STERLING BANCORP
Form 10-K
March 16, 2006

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, 2005 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, and attached Preferred Stock Purchase Rights	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 [ ] No [X]

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 [ ] No [X]

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

Indicate by check mark 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. [X]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large Accelerated Filer [ ] Accelerated Filer [X] Non-Accelerated Filer [ ]

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

On June 30, 2005, the aggregate market value of the common equity held by non-affiliates of the Registrant was $354,287,474.

The Registrant has one class of common stock, of which 18,760,850 shares were outstanding at March 3, 2006.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of Sterling Bancorp's definitive 2006 Proxy Statement to be filed pursuant to Regulation 14A are incorporated by reference in Part III.

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

The disclosures set forth in this item are qualified by Item 1A. Risk Factors on pages 10-16 and the section captioned "FORWARD-LOOKING STATEMENTS AND FACTORS THAT COULD AFFECT FUTURE RESULTS" on page 20 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. Throughout this report, the terms the "Company" or "Sterling" refer to Sterling Bancorp and its subsidiaries. The Company has operations in New York, New Jersey, Virginia and North Carolina 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, Sterling Financial Services Company, Inc. ("Sterling Financial") and Sterling Real Estate Abstract Holding Company, Inc. (the "finance subsidiaries") and Sterling Bancorp Trust I (the "trust"). Sterling National Mortgage Company, Inc. ("SNMC"), Sterling National Servicing, Inc. ("SNS-Virginia"), Sterling Factors Corporation ("Factors"), Sterling Trade Services, Inc. ("Trade Services") and Sterling Holding Company of Virginia, Inc. are wholly-owned subsidiaries of the bank. Trade Services owns all of the outstanding common shares of Sterling National Asia Limited, Hong Kong; both companies commenced operations as of July 2, 2001. Sterling Holding Company of Virginia, Inc. owns all of the outstanding common shares of Sterling Real Estate Holding Company, Inc. Sterling Bancorp Trust I was formed as of February 4, 2002. Sterling Real Estate Abstract Holding Company, Inc., which commenced operations as of January 16, 2003, owns 51% of the outstanding common shares of SBC Abstract Company, LLC, which commenced operations as of January 17, 2004.

Segment information appears in Note 21 of the Company's consolidated financial statements.

GOVERNMENT MONETARY POLICY

The Company is affected by the credit policies of monetary authorities, including the Board of Governors of the Federal Reserve System (the "Federal

Reserve Board"). An important objective of the Federal Reserve System is to regulate the national supply of bank credit. Among the instruments of monetary policy used by the Federal Reserve Board are open market operations in U.S. Government securities, changes in the discount rate, reserve requirements on member bank deposits, and funds availability regulations. The monetary policies of the Federal Reserve Board have in the past had a significant effect on operations of financial institutions, including the bank, and will continue to do so in the future. Changing conditions in the national economy and in the money markets make it difficult to predict future changes in interest rates, deposit levels, loan demand or their effects on the business and earnings of the Company. Foreign activities of the Company are not considered to be material.

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 eleven offices in New York, nine offices in New York City (six branches and an international banking facility in Manhattan and three branches in Queens), one branch in Nassau County in Great Neck, 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, factoring/accounts receivable management services, equipment leasing, commercial and residential mortgage lending and brokerage, international trade financing, deposit services, trust and estate administration, investment management and investment services. Business lending, depository and related financial services are furnished to a wide range of customers in diverse industries, including commercial, industrial and financial companies, and government and non-profit entities.

For the year ended December 31, 2005, the bank's average earning assets represented approximately 96% of the Company's average earning assets. Loans represented 58% and investment securities represented 41% of the bank's average earning assets in 2005.

Commercial Lending, Asset-Based Financing and Factoring/Accounts Receivable Management. The bank provides loans to small and medium-sized businesses. The businesses are diversified across industries, and the loans generally range in size from $250,000 to $15 million. Business loans can be tailored to meet customers' specific long- and short-term needs, and include secured and lines of credit, business installment loans, business lines of credit, and unsecured debtor-in-possession financing. Our loans are often collateralized by assets, such as accounts receivable, inventory, marketable securities, other liquid collateral, equipment and other assets.

Through its factoring subsidiary ("Factors"), 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 non-refundable 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 by Factors and, if applicable, its credit review of the client's customer and assumption of customer credit risk. When Factors "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 "Accrued expenses and other liabilities") and credits to noninterest income the non-refundable factoring fee (included in "Factoring income"). Factors 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, 2005, the outstanding loan balance (net of unearned discounts) for commercial and industrial lending was $632.4 million, representing approximately 54% of the bank's total loan portfolio.

Equipment Leasing. The bank offers equipment leasing 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 small and medium-sized equipment leases with an average term of 24 to 30 months. At December 31, 2005, the outstanding loan balance (net of unearned discounts) for equipment leases was $190.4 million, and equipment leases comprised approximately 16% 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 and commercial properties. The residential mortgage banking and brokerage business is conducted through SNMC offices located principally in New York, New Jersey, North Carolina and other mid-Atlantic states. The mortgage company originates conforming residential mortgage loans throughout the tri-state metropolitan area, as well as in Virginia and other mid-Atlantic states, primarily for resale, and non-conforming residential mortgage loans, for its own portfolio and primarily for resale. Commercial real estate financing is offered on income-producing investor properties and owner-occupied properties, professional co-ops and condos. At December 31, 2005, the outstanding loan balance for real estate mortgage loans was $299.6 million, representing approximately 26% of the bank's total loans outstanding.

International Trade Finance. Through its international division, international banking facility and Hong Kong trade services subsidiary, 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 of letters of credit and creating banker's acceptances. In addition to its direct worldwide correspondent banking relationships, active bank account relationships are maintained with leading foreign banking institutions in major financial centers.

Trust Services. The bank's trust department provides a variety of fiduciary, investment management, custody and advisory and corporate agency services to individuals and corporations. The bank acts as trustee for pension, profit-sharing, 401(k) and other employee benefit plans and personal trusts and estates. For corporations, the bank acts as trustee, transfer agent, registrar and in other corporate agency capacities.

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 metropolitan New York area. The bank has no foreign loans.

The composition of income from the operations of the bank and its subsidiaries for the three most recent fiscal years was as follows:

Years Ended December 31,	2005	2004	2003
Interest and fees on loans	54%	48%	49%

Interest and dividends on investment securities	22	25	25
Other	24	27	26
	100%	100%	100%

At December 31, 2005, the bank and its subsidiaries had 525 employees, consisting of 200 officers and 325 supervisory and clerical employees. The bank considers its relations with its employees to be satisfactory.

Parent Company and Sterling Financial

The parent company, through Sterling Financial, makes loans that are secured by personal property, accounts receivable or other collateral; occasionally, unsecured advances are provided to its customers.

Dealer Receivable Financing. Through Sterling Financial, we provide loans to independent dealers who market products, such as furniture, appliances, automobiles and educational material to consumers on an installment basis with repayment terms between 12 and 60 months. We administer the majority of these installment contracts for the dealer by providing billing, payment processing and other bookkeeping services. We generally lend up to 85% of the value of the borrower's collateral. More than 75% of the payments are received electronically.

The composition of income (excluding equity in undistributed net income of the bank) of the parent company and its non-bank subsidiaries for the three most recent fiscal years was as follows:

Years Ended December 31,	2005	2004	2003
Interest and fees on loans	17%	18%	26%
Dividends, interest and service fees	79	80	69
Other	4	2	5
	100%	100%	100%

At December 31, 2005, the parent company and Sterling Financial employed 20 persons, consisting of 1 officer with the balance of the employees performing supervisory and clerical functions. The parent company and its finance subsidiaries consider employee relations 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 "GLB Act"), the Company competes with banks and other financial institutions, including savings and loan associations, savings banks, finance companies, and credit unions. Many of these competitors have substantially greater resources and lending limits and provide a wider array of banking services. To a limited extent, the Company also competes with other providers of financial services, such as money market mutual funds, brokerage firms, consumer finance companies and insurance companies. Competition is based on a number of factors, including prices, interest rates, service, availability of products, and geographic location.

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. It is intended only to briefly summarize some material provisions. Sterling Bancorp is a bank holding company and a financial holding company under the BHCA and is subject to supervision, examination and reporting requirements of the Federal Reserve Board. Sterling Bancorp is also under the jurisdiction of the Securities and Exchange Commission and is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, as administered by 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, among other things, relate to: (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 Banking Department of the State of New York.

Sterling Financial Services Company, Inc. is subject to regulation by the Federal Reserve Board.

Bank Holding Company Regulation

The BHCA requires the prior approval of the Federal Reserve Board for the acquisition by a bank holding company of more than 5% 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 more than 5% 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 nonbanking 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;

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

- o 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) all of its depository 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 noncompliance." The bank received a rating of outstanding 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 Bancorp 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 Department of the 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."

Payment of Dividends and Transactions with Affiliates

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

Various legal restrictions limit the extent to which the bank can 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, without adversely affecting its "well capitalized" status, as of December 31, 2005, the bank could pay aggregate dividends of approximately $29 million to the parent company, without obtaining affirmative governmental approvals. 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.

Federal laws strictly limit the ability of banks to engage in transactions with their affiliates, including their bank holding companies. Such transactions between a subsidiary bank and its parent company or the nonbank 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. Federal law also requires

that all transactions between a bank and its affiliates be on terms only as favorable to the bank as transactions with non-affiliates.

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 and Prompt Corrective Action

Banks and bank holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

The Federal Reserve Board, the OCC and the FDIC have substantially similar risk-based capital ratio and leverage ratio guidelines for banking organizations. The guidelines are intended to ensure that banking organizations have adequate capital given the risk levels of assets and off-balance sheet financial instruments. Under the guidelines, 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). Tier 1 capital includes common equity, retained earnings, qualifying non-cumulative perpetual preferred stock, a limited amount of qualifying cumulative perpetual stock at the holding company level, minority interests in equity accounts of consolidated subsidiaries, less goodwill, most intangible assets and certain other assets.

- Supplementary Capital (Tier 2). 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 possible loan and lease losses, subject to limitations.

Sterling Bancorp, like other bank holding companies, currently is 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). Sterling National Bank, like other depository institutions, is 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.

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 Federal Reserve Board has not advised Sterling Bancorp, and the OCC has not advised Sterling National Bank, of any specific minimum leverage ratio applicable to it.

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 sets forth the following five capital tiers: "well

capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." A depository institution's 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.

Under the regulations adopted by the federal regulatory authorities, 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 (3.0% in certain circumstances) 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% (3.0% in certain circumstances; (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, 2005, the bank was "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.

The federal regulatory authorities' risk-based capital guidelines are based upon the 1988 capital accord of the Basel Committee on Banking Supervision (the "BIS"). The BIS 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. In 2004, the BIS published a new capital accord to replace its 1988 capital accord. The new capital accord would, among other things, set capital requirements for operational risk and refine the existing capital requirements for credit risk and market risk. Operational risk is defined to mean the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems in connection with external events. The 1988 capital accord does not include separate capital requirements for operational risk. The United States federal regulatory authorities are currently expected to release proposed rules to implement the BIS's new capital accord in the near term. The Company cannot predict the timing or final form of the United States rules implementing the new capital accord and their impact on the Company. The new capital requirements that may arise from the final rules could increase the minimum capital requirements applicable to the Company.

Support of the Bank

The Federal Reserve Board has stated that a bank holding company should serve as a source of financial and managerial strength to its subsidiary banks. 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. In addition, any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits 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

Under the FDIC's risk-related insurance assessment system, insured depository institutions may be required to pay annual assessments to the FDIC based on the institution's risk classification. An institution's risk classification is based on the FDIC's assignment of the institution to one of three capital groups and to one of three supervisory groups. The three supervisory groups are Group "A" financially solid institutions with only a few minor weaknesses, Group "B" institutions with weaknesses which, if uncorrected, could cause substantial deterioration of the institution and increased risk to the insurance fund, and Group "C" institutions with a substantial probability of loss to the fund absent effective corrective action.

The three capital categories are well capitalized, adequately capitalized, and undercapitalized. These three categories are substantially the same as the prompt corrective action categories previously described, with the undercapitalized category including institutions that are undercapitalized, significantly undercapitalized, and critically undercapitalized for prompt corrective action purposes. A bank's capital and supervisory subgroup is confidential and may not be disclosed. Assessment rates for deposit insurance currently range from zero basis points to 27 basis points per $100 of deposits. Any increase in insurance assessments could have an adverse impact on the earnings of insured institutions, including the bank. Because of favorable loss experience and a healthy reserve ratio in the Bank Insurance Fund maintained by the FDIC, well capitalized and well managed banks, including the bank, have in recent years paid no premiums for FDIC insurance. In the future, even well capitalized and well managed banks may be required to pay premiums on deposit insurance.

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 current FICO annual assessment rate is 1.34 cents per $100 of deposits.

Under the Federal Deposit Insurance Act (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 addition, 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).

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 deposit insurance fund. 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 (generally $100,000) or creditors other than depositors.

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

FDIC-insured depository institutions can be held liable for any loss incurred, or reasonably expected to be incurred, by the FDIC due to the default of an FDIC-insured depository institution controlled by the same holding company.

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 GLB 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 GLB 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 United States Treasury Department 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.

Legislative Initiatives

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.

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.

SELECTED CONSOLIDATED STATISTICAL INFORMATION

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

The information appears on pages 29 and 30 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 on page 24 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 is presented in Note 4 beginning on page 49 of the Company's consolidated financial statements.

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 on page 25 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, 2005 appears on page 25 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. The information appears under "Loan Portfolio" on page 25 in Management's Discussion and Analysis of Financial Condition and Results of Operations, and in Note 5 and under "Loans" in Note 1 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 26 in Management's Discussion and Analysis of Financial Condition and Results of Operations; there were no foreign loans accounted for on a nonaccrual basis and there were no troubled debt restructurings for any types of loans. Loans contractually past due 90 days or more as to principal or interest and still accruing are loans which are both well-secured or guaranteed by financially responsible third parties and are in the process of collection.

IV. Summary of Loan Loss Experience

The information appears in Note 6 of the Company's consolidated financial statements and beginning on page 26 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 27 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, 2005. 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 level taken in 2005.

A table presenting the Company's allocation of the allowance appears on page 28 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 29 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 28 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 19.

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 of the Company's consolidated financial statements.

INFORMATION AVAILABLE ON OUR WEB SITE

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

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

ITEM 1A. RISK FACTORS

An investment in the Company's common stock is subject to risks inherent to the Company's business. The material 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 immaterial, may also impair the Company's business operations. This report is qualified in its entirety by these risk factors.

If any of the following risks actually occur, the Company's financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of the Company's common stock could decline significantly, and you could lose all or part of your investment.

RISKS RELATED TO THE COMPANY'S BUSINESS

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 Board of Governors of the Federal Reserve System. 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, including the use of derivatives as hedging instruments, 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 31 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 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.

As of December 31, 2005, approximately 64% of the Company's loan portfolio consisted of commercial and industrial, 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. For further discussion related to commercial and industrial, construction and commercial real estate loans, see "Loan Portfolio" on page 25 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 future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of 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 26 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. We maintain 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 we were 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 32 in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Sterling Bancorp Relies on Dividends from Its Subsidiaries

Sterling Bancorp is a separate and distinct legal entity from its subsidiaries.

It receives dividends from its subsidiaries. These dividends are a significant source of funds to pay dividends on the parent company's common stock and interest and principal on its debt. Various federal and/or state

laws and regulations limit the amount of dividends that Sterling National Bank and certain non-bank subsidiaries may pay to the parent company. Also, Sterling Bancorp'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 Sterling National Bank is unable to pay dividends to Sterling Bancorp, Sterling Bancorp may not be able to service debt, pay obligations or pay dividends on the Company's common stock. The inability to receive dividends from Sterling National Bank could have a material adverse effect on the Company's business, financial condition and results of operations. See "Supervision and Regulation" on pages 3-8 and Note 13 of the Company's consolidated financial statements.

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 expenses 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 tri-state area, as well as Virginia and other mid-Atlantic territories, and conducts business 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. A significant decline in general economic conditions, caused by inflation, recession, acts of terrorism, outbreak of hostilities or other international or domestic occurrences, unemployment, changes in securities markets, 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.

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. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. 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:

o The ability to develop, maintain and build upon customer relationships based on top quality service, high ethical standards and safe, sound assets.

o The ability to expand the Company's market position.

o The scope, relevance and pricing of products and services offered to meet customer needs and demands.

o The rate at which the Company introduces new products and services relative to its competitors.

o Customer satisfaction with Company's level of service.

o 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. 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 3-8.

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 20% of its total assets. At December 31, 2005, 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 2005, 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, our effective tax rate would increase.

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. 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 successfully manage these risks 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 Stockholder 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. 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.

The Company's Information Systems May Experience an Interruption or Breach in Security

The Company relies heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Company's customer relationship management, general ledger, deposit, loan and other systems. 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 occurrence of any failures, interruptions or security breaches of the Company's information systems could damage the Company's reputation, result in a loss of customer business, subject the Company to additional regulatory scrutiny, or expose the Company to civil litigation and possible financial liability, any of which could have a material adverse effect on the Company's reputation, 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 the 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 effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace 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

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.

RISKS ASSOCIATED WITH THE COMPANY'S COMMON STOCK

THE COMPANY'S STOCK PRICE CAN BE VOLATILE

Stock price volatility may make it more difficult to resell the Company's common stock when desired and at attractive prices. The Company's stock 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.
- Operating and stock 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 Company's stock price to decrease regardless of operating results.

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

Although the Company's common stock is listed for trading on the New York Stock Exchange (NYSE), the trading volume in its common stock 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 Company's common stock 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 Company's common stock, significant sales of the Company's common stock, or the expectation of these sales, could cause the Company's stock price to fall.

An Investment in the Company's Common Stock Is Not an Insured Deposit

The Company's common stock is not a bank deposit and, therefore, is not insured against loss by the Federal Deposit Insurance Corporation (FDIC), any other deposit insurance fund or by any other public or private entity. Investment in the Company's common stock is 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 stock in any company. As a result, if you acquire the Company's common stock, you may lose some or all of your investment.

The Company's Certificate of Incorporation, By-Laws and Shareholders Rights Plan as Well as Certain Banking Laws May Have an Anti-Takeover Effect

Provisions of the Company's certificate of incorporation and by-laws, federal banking laws, including regulatory approval requirements, and the Company's stock purchase rights plan could make it more difficult for a third party to acquire the Company, even if doing so would be perceived to be beneficial to the 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 Company's common stock.

RISKS ASSOCIATED WITH THE COMPANY'S INDUSTRY

THE EARNINGS OF FINANCIAL SERVICES COMPANIES ARE SIGNIFICANTLY AFFECTED BY GENERAL BUSINESS AND ECONOMIC CONDITIONS

The Company's operations and profitability are impacted by general business and economic conditions in the United States and abroad. These conditions include short-term and long-term interest rates, inflation, money supply, political issues, legislative and regulatory changes, fluctuations in both debt and equity capital markets, broad trends in industry and finance, and the strength of the U.S. economy and the local economies in which the Company operates, all of which are beyond the Company's control. A deterioration in economic conditions could result in an increase in loan delinquencies and non-performing assets, decreases in loan collateral values and a decrease in demand for the Company's products and services, among other things, any of which could have a material adverse impact on the Company's financial condition and results of operations.

Financial Services Companies Depend 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.

Consumers May Decide Not to Use Banks to Complete Their Financial Transactions

Technology and other changes are allowing parties to complete financial transactions that historically have involved banks through alternative methods. For example, consumers can now 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 related income generated from those deposits. The loss of these revenue streams and the lower cost deposits as a source of funds could have a material adverse effect on the Company's financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The principal offices of the Company occupy one floor at 650 Fifth Avenue, New York, N.Y., consisting of approximately 14,400 square feet. The lease for these premises expires April 30, 2016. Rental commitments to the expiration date approximate $9,100,000.

The bank also maintains operating leases for nine branch offices, the International Banking Facility, an Operations Center, and additional office space in New York City, Nassau, Suffolk and Westchester counties (New York), in Charlotte (North Carolina) and in Richmond (Virginia) with an aggregate of approximately 122,300 square feet. The aggregate office rental commitments for these premises approximates $17,200,000. The leases have expiration dates ranging from 2006 through 2018 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.

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.

ITEM 4. 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 information is included pursuant to Instruction 3 to Item 401(b) of SEC Regulation S-K:

Name of Executive	Title	Age	Held Executive Office Since
Louis J. Cappelli	Chairman of the Board and Chief Executive Officer, Director	75	1967
John C. Millman	President, Director	63	1986
John W. Tietjen	Executive Vice President and Chief Financial Officer	61	1989
John A. Aloisio*	Senior Vice President	63	1992
Howard M. Applebaum	Senior Vice President	47	2002

* No longer an executive officer.

All executive officers are elected annually by the Board of Directors and serve at the pleasure of the Board. There are no arrangements or understandings between any of the foregoing officers and any other person or persons pursuant to which he was selected as an executive officer.

On March 15, 2006, the Compensation Committee of the Board of Directors extended the terms of the Company's Employment Agreements with Mr. Cappelli and Mr. Millman to December 31, 2010 and December 31, 2008, respectively.

PAGE 17

PART II

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

The parent company's common stock is traded on the New York Stock Exchange under the symbol STL. Information regarding the quarterly prices of the common stock is presented in Note 24 on page 75. Information regarding the average common shares outstanding and dividends per common share is presented in the Consolidated Statements of Income on page 38. Information regarding legal restrictions on the ability of the bank to pay dividends is presented in Note 13 on page 60. 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 20 beginning on page 69. As of March 3, 2006, there were 1,621 shareholders of record of our common shares.

During the fiscal years ended December 31, 2004 and 2005, the following dividends were declared on our common shares on the dates indicated: February 19, 2004: $.15; May 20, 2004: $.15; August 19, 2004: $.15; November 18, 2004: $.18; February 17, 2005: $.18; May 5, 2005: $.18; August 18, 2005: $.18; and November 17, 2005: $.19. The foregoing amounts of dividends per share reflect the effect of the stock split and stock dividend referred to in the next paragraph.

The Company effected a six-for-five stock split in the form of a stock dividend on December 8, 2004 and effected a 5% stock dividend on December 12, 2005.

Under its share repurchase program, the Company buys back common shares from time to time. The following table discloses the Company's repurchases of its common shares during the fourth quarter of 2005.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Num that May Ye Under the P
October 1-31, 2005	22,000	$ 19.75	22,000	75
November 1-30, 2005	142,200	20.58	142,200	61
December 1-31, 2005	204,400	19.68	204,400	41
Total	368,600		368,600	

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

The Board of Directors initially authorized the repurchase of common shares in 1997 and since then has approved increases in the number of common shares that the Company is authorized to repurchase. The latest increase was announced on June 16, 2005, when the Board of Directors increased the Company's authority to repurchase common shares by an additional 800,000 shares. As of June 30, 2005 and September 30, 2005, the remaining number of shares that could be repurchased was 916,819 and 780,819, respectively.

For information regarding securities authorized for issuance under the Company's equity compensation plan, see Item 12 on page 80.

ITEM 6. SELECTED FINANCIAL DATA

The information appears on page 19. All such information should be read in conjunction with the consolidated financial statements and notes thereto.

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

The information appears on pages 20-35 and supplementary quarterly data appears in Note 24 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 31-33 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

(dollars in thousands except per share data)	2005	2004	2003	
SUMMARY OF OPERATIONS				
Total interest income	$ 113,044	$ 97,799	$ 91,583	$
Total interest expense	29,109	19,583	17,591	
Net interest income	83,935	78,216	73,992	

Provision for loan losses	9,664	9,965	8,740	
Net securities gains	337	1,256	551	
Noninterest income, excluding net securities gains	34,216	33,461	32,127	
Noninterest expenses	71,210	65,613	59,275	
Income before taxes	37,614	37,355	38,655	
Provision for income taxes	13,587	12,751	14,752	
Net income	24,027	24,604	23,903	
Per common share--basic[1]	1.25	1.29	1.26	
--diluted[1]	1.22	1.23	1.20	
Dividends per common share[1]	0.73	0.63	0.54	
YEAR END BALANCE SHEETS				
Investment securities	715,299	680,220	683,118	
Loans held for sale	40,977	37,059	40,557	
Loans held in portfolio, net of unearned discounts	1,128,799	1,022,286	900,556	
Total assets	2,056,042	1,871,112	1,759,824	1,
Noninterest-bearing deposits	510,884	511,307	474,092	
Interest-bearing deposits	937,442	832,544	737,649	
Long-term debt	85,774	135,774	135,774	
Shareholders' equity	147,587	148,704	143,262	
AVERAGE BALANCE SHEETS				
Investment securities	713,629	689,569	593,005	
Loans held for sale	53,948	46,395	71,779	
Loans held in portfolio, net of unearned discounts	1,000,235	891,107	785,575	
Total assets	1,931,101	1,777,720	1,587,623	1,
Noninterest-bearing deposits	452,632	415,664	370,554	
Interest-bearing deposits	936,665	830,950	683,748	
Long-term debt	106,514	135,774	139,870	
Shareholders' equity	149,836	142,536	134,150	
RATIOS				
Return on average total assets	1.24%	1.38%	1.51%	
Return on average tangible shareholders' equity[2]	18.67	20.27	21.15	
Return on average shareholders' equity	16.04	17.26	17.82	
Dividend payout ratio	58.41	49.20	42.30	
Average shareholders' equity to average total assets	7.76	8.02	8.45	
Net interest margin (tax-equivalent basis)	4.94	5.02	5.33	
Loans/assets, year end[3]	56.89	56.62	53.48	
Net charge-offs/loans, year end[4]	0.84	0.79	0.85	
Nonperforming loans/loans, year end[3]	0.36	0.29	0.36	
Allowance/loans, year end[4]	1.46	1.60	1.61	

[1] Prior period amounts have been restated to reflect the 5% stock dividend effected on December 12, 2005.

[2] Average tangible shareholders' equity is average shareholders' equity less average goodwill.

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

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

Sterling Bancorp
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following commentary presents management's discussion and analysis of the financial condition and results of operations of Sterling Bancorp (the "parent company"), a financial holding company under the Bank Holding Company Act of 1956, as amended by the Gramm-Leach-Bliley Act of 1999, and its subsidiaries, principally Sterling National Bank (the "bank"). Throughout this discussion and analysis, the term the "Company" refers to Sterling Bancorp and its subsidiaries. This discussion and analysis should be read in conjunction with the consolidated financial statements and 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 as well as to reflect the effect of the 5% stock dividend effected on December 12, 2005.

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, and other statements contained herein regarding matters that are not historical facts, are "forward-looking statements" as defined in the Securities Exchange Act of 1934. These statements are not historical facts but instead are subject to numerous assumptions, risks and uncertainties, and represent only our belief regarding future events, many of which, by their nature, are inherently uncertain and outside our control. Any forward-looking statements we may make speak only as of the date on which such statements are made. Our actual results and financial position may differ materially from the anticipated results and financial condition indicated in or implied by these forward-looking statements.

Factors that could cause our actual results to differ materially from those in the forward-looking statements include, but are not limited to, the following: inflation, interest rates, market, and monetary fluctuations; geopolitical developments including acts of war and terrorism and their impact on economic conditions; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board; changes, particularly declines, in general economic conditions and in the local economies in which the Company operates; the financial condition of the Company's borrowers; competitive pressures on loan and deposit pricing and demand; changes in technology and their impact on the marketing of new products and services and the acceptance of these products and services by new and existing customers; the willingness of customers to substitute competitors' products and services for the Company's products and services; the impact of changes in financial services laws and regulations (including laws concerning taxes, banking, securities and insurance); changes in accounting principles, policies and guidelines; the success of the Company at managing the risks involved in the foregoing as well as other risks and uncertainties detailed from time to time in press releases and other public filings. The foregoing list of important factors is not exclusive, and we will not update any forward-looking statement, whether written or oral, that may be made from time to time.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The accounting and reporting policies followed by the Company conform, in all material respects, to accounting principles generally accepted in the United States of America. In preparing the consolidated financial statements, management has made estimates, judgments and assumptions that affect the reported amount of assets and liabilities as of the date of the consolidated statements of condition and results of operations for the periods indicated. Actual results could differ significantly from those estimates.

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 43. The accounting for factoring transactions also is discussed under "Business Operations--The Bank--Commercial Lending. Asset-Based Financing and Factoring/Accounts Receivable Management" on pages 1 and 2.

The Company has identified its policies on 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.

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 26. 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. Additional discussion on the accounting for income taxes is presented in Notes 1, 17 and 25 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, deposit services, trade financing, equipment leasing, deposit services, trust and estate administration, and investment management services. The Company has operations in the metropolitan New York area, New Jersey, Virginia and North Carolina, and conducts business throughout the United States. The general state of the U.S. economy and, in particular, economic and market conditions in the metropolitan New York area have a significant impact on loan demand, the ability of borrowers to repay these loans and the value of any collateral securing these loans and may also affect deposit levels. Accordingly, future general economic conditions are a key uncertainty that management expects will materially affect the Company's results of operations.

In 2005, the bank's average earning assets represented approximately 96% of the Company's average earning assets. Loans represented 58% and investment securities represented 41% of the bank's average earning assets in 2005.

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

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

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

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

INCOME STATEMENT ANALYSIS

Net interest income, which represents the difference between interest earned on interest-earning assets and interest incurred on interest-bearing liabilities, is the Company's primary source of earnings. Net interest income can be affected by changes in market interest rates as well as the level and composition of assets, liabilities and shareholders' equity. Net interest spread is the difference between the average rate earned, on a tax-equivalent basis, on interest-earning assets and the average rate paid on interest-bearing liabilities. The net yield on interest-earning assets ("net interest margin") is calculated by dividing tax equivalent net interest income by average interest-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 30. Information as to the components of interest income and interest expense and average rates is provided in the Average Balance Sheets shown on page 29.

COMPARISON OF THE YEARS 2005 AND 2004

The Company reported net income for the year ended December 31, 2005 of $24.0 million, representing $1.22 per share, calculated on a diluted basis, compared to $24.6

million, or $1.23 per share, calculated on a diluted basis, for the year 2004. Net income benefitted from continued growth in net interest income and a lower provision for loan losses which were more than offset by lower noninterest income and by increases in noninterest expenses and in the provision for income taxes.

Net Interest Income

Net interest income, on a tax-equivalent basis, increased to $84.6 million for 2005 from $79.0 million for 2004, due to higher average earning assets outstanding coupled with higher average yield on loans partially offset by higher balances for interest-bearing deposits coupled with higher rates paid on interest-bearing deposit balances and borrowed funds. The net interest margin, on a tax-equivalent basis, was 4.94% for 2005, compared to 5.02% for 2004. Net interest margin was affected by the higher interest rate environment in 2005 and by increases in average investment securities, loan outstandings and noninterest-bearing deposits, substantially offset by the impact of higher average interest-bearing deposits.

Total interest income, on a tax-equivalent basis, aggregated $113.8 million for 2005, up from $98.6 million for 2004. The tax-equivalent yield on interest-earning assets was 6.64% for 2005 compared to 6.26% for 2004.

Interest earned on the loan portfolio amounted to $80.9 million for 2005, up $15.2 million from a year ago. Average loan balances amounted to $1,054.2 million, an increase of $116.7 million from an average of $937.5 million in the prior year. The increase in average loans (across virtually all segments of the Company's loan portfolio), primarily due to the Company's business development activities and the ongoing consolidation of banks in the Company's marketing area, accounted for $8.9 million of the $15.2 million increase in interest earned on loans. The increase in the yield on the domestic loan portfolio to 8.21% for 2005 from 7.56% for 2004 was primarily attributable to the mix of average outstanding balances among the components of the loan portfolio and the higher interest rate environment in 2005.

Interest earned on the securities portfolio, on a tax-equivalent basis, decreased to $32.4 million for 2005 from $32.7 million in the prior year. The decrease in yields on most of the securities portfolio reflects the impact of the continued flattening of the yield curve. Average outstandings increased to $713.6 million (40.1% of average earning assets for 2005) from $689.6 million (42.0% of average earning assets) in the prior year. The average life of the securities portfolio was approximately 4.4 years at December 31,2005, compared to 4.0 years at December 31, 2004, reflecting the impact of purchases.

Total interest expense increased to $29.1 million for 2005 from $19.6 million for 2004, primarily due to higher rates paid for interest-bearing deposits and for borrowed funds and higher average balances for interest-bearing deposits.

Interest expense on deposits increased to $18.1 million for 2005 from $11.2 million for 2004, primarily due to the higher interest rate environment in 2005, coupled with an increase in average balances, primarily for time deposits. Average rate paid on interest-bearing deposits was 1.94% which was 60 basis points higher than the prior year. Average interest-bearing deposit balances increased to $936.7 million for the year 2005 from $831.0 million for 2004, primarily as a result of the Company's branching initiatives and other business development activities.

Interest expense on borrowings increased to $11.0 million for 2005 from $8.4 million for 2004, primarily due to the higher interest rate environment during 2005. The average rate paid on borrowed funds was 3.59% which was 80 basis points higher than the prior year.

Provision for Loan Losses

Based on management's continuing evaluation of the loan portfolio (discussed under "Asset Quality" below), the provision for loan losses for 2005 was $9.7 million compared to $10.0 million for 2004. Factors affecting the level of provision for loan losses included growth in the loan portfolios, changes in loan mix, general economic conditions and the amount of nonaccrual loans.

Noninterest Income

Noninterest income was $34.6 million for 2005, compared to $34.7 million for 2004. Noninterest income benefitted from higher revenues from mortgage banking activities, bank owned life insurance and fees for deposit services. Those increases were more than offset by lower gains on sales of securities, fees for factoring services and other service charges and fees.

Noninterest Expenses

Noninterest expenses increased $5.6 million for 2005 compared to 2004. The increase was primarily due to higher salaries and professional fees related to compliance efforts and investments in the Sterling franchise, including the new branches, with higher expenses related to salaries, employee benefits, occupancy, equipment and marketing and advertising costs. These increases were partially offset by a reversal during the third quarter of 2005 of $1.0 million of litigation settlement costs originally charged to noninterest expenses in 2001. The increase in other expenses was principally due to

increases in appraisal fees, credit reports, mortgage taxes, insurance and interest on potential tax liability.

Provision for Income Taxes

The provision for income taxes for 2005 increased by $0.8 million from 2004. The higher provision for taxes for 2005 was due in part to the slightly higher income before income taxes for that year. In addition, based on management's in-depth reviews of required tax reserves, including consultations with various outside professionals, these reserves were reduced through the provision for the fourth quarter of 2005 by approximately $1.1 million, whereas, in view of the resolution of certain state tax issues for tax years 1999-2001, these reserves were reduced through the provision for the second quarter of 2004 by approximately $1.5 million.

COMPARISON OF THE YEARS 2004 AND 2003

The Company reported net income for the year ended December 31, 2004 of $24.6 million, representing $1.23 per share, calculated on a diluted basis, compared to $23.9 million, or $1.20 per share calculated on a diluted basis, for 2003. This increase reflected continued growth in both net interest income and noninterest income and a lower provision for income taxes, which more than offset increases in the provision for loan losses and noninterest expenses.

Net Interest Income

Net interest income, on a tax-equivalent basis, increased $4.0 million to $79.0 million for 2004 from $75.0 million for 2003, due to higher average earning assets outstanding coupled with lower average cost of funding partially offset by a lower yield on earning assets and higher average interest-bearing deposit balances. The net interest margin, on a tax-equivalent basis, was 5.02% for 2004 compared to 5.33% for 2003. The decrease in the net interest margin was primarily the result of changes in the mix of earning assets and of deposits, partially offset by the higher rate environment in 2004.

Total interest income, on a tax-equivalent basis, aggregated $98.6 million for 2004 from $92.5 million for 2003. The tax-equivalent yield on interest-earning assets was 6.26% in 2004 compared to 6.58% for 2003.

Interest earned on the loan portfolio amounted to $65.8 million for 2004, up $4.2 million from 2003. Average loan balances amounted to $937.5 million, up $80.2 million from an average of $857.3 million in the prior year. The increase in the average loans (across virtually all segments of the Company's loan portfolio), primarily due to the Company's business development activities and the ongoing consolidation of banks in the Company's marketing area, accounted for the increase in interest earned on loans. The decrease in the yield on the domestic loan portfolio to 7.56% for 2004 from 7.68% for 2003 was primarily attributable to changes in the mix of outstanding balances on average among the components of the loan portfolio.

Interest earned on the securities portfolio, on a tax-equivalent basis, increased to $32.7 million for 2004 from $30.8 million in the prior year. Average outstandings increased to $689.6 million from $593.0 in the prior year. The average life of the securities portfolio was approximately 4.0 years at December 31, 2004 compared to 3.8 years at December 31, 2003, reflecting the impact of purchases made primarily in the first and second quarters of 2004. The decrease in yields on the securities portfolio reflects the impact of purchases made during the lower rate environment on average in the first and second quarters of 2004 and of the principal prepayments primarily in the second quarter of 2004.

Total interest expense increased to $19.6 million for 2004 from $17.6 million for 2003 primarily due to higher average balances for interest-bearing deposits.

Interest expense on deposits increased to $11.2 million for 2004 from $8.9 million for 2003 primarily due to an increase in average balances. Average interest-bearing deposit balances increased to $831.0 million for 2004 from $683.7 in 2003 primarily as a result of branching initiatives and other business development activities. Average rate paid on interest-bearing deposits was 1.34% which was 4 basis points higher than the prior year.

Provision for Loan Losses

Based on management's continuing evaluation of the loan portfolio (discussed under "Asset Quality" below), the provision for loan losses for 2004 increased to $10.0 million from $8.7 million for 2003. Factors affecting the level of provision for loan losses included the growth in the loan portfolios, changes in general economic conditions and the amount of nonaccrual loans.

Noninterest Income

Noninterest income increased to $34.7 million for 2004 from $32.7 million in 2003, primarily due to increased income from mortgage banking, principally the result of a change in the mix of loans sold due to a broader array of loan products and an increased focus on higher margin mortgage loans, and from factoring activities, from bank owned life insurance and from gains on sales of available for sale securities. Partially offsetting these increases were lower revenues from fees for deposit, trade finance and various other services.

Noninterest Expenses

Noninterest expenses increased $6.3 million in 2004 compared to 2003. The increase was primarily due to investments in the Sterling franchise, including the new branches, and regulatory compliance costs, with higher expenses related to salaries and employee benefits, advertising and marketing, and professional fees.

Provision for Income Taxes

The provision for income taxes decreased $2.0 million for 2004 compared to 2003. The lower provision for taxes in 2004 was primarily due to the resolution, during the second quarter of 2004, of certain state tax issues for tax years 1999-2001.

BALANCE SHEET ANALYSIS

Securities

The Company's securities portfolios are composed principally of U.S. government and U.S. government corporation and agency guaranteed mortgage-backed securities along with other debt and equity securities. At December 31, 2005, the Company's portfolio of securities totaled $715.3 million, of which U.S. government corporation and agency guaranteed mortgage-backed securities and collateralized mortgage obligations having an average life of approximately 4.9 years amounted to $606.1 million. The Company has the intent and ability to hold to maturity securities classified as "held to maturity." These securities are carried at cost, adjusted for amortization of premiums and accretion of discounts. The gross unrealized gains and losses on "held to maturity" securities were $1.2 million and $10.8 million, respectively. Securities classified as "available for sale" may be sold in the future, prior to maturity. These securities are carried at market value. Net aggregate unrealized gains or losses on these securities are included in a valuation allowance account and are shown net of taxes, as a component of shareholders' equity. "Available for sale" securities included gross unrealized gains of $0.6 million and gross unrealized losses of $4.7 million. Given the generally high credit quality of the portfolio, management expects to realize all of its investment upon the maturity of such instruments, and thus believes that any market value impairment is temporary.

Information regarding book values and range of maturities by type of security and weighted average yields for totals of each category is presented in Note 4 beginning on page 49.

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,	2005		2
	Balances	% of Total	Balances
	(dollars i		
U.S. Treasury securities	$ --	--%	$ 2,49
Obligations of U.S. government corporations and agencies			
mortgage-backed securities			
CMOs (Federal National Mortgage Association)	22,871	3.20	35,25

CMOs (Federal Home Loan Mortgage Company)	48,687	6.80	68,88
Federal National Mortgage Association	299,372	41.85	194,46
Federal Home Loan Mortgage Company	215,528	30.13	236,79
Government National Mortgage Association	19,645	2.74	38,19
Total mortgage-backed securities	606,103	84.72	573,59
Federal Home Loan Bank	39,689	5.55	34,84
Federal Farm Credit Bank	29,795	4.17	29,90
Total obligations of U.S. government corporations and agencies	675,587	94.44	638,34
Obligations of state and political institutions	31,307	4.38	27,47
Trust preferred securities	--	--	3,02
Other debt securities	--	--	-
Federal Reserve Bank stock	1,131	0.16	1,13
Federal Home Loan Bank stock	5,950	0.83	6,18
Other securities	324	0.05	32
Debt securities issued by foreign governments	1,000	0.14	1,25
Total	$ 715,299	100.00%	$ 680,22

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 the origination of loans in markets with which the Company is familiar.

The Company's commercial and industrial loan portfolio represents approximately 54% of all loans. Loans in this category are typically made to individuals, small and medium-sized businesses and range between $250,000 and $15 million. The Company's leasing portfolio, which consists of finance leases for various types of business equipment, represents approximately 16% of all loans. The leasing and commercial and industrial loan portfolios are included in corporate lending for segment reporting purposes as presented in Note 21 beginning on page 70. The Company's real estate loan portfolio, which represents approximately 26% of all loans, is secured by mortgages on real property located principally in the states of New York, New Jersey, Virginia and North Carolina. 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 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.

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:

December 31,	2005		2004		2003	
		% of		% of		% of

	Balances	Total	Balances	Total	Balances	Total	B
			(dollars in thousands)				
Domestic							
Commercial and industrial	$ 632,358	54.06%	$ 595,229	56.19%	$ 563,799	59.91%	$
Lease financing	190,391	16.28	162,961	15.38	148,737	15.80	
Real estate--residential mortgage	188,723	16.13	149,387	14.10	107,766	11.45	
Real estate--commercial mortgage	110,871	9.48	113,933	10.76	94,145	10.01	
Real estate--construction	2,309	0.20	2,320	0.22	2,368	0.25	
Installment--individuals	13,125	1.12	15,515	1.46	14,298	1.52	
Loans to depository institutions	32,000	2.73	20,000	1.89	10,000	1.06	
Total	$1,169,777	100.00%	$1,059,345	100.00%	$ 941,113	100.00%	$

The following table sets forth the maturities of the Company's commercial and industrial loans, as of December 31, 2005:

	Due One Year or Less	Due One to Five Years	Due After Five Years	Total Gross Loans
		(in thousands)		
Commercial and industrial	$ 598,873	$ 27,813	$ 6,029	$ 632,715

All loans due after one year have predetermined 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 expected economic conditions, the financial condition of borrowers, the realization of collateral, and the credit management process.

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 and there were no troubled debt restructurings for any types of loans. 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,	2005	2004	2003	2002	
			(dollars in thousands)		
Nonaccrual loans					
Commercial and industrial	$ 958	$ 1,035	$ 2,022	$ 405	$
Lease financing	2,109	1,304	783	275	
Real estate--residential mortgage	620	384	418	558	

Real estate--commercial mortgage	120	320	71	391	
Installment--individuals	397	72	49	155	
Total nonaccrual loans	4,204	3,115	3,343	1,784	
Past due 90 days or more (other than the above)	821	1,672	127	286	
Total	$ 5,025	$ 4,787	$ 3,470	$ 2,070	$
Interest income that would have been earned on nonaccrual loans outstanding	$ 334	$ 233	$ 196	$ 136	$
Applicable interest income actually realized on nonaccrual loans outstanding	$ 133	$ 133	$ 141	$ 83	$
Nonaccrual and past due loans as a percentage of total gross loans	0.43%	0.45%	0.37%	0.25%	

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

Thus, an increase in the size of the portfolio or in any of its components could necessitate an increase in the allowance even though there may not be a decline in credit quality or an increase in potential problem loans. A significant change in any of the evaluation factors described above could result in future additions to the allowance. At December 31, 2005, the ratio of the allowance to loans held in portfolio, net of unearned discounts, was 1.46% and the allowance was $16.5 million. At such date,

the Company's nonaccrual loans amounted to $4.2 million; $0.6 million of such loans was judged to be impaired within the scope of SFAS No. 114. Nonaccrual loans and loans 90 days past due and still accruing include leases, in the amount of $0.2 million and $0.6 million, respectively, of telecommunications equipment from a company that went into bankruptcy in July 2004. The service provider to the lessees discontinued service, resulting in the failure of certain lessees to make payments. While pursuing collection of the lease payments, past due amounts accrue. Legal action is typically commenced against lessees whose accounts are not paid within 180 days and are placed in nonaccrual status. Lessees remain unconditionally obligated to make payments. All are creditworthy and personally guaranteed; the reported delinquencies are not due to credit issues. 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 as of December 31, 2005. Net losses within loans held in portfolio are not statistically predictable and changes in conditions in the next twelve months could result in future provisions for loan losses varying from the level taken in 2005. Potential problem loans, which are loans that are currently performing under present loan repayment terms but where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of the borrowers to continue to comply with the present repayment terms, aggregated $1.8 million and $1.2 million at December 31, 2005 and 2004, respectively.

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:

December 31,	2005	2004	2003	2002
		(dollars in thousands)		
Average loans held in portfolio, net of unearned discounts, during year	$ 1,000,235	$ 891,107	$ 785,575	$ 708,6
Allowance for loan losses:				
Balance at beginning of year	$ 16,328	$ 14,459	$ 13,549	$ 14,0
Charge-offs:				
Commercial and industrial	6,093	6,116	6,571	10,2
Lease financing	3,732	2,447	1,155	9
Real estate--residential mortgage	13	8	547	8
Installment	--	9	38	
Total charge-offs	9,838	8,580	8,311	12,0
Recoveries:				
Commercial and industrial	343	917	552	8
Lease financing	76	44	25	
Real estate--residential mortgage	--	--	--	
Installment	39	43	61	
Total recoveries	458	1,004	638	1,0
Subtract:				
Net charge-offs	9,380	7,576	7,673	11,0
Provision for loan losses	9,664	9,965	8,741	10,7
Loss on transfers to other real estate owned	95	520	158	2
Balance at end of year	$ 16,517	$ 16,328	$ 14,459	$ 13,5
Ratio of net charge-offs to average loans held in portfolio, net of unearned discounts, during year	0.94%	0.85%	0.98%	1.

PAGE 27

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 a loan category.

December 31,	2005		2004		2003		
	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans	Amount
				(dollars in thousands)			
Domestic							
Commercial and industrial	$ 9,425	1.49%	$ 9,636	1.62%	$ 8,637	1.53%	$ 7,97
Loans to depository institutions	112	0.35	120	0.60	80	0.80	15
Lease financing	4,636	2.43	4,073	2.50	2,686	1.80	1,96
Real estate--residential mortgage	1,437	0.76	1,412	0.94	1,228	1.13	1,24
Real estate--commercial mortgage	509	0.45	772	0.67	1,082	1.14	75
Real estate--construction	10	0.43	15	0.65	24	1.01	2
Installment--individuals	110	0.45	100	0.64	14	0.10	1
Unallocated	278	--	200	--	708	--	1,42
Total	$16,517	1.46%	$16,328	1.60%	$14,459	1.61%	$13,54

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,	2005		2004		2003
	Balances	% of Total	Balances	% of Total	Balances
			(dollars in thousands)		
Domestic					
Demand	$ 510,884	35.3%	$ 511,307	38.0%	$ 474,092
NOW	208,217	14.4	136,616	10.2	134,122
Savings	25,296	1.7	28,168	2.1	30,105
Money Market	202,660	14.0	192,483	14.3	177,187
Time deposits by remaining maturity					
Within 3 months	252,383	17.4	163,408	12.2	168,687
After 3 months but within 1 year	173,301	12.0	162,198	12.1	148,565
After 1 year but within 2 years	67,897	4.7	137,074	10.2	70,479
After 2 years but within 3 years	4,269	0.3	7,755	0.6	2,727
After 3 years but within 4 years	144	--	1,449	0.1	2,021
After 4 years but within 5 years	233	--	336	--	748
After 5 years	20	--	50	--	8

Total domestic deposits	1,445,304	99.8	1,340,844	99.8	1,208,741
Foreign					
Time deposits by remaining maturity					
Within 3 months	1,645	0.1	1,645	0.1	1,645
After 3 months but within 1 year	1,377	0.1	1,362	0.1	1,355
Total foreign deposits	3,022	0.2	3,007	0.2	3,000
Total deposits	$1,448,326	100.0%	$1,343,851	100.0%	$1,211,741

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 29.

PAGE 28

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

Years Ended December 31,	2005			2004		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Ave R
					(dollars in thousands	
ASSETS						
Interest-bearing deposits with other banks	$ 3,040	$ 65	1.96%	$ 3,120	$ 21	0.
Investment securities						
Available for sale	192,354	8,438	4.39	266,823	11,729	4.
Held to maturity	495,187	22,181	4.48	392,869	18,829	4.
Tax-exempt[2]	26,088	1,816	6.96	29,877	2,135	7.
Federal funds sold	10,986	309	2.81	10,943	132	1.
Loans, net of unearned discounts[3]						
Domestic	1,054,183	80,943	8.21	937,502	65,779	7.
TOTAL INTEREST-EARNING ASSETS	1,781,838	113,752	6.64%	1,641,134	98,625	6.
Cash and due from banks	64,141			60,281		
Allowance for loan losses	(17,250)			(15,906)		
Goodwill	21,158			21,158		
Other	81,214			71,053		
TOTAL ASSETS	$1,931,101			$1,777,720		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing deposits						
Domestic						
Savings	$ 28,150	113	0.40%	$ 31,203	120	0.
NOW	160,944	1,576	0.98	134,096	622	0.

Money market	227,520	2,456	1.08	213,331	1,280	0.
Time	517,038	13,957	2.70	449,319	9,118	2.
Foreign						
Time	3,013	33	1.09	3,001	33	1.
Total interest-bearing deposits	936,665	18,135	1.94	830,950	11,173	1.
Borrowings						
Securities sold under agreements to repurchase--customers	85,365	1,907	2.23	84,559	1,020	1.
Securities sold under agreements to repurchase--dealers	52,199	1,794	3.44	29,601	398	1.
Federal funds purchased	17,992	647	3.60	9,946	146	1.
Commercial paper	37,302	973	2.61	30,069	364	1.
Other short-term debt	6,021	228	3.78	12,629	243	1.
Long-term borrowings	106,514	5,425	5.09	135,774	6,239	4.
Total borrowings	305,393	10,974	3.59	302,578	8,410	2.
Total Interest-Bearing Liabilities	1,242,058	29,109	2.35%	1,133,528	19,583	1.
Noninterest-bearing demand deposits	452,632	--		415,664	--	
Total including noninterest-bearing demand deposits	1,694,690	29,109	1.72%	1,549,192	19,583	1.
Other liabilities	86,575			85,992		
Total Liabilities	1,781,265			1,635,184		
Shareholders' equity	149,836			142,536		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,931,101			$1,777,720		
Net interest income/spread		84,643	4.29%		79,042	4.
Net yield on interest-earning assets			4.94%			5.
Less: Tax-equivalent adjustment		708			826	
Net interest income		$ 83,935			$ 78,216	

[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. 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, 2004 to December 31, 2005			Decembe Decem
	Volume	Rate	Total[2]	Volume
			(in thousands)	
INTEREST INCOME				
Interest-bearing deposits with other banks	$ (1)	$ 45	$ 44	$ (3) $
Investment securities				
Available for sale	(3,369)	78	(3,291)	3,540
Held to maturity	4,625	(1,273)	3,352	1,078
Tax-exempt	(268)	(51)	(319)	(150)
Total	988	(1,246)	(258)	4,468
Federal funds sold	1	176	177	63
Loans, net of unearned discounts[3]				
Domestic	8,897	6,267	15,164	5,350
TOTAL INTEREST INCOME	$ 9,885	$ 5,242	$ 15,127	$ 9,878 $
INTEREST EXPENSE				
Interest-bearing deposits				
Domestic				
Savings	$ (13)	$ 6	$ (7)	$ 14 $
NOW	143	811	954	72
Money market	88	1,088	1,176	262
Time	1,502	3,337	4,839	1,638
Foreign				
Time	--	--	--	--
Total interest-bearing deposits	1,720	5,242	6,962	1,986
Borrowings				
Securities sold under agreements to repurchase -- customers	7	880	887	150
Securities sold under agreements to repurchase -- dealers	460	936	1,396	(222)
Federal funds purchased	179	322	501	63
Commercial paper	105	504	609	75
Other short-term debt	(172)	157	(15)	(364)
Long-term borrowings	(1,426)	612	(814)	(206)
Total borrowings	(847)	3,411	2,564	(504)
TOTAL INTEREST EXPENSE	$ 873	$ 8,653	$ 9,526	$ 1,482 $
NET INTEREST INCOME	$ 9,012	$ (3,411)	$ 5,601	$ 8,396 $

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

[2] The change in interest income and interest expense due to both rate and volume has been allocated to change due to rate and the change due to volume in proportion to the relationship of the absolute dollar amounts of the changes in each. The effect of the extra day in 2004 has been included

in the change in volume.

[3] 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, 2005, presented on page 35, 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.

During the third quarter of 2005, the Company entered into two interest rate floor agreements with notional amounts of $50,000,000 each and maturities of September 14, 2007 and September 14,2008, respectively. Interest rate floor contracts require the counterparty to pay the Company at specified future dates the amount, if any, by which the specified interest (prime rate) falls below the fixed floor rates, applied to the notional amounts. The Company utilizes the financial instruments to adjust its interest rate risk position without exposing itself to principal risk and funding requirements. These financial instruments are being used as part of the Company's interest rate risk management and not for trading purposes. At December 31, 2005, all counterparties have investment grade credit ratings from the major rating agencies. Each counterparty is specifically approved for applicable credit exposure. During 2004, the Company did not enter into any derivative contracts.

The interest rate floor contracts require the Company to pay a fee for the right to receive a fixed interest payment. The Company paid up-front premiums of $141,250. At December 31, 2005, there were no amounts receivable under these contracts. At December 31, 2004, the Company was not a party to any derivative contracts.

The interest rate floor agreements were not designated as hedges for accounting purposes and therefore changes in the fair values of the instruments are required to be recognized as

income or expense in the Company's financial statements. At December 31, 2005 the aggregate fair value of the interest rate floors was $28,030; $113, 220 was charged to "Other expenses."

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

Company's adjustable rate assets whose yields are based on external indices and generally change in concert with market interest rates.

The Company's interest rate sensitivity is determined by identifying the probable impact of changes in market interest rates on the yields on the Company's assets and the rates that would be paid on its liabilities. This modeling technique involves a degree of estimation based on certain assumptions that management believes to be reasonable. Utilizing this process, management projects the impact of changes in interest rates on net interest margin. The Company has established certain policy limits for the potential volatility of its net interest margin assuming certain levels of changes in market interest rates with the objective of maintaining a stable net interest margin under various probable rate scenarios. Management generally has maintained a risk position well within the policy limits. As of December 31, 2005, the model indicated the impact of a 200 basis point parallel and pro rata rise in rates over 12 months would approximate a 1.46% ($1.2 million) increase in net interest income, while the impact of a 200 basis point decline in rates over the same period would approximate a 2.3% ($1.9 million) decline from an unchanged rate environment.

The preceding sensitivity analysis does not represent a Company forecast and should not be relied upon as being indicative of expected operating results. These hypothetical estimates are based upon numerous assumptions including: the nature and timing of interest rate levels including yield curve shape, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment/replacement of asset and liability cash flows, and others. While assumptions are developed based upon current economic and local market conditions, the Company cannot provide any assurances as to the predictive nature of these assumptions, including how customer 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 adversely affect the Company's results in 2006.

Liquidity Risk

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

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

Various legal restrictions limit the extent to which the bank can supply funds to the parent company and its nonbank subsidiaries. All national banks are limited in the payment of dividends without the approval of the Comptroller of the

Currency to an amount not to exceed the net profits as defined, for the year to date combined with its retained net profits for the preceding two calendar years.

At December 31, 2005, the parent company's short-term debt, consisting principally of commercial paper used to finance ongoing current business activities, was approximately $38.2 million. The parent company had cash, interest-bearing deposits with banks and other current assets aggregating $33.4 million. The parent company also has back-up credit lines with banks of $24.0 million. Since 1979, the parent company has had no need to use available back-up lines of credit.

The following table sets forth information regarding the Company's obligations and commitments to make future payments under contracts as of December 31, 2005:

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
	(in thousands)				
Long-Term Debt	$ 85,774	$ --	$ 35,774	$ --	$ 50,000
Operating Leases	26,299	3,450	6,804	5,191	10,854
Total Contractual Cash Obligations	$ 112,073	$ 3,450	$ 42,578	$ 5,191	$ 60,854

The following table sets forth information regarding the Company's obligations under other commercial commitments as of December 31, 2005:

Other Commercial Commitments	Amount of Commitment Expiration Per Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
	(in thousands)				
Residential Loans	$ 17,565	$ 17,565	$ --	$ --	$ --
Commercial Loans	32,494	16,397	15,597	500	--
Total Loan Commitments	50,059	33,962	15,597	500	--
Standby Letters of Credit	26,716	15,066	11,650	--	--

Other Commercial Commitments	16,124	15,731	--	--	393
Total Commercial Commitments	$ 92,899	$ 64,759	$ 27,247	$ 500	$ 393

While the past performance is no guarantee of the future, 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.

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, 2005 and December 31, 2004, is presented in Note 20 beginning on page 69. 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, 2005, the Company and the bank exceeded the requirements for "well capitalized" institutions.

PAGE 33

IMPACT OF INFLATION AND CHANGING PRICES

The Company's financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). GAAP presently requires the Company to measure financial position and operating results primarily in terms of historic 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 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 in the next section.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

See "New Accounting Standards and Interpretations" in Note 1 of the Company's consolidated financial statements for details of recently issued accounting pronouncements and their expected impact on the Company's financial statements.

SUBSEQUENT EVENT

On March 14, 2006, the Company resolved certain state tax issues for tax years 1998-2004. As a result of this resolution, the Company expects to reduce its existing tax reserves by approximately $1.7 million through the provision for income taxes for the first quarter of 2006.

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. Amounts are presented in thousands.

	Repricing Date				
	3 Months or Less	More than 3 Months to 1 Year	More than 1 Year to 5 Years	Over 5 Years	S
ASSETS					
Interest-bearing deposits with other banks	$ 1,212	$ --	$ --	$ --	$
Investment securities	817	35,996	131,699	539,381	
Loans, net of unearned discounts					
Commercial and industrial	584,090	14,783	27,813	6,029	
Loans to depository institutions	32,000	--	--	--	
Lease financing	2,639	8,453	190,693	16,916	
Real estate	105,735	26,215	136,724	33,229	
Installment	13,125	--	--	--	
Noninterest-earning assets and allowance for loan losses	--	--	--	--	
Total Asset	739,618	85,447	486,929	595,555	
LIABILITIES AND SHAREHOLDERS' EQUITY					
Interest-bearing deposits					
Savings[1]	--	--	25,296	--	
NOW[1]	--	--	208,217	--	
Money market[1]	166,037	--	36,623	--	
Time--domestic	252,383	173,301	72,543	20	
--foreign	1,645	1,377	--	--	

Securities sold under agreements to repurchase--customers	61,067	--	--	--
Securities sold under agreements to repurchase--dealers	88,729	--	--	--
Federal funds purchased	55,000	--	--	--
Commercial paper	38,191	--	--	--
Other short-term borrowings	38,851	--	--	--
Long-term borrowings	--	--	10,000	50,000
Noninterest-bearing liabilities and shareholders' equity	--	--	--	--
Total Liabilities and Shareholders' Equity	701,903	174,678	352,679	50,020
Net Interest Rate Sensitivity Gap	$ 37,715	$ (89,231)	$ 134,250	$ 545,535 $
Cumulative Gap at December 31, 2005	$ 37,715	$ (51,516)	$ 82,734	$ 628,269 $
Cumulative Gap at December 31, 2004	$ 250,603	$ 160,810	$ 187,606	$ 663,246 $
Cumulative Gap at December 31, 2003	$ 230,662	$ 77,756	$ 46,397	$ 595,450 $

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's consolidated financial statements as of December 31, 2005 and 2004 and for each of the years in the three-year period ended December 31, 2005, and the statements of condition of Sterling National Bank as of December 31, 2005 and 2004, notes thereto and Report of Independent Registered Public Accounting Firm thereon appear on pages 37-76.

Sterling Bancorp
CONSOLIDATED BALANCE SHEETS

December 31,	2005
ASSETS	
Cash and due from banks	$ 69,148,683
Interest-bearing deposits with other banks	1,212,227
Securities available for sale (at estimated fair value; pledged: $111,233,053 in 2005 and $64,933,098 in 2004)	201,259,112
Securities held to maturity (pledged: $301,246,338 in 2005 and $122,309,904 in 2004) (estimated fair value: $504,514,084 in 2005 and $448,173,450 in 2004)	514,039,476
Total investment securities	715,298,588

Loans held for sale	40,977,538
Loans held in portfolio, net of unearned discounts	1,128,799,286
Less allowance for loan losses	16,517,330
Loans, net	1,112,281,956
Customers' liability under acceptances	589,667
Goodwill	21,158,440
Premises and equipment, net	10,903,870
Other real estate	859,541
Accrued interest receivable	6,116,107
Bank owned life insurance	26,964,575
Other assets	50,531,294
	$ 2,056,042,486
LIABILITIES AND SHAREHOLDERS' EQUITY	
Noninterest-bearing deposits	$ 510,883,966
Interest-bearing deposits	937,442,174
Total deposits	1,448,326,140
Securities sold under agreements to repurchase -- customers	61,067,073
Securities sold under agreements to repurchase -- dealers	88,729,000
Federal funds purchased	55,000,000
Commercial paper	38,191,016
Short-term borrowings -- FHLB	35,000,000
Short-term borrowings -- other	3,851,246
Acceptances outstanding	589,667
Accrued expenses and other liabilities	91,926,784
Long-term borrowings -- FHLB	60,000,000
Long-term borrowings -- subordinated debentures	25,774,000
Total liabilities	1,908,454,926
Shareholders' Equity	
Common stock, $1 par value. Authorized 50,000,000 shares; issued 21,066,916 and 20,785,515 shares, respectively	21,066,916
Capital surplus	166,313,566
Retained earnings	20,739,352
Accumulated other comprehensive loss	(5,229,620)
	202,890,214
Common stock in treasury at cost, 2,231,442 and 1,642,996 shares, respectively	(55,280,647)
Unearned compensation	(22,007)
Total shareholders' equity	147,587,560
	$ 2,056,042,486

See Notes to Consolidated Financial Statements.

Sterling Bancorp
CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31,	2005	2004
INTEREST INCOME		
Loans	$ 80,943,312	$ 65,778,789
Investment securities		
Available for sale	9,546,211	13,038,461
Held to maturity	22,180,396	18,828,800
Federal funds sold	308,766	132,405
Deposits with other banks	65,109	20,969
Total interest income	113,043,794	97,799,424
INTEREST EXPENSE		
Deposits	18,134,850	11,173,017
Securities sold under agreements to repurchase -- customers	1,907,335	1,020,157
Securities sold under agreements to repurchase -- dealers	1,793,838	398,415
Federal funds purchased	647,027	146,109
Commercial paper	973,200	363,918
Short-term borrowings -- FHLB	202,837	234,333
Short-term borrowings -- other	24,887	9,159
Long-term borrowings -- FHLB	3,331,619	4,145,000
Long-term borrowings -- subordinated debentures	2,093,750	2,093,750
Total interest expense	29,109,343	19,583,858
Net interest income	83,934,451	78,215,566
Provision for loan losses	9,664,000	9,965,000
Net interest income after provision for loan losses	74,270,451	68,250,566
NONINTEREST INCOME		
Factoring income	6,003,920	6,840,856
Mortgage banking income	16,433,355	15,300,971
Service charges on deposit accounts	5,385,532	4,722,011
Trade finance income	2,088,480	2,267,970
Trust fees	642,906	697,560
Other service charges and fees	1,366,380	1,843,603
Bank owned life insurance income	1,401,588	1,225,628
Securities gains	337,457	1,256,370
Other income	893,852	562,726
Total noninterest income	34,553,470	34,717,695
NONINTEREST EXPENSES		
Salaries	32,081,713	30,103,160
Employee benefits	9,888,950	9,032,770
Total personnel expense	41,970,663	39,135,930
Occupancy expense, net	5,480,783	4,916,240
Equipment expense	3,233,808	3,063,136
Advertising and marketing	3,900,499	3,350,565
Professional fees	5,908,344	5,567,847
Data processing fees	1,186,205	1,124,441
Stationery and printing	850,703	801,625
Communications	1,609,285	1,530,476
Other expenses	7,070,093	6,122,393
Total noninterest expenses	71,210,383	65,612,653

Income before income taxes	37,613,538	37,355,608	
Provision for income taxes	13,586,713	12,751,535	
Net income	$ 24,026,825	$ 24,604,073	$
Average number of common shares outstanding			
Basic	19,164,498	19,146,561	
Diluted	19,763,352	20,035,494	
Earnings per average common share			
Basic	$ 1.25	$ 1.29	$
Diluted	1.22	1.23	
Dividends per common share	.73	.63	

See Notes to Consolidated Financial Statements.

PAGE 38

Sterling Bancorp
CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME

Years Ended December 31,	2005	2004	
Net income	$ 24,026,825	$ 24,604,073	$
Other comprehensive (loss) income, net of tax:			
Unrealized gains on securities:			
Unrealized holding (losses) gains arising during the year	(2,645,319)	(886,698)	
Reclassification adjustment for gains included in net income	(181,582)	(679,696)	
Minimum pension liability adjustment	(481,659)	777,137	
Other comprehensive (loss) income	(3,308,560)	(789,257)	
Comprehensive income	$ 20,718,265	$ 23,814,816	$

See Notes to Consolidated Financial Statements.

PAGE 39

Sterling Bancorp
CONSOLIDATED STATEMENTS OF
CHANGES IN SHAREHOLDERS' EQUITY

Years Ended December 31,	2005	2004	
PREFERRED STOCK			
Balance at beginning of year	$ --	$ 2,244,320	$

Conversions of Series B and D shares	--	(2,244,320)	
Balance at end of year	$ --	$ --	$
COMMON STOCK			
Balance at beginning of year	$ 20,785,515	$ 20,180,958	$
Conversions of preferred shares into common shares	--	428,304	
Common shares issued under stock incentive plan	281,401	176,253	
Balance at end of year	$ 21,066,916	$ 20,785,515	$
CAPITAL SURPLUS			
Balance at beginning of year	$144,405,751	$140,274,838	$1
Conversions of preferred shares into common shares	--	1,816,016	
Common shares issued under stock incentive plan and related tax benefits	4,016,084	2,340,933	
Common shares issued in connection with stock dividend	17,891,731	--	
Stock split--cash paid in lieu	--	(26,036)	
Balance at end of year	$166,313,566	$144,405,751	$1
RETAINED EARNINGS			
Balance at beginning of year	$ 28,664,568	$ 16,166,517	$
Net income	24,026,825	24,604,073	
Cash dividends paid--common shares	(14,035,197)	(12,106,022)	(
--preferred shares	--	--	
Common shares issued in connection with stock dividend	(17,891,731)	--	
Stock dividend--cash in lieu	(25,113)	--	
Balance at end of year	$ 20,739,352	$ 28,664,568	$
ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME			
Balance at beginning of year	$ (1,921,060)	$ (1,131,803)	$
Unrealized holding (losses)/gains arising during the period:			
Before tax	(5,038,117)	(1,638,997)	
Tax effect	2,392,798	752,299	
Net of tax	(2,645,319)	(886,698)	
Reclassification adjustment for gains included in net income:			
Before tax	(337,457)	(1,256,370)	
Tax effect	155,875	576,674	
Net of tax	(181,582)	(679,696)	
Minimum pension liability adjustment:			
Before tax	(827,867)	1,436,482	
Tax effect	346,208	(659,345)	
Net of tax	(481,659)	777,137	
Balance at end of year	$ (5,229,620)	$ (1,921,060)	$
TREASURY STOCK			
Balance at beginning of year	$(42,939,969)	$(33,577,847)	$(
Purchase of common shares	(10,507,293)	(8,310,004)	
Surrender of shares issued under incentive compensation plan	(1,833,385)	(1,052,118)	

Balance at end of year	$(55,280,647)	$(42,939,969)	$(
UNEARNED COMPENSATION			
Balance at beginning of year	$ (291,212)	$ (894,976)	$
Amortization of unearned compensation	269,205	603,764	
Balance at end of year	$ (22,007)	$ (291,212)	$
TOTAL SHAREHOLDERS' EQUITY			
Balance at beginning of year	$148,703,593	$143,262,007	$1
Net changes during the year	(1,116,033)	5,441,586	
Balance at end of year	$147,587,560	$148,703,593	$1

See Notes to Consolidated Financial Statements.

Sterling Bancorp
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,	2005	2
OPERATING ACTIVITIES		
Net income	$ 24,026,825	$ 24,
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	9,664,000	9,
Depreciation and amortization of premises and equipment	2,006,561	1,
Securities gains	(337,457)	(1,
Income from bank owned life insurance	(1,401,588)	(1,
Deferred income tax benefit	(2,899,592)	(
Net change in loans held for sale	(3,918,865)	3,
Amortization of unearned compensation	269,205	
Amortization of premiums on investment securities	969,000	1,
Accretion of discounts on investment securities	(613,712)	(
Increase in accrued interest receivable	(511,326)	(
Increase in accrued expenses and other liabilities	597,278	12,
Increase in other assets	(10,364,621)	(5,
Other, net	(3,218,157)	(
Net cash provided by operating activities	14,267,551	44,
INVESTING ACTIVITIES		
Purchase of premises and equipment	(2,235,723)	(3,
Net decrease in interest-bearing deposits with other banks	116,876	
Decrease in Federal funds sold	--	
Net increase in loans held in portfolio	(115,893,204)	(129,
(Increase) Decrease in other real estate	(92,921)	
Purchase of bank owned life insurance	--	(4,
Proceeds from sales of securities--available for sale	3,213,055	94,
Proceeds from sales of securities--held to maturity	5,452,162	
Proceeds from prepayments, redemptions or maturities of securities--held to maturity	106,710,878	131,

Purchases of securities--held to maturity	(179,939,152)	(208,
Proceeds from prepayments, redemptions or maturities--available for sale	68,110,833	123,
Purchases of securities--available for sale	(43,026,829)	(141,
Net cash used in investing activities	(157,584,025)	(137,
FINANCING ACTIVITIES		
Net (decrease) increase in noninterest-bearing deposits	(423,052)	37,
Net increase in interest-bearing deposits	104,898,077	94,
Increase in Federal funds purchased	22,500,000	22,
Net increase (decrease) in securities sold under agreements to repurchase	59,979,903	(4,
Net increase (decrease) in commercial paper and other short-term borrowings	48,533,849	(57,
Decrease in long-term borrowings	(50,000,000)	
Purchase of treasury shares	(10,507,293)	(8,
Proceeds from exercise of stock options	2,701,565	4,
Cash dividends paid on preferred and common shares	(14,035,197)	(12,
Cash paid in lieu of fractional shares in connection with stock dividend/split	(25,113)	
Net cash provided by financing activities	163,622,739	77,
Net increase (decrease) in cash and due from banks	20,306,265	(15,
Cash and due from banks--beginning of year	48,842,418	63,
Cash and due from banks--end of year	$ 69,148,683	$ 48,
Supplemental disclosure of cash flow information:		
Interest paid	$ 27,904,950	$ 19,
Income taxes paid	15,600,100	11,

See Notes to Consolidated Financial Statements.

Sterling National Bank
CONSOLIDATED STATEMENTS OF CONDITION

December 31,	2005
ASSETS	
Cash and due from banks	$ 68,477,057
Interest-bearing deposits with other banks	1,212,227
Securities available for sale (at estimated fair value; pledged: $111,233,053 in 2005 and $64,933,098 in 2004)	201,195,458
Securities held to maturity (pledged: $301,246,338 in 2005 and $122,309,904 in 2004) (estimated fair value: $504,514,084 in 2005 and $448,173,450 in 2004)	514,039,476
Total investment securities	715,234,934
Loans held for sale	40,977,538
Loans held in portfolio, net of unearned discounts	1,061,594,825

Less allowance for loan losses	15,689,302
Loans, net	1,045,905,523
Customers' liability under acceptances	589,667
Premises and equipment, net	10,855,714
Other real estate	859,541
Accrued interest receivable	6,114,700
Bank owned life insurance	26,964,575
Other assets	45,943,860
	$1,963,135,336
LIABILITIES AND SHAREHOLDER'S EQUITY	
Noninterest-bearing deposits	$ 523,639,218
Interest-bearing deposits	938,244,008
Total deposits	1,461,883,226
Securities sold under agreements to repurchase--customers	61,067,073
Securities sold under agreements to repurchase--dealers	88,729,000
Federal funds purchased	55,000,000
Short-term borrowings--FHLB	35,000,000
Short-term borrowings--other	3,851,246
Acceptances outstanding	589,667
Accrued expenses and other liabilities	79,086,320
Long-term borrowings--FHLB	60,000,000
Total liabilities	1,845,206,532
Commitments and contingent liabilities	
Shareholder's Equity	
Common stock, $50 par value	
Authorized and issued, 358,526 shares	17,926,300
Surplus	19,762,560
Undivided profits	82,221,088
Accumulated other comprehensive income:	
Net unrealized appreciation on securities available for sale, net of tax	(1,981,144)
Total shareholder's equity	117,928,804
	$1,963,135,336

See Notes to Consolidated Financial Statements.

PAGE 42

Sterling Bancorp
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Sterling Bancorp (the "parent company") is a financial holding company, pursuant to an election made under the Gramm-Leach-Bliley Act of 1999. Throughout the notes, the term the "Company" refers to Sterling Bancorp and its subsidiaries. The Company provides a full 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, leasing, deposit services, trust and estate administration and investment management services. The Company has operations principally in New York and conducts business throughout the United States.

The following summarizes the significant accounting policies of the Company.

Basis of Presentation

The consolidated financial statements include the accounts of the parent company and its subsidiaries, principally Sterling National Bank (the "bank"), after elimination of intercompany transactions.

The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity under accounting principles generally accepted in the United States. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity's activities. As defined in applicable accounting standards, variable interest entities ("VIEs") are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in an entity is present when an enterprise has a variable interest, or a combination of variable interests, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. The Company's wholly owned subsidiary, Sterling Bancorp Trust I is a VIE for which the Company is not the primary beneficiary. Accordingly, the accounts of this entity are not included in the Company's consolidated financial statements.

The parent company effected a 5% stock dividend on December 12, 2005. All capital and share amounts as well as basic and diluted average number of shares outstanding and earnings per share information for all prior reporting periods have been restated.

General Accounting Policies

The Company follows accounting principles generally accepted in the United States of America ("U.S. GAAP") and prevailing practices within the banking industry. The preparation of financial statements in accordance with U.S. GAAP requires management to make assumptions and estimates that impact the amounts reported in those statements and are, by their nature, subject to change in the future as additional information becomes available or as circumstances vary. Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the current presentation.

New Accounting Standards and Interpretations

Statement of Financial Accounting Standards ("SFAS") No. 154, "Accounting Changes and Error Corrections, a Replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS No. 154") establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to a newly adopted accounting principle. Previously, most changes in accounting principle were recognized by including the cumulative effect of changing to the new accounting principle in net income of the period of the change. Under SFAS No. 154, retrospective application requires (i) the cumulative effect of the change to the new accounting principle on periods prior to those presented to be reflected in the carrying amounts of assets and liabilities as of the beginning of the first period presented, (ii) an offsetting adjustment, if any, to be made to the opening balance of retained earnings (or other appropriate components of equity) for that period, and (iii) financial statements for each individual prior period presented to be adjusted to reflect the direct-period-specific effects of applying the new accounting principle. Special retroactive application rules apply in situations where it is impracticable to determine either the period-specific effects or the cumulative effect of the change. Indirect effects of a change in accounting principle are required to be reported in the period in which the accounting change is made. SFAS No. 154 carries forward the guidance in Accounting Principles Board ("APB") Opinion 20 "Accounting Changes," requiring justification of a change in accounting principle on the basis of preferability. SFAS No. 154 also carries forward without change the guidance contained in APB Opinion 20, for reporting the correction of an error in previously issued financial statements and for a change in an accounting estimate. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not expect SFAS No. 154 will significantly impact its financial statements upon its adoption on January 1, 2006.

SFAS No. 123 (Revised 2004), "Share-Based Payment" ("SFAS No. 123R") establishes standards for the accounting for transactions in which an entity (i) exchanges its equity instruments for goods or services, or (ii) incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of the equity instruments. SFAS No. 123R eliminates the ability to account for stock-based compensation using APB 25 and requires that such transactions be recognized as compensation cost in the income statement based on their fair values on the measurement date, which is generally the date of grant. SFAS No. 123R was to be effective for the Company on July 1, 2005; however, the Securities and Exchange Commission ("SEC") delayed the required implementation date until January 1, 2006. The Company will transition to fair-value based accounting for stock-based compensation using a modified version of prospective application ("modified prospective application"). Under modified prospective application, as it is applicable to the Company, SFAS No. 123R applies to new awards and to awards modified, repurchased, or cancelled after January 1, 2006. At December 31, 2005, there were no significant outstanding awards for which the requisite service has not been rendered. See "Stock Incentive Plan" below for further discussion. The SEC issued Staff Accounting Bulletin ("SAB") No. 107 ("SAB No. 107") regarding the Staff's interpretation of SFAS No. 123R. The interpretation provides the Staff's views regarding interactions between SFAS No. 123R and certain SEC rules and regulations and provides interpretations of the valuation of share-based payments for public companies. The interpretive guidance is intended to assist companies in applying the provisions of SFAS No. 123R and investors and users of the financial statements in analyzing the information provided. The Company will follow the guidance prescribed in SAB No. 107 in connection with its adoption of SFAS No. 123R.

Financial Accounting Standards Board ("FASB") Staff Position ("FSP") No. 115-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("FSP No. 115-1") provides guidance for determining when an investment is considered impaired, whether impairment is other-than-temporary, and measurement of an impairment loss. An investment is considered impaired if the fair value of the investment is less than its cost. If, after consideration of all available evidence to evaluate the realizable value of its investment impairment is determined to be other-than-temporary, then an impairment loss should be recognized equal to the difference between the investment's cost and its fair value. FSP No. 115-1 nullifies certain provisions of Emerging Issues Task Force ("EITF") Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("EITF 03-1"), while retaining the disclosure requirements of EITF 03-1 which were adopted in 2003. FSP No. 115-1 is effective for reporting periods beginning after December 15, 2005. The Company does not expect FSP No. 115-1 will significantly impact its financial statements upon its adoption on January 1, 2006.

Statement of Position ("SOP") No. 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer" ("SOP No. 03-3") addresses accounting for differences between the contractual cash flows of certain loans and debt securities and the cash flows expected to be collected when loans or debt securities are acquired in a transfer and those cash flows differences are attributable, at least in part, to credit quality. As such, SOP No. 03-3 applies to loans and debt securities acquired individually, in pools or as part of a business combination and does not apply to originated loans. The application of SOP No. 03-3 limits the interest income, including accretion of purchase price discounts, that may be recognized for certain loans and debt securities. Additionally, SOP No. 03-3 does not allow the excess of contractual cash flows over cash flows expected to be collected to be recognized as an adjustment of yield, loss accrual or valuation allowance, such as the allowance for possible loan losses. SOP No. 03-3 requires that increases in expected cash flows subsequent to the initial investment be recognized prospectively through adjustment of the yield on the loan or debt security over its remaining life. Decreases in expected cash flows should be recognized as impairment. In the case of loans acquired in a business combination where the loans show signs of credit deterioration, SOP No. 03-3 represents a significant change from current purchase accounting practice whereby the acquiree's allowance for loan losses is typically added to the acquirer's allowance for loan losses. The adoption of SOP No. 03-3 on January 1, 2005 did not have a material impact on the Company's financial statements.

Investment Securities

Securities are designated as available for sale or held to maturity at the time of acquisition. Securities that the Company will hold for indefinite periods of time and that might be sold in the future as part of efforts to manage interest rate risk or in response to changes in interest rates, changes in prepayment risk, changes in market conditions or changes in economic factors are classified as available for sale and carried at estimated market values. Net aggregate unrealized gains or losses are included in a valuation allowance account and are reported, net of taxes, as a component of shareholders' equity. Securities that the Company has the positive intent and ability to hold to maturity are designated as held to maturity and are carried at amortized cost, adjusted for amortization of premiums and

accretion of discounts over the period to maturity. Interest income includes the amortization of purchase premiums and discounts. Gains and losses realized on sales of securities are determined on the specific identification method and are reported in noninterest income as net securities gains.

Securities pledged as collateral are reported separately in the consolidated balance sheets if the secured party has the right by contract or custom to sell or repledge the collateral. Securities are pledged by the Company to secure trust and public deposits, securities sold under agreements to repurchase, advances from the Federal Home Loan Bank of New York and for other purposes required or permitted by law.

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 ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. If the decline is deemed to be other than temporary, the security is written down to a new cost basis and the resulting loss is reported in non-interest income.

Loans

Loans (including factored accounts receivable), other than those held for sale, are reported at their principal amount outstanding, net of unearned discounts and unamortized nonrefundable fees and direct costs associated with their origination or acquisition. Interest earned on loans without discounts is credited to income based on loan principal amounts outstanding at appropriate interest rates. Material origination and other nonrefundable fees net of direct costs and discounts on loans (excluding factored accounts receivable) are credited to income over the terms of the loans using a method that results in an approximately constant effective yield. Nonrefundable fees on the purchase of accounts receivable are credited to "Factoring income" at the time of purchase, which, based on our analysis, does not produce results that are materially different from the results under the amortization method specified in SFAS No. 91.

Mortgage loans held for sale, including deferred fees and costs, are reported at the lower of cost or market value as determined by outstanding commitments from investors or current investor yield requirements calculated on the aggregate loan basis, and are included under the caption "Loans held for sale" in the Consolidated Balance Sheets. Net unrealized losses, if any, are recognized in a valuation allowance by a charge to income. Mortgage loans are sold, including servicing rights, without recourse. Gains or losses resulting from sales of mortgage loans, net of unamortized deferred fees and costs, are recognized when the proceeds are received from investors and are included under the caption "Mortgage banking income" in the Consolidated Statements of Income. In connection with its mortgage banking activities, the Company had commitments to fund loans held-for-sale and commitments to sell loans which are considered derivative instruments under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The fair values of these free-standing derivative instruments were immaterial at December 31, 2005 and 2004, respectively.

Nonaccrual loans are those on which the accrual of interest has ceased. Loans, including loans that are individually identified as being impaired under SFAS No. 114, are generally placed on nonaccrual status immediately if, in the opinion of management, principal or interest is not likely to be paid in accordance with the terms of the loan agreement, or when principal or interest is past due 90 days or more and collateral, if any, is insufficient to cover principal and interest. Interest accrued but not collected at the date a loan is placed on nonaccrual status is reversed against interest income. Interest income is recognized on nonaccrual loans only to the extent received in cash. However, where there is doubt regarding the ultimate collectibility of the loan principal, cash receipts, whether designated as principal or interest, are thereafter applied to reduce the carrying value of the loan. Loans are restored to accrual status only when interest and principal payments are brought current and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses, which is available for losses incurred in the loan portfolio, is increased by a provision charged to expense and decreased by charge-offs, net of recoveries.

Under the provisions of SFAS No. 114 and SFAS No. 118, individually identified impaired loans are measured based on the present value of payments expected to be received, using the historical effective loan rate as the discount rate. Alternatively, measurement may also be based on observable market prices; or, for loans that are solely dependent on the collateral for repayment, measurement may be based on the fair value of the collateral. Loans that are to be foreclosed are measured based on the fair value of the collateral. If the recorded investment in the impaired loan exceeds fair value, a valuation allowance is required as a component of the allowance for loan losses. Changes to the valuation allowance are recorded as a component of the provision for loan losses.

The adequacy of the allowance for loan losses is reviewed regularly by management. The allowance for loan losses is maintained through the provision for loan losses, which is a charge to operating earnings. The adequacy of the provision and the resulting allowance for loan losses is determined by management's continuing review of the loan portfolio, including identification and review of individual problem situations that

may affect the borrower's ability to repay, review of overall portfolio quality through an analysis of current charge-offs, delinquency and nonperforming loan data, estimates of the value of any underlying collateral, review of regulatory examinations, an assessment of current and expected economic conditions and changes in the size and character of the loan portfolio. The allowance reflects management's evaluation both of loans presenting identified loss potential and of the risk inherent in various components of the portfolio, including loans identified as impaired as required by SFAS No. 114. Thus, an increase in the size of the portfolio or in any of its components could necessitate an increase in the allowance even though there may not be a decline in credit quality or an increase in potential problem loans. A significant change in any of the evaluation factors described above could result in future additions to the allowance.

Goodwill

Goodwill reflected in the consolidated balance sheets arose from the parent company's acquisition of the bank, under the purchase method of accounting in 1968. Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). Under the provisions of SFAS No. 142, goodwill is deemed to have an indefinite useful life and the Company is required to complete an annual assessment by segment for any impairment of goodwill, which would be treated as an expense in the income statement. There was no impairment expense recorded in 2005, 2004 or 2003. Prior to the adoption of SFAS No. 142, the Company was not amortizing goodwill.

Goodwill is tested for impairment using a two-step approach that involves the identification of "reporting units" and the estimation of their respective fair values. An impairment loss would be recognized as a charge to expense for any excess of the goodwill carrying amount over implied fair value.

Premises and Equipment

Premises and equipment, excluding land, are stated at cost less accumulated depreciation or amortization as applicable. Land is reported at cost. Depreciation is computed on a straight-line basis and is charged to noninterest expense over the estimated useful lives of the related assets. Amortization of leasehold improvements is charged to noninterest expense over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Maintenance, repairs and minor improvements are charged to noninterest expenses as incurred.

Bank Owned Life Insurance

The bank invested in Bank Owned Life Insurance ("BOLI") policies to fund certain future employee benefit costs. The cash surrender value of the BOLI policies is recorded in the Consolidated Balance Sheets under the caption "Bank owned life insurance." Changes in the cash surrender value are recorded in the Consolidated Statements of Income under the caption "Bank owned life insurance income."

Repurchase Agreements

The Company also sells certain securities under agreements to repurchase. The agreements are treated as collateralized financing transactions and the obligations to repurchase securities sold are reflected as a liability in the accompanying consolidated balance sheets. The carrying value of the securities underlying the agreements remain reflected as an asset.

Derivative Financial Instruments

The Company's hedging policies permit the use of various derivative financial instruments to manage interest rate risk or to hedge specified assets and liabilities. All derivatives are recorded at fair value on the Company's balance sheet. To qualify for hedge accounting, derivatives must be highly effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the derivative contract. The Company considers a hedge to be highly effective if the change in fair value of the derivative hedging instrument is within 80% to 120% of the opposite change in the fair value of the hedged item attributable to the hedged risk. If derivative instruments are designated as hedges of fair values, and such hedges are highly effective, both the change in the fair value of the hedge and the hedged item are included in current earnings. Fair value adjustments related to cash flow hedges are recorded in other comprehensive income and are reclassified to earnings when the hedged transaction is reflected in earnings. Ineffective portions of hedges are reflected in earnings as they occur. Actual cash receipts and/or payments and related accruals on derivatives related to hedges are recorded as adjustments to the interest income or interest expense associated with the hedged item. During the life of the hedge, the Company formally assesses whether derivatives designated as hedging instruments continue to be highly effective in offsetting changes in the fair value or cash flows of hedged items. If it is determined that a hedge has ceased to be highly effective, the Company will discontinue hedge accounting prospectively. At such time, previous adjustments to the carrying value of the hedged item are reversed into current earnings and the derivative instrument is reclassified to a trading position recorded at fair value. Changes in the fair value of derivative financial instruments not designated as hedges for accounting purposes are reflected in income or expense at measurement dates. At December 31, 2005, the Company was a party to interest rate floor contracts with a notional amount of $50,000,000 and a fair value of $28,030.

The Company may be required to recognize certain contracts and commitments as derivatives when the characteristics of those contracts and commitments meet the definition of a derivative.

Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Deferred income tax expense (benefit) is determined by recognizing deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The realization of deferred tax assets is assessed and a valuation allowance provided for that portion of the assets for which it is more likely than not that it will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates and will be adjusted for the effects of future changes in tax laws or rates, if any.

For income tax purposes, the parent company files: a consolidated Federal income tax return; combined New York City and New York State income tax returns; and separate state income tax returns for its out-of-state subsidiaries. The parent company, under tax sharing agreements, either pays or collects on account of current income taxes to or from its subsidiaries.

Statements of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks.

Stock Incentive Plan

At December 31, 2005, the Company had a stock-based employee compensation plan, which is described more fully in Note 15. The Company accounts for this plan under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. All options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant and, therefore, no option related stock-based employee compensation cost is reflected in net income. Stock-based employee compensation cost related to restricted stock is included in compensation expense as discussed more fully in Note 14. In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), the following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to the stock-based employee compensation plans.

Years Ended December 31,	2005	2004	2003
Net income available for common shareholders	$ 24,026,825	$ 24,604,073	$23,778,226
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(1,134,612)	(236,349)	(422,709)
Pro forma net income	$ 22,892,213	$ 24,367,724	$23,355,517
Earnings per share:			
Basic--as reported	$ 1.25	$ 1.29	$ 1.26
Basic--pro forma	1.19	1.27	1.24
Diluted--as reported	1.22	1.23	1.20
Diluted--pro forma	1.16	1.22	1.18

Employee stock options generally expire ten years from the date of grant and become non-forfeitable one year from date of grant, although if necessary to qualify to the maximum extent possible as incentive stock options, these options become exercisable in annual installments. Director nonqualified stock options generally expire five years from the date of grant and become non-forfeitable and become exercisable in four annual installments starting one year from date of grant. Stock-based compensation is recognized over the period from date of grant to the date on which the options become non-forfeitable.

On December 15, 2005, the Compensation Committee of the Board of Directors approved the accelerated vesting and exercisability of all unvested and unexercisable stock options to purchase common shares of the Company held by directors or officers on December 19, 2005. Management proposed the acceleration of vesting to eliminate the impact of adopting SFAS No. 123R on the consolidated financial statements insofar as existing options are concerned. As a result, options to purchase 223,913 common shares, which would otherwise have vested and become exercisable from time to time over the next four years, became fully vested and immediately exercisable as of December 19, 2005. The number of shares and exercise prices of the options

subject to acceleration are unchanged. The accelerated options have exercise prices between $15.82 and $26.94 per share, with a total weighted average exercise price per share of $22.70. The accelerated options include 170,093 out-of-the money options and 53,820 in-the-money-options. The stock-based compensation expense presented in the table above reflects the impact of the accelerated vesting and exercisability of these options.

In order to limit unintended personal benefits to officers and directors, the Compensation Committee imposed transfer restrictions on any shares received by an optionee upon exercise of an accelerated option before the earliest date on which, without giving effect to such acceleration, such option would nonetheless have been vested and exercisable in respect of such shares (assuming the optionee remained an employee or member of the Board of Directors, as applicable). Such transfer restrictions will expire on the earlier of such earliest date or the date of the optionee's death.

The Company expects to adopt the provisions of SFAS No. 123R, on January 1, 2006. Among other things, SFAS No. 123R eliminates the ability to account for stock-based compensation using APB 25 and requires that such transactions be recognized as compensation cost in the income statement based on their fair values on the date of the grant. See "New Accounting Standards and Interpretations" on page 43 for additional information. The Company estimates that accelerating the vesting and exercisability of the 223,913 options discussed above will eliminate approximately $0.7 million of non-cash compensation expense that would otherwise have been recorded in the Company's income statements for future periods upon its adoption, as of January 1, 2006, of SFAS No. 123R.

Earnings Per Average Common Share

Basic earnings per share are computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

NOTE 2.

CASH AND DUE FROM BANKS

The bank is required to maintain average reserves, net of vault cash, on deposit with the Federal Reserve Bank of New York against outstanding domestic deposits and certain other liabilities. The required reserves, which are reported in cash and due from banks, were $29,645,000 and $21,580,000 at December 31, 2005 and 2004, respectively. Average required reserves during 2005 and 2004 were

$27,032,000 and $23,855,000, respectively.

NOTE 3.

MONEY MARKET INVESTMENTS

The Company's money market investments include interest-bearing deposits with other banks and Federal funds sold. The following table presents information regarding money market investments.

Years Ended December 31,		2005	2004	2003
Interest-bearing deposits with other banks				
At December 31	--Balance	$ 1,212,227	$ 1,329,103	$ 1,656,338
	--Average interest rate	3.11%	1.34%	1.00%
	--Average original maturity	66 Days	74 Days	72 Days
During the year	--Maximum month-end balance	5,209,048	6,516,030	3,311,594
	--Daily average balance	3,040,000	3,120,000	3,473,000
	--Average interest rate earned	1.96%	0.70%	0.73%
	--Range of interest rates earned	1.00-4.06%	0.35-2.15%	0.29-1.50%
Federal funds sold				
At December 31	--Balance	$ --	$ --	$ --
	--Average interest rate	--	--	--
	--Average original maturity	--	--	--
During the year	--Maximum month-end balance	40,000,000	75,000,000	10,000,000
	--Daily average balance	10,986,000	10,943,000	5,759,000
	--Average interest rate earned	2.81%	1.21%	1.12%
	--Range of interest rates earned	2.19-3.94%	0.875-1.8125%	0.875-1.375%

PAGE 48

NOTE 4.

INVESTMENT SECURITIES

The amortized cost and estimated fair value of securities available for sale are as follows:

December 31, 2005	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
U.S. Treasury securities	$ --	$ --	$ --
Obligations of U.S. government corporations and agencies			
Mortgage-backed securities			
CMOs (Federal National Mortgage Association)	9,194,237	--	495,517
CMOs (Federal Home Loan Mortgage Company)	24,006,876	--	1,028,095
Federal National Mortgage Association	52,327,699	58,199	1,302,807
Federal Home Loan Mortgage Company	50,793,291	10,574	1,276,388
Government National Mortgage Association	5,552,269	211,412	5,884

Total mortgage-backed securities	141,874,372	280,185	4,108,691
Federal Home Loan Bank	14,997,407	--	291,157
Federal Farm Credit Bank	10,000,000	--	204,688
Total obligations of U.S. government corporations and agencies	166,871,779	280,185	4,604,536
Obligations of state and political institutions	31,160,954	274,450	128,375
Federal Reserve Bank stock	1,130,700	--	--
Federal Home Loan Bank stock	5,950,300	--	--
Other securities	304,442	19,213	--
Total	$ 205,418,175	$ 573,848	$ 4,732,911

December 31, 2004			
U.S. Treasury securities	$ 2,491,701	$ 190	$ 329
Obligations of U.S. government corporations and agencies			
Mortgage-backed securities			
CMOs (Federal National Mortgage Association)	11,958,409	--	260,570
CMOs (Federal Home Loan Mortgage Company)	32,135,043	24,621	910,900
Federal National Mortgage Association	54,953,012	421,190	430,085
Federal Home Loan Mortgage Company	61,618,287	278,701	259,853
Government National Mortgage Association	8,439,652	436,276	6,485
Total mortgage-backed securities	169,104,403	1,160,788	1,867,893
Federal Home Loan Bank	14,995,051	--	160,676
Federal Farm Credit Bank	10,000,000	--	98,437
Total obligations of U.S. government corporations and agencies	194,099,454	1,160,788	2,127,006
Obligations of state and political institutions	26,588,493	882,414	--
Trust preferred securities	2,735,973	287,073	--
Federal Reserve Bank stock	1,130,700	--	--
Federal Home Loan Bank stock	6,188,100	--	--
Other securities	304,442	20,178	--
Total	$ 233,538,863	$ 2,350,643	$ 2,127,335

The carrying value and estimated fair value of securities held to maturity are as follows:

December 31, 2005	Carrying Value	Gross Unrealized Gains	Gross Unrealiz Losses
Obligations of U.S. government corporations and agencies			
Mortgage-backed securities			
CMOs (Federal National Mortgage Company)	$ 14,171,765	$ --	$ 437,1
CMOs (Federal Home Loan Mortgage Company)	25,707,668	--	946,9
Federal National Mortgage Association	248,288,506	620,057	4,304,1

Federal Home Loan Mortgage Company	166,001,415	130,276	4,326,1
Government National Mortgage Association	13,887,164	477,422	5
Total mortgage-backed securities	468,056,518	1,227,755	10,014,9
Federal Home Loan Bank	24,982,958	--	311,0
Federal Farm Credit Bank	20,000,000	--	426,5
Total obligations of U.S. government corporations and agencies	513,039,476	1,227,755	10,752,6
Debt securities issued by foreign governments	1,000,000	--	5
Total	$ 514,039,476	$1,227,755	$ 10,753,1

December 31, 2004			
Obligations of U.S. government corporations and agencies			
Mortgage-backed securities			
CMOs (Federal National Mortgage Company)	$ 23,556,563	$ --	$ 425,0
CMOs (Federal Home Loan Mortgage Company)	37,634,129	138,988	543,8
Federal National Mortgage Association	139,525,293	2,141,081	466,0
Federal Home Loan Mortgage Company	175,158,128	697,426	983,6
Government National Mortgage Association	29,321,783	1,371,199	9
Total mortgage-backed securities	405,195,896	4,348,694	2,419,5
Federal Home Loan Bank	20,011,667	--	124,1
Federal Farm Credit Bank	20,000,000	--	89,0
Total obligations of U.S. government corporations and agencies	445,207,563	4,348,694	2,632,8
Debt securities issued by foreign governments	1,250,000	--	
Total	$ 446,457,563	$4,348,694	$ 2,632,8

The following table presents information regarding securities available for sale with temporary unrealized losses for the periods indicated:

	Less Than 12 Months		12 Months or Lo	
December 31, 2005	Fair Value	Unrealized Losses	Fair Value	Unr L
U.S. Treasury securities	$ --	$ --	$ --	$
Obligations of U.S. government corporations and agencies				
Mortgage-backed securities				
CMOs (Federal National Mortgage Company)	--	--	8,698,720	
CMOs (Federal Home Loan Mortgage Company)	--	--	22,978,781	1
Federal National Mortgage Association	21,326,935	511,093	20,530,474	
Federal Home Loan Mortgage Company	21,010,196	378,961	28,089,085	
Government National Mortgage Association	--	--	253,618	
Total mortgage-backed securities	42,337,131	890,054	80,550,678	3

Federal Home Loan Bank	--	--	14,706,250	
Federal Farm Credit Bank	--	--	9,795,312	
Total obligations of U.S. government corporations and agencies	42,337,131	890,054	105,052,240	3
Obligations of state and political institutions	10,239,490	128,375	--	
Total	$ 52,576,621	$ 1,018,429	$105,052,240	$ 3

December 31, 2004				
U.S. Treasury securities	$ 995,312	$ 329	$ --	$
Obligations of U.S. government corporations and agencies				
Mortgage-backed securities				
CMOs (Federal National Mortgage Company)	--		11,697,839	
CMOs (Federal Home Loan Mortgage Company)	21,665,399	593,866	5,484,173	
Federal National Mortgage Association	22,001,096	286,100	8,587,416	
Federal Home Loan Mortgage Company	38,960,235	259,852	--	
Government National Mortgage Association	11,405	172	330,454	
Total mortgage-backed securities	82,638,135	1,139,990	26,099,882	
Federal Home Loan Bank	14,834,375	160,675	--	
Federal Farm Credit Bank	9,901,563	98,438	--	
Total obligations of U.S. government corporations and agencies	107,374,073	1,399,103	26,099,882	
Total	$ 108,369,385	$ 1,399,432	$ 26,099,882	$

The following table presents information regarding securities held to maturity with temporary unrealized losses for the periods indicated:

	Less Than 12 Months		12 Months or Lo	
December 31, 2005	Fair Value	Unrealized Losses	Fair Value	Unr L
Obligations of U.S. government corporations and agencies				
Mortgage-backed securities				
CMOs (Federal National Mortgage Company)	$ 7,803,438	$ 155,482	$ 5,931,176	$
CMOs (Federal Home Loan Mortgage Company)	7,695,574	201,759	17,065,165	
Federal National Mortgage Association	155,687,506	2,768,570	41,480,116	1
Federal Home Loan Mortgage Company	90,035,855	1,775,584	66,901,714	2
Government National Mortgage Association	94,557	301	5,743	
Total mortgage-backed securities	261,316,930	4,901,696	131,383,914	5
Federal Home Loan Bank	4,960,938	28,116	19,710,937	
Federal Farm Credit Bank	--	--	19,573,437	
Total obligations of U.S. government corporations and agencies	266,277,868	4,929,812	170,668,288	5

Debt securities issued by foreign governments	249,463	538	--	
Total	$ 266,527,331	$ 4,930,350	$170,668,288	$ 5
December 31, 2004				
Obligations of U.S. government corporations and agencies				
Mortgage-backed securities				
CMOs (Federal National Mortgage Company)	$ 13,410,270	$ 175,114	$ 9,721,274	$
CMOs (Federal Home Loan Mortgage Company)	10,513,152	169,593	16,516,039	
Federal National Mortgage Association	48,520,182	466,094	--	
Federal Home Loan Mortgage Company	77,786,990	983,177	14,469	
Government National Mortgage Association	35,483	712	4,964	
Total mortgage-backed securities	150,266,077	1,794,690	26,256,746	
Federal Home Loan Bank	19,887,501	124,167	--	
Federal Farm Credit Bank	19,910,937	89,062	--	
Total	$ 190,064,515	$ 2,007,919	$ 26,256,746	$

The Company invests principally in U.S. Treasury, U.S. government corporation and agency obligations and A-rated or better investments. The fair value of these investments fluctuates based on several factors, including credit quality and general interest rate changes. The Company has made an evaluation that it has the ability to hold its investments until maturity and therefore, realize the full carrying value of its investment.

The following tables present information regarding securities available for sale and securities held to maturity at December 31, 2005, 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 is based on the ratio of actual income divided by the average outstanding balances during the year. The average yield on obligations of state and political subdivisions and Federal Reserve Bank securities is stated on a tax-equivalent basis.

Available for sale	Amortized Cost	Estimated Fair Value
Obligations of U.S. government corporations and agencies		
Mortgage-backed securities		
CMOs (Federal National Mortgage Association)	$ 9,194,237	$ 8,698,72
CMOs (Federal Home Loan Mortgage Company)	24,006,876	22,978,78
Federal National Mortgage Association	52,327,699	51,083,09
Federal Home Loan Mortgage Company	50,793,291	49,527,47
Government National Mortgage Association	5,552,269	5,757,79
Total mortgage-backed securities	141,874,372	138,045,86
Federal Home Loan Bank		

Due within 1 year	5,000,000	4,925,00
Due after 1 year but within 5 years	9,997,407	9,781,25
Federal Farm Credit Bank		
Due after 1 year but within 5 years	10,000,000	9,795,31
Total obligations of U.S. government corporations and agencies	166,871,779	162,547,42
Federal Reserve Bank stock	1,130,700	1,130,70
Federal Home Loan Bank stock	5,950,300	5,950,30
Other securities	304,442	323,65
Total	174,257,221	169,952,08
Obligations of state and political institutions		
Due within 1 year	11,273,376	11,346,08
Due after 1 year but within 5 years	7,897,753	8,033,29
Due after 5 years	11,989,825	11,927,65
Total obligations of state and political institutions	31,160,954	31,307,02
Total available for sale	$205,418,175	$201,259,11

PAGE 53

Held to maturity	Carrying Value	Estimated Fair Value
Obligations of U.S. government corporations and agencies		
Mortgage-backed securities		
CMOs (Federal National Mortgage Company)	$ 14,171,765	$ 13,734,61
CMOs (Federal Home Loan Mortgage Company)	25,707,668	24,760,73
Federal National Mortgage Association	248,288,506	244,604,39
Federal Home Loan Mortgage Company	166,001,415	161,805,50
Government National Mortgage Association	13,887,164	14,364,05
Total mortgage-backed securities	468,056,518	459,269,31
Federal Home Loan Bank		
Due within 1 year	15,004,894	14,793,75
Due after 1 year but within 5 years	9,978,064	9,878,12
Federal Farm Credit Bank		
Due within 1 year	5,000,000	4,931,25
Due after 1 year but within 5 years	15,000,000	14,642,18
Total obligations of U.S. government corporations and agencies	513,039,476	503,514,62
Debt securities issued by foreign governments		
Due after 1 year but within 5 years	1,000,000	999,46
Total	$514,039,476	$504,514,08

Information regarding securities sales from the available for sale portfolio is as follows:

Years Ended December 31,	2005	2004	2003

Proceeds	$3,213,055	$94,314,558	$24,208,035
Gross gains	209,653	1,256,370	550,505

During 2005, as permitted under the provisions of SFAS No. 115, the Company sold approximately $5,303,000 (par amount) of held to maturity securities because over 85% of the original principal on these securities had been paid by the sale date. The proceeds from the sale were $5,452,162 and the gain was $127,804. There were no sales of held to maturity securities in 2004 and 2003.

Investment securities are pledged to secure trust and public deposits, securities sold under agreements to repurchase, advances from the Federal Home Loan Bank of New York and for other purposes required or permitted by law.

NOTE 5.

LOANS

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

December 31,	2005	2004
Loans held for sale		
Real estate--residential mortgage	$ 40,977,538	$ 37,058,673
Loans held in portfolio		
Commercial and industrial	$ 632,714,079	$ 595,689,717
Lease financing	218,700,981	185,861,868
Real estate--residential mortgage	147,745,576	112,329,106
Real estate--commercial mortgage	110,871,291	113,932,907
Real estate--construction	2,309,103	2,319,808
Installment	13,125,085	15,516,290
Loans to depository institutions	32,000,000	20,000,000
Loans held in portfolio, gross	1,157,466,115	1,045,649,696
Less unearned discounts	28,666,829	23,363,217
Loans held in portfolio, net of unearned discounts	$1,128,799,286	$1,022,286,479

There are no industry concentrations (exceeding 10% of loans, gross) in the commercial and industrial loan portfolio. Approximately 68% of loans are to borrowers located in the metropolitan New York area.

Nonaccrual loans at December 31, 2005 and 2004 totaled $4,204,000 and $3,115,000, respectively. There were no reduced rate loans at December 31, 2005 or 2004. The interest income that would have been earned on nonaccrual loans outstanding at December 31, 2005, 2004 and 2003 in accordance with their original terms is estimated to be $334,000, $233,000 and $196,000, respectively, for the years then ended. Applicable interest income actually realized was $133,000, $133,000 and $141,000, respectively, for the aforementioned years, and there were no commitments to lend additional funds on nonaccrual loans.

Loans are made at normal lending limits and credit terms to officers or directors (including their immediate families) of the Company or for the benefit of corporations in which they have a beneficial interest. There were no outstanding balances on such loans in excess of $60,000 to any individual or entity at December 31, 2005 or 2004.

NOTE 6.

ALLOWANCE FOR LOAN LOSSES

Years Ended December 31,	2005	2004	2003
Balance at beginning of year	$ 16,328,528	$ 14,458,951	$ 13,549,2
Provision for loan losses	9,664,000	9,965,000	8,740,4
	25,992,528	24,423,951	22,289,6
Less charge-offs, net of recoveries:			
Charge-offs	9,838,412	8,579,538	8,310,7
Recoveries	(458,015)	(1,003,883)	(637,5
Net charge-offs	9,380,397	7,575,655	7,673,1
Less losses on transfers to other real estate owned	94,801	519,768	157,5
Balance at end of year	$ 16,517,330	$ 16,328,528	$ 14,458,9

The Company follows SFAS No. 114, which establishes rules for calculating certain components of the allowance for loan losses. As of December 31, 2005, 2004 and 2003, $623,000, $1,319,000 and $2,022,000, respectively, of loans were judged to be impaired within the scope of SFAS No. 114 and carried on a cash-basis. The average recorded investment in impaired loans during the years ended December 31, 2005, 2004 and 2003, was approximately $989,000, $1,295,000 and $970,000, respectively. The application of SFAS No. 114 indicated that these loans required valuation allowances totaling $265,000, $340,000 and $890,000 at December 31, 2005, 2004 and 2003, respectively, which are included within the overall allowance for loan

losses. The interest income that would have been earned on impaired loans outstanding at December 31, 2005, 2004 and 2003 in accordance with their original terms is estimated to be $8,000, $65,000 and $108,000, respectively, for the years then ended. Applicable interest income actually realized was $53,000, $59,000 and $91,000, respectively, for the aforementioned years, and there were no commitments to lend additional funds on impaired loans.

NOTE 7.

INTEREST-BEARING DEPOSITS

The following table presents certain information for interest expense on deposits:

Years Ended December 31,	2005	2004	2
Interest expense			
Interest-bearing deposits in domestic offices			
Savings	$ 113,351	$ 119,601	$
NOW	1,576,286	622,279	
Money Market	2,455,378	1,280,313	
Time			
Three months or less	6,304,214	3,637,361	3,
More than three months through twelve months	5,268,657	3,232,313	2,
More than twelve months through twenty-three months	1,844,937	1,808,934	
More than twenty-four months through thirty-five months	117,490	120,936	
More than thirty-six months through forty-seven months	31,160	37,368	
More than forty-eight months through sixty months	389,585	274,683	
More than sixty months	929	6,580	
	18,101,987	11,140,368	8,
Interest-bearing deposits in foreign offices			
Time			
Three months or less	17,889	16,315	
More than three months through twelve months	14,974	16,334	
Total	$18,134,850	$11,173,017	$ 8,

Foreign deposits totaled $3,022,000 and $3,007,000 at December 31, 2005 and 2004, respectively.

The aggregate of time certificates of deposit and other time deposits in denominations of $100,000 or more was $361,445,738 and $298,331,288 at December 31, 2005 and 2004, respectively.

The aggregate of time certificates of deposit and other time deposits by remaining maturity range is presented below:

December 31,	2005	2004	
Domestic			
Three months or less	$252,383,369	$163,407,607	$168
More than three months through six months	80,472,379	81,769,015	55
More than six months through twelve months	92,828,189	80,428,856	92
More than twelve months through twenty-three months	67,897,087	137,074,627	70
More than twenty-four months through thirty-five months	4,268,663	7,755,291	2
More than thirty-six months through forty-seven months	143,925	1,448,990	2
More than forty-eight months through sixty months	233,220	335,723	
More than sixty months	19,797	50,000	
	498,246,629	472,270,109	393
Foreign			
Three months or less	1,645,037	1,645,000	1
More than three months through six months	1,376,991	1,362,063	1
	3,022,028	3,007,063	3
Total	$501,268,657	$475,277,172	$396

Interest expense related to the aggregate of time certificates of deposit and other time deposits is presented below:

Years Ended December 31,	2005	2004	2003
Interest expense			
Domestic	$13,956,972	$ 9,118,175	$ 7,370,525
Foreign	32,863	32,649	41,300
Total	$13,989,835	$ 9,150,824	$ 7,411,825

NOTE 8.

SHORT-TERM BORROWINGS

The following table presents information regarding Federal funds purchased, securities sold under agreements to repurchase--customers and dealers, and commercial paper:

Years Ended December 31,	2005	2004	
Federal funds purchased			
At December 31 --Balance	$ 55,000,000	$ 32,500,000	$ 1
--Average interest rate	4.20%	2.31%	
--Average original maturity	1 Day	1 Day	
During the year--Maximum month-end balance	55,300,000	35,000,000	2
--Daily average balance	17,992,000	9,946,000	
--Average interest rate paid	3.60%	1.47%	
--Range of interest rates paid	2.25-4.50%	0.9375-2.50%	
Securities sold under agreements to repurchase--customers			
At December 31 --Balance	$ 61,067,073	$ 55,934,170	$ 4
--Average interest rate	2.81%	1.29%	
--Average original maturity	14 Days	22 Days	
During the year--Maximum month-end balance	88,845,220	103,595,822	8
--Daily average balance	85,365,000	84,559,000	7
--Average interest rate paid	2.23%	1.21%	
--Range of interest rates paid	1.50-4.25%	1.00-2.40%	
Securities sold under agreements to repurchase--dealers			
At December 31 --Balance	$ 88,729,000	$ 33,882,000	$ 5
--Average interest rate	4.40%	2.45%	
--Average original maturity	23 Days	23 Days	
During the year--Maximum month-end balance	88,729,000	68,252,000	7
--Daily average balance	52,199,000	29,601,000	4
--Average interest rate paid	3.44%	1.35%	
--Range of interest rates paid	2.40-4.45%	1.08-2.45%	
Commercial paper			
At December 31 --Balance	$ 38,191,016	$ 25,991,038	$ 2
--Average interest rate	3.22%	1.37%	
--Average original maturity	41 Days	63 Days	

During the year--Maximum month-end balance	42,323,187	36,200,700	2
--Daily average balance	37,302,000	30,069,000	2
--Average interest rate paid	2.61%	1.21%	
--Range of interest rates paid	1.25-4.15%	0.95-1.60%	

The parent company has agreements with its line banks for back-up lines of credit for which it pays a fee at the annual rate of 1/4 of 1% times the line of credit extended. At December 31, 2005, these back-up bank lines of credit totaled $24,000,000; no lines were used at any time during 2005, 2004 or 2003.

Other short-term borrowings include advances from the Federal Home Loan Bank of New York ("FHLB") due within one year and treasury tax and loan funds. At December 31, 2005, FHLB borrowings included an advance of $35,000,000 payable on January 3, 2006 at a rate of 4.32%. At December 31, 2004, there were no borrowings from the FHLB.

NOTE 9.

LONG-TERM BORROWINGS

These borrowings represent advances from the FHLB and junior subordinated debt securities issued by the parent company.

The following table presents information regarding fixed rate FHLB advances:

Advance Type	Interest Rate	Maturity Date	Initial Call Date	December 31, 2005	December 31, 2004
Callable	5.13%	2/20/08	2/20/01	$10,000,000	$ 10,000,000
Callable	4.26	2/14/11	8/13/01	10,000,000	10,000,000
Callable	4.36	2/14/11	2/13/02	10,000,000	10,000,000
Callable	4.70	2/22/11	2/20/03	10,000,000	10,000,000
Callable	3.17	10/24/11	10/22/03	--	10,000,000
Callable	2.52	11/14/11	11/14/03	--	10,000,000
Callable	3.66	10/24/11	10/22/04	--	10,000,000
Callable	3.62	10/17/11	10/15/04	10,000,000	10,000,000
Callable	4.28	10/17/11	10/15/06	10,000,000	10,000,000
Callable	3.33	1/17/12	1/16/04	--	10,000,000
Callable	2.42	1/17/12	1/16/03	--	10,000,000
Total				$60,000,000	$110,000,000
Weighted-average interest rate				4.39%	3.77%

Under the terms of a collateral agreement with the FHLB, advances are secured by stock in the FHLB and by certain qualifying assets (primarily mortgage-backed securities) having market values at least equal to 110% of the advances outstanding. After the initial call date, each callable advance is callable by the FHLB quarterly from the initial call date, at par.

In February 2002, the parent company completed its issuance of trust capital securities ("capital securities") that raised $25,000,000 ($24,062,500 net proceeds after issuance costs). The 8.375% capital securities, due March 31, 2032, were issued by Sterling Bancorp Trust I (the "trust"), a wholly-owned non-consolidated statutory business trust. The trust was formed with initial capitalization of common stock and for the exclusive purpose of issuing the capital securities. The trust used the proceeds from the issuance of the capital securities to acquire $25,774,000 junior subordinated debt securities that pay interest at 8.375% ("debt securities") issued by the parent company. The debt securities are due concurrently with the capital securities which may not be redeemed, except under limited circumstances until March 31, 2007, and thereafter at a price equal to their principal amount plus interest accrued to the date of redemption. The Company may also reduce outstanding capital securities through open market purchases. Dividends and interest are paid quarterly.

The parent company has the right to defer payments of interest on the debt securities at any time or from time to time for a period of up to 20 consecutive quarterly periods with respect to each deferral period. Under the terms of the debt securities, in the event that under certain circumstances there is an event of default under the debt securities or the parent company has elected to defer interest on the debt securities, the parent company may not, with certain exceptions, declare or pay any dividends or distributions on its capital stock or purchase or acquire any of its capital stock.

Payments of distribution on the capital securities and payments on redemption of the capital securities are guaranteed by the parent company on a limited basis. The parent company also entered into an agreement as to expenses and liabilities pursuant to which it agreed, on a subordinated basis, to pay any costs, expenses or liabilities of the trust other than those arising under the capital securities. The obligations of the parent company under the debt securities, the related indenture, the trust agreement establishing the trust, the guarantee and the agreement as to expenses and liabilities, in the aggregate, constitute a full and unconditional guarantee by the parent company of the trust's obligations under the capital securities.

Notwithstanding that the accounts of the trust are not included in the Company's consolidated financial statements, the $25 million in capital securities issued by the trust are included in the Tier 1 capital of the parent company for regulatory capital purposes as allowed by the Federal Reserve Board. In March 2005, the Federal Reserve Board adopted a rule that would continue to allow the inclusion of capital securities issued by unconsolidated subsidiary trusts in Tier 1 capital, but with stricter quantitative limits. Under the final rule, after a five-year transition period, the aggregate amount of capital securities and certain other capital elements would be limited to 25% of Tier 1 capital, net of goodwill less any associated deferred tax liability. Based on the final rule, the parent company expects to include all of its $25 million in capital securities in Tier 1 capital.

NOTE 10.

PREFERRED STOCK

The parent company is authorized to issue up to 644,389 shares of preferred stock, $5 par value, in one or more series. Since February 2004, no shares of preferred stock have been outstanding, and none of the authorized preferred stock has been designated as to series.

During 1993, the parent company issued 250,000 shares of Series D convertible preferred stock to the trustee acting on behalf of the Company's Employee Stock Ownership Plan (the "ESOP"). As of December 31, 2003, each Series D share was convertible into 1.9084 common shares of the parent company. The Series D shares were entitled to receive cash dividends in the amount of $.6125 per annum (subject to adjustment), payable quarterly. Participants in the ESOP were entitled to vote in accordance with the terms of the ESOP and vote together as one class with the holders of the common shares. The holders of Series D shares were entitled to receive $10 per share and certain other preferences on liquidation, dissolution or winding up. During February 2004, all 224,432 outstanding Series D shares were retired upon their conversion into common shares. See Note 15 on page 63 for a discussion of the ESOP.

NOTE 11.

COMMON STOCK

December 31,	2005	2004
Number of shares outstanding	18,835,474	19,142,519
Number of shareholders	1,648	1,664

NOTE 12.

OTHER COMPREHENSIVE INCOME

The following table presents the components of accumulated other comprehensive (loss) income as of December 31, 2005 and 2004 included in shareholders' equity:

	Pre-tax Amount	Tax Effect	After-tax Amount
December 31, 2005			
Net unrealized (loss) on securities	$ (3,878,545)	$ 1,907,799	$ (1,970,746)
Minimum pension liability	(5,961,352)	2,702,478	(3,258,874)
Total	$ (9,839,897)	$ 4,610,277	$ (5,229,620)
December 31, 2004			
Net unrealized gain on securities	$ 1,497,029	$ (640,874)	$ 856,155
Minimum pension liability	(5,133,485)	2,356,270	(2,777,215)
Total	$ (3,636,456)	$ 1,715,396	$ (1,921,060)

NOTE 13.

RESTRICTIONS ON THE BANK

Various legal restrictions limit the extent to which the bank can supply funds to the parent company and its nonbank subsidiaries. All national banks are limited in the payment of dividends in any year without the approval of the Comptroller of the Currency 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. In addition, from time to time dividends are paid to the parent company by the finance subsidiaries from their retained earnings without regulatory restrictions.

NOTE 14.

STOCK INCENTIVE PLAN

In April 1992, shareholders approved a Stock Incentive Plan ("the plan") covering up to 100,000 common shares of the parent company. Under the plan, key employees of the parent company and its subsidiaries could be granted awards in the form of incentive stock options ("ISOs"), non-qualified stock options ("NQSOs"), stock appreciation rights ("SARs"), restricted stock or a combination of these. The plan is administered by a committee of the Board of Directors. Since the inception of the plan, shareholders have approved amendments increasing the number of shares covered under the plan; the total number of shares authorized by shareholders through December 31, 2005 was 2,650,000. The plan provides for proportional adjustment to the number of shares covered by the plan and by outstanding awards, and in the exercise price of outstanding stock options, to reflect, among other things, stock splits and stock dividends. After giving effect to stock option and restricted stock awards granted and the effect of the 5% stock dividend effected December 12, 2005, the six-for-five stock split in the form of a stock dividend effected in December 2004, the five-for-four stock split in the form of a stock dividend effected September 10, 2003, the 20% stock dividend paid in December 2002, the 10% stock dividends paid in December 2001 and December 2000, and the 5% stock dividend paid in December 1999, shares available for grant were 504,287, 610,931 and 669,971 at December 31, 2005, 2004 and 2003, respectively.

Stock Options

The following tables present information on the qualified and non-qualified stock options outstanding (after the effect of the 5% stock dividend effected December 12, 2005, the six-for-five stock split effected in December 2004, the five-for-four stock split effected September 10, 2003, the 20% stock dividend paid in December 2002, the 10% stock dividends paid in December 2001 and December 2000 and the 5% stock dividend paid in December 1999) as of December 31, 2005, 2004 and 2003 and changes during the years then ended:

	2005		2004	
Qualified Stock Options	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Outstanding at beginning of year	750,808	$ 10.07	857,821	$ 9.90
Granted	--		--	
Exercised	(68,693)	9.32	(107,013)	8.68
Reclassified(1)	(112,021)	9.59	--	
Forfeited	--		--	
Outstanding at end of year	570,094	$ 10.26	750,808	$ 10.07
Options exercisable at end of year	570,094		366,346	
Weighted-average fair value of options granted during the year	$ --		$ --	

Non-Qualified Stock Options	2005 Number of Options	2005 Weighted-Average Exercise Price	2004 Number of Options	2004 Weighted-Average Exercise Price
Outstanding at beginning of year	1,363,272	$ 11.30	1,392,786	$ 10.48
Granted	137,025	25.35	74,391	21.77
Exercised	(226,813)	9.10	(103,905)	7.78
Reclassified (1)	112,021	9.59	--	
Forfeited	(25,048)	24.99	--	
Outstanding at end of year	1,360,457	$ 12.69	1,363,272	$ 11.30
Options exercisable at end of year	1,360,457		1,167,231	
Weighted-average fair value of options granted during the year	$ 3.50		$ 4.15	

(1) As a result of retirements and terminations. Since these provisions were included in the original terms of the awards, these reclassifications are not considered modifications.

The following table presents information regarding qualified and non-qualified stock options outstanding at December 31, 2005:

	Options Outstanding			
	Range of Exercise Prices	Number Outstanding at 12/31/05	Weighted-Average Remaining Contractual Life	Weighted-Avera Exercise Price
Qualified	$ 6.48-14.60	570,094	3.92 years	$10.26
Non-Qualified	6.48-26.94	1,360,457	3.31 years	12.69

Director NQSOs expire five years from the date of the grant and become exercisable in four annual installments, starting one year from the date of the grant, or upon the earlier death or disability of the grantee. Employee stock options generally expire ten years from the date of the grant and vest one year from the date of grant, although, if necessary to qualify to the maximum extent possible as ISOs, these options become exercisable in annual installments. Employee stock options which become exercisable over a period of more than one year are generally subject to earlier exercisability upon the termination of the grantee's employment for any reason more than one year following grant. Amounts received upon exercise of options are recorded as common stock and capital surplus. The tax benefit received by the Company upon exercise of a NQSO is credited to capital surplus.

The Company follows the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." The statement encourages, but does not require, companies to use a fair value-based method of accounting for stock-based employee compensation plans, including stock options and stock appreciation rights. Under this method, compensation expense is measured as of the date the awards are granted based on the estimated fair value of the awards, and the expense is generally recognized over the vesting period. If a company elects to continue using the intrinsic value-based method under APB Opinion No. 25, pro forma disclosures of net income and net income per share are required as if the fair value-based method had been applied. Under the intrinsic method, compensation expense is the excess, if any, of the market price of the stock as of the grant date over the amount employees must pay to acquire the stock or over the price established for determining appreciation. Under the Company's current compensation policies, there is no such excess on the date of grant and therefore, no compensation expense is recorded.

The fair value of each option grant is estimated on the date of grant using a Black-Scholes option-pricing model with the following assumptions:

Years Ended December 31,	2005	2004	2003
Dividend yield	3.31%	2.86%	2.53%
Volatility	25%	25%	25%
Expected term			
Qualified	N/A	N/A	N/A
Non-Qualified (Directors)	4 years	4 years	4 years
Non-Qualified (Officers)	5 years	N/A	N/A
Risk-free interest rate	4.59%	3.92%	2.79%

The Company has elected to continue to apply APB Opinion No. 25 and related interpretations in accounting for its stock incentive plan. Accordingly, no compensation expense related to options granted pursuant to the plan has been recognized in the consolidated statements of income. Had compensation expense been determined based on the estimated fair value of the awards at the grant dates, the Company's net income and earnings per share would have been reduced to the pro forma amounts as shown under the caption "Stock Incentive Plan" in Note 1 beginning on page 43.

The Corporation expects to adopt the provisions of SFAS No. 123R on January 1, 2006. Among other things, SFAS No. 123R eliminates the ability to account for stock-based compensation using APB 25 and requires that such transactions be recognized as compensation cost in the income statement based on their fair values on the date of the grant. See "New Accounting Standards and Interpretations" in Note 1.

Restricted Stock

On February 11, 2000, 92,500 shares of restricted stock were awarded from Treasury shares. The fair value was $15.8125 per share. These awards vest to recipients over a four-year period at the rate of 25% per year; the initial awards vested on February 11, 2000.

On February 6, 2002, 60,000 shares of restricted stock were awarded from Treasury shares. The fair value was $27.56 per share. These awards vest to recipients over a four-year period at the rate of 25% per year.

The plan calls for the forfeiture of non-vested shares which are restored to the Treasury and become available for future awards. During 2005, 2004 and 2003, there were no shares forfeited. Unearned compensation resulting from these awards is amortized as a charge to compensation expense over a four-year period; such charges were $269,205, $603,764 and $742,680 in 2005, 2004 and 2003, respectively. The balance of unearned compensation is shown as a reduction of shareholders' equity. For income tax purposes, the Company is entitled to a deduction in an amount equal to the average market value of the shares on vesting date and dividends paid on shares for which restrictions have not lapsed.

NOTE 15.

EMPLOYEE STOCK OWNERSHIP PLAN

On March 5, 1993, the Company established an Employee Stock Ownership Plan (the "ESOP"}. This plan covers substantially all employees with one or more years of service of at least 1,000 hours who are at least 21 years of age. During 1993, the parent company issued 250,000 shares of Series D preferred stock at a price of $10.00 per share to the Company's ESOP trust. The ESOP trust borrowed $2,500,000 from the bank to pay for the shares. The ESOP loan is at a fixed interest rate for a term of ten years with quarterly payments of interest. Quarterly principal payments at an annual rate of $250,000 and $350,000 commenced on March 31, 1996 and March 31, 1999, respectively. The bank match-funded the ESOP loan with collateralized advances from the Federal Home Loan Bank of New York. The ESOP shares, pledged as collateral for the ESOP loan, are held in a suspense account and released for allocation among the participants as principal and interest on the ESOP loan is repaid. Under the terms of the ESOP, participants may vote both allocated and unallocated shares.

The Company makes quarterly contributions to the ESOP equal to the debt service on the ESOP loan less dividends paid on the ESOP shares. All dividends paid are used for debt service. ESOP shares released from the suspense account are allocated among the participants on the basis of salary in the year of allocation. The Company accounts for its ESOP in accordance with Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans." Accordingly, the Company initially recorded a deduction from shareholders' equity equal to the purchase price of the shares reflecting such amount as unearned compensation. The consolidated balance sheets report as unearned compensation the remaining shares pledged as collateral. The unearned compensation is reduced as payments are made on the loan and, as shares are released from the suspense account, the Company recognizes compensation expense equal to the current market price of the common shares into which the preferred shares are convertible, and the shares become outstanding for earnings per share computations. Dividends on unallocated ESOP shares are recorded as a reduction of accrued interest payable; dividends on allocated ESOP shares are recorded as a reduction of retained earnings.

Compensation expense was $0, $0 and $236,270 for 2005, 2004 and 2003, respectively, with a corresponding reduction in unearned compensation. As of December 31, 2005, 250,000 shares had been allocated; there were no unreleased shares ("unallocated"). The ESOP was terminated effective February 19, 2004. The following table presents interest paid on the ESOP loan and dividends paid on the Series D preferred shares:

Years Ended December 31,	2005	2004	2003
Interest paid	$ --	$ --	$ 16,224
Dividends paid	--	--	139,491
Contributions	--	--	366,224

NOTE 16.

EMPLOYEE BENEFIT PLAN

The Company has a noncontributory defined benefit pension plan that covers the majority of employees with one or more years of service of at least 1,000 hours who are at least 21 years of age. The benefits are based upon years of credited service, primary social security benefits and a participant's highest average compensation as defined. The funding requirements for the plan are determined annually based upon the amount needed to satisfy the Employee Retirement Income Security Act of 1974 funding standards. The Company also has a supplemental non-qualified, non-funded retirement plan which is designed to supplement the pension plan for key officers.

The following tables set forth the disclosures required for pension benefits:

At or For the Years Ended December 31,	2005	2004
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at beginning of year (PBO)	$ 35,763,457	$ 33,745,
Service cost	1,639,935	1,562,
Interest cost	2,208,395	1,986,
Amendments	--	
Actuarial loss	2,513,660	2,261,
Settlement	--	(3,000,
Benefits paid	(1,175,226)	(793,
Benefit obligation at end of year	$ 40,950,221	$ 35,763,
CHANGE IN PLAN ASSETS		
Fair value of assets at beginning of year	$ 21,112,978	$ 19,641,
Actual return on plan assets	(155,971)	943,
Employer contributions	6,134,793	1,322,
Benefits paid	(1,175,226)	(793,
Fair value of assets at end of year	$ 25,916,574	$ 21,112,
Funded status	$(15,033,647)	$(14,650,
Unrecognized prior service cost	484,251	570,
Unrecognized net actuarial loss	16,129,643	12,657,
Net amount recognized	$ 1,580,247	$ (1,422,
AMOUNTS RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION CONSIST OF:		
Prepaid benefit cost	$ 9,202,541	$ 4,579,
Accrued benefit liability	(13,758,390)	(11,135,
Intangible asset	174,744	
Accumulated other comprehensive loss (pre-tax)	5,961,352	5,133,
Net amount recognized	$ 1,580,247	$ (1,422,

Discount Rate	Rate of In

	2005	2004	2005
WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE THE BENEFIT OBLIGATION:			
Defined benefit pension plan	5.75%	6.00%	3.00%
Supplemental retirement plan	5.75	6.00	3.00

Years Ended December 31,	2005	2004
COMPONENTS OF NET PERIODIC COST		
Service cost	$ 1,639,935	$ 1,562,9
Interest cost	2,208,395	1,986,3
Expected return on plan assets	(1,885,206)	(1,678,6
Amortization of prior service cost	77,322	77,3
Recognized actuarial loss	1,022,125	873,7
Net periodic benefit cost	3,062,571	2,821,6
Additional settlement gain recognized pursuant to SFAS No. 88	--	(1,331,1
Total	$ 3,062,571	$ 1,490,5

	Discount Rate		Expected Ret on Plan Ass	
	2005	2004	2005	2
WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE NET PERIODIC COST:				
Defined benefit pension plan	6.00%	6.25%	8.50%	8
Supplemental retirement plan	6.00	6.25	N/A	

To determine the expected return on plan assets, we consider historical return information on plan assets, the mix of investments that comprise plan assets and the actual income derived from plan assets.

The accumulated benefit obligation for the defined benefit pension plan at December 31, 2005 and 2004 was $24,416,499 and $20,932,859, respectively.

The tables presented on the previous page and above include the supplemental retirement plan which is an unfunded plan. The following information is presented regarding the supplemental retirement plan:

December 31,	2005	2004
Projected benefit obligation	$ 14,098,505	$ 11,891,590
Accumulated benefit obligation	13,758,390	11,353,404

The following table sets forth information regarding the assets of the defined benefit pension plan.

December 31,	2005	2004
U.S. government corporation and agency debt obligation	21%	25%
Corporate debt obligation	16	19
Common equity securities	42	53
Other	21	3
Total	100%	100%

The defined benefit pension plan owns common stock of Sterling Bancorp which is included in common equity securities above. At December 31, 2005, the value of Sterling Bancorp common stock was $1,362,988 and represented approximately 5% of plan assets. At December 31, 2004, the value of Sterling Bancorp common stock was $1,858,669 and represented 9% of plan assets.

The overall strategy of the Pension Plan Investment Policy is to have a diverse portfolio that reasonably spans established risk/return levels and preserves liquidity. The strategy allows for a moderate risk approach in order to achieve greater long-term asset growth. The asset mix can vary but is targeted at 50% equity securities, inclusive of up to 10% in Sterling Bancorp common stock, 25% in corporate obligations and 25% in federal and agency obligations. The money market position will vary but will generally be held under 5%. The Plan's allocation to common stock, excluding shares of Sterling Bancorp, will represent investment in those companies from time to time comprising the growth and value Model Portfolio as advised by the trustee's investment advisor.

The Company expects to contribute approximately $1,000,000 to the defined benefit pension plan in 2006.

The following table presents benefit payments expected to be paid, which include the effect of expected future service for the years indicated.

Year(s)	Defined Benefit Plan	Supplemental Retirement Plan	Total Benefit Payments
2006	$ 824,036	$ 10,413,306	$ 11,237,342
2007	981,615	274,866	1,256,481
2008	1,092,010	1,327,173	2,419,183
2009	1,239,241	1,506,364	2,745,605
2010	1,393,282	306,049	1,699,331
Years 2011-2015	9,593,005	1,467,830	11,060,835

The cash flows shown above are based on the assumptions used in the annual actuarial valuations of the Defined Benefit Plan. The Supplemental Retirement Plan column is computed assuming that any executive who has reached the age upon which full retirement is assumed for actuarial purposes, actually retires in the current year. However, if such an executive does not actually retire in the current year, the obligation will be deferred until a later year. We are not aware of any senior executives who have near-term plans to retire.

The Company currently provides life insurance benefits to certain officers. The coverage provided depends upon years of service with the Company and the employee's date of retirement. The Company's plan for its postretirement benefit obligation is unfunded. The Company's postretirement obligations are not material. Net postretirement benefit cost was $90,000, $90,000 and $80,000 for 2005, 2004 and 2003, respectively.

NOTE 17.

INCOME TAXES

The current and deferred tax provisions (benefits) for each of the last three fiscal years are as follows:

Years Ended December 31,	2005	2004	
FEDERAL			
Current	$ 15,309,478	$ 13,469,896	$ 12
Deferred	(3,674,397)	(509,086)	
Total	$ 11,635,081	$ 12,960,810	$ 11
STATE AND LOCAL			
Current	$ 1,176,827	$ 11,547	$ 2
Deferred	774,805	(220,822)	
Total	$ 1,951,632	$ (209,275)	$ 2
TOTAL			
Current	$ 16,486,305	$ 13,481,443	$ 15
Deferred	(2,899,592)	(729,908)	
Total	$ 13,586,713	$ 12,751,535	$ 14

Reconciliations of income tax provisions with taxes computed at Federal statutory rates are as follows:

Years Ended December 31,	2005	2004	2
Federal statutory rate	35%	35%	
Computed tax	$ 13,164,738	$ 13,074,462	$ 13,
Increase (Decrease) in tax resulting from:			
State and local taxes, net of Federal income tax benefit	918,478	(136,029)	1,
Tax-exempt income	(878,404)	(862,029)	(
Other permanent items	381,901	675,131	
Total	$ 13,586,713	$ 12,751,535	$ 14,

The components of the net deferred tax asset, included in other assets, are as follows:

December 31,	
Deferred tax assets	
Difference between financial statement provision for loan losses and tax bad debt deduction	$
Deferred compensation	
Other	
Total deferred tax assets	
Deferred tax liabilities	
Difference between tax and net book values of fixed assets	
Pension and benefit plans	
Other	
Total deferred tax liabilities	
Net deferred tax asset	
SFAS No. 115 deferred tax asset (liability)	
Minimum pension liability adjustment	
	$

Based on management's consideration of historical and anticipated future pre-tax income, as well as the reversal period for the items giving rise to the deferred tax assets and liabilities, a valuation allowance for deferred assets was not considered necessary at December 31, 2005.

The current tax liability as of December 31, 2005 and 2004 was approximately $7,987,000 and $8,831,000, respectively.

NOTE 18.

EARNINGS PER SHARE

Basic EPS is computed by dividing net income less dividends on allocated Series D convertible preferred shares held on behalf of the Employee Stock Ownership Plan ("basic net income"), by the weighted-average common shares outstanding during the year.

Diluted EPS is computed by dividing basic net income by the weighted-average common shares and common equivalent shares outstanding during the year. The common equivalent shares outstanding include the weighted-average number of Series D convertible preferred shares (held on behalf of the Employee Stock Ownership Plan) and the dilutive effect of unexercised stock options using the treasury stock method. When applying the treasury stock method, the average price of the Company's common stock is utilized.

The following table provides a reconciliation of basic and diluted EPS as required by SFAS No. 128:

	For the Year Ended 12/31/05			For the Year Ended 12/31/04			
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount	(N
BASIC EPS							

Net income	$24,026,825			$24,604,073			$2
Less preferred dividends	--			--			
Net income available for common shareholders	24,026,825	19,164,498	$1.25	24,604,073	19,146,561	$1.29	2
DILUTED EPS							
Options [1]		598,854			854,405		
Convertible preferred stock		--			34,528		
Net income available for common shareholders plus assumed conversions	$24,026,825	19,763,352	$1.22	$24,604,073	20,035,494	$1.23	$2

[1] Options issued with exercise prices greater than the average market price of the common shares for each of the years ended December 31, 2005, 2004 and 2003 have not been included in computation of diluted EPS for those respective years. As of December 31, 2005, 121,275 options to purchase shares at prices between $21.93 and $26.94 were not included; as of December 31, 2004 and 2003, there were no options excluded.

NOTE 19.

FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," requires the Company to disclose the "fair value" of certain financial instruments for which it is practical to estimate "fair value."

Much of the information used to arrive at "fair value" is highly subjective and judgmental in nature and therefore the results may not be precise. The subjective factors include, among other things, estimated cash flows, risk characteristics, credit quality and interest rates, all of which are subject to change. With the exception of investment securities and long-term debt, the Company's financial instruments are not readily marketable and market prices do not exist. Since negotiated prices for the instruments that are not readily marketable depend greatly on the motivation of the buyer and seller, the amounts that will actually be realized or paid per settlement or maturity of these instruments could be significantly different.

The following disclosures represent the Company's best estimate of the "fair value" of financial instruments.

Financial Instruments with Carrying Amount Equal to Fair Value

The carrying amount of cash and due from banks, interest-bearing deposits with other banks, Federal funds sold, customers' liabilities under acceptances, accrued interest receivable, Federal funds purchased and securities sold under agreements to repurchase, commercial paper, other short-term borrowings, acceptances outstanding, and other liabilities and accrued expenses, as a result of their short-term nature, is considered to approximate fair value.

Investment Securities

For investment securities, fair value has been based upon current market quotations, where available. If quoted market prices are not available, fair value has been estimated based upon the quoted price of similar instruments.

Loans Held in Portfolio

The fair value of loans held in portfolio which reprice within 90 days reflecting changes in the base rate approximate their carrying amount. For other loans held in portfolio, the estimated fair value is calculated based on discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality and for similar maturities. These calculations have been adjusted for credit risk based on the Company's historical credit loss experience.

The estimated fair value for secured nonaccrual loans is the value of the underlying collateral which is sufficient to repay each loan. For other nonaccrual loans, the estimated fair value represents book value less a credit risk adjustment based on the Company's historical credit loss experience.

Deposits

SFAS No. 107 requires that the fair value of demand, savings, NOW (negotiable order of withdrawal) and certain money market deposits be equal to their carrying amount. The Company believes that the fair value of these deposits is clearly greater than that prescribed by SFAS No. 107.

For other types of deposits with fixed maturities, fair value has been estimated based upon interest rates currently being offered on deposits with similar characteristics and maturities.

Long-Term Debt

For long-term borrowings, the estimated fair value is calculated based on discounted cash flow analyses, using interest rates currently being quoted for similar characteristics and maturities.

Commitments to Extend Credit, Standby Letters of Credit and Financial Guarantees

The notional amount of commitments to extend credit, standby letters of credit, and financial guarantees, is considered to approximate fair value. Due to the uncertainty involved in attempting to assess the likelihood and timing of a commitment being drawn upon, coupled with lack of an established market and the wide diversity of fee structures, the Company does not believe it is meaningful to provide an estimate of fair value that differs from the notional value of the commitment.

The following is a summary of the carrying amounts and estimated fair values of the Company's financial assets and liabilities:

December 31,	2005		
	Carrying Amount	Estimated Fair Value	Carrying Amount

FINANCIAL ASSETS			
Cash and due from banks	$ 69,148,683	$ 69,148,683	$ 48,842,4
Interest-bearing deposits with other banks	1,212,227	1,212,227	1,329,1
Investment securities	715,298,588	705,773,672	680,219,7
Loans held for sale	40,977,538	40,977,538	37,058,6
Loans held in portfolio, net	1,128,799,286	1,113,391,853	1,005,957,9
Customers' liability under acceptances	589,667	589,667	628,9
Accrued interest receivable	6,116,107	6,116,107	5,604,7
FINANCIAL LIABILITIES			
Demand, NOW, savings and money market deposits	961,278,628	961,278,628	868,573,9
Time deposits	487,047,512	484,903,529	475,277,1
Securities sold under agreements to repurchase	149,796,073	149,796,073	89,816,1
Federal funds purchased	55,000,000	55,000,000	32,500,0
Commercial paper	38,191,016	38,191,016	25,991,0
Other short-term borrowings	38,851,246	38,851,246	2,517,3
Acceptances outstanding	589,667	589,667	628,9
Accrued expenses and other liabilities	91,926,784	91,926,784	91,329,5
Long-term borrowings	85,774,000	86,224,314	135,774,0

NOTE 20.

CAPITAL MATTERS

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). In addition, the bank is subject to the provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991 (the "FDICIA") which imposes a number of mandatory supervisory measures. Among other matters, the 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 the 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, 2005, the Company and the bank exceeded the requirements for "well capitalized" institutions.

PAGE 69

The following tables present information regarding the Company's and the bank's regulatory capital ratios:

	Actual		For Capital Adequacy Minimum	
As of December 31, 2005	Amount	Ratio	Amount	Ratio
			(dollars in thousands)	

Total Capital (to Risk-Weighted Assets):				
The Company	$172,946	13.28%	$104,219	8.00%
The bank	135,307	10.99	98,520	8.00
Tier 1 Capital (to Risk-Weighted Assets):				
The Company	156,659	12.03	52,110	4.00
The bank	119,910	9.74	49,260	4.00
Tier 1 Leverage Capital (to Average Assets):				
The Company	156,659	7.96	78,680	4.00
The bank	119,910	6.33	75,722	4.00
As of December 31, 2004				
Total Capital (to Risk-Weighted Assets):				
The Company	$169,226	14.35%	$ 94,334	8.00%
The bank	129,267	11.56	89,466	8.00
Tier 1 Capital (to Risk-Weighted Assets):				
The Company	154,467	13.10	47,167	4.00
The bank	115,262	10.31	44,733	4.00
Tier 1 Leverage Capital (to Average Assets):				
The Company	154,467	8.49	72,792	4.00
The bank	115,262	6.56	70,270	4.00

NOTE 21.

SEGMENT REPORTING

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes standards for the way information about operating segments is reported in annual financial statements and establishes standards for related disclosures about an enterprise's products and services, geographic areas, and major customers.

The Company provides a broad range of financial products and services, including commercial loans, commercial and residential mortgage lending and brokerage, asset-based financing, factoring/accounts receivable management services, trade financing, equipment leasing, corporate and consumer deposit services, trust and estate administration and investment management services. The Company's primary source of earnings is net interest income, which represents the difference between interest earned on interest-earning assets and the interest incurred on interest-bearing liabilities. The Company's 2005 average interest-earning assets were 59.2% loans (corporate lending was 66.9% and real estate lending was 29.5% of total loans, respectively) and 40.0% investment securities and money market investments. There were no industry concentrations (exceeding 10% of loans, gross) in the corporate loan portfolio. Approximately 68% of loans are to borrowers located in the metropolitan New York area. In order to comply with the provisions of SFAS No. 131, the Company has determined that it has three reportable operating segments: corporate lending, real estate lending and company-wide treasury.

The following table provides certain information regarding the Company's operating segments:

	Corporate Lending	Real Estate Lending	Company-wide Treasury	Totals

Year Ended December 31, 2005				
Net interest income	$ 39,809,343	$ 21,740,851	$ 21,461,800	$ 83,011,994
Noninterest income	12,965,600	16,809,178	2,195,149	31,969,927
Depreciation and amortization	403,932	403,086	2,454	809,472
Segment profit	20,392,761	20,031,035	22,929,744	63,353,540
Segment assets	810,867,441	351,195,939	864,164,967	2,026,228,347
Year Ended December 31, 2004				
Net interest income	$ 36,784,854	$ 16,736,564	$ 23,925,710	$ 77,447,128
Noninterest income	13,213,656	15,640,862	2,782,500	31,637,018
Depreciation and amortization	324,938	404,384	1,229	730,551
Segment profit	18,869,902	17,150,037	26,273,128	62,293,067
Segment assets	721,936,005	313,730,365	812,113,123	1,847,779,493
Year Ended December 31, 2003				
Net interest income	$ 35,487,523	$ 16,365,324	$ 21,408,591	$ 73,261,438
Noninterest income	12,468,121	14,944,227	1,806,010	29,218,358
Depreciation and amortization	232,527	317,086	--	549,613
Segment profit	20,534,329	15,718,397	22,692,790	58,945,516
Segment assets	740,746,556	209,425,056	790,327,841	1,740,499,453

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

Years Ended December 31,	2005	2004	2003
Net interest income:			
Total for reportable operating segments	$ 83,011,994	$ 77,447,128	$ 73,261,438
Other[l]	922,457	768,438	730,199
Consolidated net interest income	$ 83,934,451	$ 78,215,566	$ 73,991,637
Noninterest income:			
Total for reportable operating segments	$ 31,969,927	$ 31,637,018	$ 29,218,358
Other[l]	2,583,543	3,080,677	3,459,593
Consolidated noninterest income	$ 34,553,470	$ 34,717,695	$ 32,677,951
Profit:			
Total for reportable operating segments	$ 63,353,540	$ 62,293,067	$ 58,945,516
Other[l]	(25,740,002)	(24,937,459)	(20,290,905)
Consolidated income before income taxes	$ 37,613,538	$ 37,355,608	$ 38,654,611
Assets:			
Total for reportable operating segments	$ 2,026,228,347	$ 1,847,779,493	$ 1,740,499,453
Other[l]	29,814,139	23,332,269	19,324,804
Consolidated assets	$ 2,056,042,486	$ 1,871,111,762	$ 1,759,824,257

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

NOTE 22.

PARENT COMPANY

CONDENSED BALANCE SHEETS

December 31,	2005	2004
ASSETS		
Cash and due from banks		
Banking subsidiary	$ 8,701,981	$ 10,463,497
Other banks	34,980	25,000
Interest-bearing deposits--banking subsidiary	641,990	390,309
Investment in subsidiaries		
Banking subsidiary (including goodwill of $21,158,440)	139,087,242	137,265,560
Other subsidiaries	6,698,677	6,180,911
Due from subsidiaries		
Other subsidiaries	66,318,091	54,002,677
Other assets	6,200,796	5,632,504
	$227,683,757	$213,960,458
LIABILITIES AND SHAREHOLDERS' EQUITY		
Commercial paper	$ 38,191,016	$ 25,991,038
Due to subsidiaries		
Other subsidiaries	994,937	993,228
Accrued expenses and other liabilities	15,136,244	12,498,599
Junior subordinated debt (see Note 9)	25,774,000	25,774,000
Shareholders' equity	147,587,560	148,703,593
	$227,683,757	$213,960,458

CONDENSED STATEMENTS OF INCOME

Years Ended December 31,	2005	2004	2003
INCOME			
Dividends and interest from			
Banking subsidiary	$ 22,588,819	$ 20,086,143	$ 10,063,062
Other subsidiaries	1,270,190	434,499	630,686
Other income	24,050	2,422	71,879
Total income	23,883,059	20,523,064	10,765,627
EXPENSE			
Interest expense	3,138,978	2,511,309	2,409,339
Other expenses	4,865,828	2,413,799	2,361,701
Total expense	8,004,806	4,925,108	4,771,040

Income before income taxes and equity in undistributed net income of subsidiaries	15,878,253	15,597,956	5,994,587
Benefit for income taxes	(2,982,742)	(2,039,767)	(1,790,670)
	18,860,995	17,637,723	7,785,257
Equity in undistributed net income of			
Banking subsidiary	4,648,066	6,836,107	15,775,343
Other subsidiaries	517,764	130,243	342,645
Net income	$ 24,026,825	$ 24,604,073	$ 23,903,245

CONDENSED STATEMENTS OF CASH FLOWS

Years Ended December 31,	2005	2004
OPERATING ACTIVITIES		
Net income	$ 24,026,825	$ 24,604,
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of unearned compensation	269,205	603,
Increase (Decrease) in accrued expenses and other liabilities	2,637,645	(78,
Increase (Decrease) in due to subsidiaries, net	1,709	
(Increase) Decrease in due from subsidiaries, net	(12,315,414)	(15,654,
Equity in undistributed net income of subsidiaries	(5,165,830)	(6,966,
(Increase) Decrease in other assets	(568,292)	348,
Other, net	(719,643)	(2,038,
Net cash provided by operating activities	8,166,205	820,
INVESTING ACTIVITIES		
Net (increase) decrease in interest-bearing deposits -- banking subsidiary	(251,681)	7,141,
Capital contributed to subsidiaries	--	
Net cash (used in) provided by investing activities	(251,681)	7,141,
FINANCING ACTIVITIES		
Net increase (decrease) in commercial paper	12,199,978	(2,808,
Cash dividends paid on preferred and common shares	(14,035,197)	(12,106,
Proceeds from exercise of stock options	2,701,565	4,334,
Purchase of treasury shares	(10,507,293)	(8,310,
Decrease in other short-term borrowings	--	
Cash paid in lieu of fractional shares in connection with stock dividend/split	(25,113)	(26,
Net cash used in financing activities	(9,666,060)	(18,915,
Net (decrease) increase in cash and due from banks	(1,751,536)	(10,953,
Cash and due from banks -- beginning of year	10,488,497	21,442,
Cash and due from banks -- end of year	$ 8,736,961	$ 10,488,

Supplemental disclosure of cash flow information:

Interest paid	$ 3,057,648	$ 2,508,
Income taxes paid	15,305,000	11,435,

PAGE 73

NOTE 23.

COMMITMENTS AND CONTINGENT LIABILITIES

Total rental expenses under cancelable and noncancelable leases for premises and equipment were $4,104,536, $3,325,473 and $3,642,155 for the years ended December 31, 2005, 2004 and 2003, respectively, which are net of rental income for a sublease of $177,303, $172,930 and $149,600 for the years ended December 31, 2005, 2004 and 2003, respectively.

The future minimum rental commitments as of December 31, 2005 under noncancelable leases follow:

Year(s)	Rental Commitments
2006	$ 3,449,969
2007	3,399,260
2008	3,405,125
2009	3,052,587
2010 and thereafter	12,992,217
Total	$ 26,299,158

Certain leases included above have escalation clauses and/or provide that the Company pay maintenance, electric, taxes and other operating expenses applicable to the leased property.

In the normal course of business, there are various commitments and contingent liabilities outstanding which are properly not recorded on the balance sheet. Management does not anticipate that losses, if any, as a result of these transactions would materially affect the financial position of the Company.

Loan commitments, substantially all of which have an original maturity of one year or less, were approximately $50,059,000 as of December 31, 2005. These commitments are agreements to lend to a customer as long as the conditions established in the contract are met. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The total commitment amounts do not necessarily represent future cash requirements because some of the commitments are expected to expire without being drawn upon. The bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, by the bank upon extension of credit is based on management's credit evaluation of the borrower. Collateral held varies but may include cash, U.S. Treasury and other marketable securities, accounts receivable, inventory and property, plant and equipment.

Standby letters of credit and financial guarantees, substantially all of which are within the scope of FIN No. 45, are written conditional commitments issued by the bank to guarantee the performance of a customer to a third party. At December 31, 2005, these commitments totaled $26,715,768 of which $15,066,251 expire within one year and $11,649,617 within two years. Approximately 71% of the commitments are automatically renewable for a period of one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The bank holds cash or cash equivalents and marketable securities as collateral supporting those commitments for which collateral is deemed necessary. The extent of collateral held for those commitments at December 31, 2005 ranged from 0% to 100%; the average amount collateralized was approximately 86%.

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 accompanying consolidated financial statements.

NOTE 24.

QUARTERLY DATA (UNAUDITED)

2005 Quarter	Mar 31	Jun 30	Sept 30	Dec 31
Total interest income	$26,204,326	$ 27,805,697	$29,234,054	$29,799,717
Total interest expense	5,702,046	6,740,379	7,881,261	8,785,657
Net interest income	20,502,280	21,065,318	21,352,793	21,014,060
Provision for loan losses	2,648,500	2,005,500	2,508,000	2,502,000
Net securities gains	196,680	--	--	140,777
Noninterest income, excluding securities gains	7,799,520	9,313,554	9,352,599	7,750,340
Noninterest expenses	16,976,428	18,190,666	18,065,223	17,978,066
Income before income taxes	8,873,552	10,182,706	10,132,169	8,425,111
Net income	5,766,723	6,056,153	6,273,949	5,930,000
Earnings per average common share:				
Basic	.30	.32	.32	.31
Diluted	.29	.31	.31	.31
Common stock closing price:				
High	27.086	23.495	22.276	21.619
Low	22.238	19.952	19.286	18.343
Quarter-end	23.114	20.333	21.438	19.730

2004 Quarter	Mar 31	Jun 30	Sept 30	Dec 31
Total interest income	$23,534,674	$ 23,552,184	$24,812,419	$25,900,147
Total interest expense	4,539,315	4,518,928	5,049,666	5,475,949
Net interest income	18,995,359	19,033,256	19,762,753	20,424,198
Provision for loan losses	2,426,500	2,470,500	2,338,500	2,729,500
Net securities gains	536,304	148,500	285,918	285,648
Noninterest income, excluding securities gains	7,687,805	8,398,106	8,888,910	8,486,504
Noninterest expenses	15,949,230	16,191,237	16,493,583	16,978,603
Income before income taxes	8,843,738	8,918,125	10,105,498	9,488,247
Net income	5,206,934	6,564,601	6,550,174	6,282,364

Earnings per average common share:				
Basic	.27	.34	.35	.33
Diluted	.26	.33	.32	.32
Common stock closing price:				
High	24.921	23.897	23.294	26.905
Low	21.50	21.135	19.968	21.452
Quarter-end	23.135	21.921	21.468	26.905

NOTE 25.

SUBSEQUENT EVENT

On March 14, 2006, the Company resolved certain state tax issues for tax years 1998-2004. As a result of this resolution, the Company expects to reduce its existing tax reserves by approximately $1.7 million through the provision for income taxes for the first quarter of 2006.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

[KPMG LOGO]

The Shareholders and Board of Directors
Sterling Bancorp:

We have audited the accompanying consolidated balance sheets of Sterling Bancorp and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2005, and the consolidated statements of condition of Sterling National Bank and subsidiaries as of December 31, 2005 and 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sterling Bancorp and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, and the financial position of Sterling National Bank and subsidiaries as of December 31, 2005 and 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Sterling Bancorp and subsidiaries' internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway

Commission (COSO), and our report dated March 15, 2006, expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

New York, New York
March 15, 2006

PART II

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures

As required under the Securities Exchange Act of 1934, the Company's management, with the participation of the Company's principal executive and principal financial officers, evaluated the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this annual report on Form 10-K. Based on this evaluation the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that, as of December 31, 2005, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

(b) Management's annual report on internal control over financial reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changed conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The management of the Company assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making its assessment of internal control over financial reporting, management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Based on this assessment, the Company's management concluded that, as of December 31, 2005, the Company's internal control over financial reporting is effective.

Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by KPMG LLP, as stated in their report, which is included below.

PART II (continued)

(c) Report of independent registered public accounting firm

The Shareholders and Board of Directors
Sterling Bancorp:

We have audited management's assessment, included in the accompanying Management's annual report on internal control over financial reporting (Item 9A(b)), that Sterling Bancorp and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of Sterling Bancorp and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2005, and the consolidated statements of condition of Sterling National Bank and subsidiaries as of December 31, 2005 and 2004, and our report dated March 15, 2006 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

New York, New York
March 15, 2006

(d) Changes in internal control over financial reporting

No change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the fiscal quarter ended December 31, 2005 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding executive officers required by Item 401 of Regulation S-K is furnished in a separate disclosure on page 17 at the end of Part I of this report. The other information required by Item 10 will be in the parent company's definitive proxy statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 within 120 days after December 31, 2005 and is incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 will be in the parent company's definitive proxy statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 within 120 days after December 31, 2005 and is incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

See the information appearing in Notes 14 and 15 of the Company's consolidated financial statements beginning on page 60.

The following table provides information as of December 31, 2005, regarding securities issued to all of the Company's employees under equity compensation plans that were in effect during the fiscal year ended December 31, 2005, and other equity compensation plan information.

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Aver Exercise Pric Outstanding Opt Warrants and R (b)
Equity Compensation Plans approved by security holders	1,930,551(1)	$ 11.99(
Equity Compensation Plans not approved by security holders	--	--
TOTAL	1,930,551	$ 11.99

[1] Adjusted to reflect the 5% stock dividend effected on December 12, 2005.

The other information required by Item 12 will be in the parent company's definitive proxy statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 within 120 days after December 31, 2005 and is incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 13 will be in the parent company's definitive proxy statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 within 120 days after December 31, 2005 and is incorporated by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 will be in the parent company's definitive proxy statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 within 120 days after December 31, 2005 and is incorporated by reference.

PAGE 80

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The documents filed as a part of this report are listed below:

1. Financial Statements

Sterling Bancorp

Consolidated Balance Sheets as of December 31, 2005 and 2004

Consolidated Statements of Income for the Years Ended December 31, 2005, 2004 and 2003

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2005, 2004 and 2003

Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2005, 2004 and 2003

Consolidated Statements of Cash Flows for the Years Ended December 31, 2005, 2004 and 2003

Sterling National Bank
Consolidated Statements of Condition as of December 31, 2005 and 2004

2. Financial Statement Schedules

None

3. Exhibits

3. (i) Restated Certificate of Incorporation filed with the State of New York Department of State, October 28, 2004 (Filed as Exhibit 3(i) to the Registrant's Form 10-Q for the quarter ended September 30, 2004 and incorporated herein by reference).

(ii) By-Laws as in effect on August 5, 2004 (Filed as Exhibit 3(ii) (A) to the Registrant's Form 10-Q for the quarter ended June 30, 2004 and incorporated herein by reference).

4. (a) Pursuant to Regulation S-K, Item 601(b) (4) (iii)(A), no instrument which defines the rights of holders of long-term debt of the Registrant or any of its consolidated subsidiaries is filed herewith. Pursuant to this regulation, the Registrant hereby agrees to furnish a copy of any such instrument to the SEC upon request.

(b) Shareholder Protection Rights Agreement, dated as of May 21, 1998, between the Registrant and ChaseMellon Shareholder Services, L.L.C., as Rights Agent (Filed as Exhibit 4.1 to the Registrant's Form 8-A dated June 15, 1998 and incorporated herein by reference).

10.(i)(A) Sterling Bancorp Stock Incentive Plan (Amended and Restated as of May 20, 2004) (Filed as Exhibit 10 to the Registrant's Form 10-Q for the quarter ended September 30, 2004 and incorporated herein by reference).

(i)(B) Form of Award Letter for Non-Employee Directors (Filed as Exhibit 10 to the Registrant's Form 10-Q for the quarter ended September 30, 2004 and incorporated herein by reference).

(i)(C) Form of Award Letter for Officers (Filed as Exhibit 10 to the Registrant's Form 10-Q for the quarter ended September 30, 2004 and incorporated herein by reference).

(i)(D) Form of Nonqualified Stock Option Award (Filed as Exhibit 10(A) to the Registrant's Form 8-K dated March 18, 2005 and filed on March 24, 2005 and incorporated herein by reference).

(ii)(A) Sterling Bancorp Key Executive Incentive Bonus Plan (Filed as Exhibit C to the Registrant's definitive Proxy Statement, dated March 13, 2001, filed on March 16, 2001 and incorporated herein by reference).

(iii)(A) Amended and Restated Employment Agreements dated March 22, 2002 for Louis J. Cappelli and John C. Millman (Filed as Exhibits 10(i)(a) and 10(i)(b), respectively, to the Registrant's Form 10-Q for the quarter ended March 31, 2002 and incorporated by reference herein).

(iii)(B) Amendments to Employment Agreements dated February 26, 2003 for Louis J. Cappelli and John C. Millman (Filed as Exhibits 3.10(xiv)(a) and 3.10(xiv)(b), respectively, to the Registrant's Form 10-K for the fiscal year ended December 31, 2002 and incorporated herein by reference).

(iii)(C) Amendments to Employment Agreements dated February 24, 2004 for Louis J. Cappelli and John C. Millman (Filed as Exhibits 10(xv)(a) and 10(xv)(b), respectively, to the Registrant's Form 10-K dated December 31,

2003 and filed on March 12, 2004 and incorporated herein by reference).

(iii)(D) Amendments to Employment Agreements dated March 18, 2005 for Louis J. Cappelli and John C. Millman (Filed as Exhibits 10(B) and 10(C), respectively, to the Registrant's Form 8-K dated March 18, 2005 and filed on March 24, 2005 and incorporated herein by reference).

(iii)(E) Amendments to Employment Agreements dated March 15, 2006:

(a) For Louis J. Cappelli

(b) For John C. Millman.

(iv)(A) Form of Change of Control Severance Agreement entered into May 21, 1999 between the Registrant and each of six executives (Filed as Exhibit 10(ii) to the Registrant's Form 10-Q for the quarter ended June 30, 1999 and incorporated herein by reference).

(iv)(B) Amendment to Form of Change of Control Severance Agreement dated February 6, 2002 entered into between the Registrant and each of four executives (Filed as Exhibit 10(ii) to the Registrant's Form 10-Q for the quarter ended March 31, 2002 and incorporated herein by reference).

(iv)(C) Form of Change of Control Severance Agreement dated April 3, 2002 entered into between the Registrant and one executive (Filed as Exhibit 10(i) to the Registrant's Form 10-Q for the quarter ended June 30, 2002 and incorporated herein by reference).

(iv)(D) Form of Change of Control Severance Agreement dated June 8, 2004 entered into between the Registrant and one executive (Filed as Exhibit 10(i) to the Registrant's Form 10-Q for the quarter ended June 30, 2004 and incorporated herein by reference).

11. Statement re: Computation of Per Share Earnings.

12. Statement re: Computation of Ratios.

21. Subsidiaries of the Registrant.

23. Consent of KPMG LLP Independent Registered Public Accounting Firm.

31. Rule 13a-14(a) Certifications.

32. Section 1350 Certifications.

PAGE 82

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STERLING BANCORP

/s/ Louis J. Cappelli

Louis J. Cappelli, Chairman and Chief Executive Officer
(Principal Executive Officer)

March 15, 2006

Date

/s/ John W. Tietjen

John W. Tietjen, Executive Vice President
(Principal Financial and Accounting Officer)

March 15, 2006

Date

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

March 15, 2006	/s/ Louis J. Cappelli
(Date)	Louis J. Cappelli Director, Chairman and Chief Executive Officer (Principal Executive Officer)
March 15, 2006	/s/ John. W. Tietjen

(Date)	John. W. Tietjen Executive Vice President (Principal Financial and Accounting Officer)
March 15, 2006	/s/ John C. Millman
(Date)	John C. Millman Director
March 15, 2006	/s/ Joseph M. Adamko
(Date)	Joseph M. Adamko Director
March 15, 2006	/s/ Walter Feldesman
(Date)	Walter Feldesman Director
March 15, 2006	/s/ Henry J. Humphreys
(Date)	Henry J. Humphreys Director
March 15, 2006	/s/ Eugene T. Rossides
(Date)	Eugene T. Rossides Director