
Equipment financing receivables	**8,266**	22,509	19,115	3,886	3,345
Real estate residential mortgage	**1,266**	351	312	58	215
Real estate commercial mortgage		129			
Real estate construction and land development					
Loans to individuals	**30**	231			67
Total charge-offs	**12,829**	31,097	24,886	7,135	6,490
Recoveries:					
Commercial and industrial	**146**	312	1,042	297	219
Factored receivables	**79**	239	63	26	31
Equipment financing receivables	**2,255**	902	345	294	316
Real estate residential mortgage	**165**		102	61	30
Real estate commercial mortgage					
Real estate construction and land development					
Loans to individuals		48		69	110
Total recoveries	**2,645**	1,501	1,552	747	706
Subtract:					
Net charge-offs	**10,184**	29,596	23,334	6,388	5,784
Provision for loan losses	**12,000**	28,500	27,900	8,325	5,853
Less loss on transfers to other real estate owned	**25**	538	704	1,012	1,272
Balance at end of year	**$ 20,029**	$ 18,238	$ 19,872	$ 16,010	$ 15,085
Ratio of net charge-offs to average loans held in portfolio, net of unearned discounts, during year	**0.75%**	2.41%	2.02%	0.57%	0.55%

The following table presents the Company s allocation of the allowance for loan losses. This allocation is based on estimates by management and may vary from year to year based on management s evaluation of the risk characteristics of the loan portfolio. The amount allocated to a particular loan category of the Company s loans held in portfolio may not necessarily be indicative of actual future charge-offs in that loan category.

December 31,	**2011**		2010		2009		2008		2007	
	Amount	**% of Loans in each category to total loans held in portfolio**	Amount	% of Loans in each category to total loans held in portfolio	Amount	% of Loans in each category to total loans held in portfolio	Amount	% of Loans in each category to total loans held in portfolio	Amount	% of Loans in each category to total loans held in portfolio
Domestic										
Commercial and industrial	**$ 7,647**	**42.36%**	$ 7,454	47.04%	$ 6,082	46.03%	$ 5,530	44.87%	$ 5,655	44.96%
Loans to nondepository institutions	**1,369**	**16.74**	564	8.59		2.98				
Factored receivables	**1,450**	**11.66**	1,424	12.31	971	11.70	933	7.52	1,083	6.94
Equipment financing receivables	**3,515**	**10.24**	3,423	10.97	10,249	16.32	6,130	21.59	5,398	21.66
Real estate residential mortgage (portfolio)	**3,490**	**11.55**	2,497	9.72	1,646	10.43	2,355	12.00	1,988	11.23
Real estate commercial mortgage	**2,151**	**5.83**	2,275	7.38	560	7.75	674	8.18	613	8.60
Real estate construction and land development	**165**	**0.92**	310	1.95	149	2.03	175	2.13	183	3.22
Loans to individuals	**104**	**0.70**	119	0.87	80	1.09	88	1.60	15	1.05
Loans to depository institutions			46	1.17		1.67	88	2.11	54	2.34
Unallocated	**138**		126		135		37		96	
Total	**$ 20,029**	**100.00%**	$ 18,238	100.00%	$ 19,872	100.00%	$ 16,010	100.00%	$ 15,085	100.00%

During 2011, the allowance for loan losses increased $1.8 million from $18.2 million at December 31, 2010 principally due to increases in the allowance allocated to real estate residential mortgages ($1.0 million) and loans to nondepository financial institutions ($0.8 million). The increase in the allowance allocated to residential real estate mortgages was primarily due to higher levels of nonaccrual loans. The increase in the allowance allocated to loans to nondepository financial institutions was primarily due to higher loan balances in this category.

During 2010, the allowance for loan losses decreased $1.6 million from $19.9 million at December 31, 2009 primarily due to a reduction in the allowance allocated to lease financing receivables ($6.8 million) partially offset by increases in the allowance allocated to commercial and industrial loans ($1.4 million), factored receivables ($0.5 million), real estate residential mortgage loans ($0.9 million), and real estate commercial mortgage loans ($1.7 million) and real estate construction and land development loans ($0.2 million). The allowance allocated to lease financing receivables decreased primarily as a result of the lower level of lease financing receivables nonaccrual balances. The increase of the allowance allocated to commercial and industrial loans was primarily the result of the unsteady economic recovery. The allowance to factored receivables increased based on the continued weakening in the consumer sectors. The increase in the allowance allocated to real estate residential mortgage loans was primarily due to the persistent decline in residential real estate values. As a result of the disruption in the commercial real estate markets, the allowance allocated to real estate commercial mortgage loans and to real estate construction and land development loans was increased.

During 2009, the allowance for loan losses increased because of increases in the allowance allocated to lease financing receivables and in the allowance allocated to commercial and industrial loans, partially offset by a reduction in the allowance allocated to real estate-residential mortgage loans. The allowance allocated to lease financing receivables increased primarily as a result of increased losses experienced in that category in 2009 compared to 2008 partially offset by a decrease in the specific valuation allowance for impaired loans. The impact of the increase in nonaccrual lease financing receivables at December 31, 2009 compared to December 31, 2008 was mitigated by decreasing levels of nonaccruals in that category in the third and fourth quarters of 2009 compared to the second quarter of 2009. The allowance allocated to commercial and industrial loans increased due to increased losses experienced in that category in 2009 compared to 2008 and higher nonaccrual levels in that category at December 31, 2009 compared to December 31, 2008 partially offset by a decrease in the specific valuation allowance for impaired loans.

The allowance allocated to real estate-residential mortgage loans decreased primarily due to lower nonaccrual loan balances at December 31, 2009 compared to December 31, 2008 coupled with a decrease in the specific valuation allowance for impaired loans. During the fourth quarter of 2009 the level of the allowance for loan losses benefited from a recovery of $0.9 million on a loan charged off in a prior period.

Deposits

A significant source of funds are customer 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 at the end of each of the three most recent fiscal years:

December 31,	**2011**		2010		2009	
	Balances	**% of Total**	Balances	% of Total	Balances	% of Total
Domestic						
Demand	**$ 765,800**	**38.50%**	$ 570,290	32.63%	$ 546,332	34.56%
NOW	**177,495**	**8.93**	200,521	11.47	266,343	16.85
Savings	**18,566**	**0.93**	18,931	1.08	17,497	1.11
Money Market	**369,362**	**18.57**	342,755	19.61	308,175	19.50
Time deposits less than $100 thousand	**116,049**	**5.83**	126,834	7.26	140,678	8.90
Time deposits greater than $100 thousand	**541,799**	**27.24**	488,433	27.95	301,057	19.04
Total domestic deposits	**1,989,071**	**100.00**	1,747,764	100.00	1,580,082	99.96
Foreign						
Demand					5	
Time deposits greater than $100 thousand					580	0.04
Total foreign deposits					585	0.04
Total deposits	**$ 1,989,071**	**100.0%**	$ 1,747,764	100.0%	$ 1,580,667	100.00%

The Company began participating in the Certificate of Deposit Account Registry Service (CDARS) on January 22, 2009. CDARS deposits totaled approximately $164.5 million at December 31, 2011 and averaged approximately $224.6 million for the year ended December 31, 2011. CDARS deposits totaled approximately $180.7 million at December 31, 2010 and averaged approximately $184.2 million for the year ended December 31, 2010.

Scheduled maturities of time deposits at December 31, 2011 were as follows:

2012	$ 608,442
2013 and later	49,406
	$ 657,848

Scheduled maturities of time deposits in amounts of $100,000 or more at December 31, 2011 were as follows:

Due within 3 months or less	$ 220,594
Due after 3 months and within 6 months	197,561
Due after 6 months and within 12 months	95,593
Due after 12 months	28,051
	$ 541,799

Fluctuations of balances in total or among categories at any date can 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 for the three most recent fiscal years is presented on page 48.

Sterling Bancorp

CONSOLIDATED AVERAGE BALANCE SHEETS AND
ANALYSIS OF NET INTEREST EARNINGS[1]

Years Ended December 31,	2011			2010			2009		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS									
Interest-bearing deposits with other banks	$ 93,561	$ 227	0.24%	$ 31,960	$ 75	0.23%	$ 36,804	$ 85	0.23%
Investment securities									
Available for sale taxable	351,348	8,788	2.50	394,635	10,863	2.75	350,069	16,575	4.73
Held to maturity taxable	322,312	8,078	2.51	252,915	10,879	4.30	320,655	15,070	4.70
Tax-exempt[2]	157,308	9,784	6.22	120,634	7,422	6.15	48,761	2,907	5.96
Federal Reserve and Federal Home Loan Bank stock	8,770	374	4.27	8,617	448	5.20	9,487	516	5.45
Loans, net of unearned discounts[3]	1,379,361	73,241	5.65	1,262,403	70,104	5.98	1,195,266	71,788	6.38
TOTAL INTEREST-EARNING ASSETS	2,312,660	100,492	4.51%	2,071,164	99,791	5.04%	1,961,042	106,941	5.65%
Cash and due from banks	39,734			36,810			31,118		
Allowance for loan losses	(19,951)			(21,668)			(19,107)		
Goodwill	22,901			22,901			22,901		
Other	152,840			135,362			118,267		
TOTAL ASSETS	$ 2,508,184			$ 2,244,569			$ 2,114,221		
LIABILITIES AND SHAREHOLDERS EQUITY									
Interest-bearing deposits									
Domestic									
Savings	$ 18,474	8	0.04%	$ 18,631	11	0.06%	$ 18,012	18	0.10%
NOW	210,443	372	0.18	209,197	472	0.23	211,121	620	0.29
Money market	367,090	2,475	0.67	336,233	2,805	0.83	333,647	3,252	0.97
Time	729,053	5,583	0.77	558,886	6,297	1.13	375,164	7,993	2.13
Foreign									
Time				317	3	1.09	578	6	1.09
Total interest-bearing deposits	1,325,060	8,438	0.64	1,123,264	9,588	0.85	938,522	11,889	1.27
Borrowings									
Securities sold under agreements to repurchase customers	42,911	186	0.43	47,674	229	0.48	72,892	353	0.48
Securities sold under agreements to repurchase dealers	5,186	66	1.27	5,618	44	0.79			
Federal funds purchased	10,926	14	0.13	33,192	74	0.22	25,075	51	0.21
Commercial paper	14,454	43	0.30	14,718	45	0.30	13,107	67	0.51
Short-term borrowings FHLB							3,411	11	0.31
Short-term borrowings FRB				3,699	9	0.25	154,726	398	0.26
Short-term borrowings other	3,666	2	0.07	7,306	18	0.25	1,864		
Advances FHLB	129,558	2,144	1.66	132,577	3,482	2.63	149,207	4,432	2.97
Long-term borrowings subordinated debentures	25,774	2,094	8.38	25,774	2,094	8.38	25,774	2,094	8.38
Total borrowings	232,475	4,549	1.96	270,558	5,995	2.22	446,056	7,406	1.66
Total interest-bearing liabilities	1,557,535	12,987	0.83%	1,393,822	15,583	1.12%	1,384,578	19,295	1.39%
Noninterest-bearing demand deposits	596,608			489,184			441,087		
Total including noninterest-bearing demand deposits	2,154,143	12,987	0.61%	1,883,006	15,583	0.83%	1,825,665	19,295	1.06%
Other liabilities	129,221			148,410			130,331		
Total Liabilities	2,283,364			2,031,416			1,955,996		
Shareholders equity	224,820			213,153			158,225		
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 2,508,184			$ 2,244,569			$ 2,114,221		
Net interest income/spread		87,505	3.68%		84,208	3.92%		87,646	4.26%
Net yield on interest-earning assets			3.92%			4.25%			4.63%
Less: Tax-equivalent adjustment		3,428			2,601			1,021	
Net interest income		$ 84,077			$ 81,607			$ 86,625	

[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 prior period amounts to conform to current presentation.*

[2] *Interest on tax-exempt securities included herein 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
CONSOLIDATED RATE/VOLUME ANALYSIS[1]

Increase (Decrease) from Years Ended,	December 31, 2010 to December 31, 2011			December 31, 2009 to December 31, 2010		
	Volume	**Rate**	**Total[2]**	Volume	Rate	Total[2]
			(in thousands)			
INTEREST INCOME						
Interest-bearing deposits with other banks	**$ 149**	**$ 3**	**$ 152**	$ (10)	$	$ (10)
Investment securities						
Available for sale taxable	**(1,134)**	**(941)**	**(2,075)**	1,901	(7,613)	(5,712)
Held to maturity taxable	**2,484**	**(5,285)**	**(2,801)**	(2,987)	(1,204)	(4,191)
Tax-exempt	**2,277**	**85**	**2,362**	4,419	96	4,515
Total	**3,627**	**(6,141)**	**(2,514)**	3,333	(8,721)	(5,388)
Federal Reserve and Federal Home Loan Bank stock	**8**	**(82)**	**(74)**	(45)	(23)	(68)
Loans, net of unearned discounts[3]	**7,188**	**(4,051)**	**3,137**	3,723	(5,407)	(1,684)
TOTAL INTEREST INCOME	**$ 10,972**	**$ (10,271)**	**$ 701**	$ 7,001	$ (14,151)	$ (7,150)
INTEREST EXPENSE						
Interest-bearing deposits						
Domestic						
Savings	**$**	**$ (3)**	**$ (3)**	$ 1	$ (8)	$ (7)
NOW	**3**	**(103)**	**(100)**	(7)	(141)	(148)
Money market	**241**	**(571)**	**(330)**	25	(472)	(447)
Time	**1,618**	**(2,332)**	**(714)**	2,965	(4,661)	(1,696)
Foreign						
Time	**(3)**		**(3)**	(3)		(3)
Total interest-bearing deposits	**1,859**	**(3,009)**	**(1,150)**	2,981	(5,282)	(2,301)
Borrowings						
Securities sold under agreements to repurchase customers	**(21)**	**(22)**	**(43)**	(124)		(124)
Securities sold under agreements to repurchase dealers	**(3)**	**25**	**22**	44		44
Federal funds purchased	**(37)**	**(23)**	**(60)**	20	3	23
Commercial paper	**(2)**		**(2)**	8	(30)	(22)
Short-term borrowings FHLB				(11)		(11)
Short-term borrowings FRB	**(9)**		**(9)**	(375)	(14)	(389)
Short-term borrowings other	**(7)**	**(9)**	**(16)**		18	18
Advances FHLB	**(77)**	**(1,261)**	**(1,338)**	(469)	(481)	(950)
Total borrowings	**(156)**	**(1,290)**	**(1,446)**	(907)	(504)	(1,411)
TOTAL INTEREST EXPENSE	**$ 1,703**	**$ (4,299)**	**$ (2,596)**	$ 2,074	$ (5,786)	$ (3,712)
NET INTEREST INCOME	**$ 9,269**	**$ (5,972)**	**$ 3,297**	$ 4,927	$ (8,365)	$ (3,438)

[1] *Amounts are presented on a tax-equivalent basis.*

[2] *The change 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. The change in interest expense for foreign time deposits and short-term borrowings FRB has been allocated entirely to the volume variance.*

[3] *Includes loans held for sale and loans held in portfolio; all loans are domestic. Nonaccrual loans have been included in the amounts outstanding and income has been included to the extent earned.*

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 December 31, 2011, presented on page 56, 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 December 31, 2011, the Company was not a party to any financial instrument derivative agreement.

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 December 31, 2011, the model indicated the impact of a 100 and 200 basis point parallel and pro rata rise in rates over 12 months would approximate a 2.4% ($2.8 million) and a 5.0% ($6.0 million) increase in net interest income, respectively, while the impact of a 25 basis point decline in rates over the same period would approximate a 0.8% ($0.9 million) decline from an unchanged rate environment. The likelihood of a decrease in interest rates beyond 25 basis points as of December 31, 2011 was considered to be remote given then-current interest rate levels. As of December 31, 2010, the model indicated the impact of a 100 and 200 basis point parallel and pro rata rise in rates over 12 months would approximate a 3.4% ($3.7 million) and a 6.8% ($7.2 million) increase in net interest income, respectively, while the impact of a 25 basis point decline in rates over the same period would approximate a 0.9% ($1.0 million) decline from an unchanged rate environment. The likelihood of a decrease in interest rates beyond 25 basis points as of December 31, 2010 was considered to be remote given then-current interest rate levels.

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 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 could continue to affect adversely the Company s results in 2012.

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.

The parent company 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 non-bank 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 (see Note 16 on page 96).

In December 2008, under the U.S. Treasury s TARP Capital Purchase Program, we issued to the U.S. Treasury 42,000 of the parent company s Fixed Rate Cumulative Perpetual Preferred Shares, Series A, liquidation preference of $1,000 per share (Series A Preferred Shares) and a 10-year warrant to purchase up to 516,817 of the parent company s common shares. On April 27, 2011, the parent company paid $42.4 million to the U.S. Treasury for the repurchase in full of the Series A Preferred Shares. As a result of this action, the Series A Preferred Shares were redeemed in full, eliminating an annual dividend of $2.1 million. In this connection, in determining net income available to common shareholders, the Company recognized in the second quarter of 2011 a $1.2 million charge for accelerated accretion which represents the difference between the carrying value and the liquidation value for the repurchased Series A Preferred Shares. On May 18, 2011, the parent company paid approximately $0.95 million to the U.S. Treasury to repurchase the 10-year warrant in full. The parent company s repurchase of the warrant concluded its participation in the TARP Capital Purchase Program.

At December 31, 2011, the parent company s short-term debt, consisting principally of commercial paper used to finance ongoing current business activities, was approximately $14.5 million. The parent company had cash, interest-bearing deposits with banks and other current assets aggregating $45.6 million. The parent company also has back-up credit lines with banks of $19.0 million. Since 1979, the parent company has had no need to use available back-up lines of credit.

OFF BALANCE SHEET ARRANGEMENTS, COMMITMENTS, GUARANTEES, AND CONTRACTUAL OBLIGATIONS

The following table summarizes the Company s contractual obligations and other commitments to make future payments as of December 31, 2011. Payments for borrowings do not include interest. Payments related to leases are based on actual payments specified in the underlying contracts. Loan commitments and standby letters of credit are presented at contractual amounts; however, since many of these commitments are expected to expire unused or only partially used, the total amounts of these commitments do not necessarily reflect future cash requirements.

	Payments Due by Period						
Contractual Obligations	Total	Less than 1 Year	1 2 Years	2 3 Years	3 4 Years	4 5 Years	After 5 Years
Long-Term Debt[1]	$ 148,507	$ 21,468	$ 994	$ 271	$	$ 100,000	$ 25,774
Operating Leases	44,923	4,518	4,482	4,747	4,550	3,789	22,837
Total Contractual Cash Obligations	$ 193,430	$ 25,986	$ 5,476	$ 5,018	$ 4,550	$ 103,789	$ 48,611

[1] Based on contractual maturity date.

	Amount of Commitment Expiration Per Period						
Other Commercial Commitments	Total	Less than 1 Year	1 2 Years	2 3 Years	3 4 Years	4 5 Years	After 5 Years
Residential Loans	$ 55,164	$ 55,164	$	$	$	$	$
Commercial Loans	20,316	12,223	8,093				
Total Loan Commitments	75,480	67,387	8,093				
Standby Letters of Credit	27,770	21,709	6,061				
Other Commercial Commitments	61,780	61,550					230
Total Commercial Commitments	$ 165,030	$ 150,646	$ 14,154	$	$	$	$ 230

Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business the Company enters into various transactions, which in accordance with accounting principles generally accepted in the United States, are not included in its consolidated balance sheets. The Company enters into these transactions to meet the financing needs of its customers. These transactions include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in the consolidated balance sheets. The Company minimizes its exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures. The Company also holds certain assets which are not included in its consolidated balance sheets including assets held in fiduciary or custodial capacity on behalf of its trust customers and certain collateral funds resulting from acting as an agent in its securities lending program.

Commitments to Extend Credit

The Company enters into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of the Company s commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. Commitments to extend credit outstanding at December 31, 2011 are included in the table above.

Standby Letters of Credit

Standby letters of credit are written conditional commitments issued by the Company to guarantee the performance of a customer to a third party. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, the Company would be entitled to seek recovery from the customer. The Company s policies generally require that standby letter of credit arrangements contain security and debt covenants similar to those contained in loan agreements. Standby letters of credit outstanding at December 31, 2011 are included in the table above. The Company holds primarily cash or cash equivalents as collateral supporting these commitments.

The Company is obligated under certain unfunded benefit plans to make payments to individuals upon their retirement. While the Company is not aware of any near term plans for retirement of executive officers at this time, actuarial expected benefit payments are disclosed in Note 18 beginning on page 98 based on eligibility.

While past performance is not a guarantee of future performance, management believes that the parent company s funding sources (including dividends from all its subsidiaries) and the bank s funding sources will be adequate to meet their liquidity requirements in the future.

The liquidity position of the parent company and the bank is regularly monitored and adjustments are made to the balance between sources and uses of funds as deemed appropriate. Management is not aware of any events that are reasonably likely to have a material adverse effect on the Company s liquidity, capital resources or operations. In addition, management is not aware of any regulatory recommendations regarding liquidity, which if implemented, would have a material adverse effect on the Company.

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 at December 31, 2011 and December 31, 2010 is presented in Note 22 beginning on page 110. In addition, the bank is subject to the provisions of 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 undercapitalized. Such classifications 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 December 31, 2011, the Company and the bank exceeded the requirements for well capitalized institutions under the tests pursuant to FDICIA and of the Federal Reserve Board.

The bank regulatory agencies have encouraged banking organizations, including healthy, well-run banking organizations, to operate with capital ratios substantially in excess of the stated ratios required to maintain well capitalized status. This has resulted from, among other things, current economic conditions, the global financial crisis and the likelihood, as described below, of increased formal capital requirements for banking organizations. In light of the foregoing, the Company and the bank expect that they will maintain capital ratios substantially in excess of these ratios.

The elements currently comprising Tier 1 capital and Tier 2 capital, the minimum Tier 1 capital and total capital ratios and the minimum leverage ratio may in the future be subject to change, as discussed in greater detail under the caption SUPERVISION AND REGULATION beginning on page 3.

IMPACT OF INFLATION AND CHANGING PRICES

The Company s financial statements included herein have been prepared in accordance with U.S. GAAP, which require the Company to measure financial position and operating results primarily in terms of historical dollars. Changes in the relative value of money due to inflation or recession are generally not considered. The primary effect of inflation on the operations of the Company is reflected in increased operating costs. In management s opinion, changes in interest rates affect the financial condition of a financial institution to a far greater degree than do changes in the inflation rate. While interest rates are greatly influenced by changes in the inflation rate, they do not necessarily change at the same rate or in the same magnitude as the inflation rate. Interest rates are highly sensitive to many factors that are beyond the control of the Company, including changes in the expected rate of inflation, the influence of general and local economic conditions and the monetary and fiscal policies of the United States government, its agencies and various other governmental regulatory authorities, among other things, as further discussed under the caption RISKS RELATED TO THE COMPANY S BUSINESS beginning on page 15 and under the caption ASSET/LIABILITY MANAGEMENT beginning on page 50.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

See *Adoption of New Accounting Standards* and *Newly Issued Not Yet Effective Standards* in Note 1 of the Company s consolidated financial statements for information regarding recently issued accounting pronouncements and their expected impact on the Company s consolidated financial statements.

Sterling Bancorp
CONSOLIDATED 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. 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						
	3 Months or Less	More than 3 Months to 1 Year	More than 1 Year to 5 Years	More than 5 Years to 10 Years	Over 10 Years	Nonrate Sensitive	Total
ASSETS							
Interest-bearing deposits with other banks	**$ 126,448**	**$**	**$**	**$**	**$**	**$**	**$ 126,448**
Investment securities	**69,443**	**183,965**	**145,612**	**25,159**	**253,692**		**677,871**
Commercial and industrial loans	**482,449**	**65,196**	**77,629**	**789**		**(1,939)**	**624,124**
Equipment financing receivables	**328**	**7,721**	**104,030**	**52,058**	**2,553**	**(15,908)**	**150,782**
Factored receivables	**172,082**					**(251)**	**171,831**
Real estate residential mortgage	**26,711**	**49,737**	**35,615**	**33,359**	**68,103**		**213,525**
Real estate commercial mortgage	**17,596**	**15,428**	**39,854**	**12,947**			**85,825**
Real estate construction loans		**13,030**	**591**				**13,621**
Loans to individuals	**8,950**	**532**	**894**				**10,376**
Loans to nondepository institutions	**199,899**	**23,328**	**23,306**		**54**		**246,587**
Loans to depository institutions	**10**						**10**
Noninterest-earning assets and allowance for loan losses						**172,297**	**172,297**
Total Assets	**1,103,916**	**358,937**	**427,531**	**124,312**	**324,402**	**154,199**	**2,493,297**
LIABILITIES AND SHAREHOLDERS EQUITY							
Interest-bearing deposits							
Savings			**18,566**				**18,566**
NOW			**177,495**				**177,495**
Money market	**267,745**		**101,617**				**369,362**
Time domestic	**249,245**	**359,197**	**49,406**				**657,848**
Securities sold under agreements to repurchase customers	**47,313**						**47,313**
Securities sold under agreements to repurchase dealers		**5,000**					**5,000**
Commercial paper	**13,485**						**13,485**
Advances FHLB	**100,000**	**20,000**	**2,733**				**122,733**
Long-term borrowings subordinated debentures					**25,774**		**25,774**
Noninterest-bearing liabilities and shareholders equity						**1,055,721**	**1,055,721**
Total Liabilities and Shareholders Equity	**677,788**	**384,197**	**349,817**		**25,774**	**1,055,721**	**2,493,297**
Net Interest Rate Sensitivity Gap	**$ 426,128**	**$ (25,260)**	**$ 77,714**	**$ 124,312**	**$ 298,628**	**$ (901,522)**	**$**
Cumulative Gap at December 31, 2011	**$ 426,128**	**$ 490,868**	**$ 478,582**	**$ 602,894**	**$ 901,522**	**$**	**$**
Cumulative Gap at December 31, 2010	$ 377,384	$ 308,139	$ 289,256	$ 468,057	$ 786,799	$	$
Cumulative Gap at December 31, 2009	$ 215,345	$ 223,572	$ 238,762	$ 348,921	$ 707,012	$	$

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company s consolidated financial statements as of December 31, 2011 and 2010 and for each of the years in the three-year period ended December 31, 2011, and the statements of condition of Sterling National Bank as of December 31, 2011 and 2010, notes thereto and the Reports of Independent Registered Public Accounting Firms thereon appear on pages 58 115.

Sterling Bancorp
CONSOLIDATED BALANCE SHEETS

December 31,	2011	2010
	(dollars in thousands, except per share data)	
ASSETS		
Cash and due from banks	**$ 31,046**	$ 26,824
Interest-bearing deposits with other banks	**126,448**	40,503
Securities available for sale (at estimated fair value; pledged: $146,429 in 2011 and $95,311 in 2010)	**270,014**	390,080
Securities held to maturity (pledged: $206,282 in 2011 and $212,606 in 2010) (estimated fair value: $425,775 in 2011 and $400,453 in 2010)	**407,857**	399,235
Total investment securities	**677,871**	789,315
Loans held for sale	**43,372**	32,049
Loans held in portfolio, net of unearned discounts	**1,473,309**	1,314,234
Less allowance for loan losses	**20,029**	18,238
Loans, net	**1,453,280**	1,295,996
Federal Reserve and Federal Home Loan Bank stock, at cost	**8,486**	9,365
Customers liability under acceptances	**4**	
Goodwill	**22,901**	22,901
Premises and equipment, net	**23,625**	15,909
Other real estate	**1,929**	182
Accrued interest receivable	**6,838**	8,280
Cash surrender value of life insurance policies	**53,446**	51,512
Other assets	**44,051**	67,621
Total assets	**$ 2,493,297**	$ 2,360,457
LIABILITIES AND SHAREHOLDERS EQUITY		
Noninterest-bearing demand deposits	**$ 765,800**	$ 570,290
Savings, NOW and money market deposits	**565,423**	562,207
Time deposits	**657,848**	615,267
Total deposits	**1,989,071**	1,747,764
Securities sold under agreements to repurchase customers	**47,313**	23,016
Securities sold under agreements to repurchase dealers	**5,000**	5,000
Federal funds purchased		15,000
Commercial paper	**13,485**	14,388
Short-term borrowings other		3,490
Advances FHLB	**122,733**	144,173
Long-term borrowings subordinated debentures	**25,774**	25,774
Total borrowings	**214,305**	230,841
Acceptances outstanding	**4**	
Accrued interest payable	**1,064**	1,314
Due to factored clients		91,543
Accrued expenses and other liabilities	**68,032**	66,253
Total liabilities	**2,272,476**	2,137,715
Commitments and contingent liabilities		
Shareholders Equity		
Preferred shares, Series A, $5 par value per share; $1,000 liquidation value. Authorized 644,389 shares; issued -0- and 42,000 shares, respectively		40,602
Common shares, $1 par value per share. Authorized 50,000,000 shares; issued 35,225,110 and 31,138,545 shares, respectively	**35,225**	31,139
Warrant to purchase common shares		2,615
Capital surplus	**270,869**	236,437
Retained earnings	**15,523**	11,392
Accumulated other comprehensive loss	**(14,216)**	(12,887)
Common shares in treasury at cost, 4,300,278 and 4,297,782 shares, respectively	**(86,580)**	(86,556)
Total shareholders equity	**220,821**	222,742
Total liabilities and shareholders equity	**$ 2,493,297**	$ 2,360,457

See Notes to Consolidated Financial Statements.

Sterling Bancorp
CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31,	**2011**	2010	2009
	(dollars in thousands, except per share data)		
INTEREST INCOME			
Loans	**$ 73,241**	$ 70,104	$ 71,788
Investment securities			
Available for sale taxable	**8,788**	10,863	16,575
Held to maturity taxable	**8,079**	10,879	15,070
Tax exempt	**6,358**	4,824	1,889
Federal Reserve and Federal Home Loan Bank stock	**371**	445	513
Deposits with other banks	**227**	75	85
Total interest income	**97,064**	97,190	105,920
INTEREST EXPENSE			
Deposits			
Savings, NOW and Money Market	**2,855**	3,288	3,890
Time	**5,583**	6,300	7,999
Securities sold under agreements to repurchase customers	**186**	229	353
Securities sold under agreements to repurchase dealers	**66**	44	
Federal funds purchased	**14**	74	51
Commercial paper	**43**	45	67
Short-term borrowings FHLB			11
Short-term borrowings FRB		9	398
Short-term borrowings other	**2**	18	
Advances FHLB	**2,144**	3,482	4,432
Long-term borrowings subordinated debentures	**2,094**	2,094	2,094
Total interest expense	**12,987**	15,583	19,295
Net interest income	**84,077**	81,607	86,625
Provision for loan losses	**12,000**	28,500	27,900
Net interest income after provision for loan losses	**72,077**	53,107	58,725
NONINTEREST INCOME			
Accounts receivable management/factoring commissions and other fees	**24,381**	23,572	18,320
Service charges on deposit accounts	**5,654**	6,250	5,943
Trade finance income	**2,222**	2,264	1,891
Other customer related service charges and fees	**943**	777	929
Mortgage banking income	**6,315**	8,164	9,476
Trust fees	**53**	329	450
Income from life insurance policies	**1,140**	1,138	1,098
Securities gains	**1,726**	3,928	5,561
Loss on other real estate owned		(64)	(32)
Other income	**1,626**	1,275	514
Total noninterest income	**44,060**	47,633	44,150
NONINTEREST EXPENSES			
Salaries	**43,748**	41,586	39,875
Employee benefits	**13,898**	12,220	12,293
Total personnel expense	**57,646**	53,806	52,168
Occupancy and equipment expenses, net	**13,248**	12,296	11,278
Advertising and marketing	**2,792**	3,381	3,167
Professional fees	**5,219**	5,464	5,147
Communications	**1,756**	1,691	1,665
Deposit insurance	**2,747**	3,809	4,153
Other expenses	**10,937**	11,109	10,967
Total noninterest expenses	**94,345**	91,556	88,545
Income before income taxes	**21,792**	9,184	14,330
Provision for income taxes	**4,196**	2,158	4,908
Net income	**17,596**	7,026	9,422
Dividends on preferred shares and accretion	**2,074**	2,589	2,773
Net income available to common shareholders	**$ 15,522**	$ 4,437	$ 6,649
Average number of common shares outstanding			
Basic	**30,038,047**	24,492,279	18,104,619

Diluted	**30,038,047**	24,495,044	18,126,333
Net income available to common shareholders, per average common share			
Basic	**$ 0.51**	$ 0.18	$ 0.37
Diluted	**0.51**	0.18	0.37
Dividends per common share	**0.36**	0.36	0.56

See Notes to Consolidated Financial Statements.

Sterling Bancorp
CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME

Years Ended December 31,	2011	2010	2009
		(dollars in thousands)	
Net income	**$ 17,596**	$ 7,026	$ 9,422
Other comprehensive (loss) income, net of tax:			
Unrealized gains (losses) on securities:			
Unrealized holding (losses) gains on available for sale securities and other investments, arising during the year	**(180)**	2,101	3,039
Reclassification adjustment for gains included in net income	**(958)**	(2,145)	(3,037)
Pension liability adjustment net actuarial (losses) gains	**(2,006)**	(1,940)	1,935
Reclassification adjustment for amortization of:			
Prior service cost	**35**	36	36
Net actuarial losses	**1,780**	1,460	1,887
Other comprehensive (loss) income	**(1,329)**	(488)	3,860
Comprehensive income	**$ 16,267**	$ 6,538	$ 13,282

See Notes to Consolidated Financial Statements.

Sterling Bancorp
CONSOLIDATED STATEMENTS OF
CHANGES IN SHAREHOLDERS EQUITY

Years Ended December 31,	2011	2010	2009
		(dollars in thousands)	
PREFERRED SHARES			
Balance at beginning of year	**$ 40,602**	$ 40,113	$ 39, 440
Redemption	**(42,000)**		
Discount accretion	**1,398**	489	673
Balance at end of year	**$**	$ 40,602	$ 40,113
COMMON SHARES			
Balance at beginning of year	**$ 31,139**	$ 22,227	$ 22,203
Common shares issued public offering	**4,025**	8,625	
Common shares issued under stock incentive plan	**61**	287	24
Balance at end of year	**$ 35,225**	$ 31,139	$ 22,227
WARRANT TO PURCHASE COMMON SHARES			
Balance at beginning of year	**$ 2,615**	$ 2,615	$ 2,615
Repurchase	**(2,615)**		
Balance at end of year	**$**	$ 2,615	$ 2,615
CAPITAL SURPLUS			
Balance at beginning of year	**$ 236,437**	$ 178,734	$ 178,417
Common shares issued public offering	**32,429**	56,256	
Restricted shares issued	**(61)**		
Common shares issued under stock incentive plan and related tax benefits		1,190	185
Stock option compensation expense	**394**	257	132
Repurchase of warrants	**1,670**		
Balance at end of year	**$ 270,869**	$ 236,437	$ 178,734
RETAINED EARNINGS			
Balance at beginning of year	**$ 11,392**	$ 15,828	$ 19,088
Net income	**17,596**	7,026	9,422
Cash dividends paid common shares	**(11,122)**	(8,873)	(10,131)
Cash dividends paid preferred shares	**(945)**	(2,100)	(1,878)
Discount accretion on Series A preferred shares	**(1,398)**	(489)	(673)
Balance at end of year	**$ 15,523**	$ 11,392	$ 15,828
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Balance at beginning of year	**$ (12,887)**	$ (12,399)	$ (16,259)
Other comprehensive (loss)/income, net of tax	**(1,329)**	(488)	3,860
Balance at end of year	**$ (14,216)**	$ (12,887)	$ (12,399)
TREASURY SHARES			
Balance at beginning of year	**$ (86,556)**	$ (85,168)	$ (85,024)
Surrender of shares issued under stock incentive plan	**(24)**	(1,388)	(144)
Balance at end of year	**$ (86,580)**	$ (86,556)	$ (85,168)
TOTAL SHAREHOLDERS EQUITY			
Balance at beginning of year	**$ 222,742**	$ 161,950	$ 160,480
Net changes during the year	**(1,921)**	60,792	1,470
Balance at end of year	**$ 220,821**	$ 222,742	$ 161,950

See Notes to Consolidated Financial Statements.

Sterling Bancorp
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,	**2011**	2010	2009
		(dollars in thousands)	
OPERATING ACTIVITIES			
Net income	**$ 17,596**	$ 7,026	$ 9,422
Adjustments to reconcile income from continuing operations to net cash (used in) provided by operating activities:			
Provision for loan losses	**12,000**	28,500	27,900
Depreciation and amortization of premises and equipment	**3,256**	2,436	2,195
Securities gains	**(1,726)**	(3,928)	(5,561)
Income from life insurance policies, net	**(625)**	(1,135)	(1,388)
Deferred income tax provision (benefit)			