STERLING BANCORP
Form 10-Q
May 04, 2012

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

FORM 10-Q

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

For the quarterly period ended March 31, 2012
or

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

For the transition period from to
Commission File Number: 1-5273-1

Sterling Bancorp
(Exact name of registrant as specified in its charter)

New York	**12-2565216**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification)**

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)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (17 CFR § 232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

x Yes o No

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

Large Accelerated Filer o	**Accelerated Filer x**
Non-Accelerated Filer o	**Smaller Reporting Company o**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes x No

As of April 30, 2012 there were 30,917,138 shares of common stock, $1.00 par value, outstanding.

STERLING BANCORP

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	101.INS*	XBRL Instance Document.	
	101.SCH*	XBRL Taxonomy Extension Schema.	
	101.CAL*	XBRL Taxonomy Extension Calculation Linkbase.	
	101.LAB*	XBRL Taxonomy Extension Label Linkbase.	
	101.PRE*	XBRL Taxonomy Extension Presentation Linkbase.	
	101.DEF*	XBRL Taxonomy Definition Linkbase.	

* As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

STERLING BANCORP AND SUBSIDIARIES
Consolidated Balance Sheets
(Unaudited)
(dollars in thousands, except per share data)

	March 31, 2012	December 31, 2011
ASSETS		
Cash and due from banks	$ 34,731	$ 31,046
Interest-bearing deposits with other banks	26,938	126,448
Securities available for sale (at estimated fair value; pledged: $172,491 in 2012 and $146,429 in 2011)	386,528	270,014
Securities held to maturity (pledged: $187,123 in 2012 and $206,282 in 2011) (estimated fair value: $433,096 in 2012 and $425,775 in 2011)	415,858	407,857
Total investment securities	802,386	677,871
Loans held for sale	27,864	43,372
Loans held in portfolio, net of unearned discounts	1,452,675	1,473,309
Less allowance for loan losses	20,105	20,029
Loans, net	1,432,570	1,453,280
Federal Reserve and Federal Home Loan Bank stock, at cost	8,470	8,486
Customers liability under acceptances	3	4
Goodwill	22,901	22,901
Premises and equipment, net	23,268	23,625
Other real estate	1,563	1,929
Accrued interest receivable	8,835	6,838
Cash surrender value of life insurance policies	53,920	53,446
Other assets	55,195	44,051
Total assets	$ 2,498,644	$ 2,493,297
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits		
Noninterest-bearing demand deposits	$ 815,513	$ 765,800
Savings, NOW and money market deposits	644,392	565,423
Time deposits	528,382	657,848
Total deposits	1,988,287	1,989,071
Securities sold under agreements to repurchase - customers	40,602	47,313
Securities sold under agreements to repurchase - dealers	5,000	5,000
Federal funds purchased	15,000	
Commercial paper	15,890	13,485
Advances - FHLB	122,368	122,733
Long-term borrowings - subordinated debentures	25,774	25,774
Total borrowings	224,634	214,305
Acceptances outstanding	3	4
Accrued interest payable	995	1,064
Accrued expenses and other liabilities	59,401	68,032
Total liabilities	2,273,320	2,272,476
Shareholders equity		
Common stock, $1 par value. Authorized 50,000,000 shares; issued 35,225,110 and 35,225,110 shares, respectively	35,225	35,225
Capital surplus	270,972	270,869
Retained earnings	17,343	15,523
Accumulated other comprehensive loss	(11,561)	(14,216)
Common shares in treasury at cost, 4,307,972 and 4,300,278 shares, respectively	(86,655)	(86,580)
Total shareholders equity	225,324	220,821

Total liabilities and shareholders equity	**$ 2,498,644**	**$ 2,493,297**

See Notes to Consolidated Financial Statements.

STERLING BANCORP AND SUBSIDIARIES
Consolidated Statements of Income
(Unaudited)
(dollars in thousands, except per share data)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
INTEREST INCOME		
Loans	$ 19,686	$ 17,175
Investment securities		
Available for sale	2,377	2,554
Held to maturity	3,030	3,397
FRB and FHLB stock	81	23
Deposits with other banks	46	35
Total interest income	25,220	23,184
INTEREST EXPENSE		
Deposits		
Savings, NOW and money market	644	700
Time	1,063	1,360
Short-term borrowings	64	78
Advances - FHLB	519	664
Long-term borrowings - subordinated debentures	523	523
Total interest expense	2,813	3,325
Net interest income	22,407	19,859
Provision for loan losses	3,000	3,000
Net interest income after provision for loan losses	19,407	16,859
NONINTEREST INCOME		
Accounts receivable management/factoring commissions and other fees	4,868	5,069
Mortgage banking income	2,336	2,175
Service charges on deposit accounts	1,413	1,371
Securities gains	879	1,124
Other income	943	1,273
Total noninterest income	10,439	11,012
NONINTEREST EXPENSE		
Salaries and employee benefits	14,911	14,260
Occupancy and equipment expenses, net	3,214	3,273
Deposit insurance	584	933
Professional fees	903	818
Other expenses	3,585	3,169
Total noninterest expenses	23,197	22,453
Income before income taxes	6,649	5,418
Provision for income taxes	2,047	1,475
Net income	4,602	3,943
Dividends on preferred shares and accretion		644
Net income available to common shareholders	$ 4,602	$ 3,299
Average number of common shares outstanding		
Basic	30,659,856	27,351,584

Diluted		**30,659,856**		**27,351,584**
Net income available to common shareholders, per average common share				
Basic	**$**	**0.15**	**$**	**0.12**
Diluted		**0.15**		**0.12**
Dividends per common share		**0.09**		**0.09**

See Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net income	$ 4,602	$ 3,943
Other comprehensive income, net of tax:		
Unrealized gains on securities available for sale arising during the year	2,685	595
Reclassification adjustment for securities gains included in net income	(488)	(614)
Reclassification adjustment for amortization of:		
Prior service cost	5	9
Net actuarial losses	453	389
Other comprehensive income	2,655	379
Comprehensive income	$ 7,257	$ 4,322

See Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Preferred Stock		
Balance at January 1,	$	$ 40,602
Discount accretion		119
Balance at March 31,	$	$ 40,721
Common Stock		
Balance at January 1,	$ 35,225	$ 31,139
Common shares issued		4,025
Restricted shares issued		61
Balance at March 31,	$ 35,225	$ 35,225
Warrants to Purchase Common Stock Balance at January 1, and March 31,	$	$ 2,615
Capital Surplus		
Balance at January 1,	$ 270,869	$ 236,437
Common shares issued		32,429
Restricted shares issued		(61)
Stock option compensation and restricted stock expense	103	73
Balance at March 31,	$ 270,972	$ 268,878
Retained Earnings		
Balance at January 1,	$ 15,523	$ 11,392
Net income	4,602	3,943
Cash dividends paid - preferred shares		(525)
Cash dividends paid - common shares	(2,782)	(2,776)
Discount accretion on series A preferred stock		(119)
Balance at March 31,	$ 17,343	$ 11,915
Accumulated Other Comprehensive Loss		
Balance at January 1,	$ (14,216)	$ (12,887)
Other comprehensive income, net of tax	2,655	379
Balance at March 31,	$ (11,561)	$ (12,508)
Treasury Stock		
Balance at January 1,	$ (86,580)	$ (86,556)
Surrender of shares issued under stock incentive plan	(75)	
Balance at March 31,	$ (86,655)	$ (86,556)
Total Shareholders Equity		
Balance at January 1,	$ 220,821	$ 222,742
Net changes during the period	4,503	37,548
Balance at March 31,	$ 225,324	$ 260,290

See Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31, 2012	2011
Operating Activities		
Net Income	$ 4,602	$ 3,943
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	3,000	3,000
Depreciation and amortization of premises and equipment	910	698
Securities gains	(879)	(1,124)
(Gains) Losses from life insurance policies, net	(229)	22
Deferred income tax provision	73	446
Proceeds from sale of loans	120,219	106,720
Gains on sales of loans, net	(2,352)	(2,184)
Originations of loans held for sale	(103,186)	(96,928)
Amortization of premiums on securities	1,791	2,065
Accretion of discounts on securities	(156)	(123)
Increase in accrued interest receivable	(1,840)	(1,127)
Decrease in accrued interest payable	(70)	(169)
Decrease in accrued expenses and other liabilities	(8,394)	(25,376)
Increase in other assets	(1,454)	(2,131)
Loss on other real estate owned	66	
Net cash provided by (used in) operating activities	12,101	(12,268)
Investing Activities		
Purchase of premises and equipment	(553)	(2,789)
Net decrease in interest-bearing deposits with other banks	99,510	32,571
Net decrease in loans held in portfolio	15,237	15,707
Net (increase) decrease in short-term factored receivables	(6,837)	7,018
Proceeds from sale of other real estate	404	
Proceeds from prepayments, redemptions or maturities of securities - held to maturity	10,491	15,298
Purchases of securities - held to maturity	(88,479)	(79,383)
Proceeds from calls of securities - held to maturity	70,000	5,000
Proceeds from prepayments, redemptions or maturities of securities - available for sale	105,570	61,478
Purchases of securities - available for sale	(284,670)	(170,033)
Proceeds from calls/sales of securities - available for sale	64,132	92,621
Proceeds from redemptions or maturities of FHLB & FRB stock	16	691
Net cash used in investing activities	(15,179)	(21,821)
Financing Activities		
Net increase (decrease) in noninterest-bearing demand deposits	49,713	(8,766)
Net increase (decrease) in savings, NOW and money market deposits	78,969	(12,815)
Net (decrease) increase in time deposits	(129,466)	1,902
Net increase in Federal funds purchased	15,000	45,000
Net decrease in securities sold under agreements to repurchase	(6,711)	(1,909)
Net increase in commercial paper and other short-term borrowings	2,405	2,038
Decrease in long-term borrowings	(365)	(15,358)
Proceeds from issuance of common stock		36,455
Cash dividends paid on preferred stock		(525)
Cash dividends paid on common stock	(2,782)	(2,776)
Net cash provided by financing activities	6,763	43,246
Net increase in cash and due from banks	3,685	9,157

Cash and due from banks - beginning of period		**31,046**		**26,824**
Cash and due from banks - end of period	**$**	**34,731**	**$**	**35,981**
Supplemental disclosures:				
Interest paid	**$**	**2,882**	**$**	**3,494**
Income taxes paid		**60**		**877**
Loans held for sale transferred to portfolio		**827**		**338**
Loans transferred to other real estate		**138**		
Due to brokers on purchases of securities - AFS		**513**		**10,493**

See Notes to Consolidated Financial Statements.

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

Note 1. Significant Accounting Policies

Nature of Operations. 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 and the term the bank refers to Sterling National Bank 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, mortgage warehouse lending, asset-based financing, factoring/accounts receivable management services, trade financing, equipment financing and deposit services. The Company has operations principally in New York and conducts business throughout the United States.

The Company s financial statements are prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) which principally consist of the Financial Accounting Standards Board Accounting Standards Codification (FASB Codification). FASB Codification Topic 105: *Generally Accepted Accounting Principles* establishes the FASB codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative guidance for SEC registrants. All guidance contained in the FASB Codification carries an equal level of authority. All non-grandfathered, non-SEC accounting literature not included in the FASB Codification is superseded and deemed non-authoritative.

Basis of Presentation. The consolidated financial statements include the accounts of Sterling Bancorp and its subsidiaries, principally the bank, after elimination of intercompany transactions. The consolidated financial statements as of and for the interim periods ended March 31, 2012 and 2011 are unaudited; however, in the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of such periods have been made. Certain reclassifications have been made to the prior year s consolidated financial statements to conform to the current presentation. Throughout the notes, dollar amounts presented in tables are in thousands, except per share data. The interim consolidated financial statements should be read in conjunction with the Company s annual report on Form 10-K for the year ended December 31, 2011 (the 2011 Form 10-K).

Use of Estimates. The preparation of financial statements in accordance with U.S. GAAP requires management to make assumptions and estimates which 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. Actual results could differ from management s current estimates as a result of changing conditions and future events. The current economic environment has increased the degree of uncertainty inherent in these significant estimates. Several accounting estimates are particularly critical and are susceptible to significant near-term change, including the allowance for loan losses and asset impairment judgments, such as other-than-temporary declines in the value of securities and the accounting for income taxes. The judgments used by management in applying these critical accounting policies may be affected by a further and prolonged deterioration in the economic environment, which may result in changes to future financial results. For example, subsequent evaluations of the loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowance for loan losses in future periods, and the inability to collect outstanding principal may result in increased loan losses. The Company evaluates subsequent events through the date that the financial statements are issued.

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

Note 2. Investment Securities

The following tables present information regarding securities available for sale:

March 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. government corporations and government sponsored enterprises				
Residential mortgage-backed securities				
CMOs (Federal Home Loan Mortgage Corporation)	$ 30,314	$ 143	$	$ 30,457
CMOs (Government National Mortgage Association)	5,226	2	10	5,218
Federal National Mortgage Association	2,125	90	0	2,215
Federal Home Loan Mortgage Corporation	37		1	36
Government National Mortgage Association	95	1		96
Total residential mortgage-backed securities	37,797	236	11	38,022
Agency notes				
Federal National Mortgage Association	500			500
Federal Home Loan Mortgage Corporation	375	6		381
Total obligations of U.S. government corporations and government sponsored enterprises	38,672	242	11	38,903
Obligations of state and political institutions-New York Bank Qualified	18,119	1,373		19,492
Single-issuer, trust preferred securities	33,869	368	455	33,782
Other preferred securities	8,763	116		8,879
Corporate debt securities	270,024	518	1,399	269,143
Equity and other securities	14,836	1,807	314	16,329
Total	$ 384,283	$ 4,424	$ 2,179	$ 386,528

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

December 31, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. government corporations and government sponsored enterprises				
Residential mortgage-backed securities				
CMOs (Federal Home Loan Mortgage Corporation)	$ 21,642	$ 103	$ 6	$ 21,739
CMOs (Government National Mortgage Association)	5,666	12	11	5,667
Federal National Mortgage Association	2,137	74		2,211
Federal Home Loan Mortgage Corporation	38		1	37
Government National Mortgage Association	98			98
Total residential mortgage-backed securities	29,581	189	18	29,752
Agency notes				
Federal National Mortgage Association	501			501
Federal Home Loan Bank	101	1		102
Federal Home Loan Mortgage Corporation	376	7		383
Federal Farm Credit Bank	251			251
Total obligations of U.S. government corporations and government sponsored enterprises	30,810	197	18	30,989
Obligations of state and political institutions-New York Bank Qualified	21,171	1,606		22,777
Single-issuer, trust preferred securities	28,506	214	1,661	27,059
Corporate debt securities	175,920	263	2,876	173,307
Equity and other securities	15,322	958	398	15,882
Total	$ 271,729	$ 3,238	$ 4,953	$ 270,014

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

The following tables present information regarding securities held to maturity:

March 31, 2012	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. government corporations and government sponsored enterprises				
Residential mortgage-backed securities				
CMOs (Federal National Mortgage Association)	$ 3,309	$ 162	$	$ 3,471
CMOs (Federal Home Loan Mortgage Corporation)	5,487	285		5,772
Federal National Mortgage Association	43,103	3,681		46,784
Federal Home Loan Mortgage Corporation	20,387	1,566		21,953
Government National Mortgage Association	3,941	588		4,529
Total residential mortgage-backed securities	76,227	6,282		82,509
Agency notes				
Federal National Mortgage Association	98,479	51	136	98,394
Federal Home Loan Bank	63,440	9	282	63,167
Federal Home Loan Mortgage Corporation	39,991	28	324	39,695
Total obligations of U.S. government corporations and government sponsored enterprises	278,137	6,370	742	283,765
Obligations of state and political institutions-New York Bank Qualified	137,721	11,610		149,331
Total	$ 415,858	$ 17,980	$ 742	$ 433,096

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

December 31, 2011	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. government corporations and government sponsored enterprises				
Residential mortgage-backed securities				
CMOs (Federal National Mortgage Association)	$ 3,942	$ 192	$	$ 4,134
CMOs (Federal Home Loan Mortgage Corporation)	6,474	305		6,779
Federal National Mortgage Association	46,937	3,777		50,714
Federal Home Loan Mortgage Corporation	23,682	1,669		25,351
Government National Mortgage Association	4,132	603		4,735
Total residential mortgage-backed securities	85,167	6,546		91,713
Agency notes				
Federal National Mortgage Association	104,981	203		105,184
Federal Home Loan Bank	44,992	34		45,026
Federal Home Loan Mortgage Corporation	34,991	49	9	35,031
Total obligations of U.S. government corporations and government sponsored enterprises	270,131	6,832	9	276,954
Obligations of state and political institutions-New York Bank Qualified	137,726	11,105	10	148,821
Total	$ 407,857	$ 17,937	$ 19	$ 425,775

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

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

	Less Than 12 Months		12 Months or Longer		Total	
March 31, 2012	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Obligations of U.S. government corporations and government sponsored enterprises						
CMOs (Government National Mortgage Association)	$ 3,144	$ 10	$	$	$ 3,144	$ 10
Federal Home Loan Mortgage Corporation			21	1	21	1
Total obligations of U.S. government corporations and government sponsored enterprises	3,144	10	21	1	3,165	11
Single-issuer, trust preferred securities	13,282	382	1,574	73	14,856	455
Corporate debt securities	175,001	747	18,991	652	193,992	1,399
Equity and other securities	1,176	168	418	146	1,594	314
Total	$ 192,603	$ 1,307	$ 21,004	$ 872	$ 213,607	$ 2,179
December 31, 2011						
Obligations of U.S. government corporations and government sponsored enterprises						
Residential mortgage-backed securities						
CMOs (Federal Home Loan Mortgage Corporation)	$ 4,276	$ 6	$	$	$ 4,276	$ 6
CMOs (Government National Mortgage Association)	3,448	11			3,448	11
Federal Home Loan Mortgage Corporation			22	1	22	1
Total obligations of U.S. government corporations and government sponsored enterprises	7,724	17	22	1	7,746	18
Single-issuer, trust preferred securities	11,721	1,574	415	87	12,136	1,661
Corporate debt securities	139,972	1,937	10,607	939	150,579	2,876
Equity and other securities	2,974	398			2,974	398
Total	$ 162,391	$ 3,926	$ 11,044	$ 1,027	$ 173,435	$ 4,953

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

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

	Less Than 12 Months		12 Months or Longer		Total	
March 31, 2012	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Obligations of U.S. government corporations and government sponsored enterprises						
Agency notes						
Federal National Mortgage Association	$ 48,348	$ 136	$	$	$ 48,348	$ 136
Federal Home Loan Bank	53,163	282			53,163	282
Federal Home Loan Mortgage Corporation	29,676	324			29,676	324
Total obligations of U.S. government corporations and government sponsored enterprises	$ 131,187	$ 742	$	$	$ 131,187	$ 742
December 31, 2011						
Obligations of U.S. government corporations and government sponsored enterprises						
Agency notes						
Federal Home Loan Mortgage Corporation	$ 14,991	$ 9	$	$	$ 14,991	$ 9
Total obligations of U.S. government corporations and government sponsored enterprises	14,991	9			14,991	9
Obligations of state and political institutions-New York Bank Qualified	736	9	289	1	1,025	10
Total	$ 15,727	$ 18	$ 289	$ 1	$ 16,016	$ 19

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

The following table presents information regarding single-issuer, trust preferred securities at March 31, 2012:

Issuer	TARP Recipient	Credit Rating	Amortized Cost	Fair Value	Unrealized Gain/(Loss)
Sterling Bancorp Trust I, 8.375%, due 3/31/2032	Yes *	NA	$ 990	$ 1,069	$ 79
NPB Capital Trust II, 7.85%, due 9/30/2032	Yes *	NA	126	127	1
Allfirst Pfd Cap Trust, Floating Rate due 7/15/2029 owned by M&T Bank Corporation	Yes	BBB	376	375	(1)
BAC Capital Trust II, 7.00%, due 2/01/2032	Yes *	BB+	300	299	(1)
BAC Capital Trust IV, 5.875%, due 5/03/2033	Yes *	BB+	50	45	(5)
BNY Capital Trust V, 5.95%, due 5/01/2033	Yes *	BBB	50	51	1
Citigroup Capital VII, 7.125%, due 7/31/2031	Yes *	BB	1,507	1,513	6
Citigroup Capital VIII, 6.95%, due 9/15/2031	Yes *	BB	246	250	4
Citigroup Capital IX, 6.00%, due 2/14/2033	Yes *	BB	2,882	2,876	(6)
Citigroup Capital X, 6.10%, due 9/30/2033	Yes *	BB	293	290	(3)
Citigroup Capital XVII, 6.35%, due 3/15/2067	Yes *	BB	46	61	15
First Tennessee Capital II, 6.30%, due 4/15/2034	Yes *	BB	2,908	2,852	(56)
Fleet Capital Trust VIII, 7.20%, due 3/15/2032, owned by Bank of America Corporation	Yes *	BB+	502	498	(4)
Goldman Sachs Capital I, 6.345%, due 2/15/2034	Yes *	BB+	5,939	5,599	(340)
JP Morgan Chase Capital XIII, Floating Rate, due 9/30/2034	Yes *	BBB	751	757	6
JP Morgan Chase Capital XI, 5.875%, due 6/15/2033	Yes *	BBB	1,623	1,637	14
JP Morgan Chase Capital XV, 5.875%, due 3/15/2035	Yes *	BBB	2,195	2,180	(15)
JP Morgan Chase Capital XVII, 5.85%, due 8/01/2035	Yes *	BBB	2,245	2,285	40

Morgan Stanley Capital Trust III, 6.25%, due 3/01/2033	Yes *	BB+	1,042	1,080	38
Keycorp Capital II, 6.875%, due 3/17/2029	Yes *	BBB-	93	92	(1)
Keycorp Capital VII, 5.70%, due 6/15/2035	Yes *	BBB-	1,552	1,601	49
PNC Capital Trust D, 6.125%, due 12/15/2033	Yes *	BBB	1,390	1,406	16
Suntrust Capital I, Floating Rate, due 5/15/2027	Yes *	BB+	717	711	(6)
USB Capital Trust XI, 6.60%, due 9/15/2066	Yes *	BBB+	100	108	8
VNB Capital Trust I, 7.75%, due 12/15/2031	Yes *	BBB-	21	21	
Wachovia Capital Trust IV, 6.375%, due 3/01/2067 owned by Wells Fargo	Yes *	BBB+	1,049	1,059	10
Wells Fargo Capital Trust VII, 5.85%, due 5/01/2033	Yes *	BBB+	424	429	5
Wells Fargo Capital Trust VIII, 5.625%, due 8/01/2033	Yes *	BBB+	367	382	15
Wells Fargo Capital IX, 5.625%, due 4/08/2034	Yes *	BBB+	4,085	4,129	44
			$ 33,869	$ 33,782	$ (87)

* TARP obligation was repaid prior to March 31, 2012.

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The Company invests principally in obligations of U.S. government corporations and government sponsored enterprises and other investment-grade securities. The fair value of these investments fluctuates based on several factors, including credit quality and general interest rate changes. The Company determined that it is not more likely than not that the Company would be required to sell before anticipated recovery.

At March 31, 2012, approximately $131.3 million, representing approximately 16.4% of the Company s held to maturity and available for sale securities are comprised of securities issued by financial service companies/banks including single-issuer trust preferred securities (29 issuers), corporate debt (49 issuers) and equity securities (11 issuers). These investments may pose a higher risk of future impairment charges as a result of possible further deterioration of the U.S. economy. The Company would be required to recognize impairment charges on these securities if they suffer a decline in value that is considered other-than-temporary. Numerous factors, including lack of liquidity for re-sales of certain investment securities, absence of reliable pricing information for investment securities, adverse changes in business climate, adverse actions by regulators or unanticipated changes in the competitive environment could have a negative effect on the Company s investment portfolio and may result in other-than-temporary impairment on certain investment securities in future periods.

At March 31, 2012, the Company held 5 security positions of single-issuer, trust preferred securities issued by financial institutions, in the available for sale portfolio, that were in an unrealized loss position for more than 12 months and are paying in accordance with their terms and have no deferrals of interest or other deferrals. In addition, management analyzes the performance of the issuers on a periodic basis, including a review of the issuers most recent bank regulatory reports and other public regulatory disclosures, to assess credit risk and the probability of impairment of the contractual cash flows of the applicable securities. Based upon management s first quarter review, the issuers have maintained performance levels adequate to support the contractual cash flows of the securities.

At March 31, 2012, the Company held 10 security positions of corporate debt securities issued by financial institutions and other corporate issuers, in the available for sale portfolio, that were in an unrealized loss position for more than 12 months. Each of these positions are paying in accordance with their terms and have not deferrals of interest or other deferrals. In addition, management analyzes the performance of each issuer on a periodic basis, including a review of the issuer s most recent public regulatory disclosures, to assess credit risk and the probability of impairment of the applicable securities. Based upon management s first quarter review, management has concluded that the unrealized losses are deemed to be temporary.

At March 31, 2012, the Company held two issues of equity securities, in the available for sale portfolio, that were in an unrealized loss position for more than 12 months. Both of these issues are rated as hold or better by the analysts who cover them. In addition, management analyzes the performance of each issuer on a periodic basis, including a review of the issuer s most recent public regulatory disclosures, to assess credit risk and the probability of impairment of the applicable securities. Based upon management s first quarter review, management has concluded that the unrealized losses are deemed to be temporary.

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The following tables present information regarding securities available for sale and securities held to maturity at March 31, 2012, 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.

Available for sale	**Amortized Cost**	**Fair Value**
Obligations of U.S. government corporations and government sponsored enterprises		
Residential mortgage-backed securities		
CMOs (Federal Home Loan Mortgage Corporation)	$ 30,314	$ 30,457
CMOs (Government National Mortgage Association)	5,226	5,218
Federal National Mortgage Association	2,125	2,215
Federal Home Loan Mortgage Corporation	37	36
Government National Mortgage Association	95	96
Total residential mortgage-backed securities	37,797	38,022
Agency notes		
Federal National Mortgage Association		
Due after 1 year but within 5 years	500	500
Federal Home Loan Mortgage Corporation		
Due after 1 year but within 5 years	375	381
Total obligations of U.S. government corporations and government sponsored enterprises	38,672	38,903
Obligations of state and political institutions - New York Bank Qualified		
Due within 1 year	1,621	1,631
Due after 5 years but within 10 years	2,940	3,182
Due after 10 years	13,558	14,679
Total obligations of state and political institutions-New York Bank Qualified	18,119	19,492
Single-issuer, trust preferred securities		
Due within 1 year	1,001	1,003
Due after 10 years	32,868	32,779
Total single-issuer, trust preferred securities	33,869	33,782
Other preferred securities		
Due within 1 year	3,300	3,351
Due after 1 year but within 5 years	5,361	5,425
Due after 10 years	102	103
Total other preferred securities	8,763	8,879
Corporate debt securities		
Due within 6 months	74,175	74,060
Due after 6 months but within 1 year	33,586	33,474
Due after 1 year but within 2 years	94,864	94,717
Due after 2 years but within 5 years	64,114	63,583
Due after 5 years but within 10 years	2,922	2,933
Due after 10 years	363	376
Total corporate debt securities	270,024	269,143
Equity and other securities	14,836	16,329
Total	$ 384,283	$ 386,528

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Held to maturity	Carrying Value	Fair Value
Obligations of U.S. government corporations and government sponsored enterprises		
Residential mortgage-backed securities		
CMOs (Federal National Mortgage Association)	$ 3,309	$ 3,471
CMOs (Federal Home Loan Mortgage Corporation)	5,487	5,772
Federal National Mortgage Association	43,103	46,784
Federal Home Loan Mortgage Corporation	20,387	21,953
Government National Mortgage Association	3,941	4,529
Total residential mortgage-backed securities	76,227	82,509
Agency notes		
Federal National Mortgage Association		
Due after 1 year but within 5 years	10,000	10,025
Due after 5 years but within 10 years	4,998	5,005
Due after 10 years	83,481	83,364
Federal Home Loan Bank		
Due after 5 years but within 10 years	23,454	23,410
Due after 10 years	39,986	39,757
Federal Home Loan Mortgage Corporation		
Due after 5 years but within 10 years	24,991	24,864
Due after 10 years	15,000	14,831
Total obligations of U.S. government corporations and government sponsored enterprises	278,137	283,765
Obligations of state and political institutions - New York Bank Qualified		
Due after 1 year but within 5 years	155	169
Due after 5 years but within 10 years	2,543	2,788
Due after 10 years	135,023	146,374
Total obligations of state and political institutions-New York Bank Qualified	137,721	149,331
Total	$ 415,858	$ 433,096

Information regarding sales/calls of available for sale securities is as follows:

	Three Months Ended March 31, 2012	2011
Sales		
Proceeds	$ 48,374	$ 59,932
Gross gains	742	1,194
Gross losses	1	42
Calls		
Proceeds	15,758	32,689
Gross gains	156	48
Gross losses	22	

Information regarding calls of held to maturity securities is as follows:

	Three Months Ended March 31, 2012	2011
Calls		
Proceeds	$ 70,000	$ 5,000
Gross gains	4	

Gross losses	76

There were no sales or transfers of held to maturity securities during the three-month periods ended March 31, 2012 or March 31, 2011.

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Note 3. Loans and allowance for loan losses

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

	March 31, 2012	December 31, 2011
Loans held for sale, net of valuation reserve ($-0- at March 31, 2012 and $-0- at December 31, 2011)		
Real estate residential mortgage	$ 27,864	$ 43,372
Loans held in portfolio, net of unearned discounts		
Commercial and industrial	595,151	626,063
Loans to nondepository financial institutions	227,335	246,587
Factored receivables	178,912	172,082
Equipment financing receivables	172,175	166,690
Real estate residential mortgage	162,642	170,153
Real estate commercial mortgage	109,610	85,825
Real estate construction and land development	13,671	13,621
Loans to individuals	11,479	10,376
Loans to depository institutions		10
Loans held in portfolio, gross	1,470,975	1,491,407
Less unearned discounts	18,300	18,098
Loans held in portfolio, net of unearned discounts	1,452,675	1,473,309
	$ 1,480,539	$ 1,516,681

At March 31, 2012, the bank had qualified loans, with a carrying value of approximately $440.3 million, available to secure borrowings from the FHLB and the FRB. There were no loans pledged at March 31, 2012.

Loan Origination/Risk Management

The Company has lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

The Company maintains an independent loan review process that reviews and validates the credit risk program on a periodic basis. Results of these reviews are presented to management. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders.

Commercial and Industrial and Loans to Nondepository Financial Institutions

Sterling provides a full range of loans to small and medium-sized businesses with the objective of establishing longer-term relationships. Loans generally range in size up to $20 million, tailored to meet customers long- and short-term needs, and include secured and unsecured lines of credit and business installment loans.

Loans generally are collateralized by accounts receivable, inventory and other assets. Sterling also provides back-office services, i.e., processing payroll, generating customer invoices, credit collection assistance and related payroll services. The repayment of commercial loans is generally dependent on the creditworthiness and cash flow of borrowers and guarantors, which may be negatively impacted by adverse economic conditions. While these loans are secured, collateral type, marketability, coverage, valuation and monitoring is not as uniform as in other portfolio classes and recovery from liquidation of such collateral may be subject to greater variability.

Factoring

Factoring provides a financing service that combines working capital financing, credit risk protection, and accounts receivable management for companies in a variety of industries. This business may be conducted on a recourse or non-recourse basis, depending upon the needs of the client.

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In general, Sterling records a receivable for the amount of accounts receivables due from customers of its clients and records a liability for the funds due to the client. Under advance factoring arrangements, clients can draw an advance as accounts receivables are sold/assigned to Sterling. With advance factoring, Sterling normally has recourse against the client if the customer fails to pay. Under collection factoring arrangements, clients sell Sterling their accounts receivables and Sterling provides credit protection to the client guaranteeing the collection of the amount due and back office support. Collection factoring is generally under a nonrecourse basis where the principal source of payment for Sterling is through the collection of the receivable from our client s customer whose credit has been approved by Sterling following a rigorous review process. Also, with collection factoring, Sterling has credit default insurance with a nationally recognized insurance company to provide it with protection against customer default.

Commercial Real Estate

Sterling offers a range of commercial real estate lending including financing on commercial buildings, retail properties and mixed use properties. Loans are predicated on the cash flow of the property, the value of the property determined by an independent appraisal and the strength of personal guarantees, if any. Loans are made at fixed or floating rates. Floating rate loans are based on the prime rate. Fixed rate loans are tied to Treasury or FHLB benchmarks and other indices.

Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans, in addition to those of real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company s commercial real estate portfolio are diverse in terms of type and geographic location. This diversity helps reduce the Company s exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geographic and risk grade criteria.

With respect to loans to developers and builders that are secured by non-owner occupied properties that the Company may originate from time to time, the Company generally requires the borrower to have had an existing relationship with the Company and have a record of success. Construction loans are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analysis of absorption and lease rates and financial analysis of the developers and property owners. Construction loans are generally based upon estimates of costs and value associated with funds, with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to timely completion of the project, interest rate changes, government regulation of real property, general economic conditions and the availability of long-term financing.

Loans are made at fixed or floating rates. Fixed rate loans are tied to U.S. Treasury or FHLB benchmarks or other indices. Floating rate loans are based on the prime rate or other index.

Equipment Financing

Sterling engages in direct and indirect lease financing. Direct lease financing is when requests for financing originate with an end user seeking to finance equipment for up to 60 months. Indirect lease finance arises through relationships with equipment financing brokers.

In both cases, credit approval is based upon on a full underwriting process that involves the submission of financial and other information, including the applicant s historical performance, cash flow projections and value of equipment, and for customers who are not public entities, Sterling generally obtains the personal guarantees of the principals of the entities.

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Residential Mortgage

Residential mortgage loans, principally on single-family residences, are made primarily for re-sale into the secondary market. Offering both fixed and adjustable rate residential mortgage loan products, Sterling focuses on conforming credit, government insured FHA and other high-quality loan products. Jumbo loans are also originated for sale into the secondary market, or brokered to third-party providers.

The ability of borrowers to service debt in the residential mortgage loan portfolios is generally subject to personal income which may be impacted by general economic conditions, such as increased unemployment levels. These loans are predominantly collateralized by first and second liens on single family properties. If a borrower cannot maintain the loan, the Company s ability to recover against the collateral in sufficient amount and in a timely manner may be significantly influenced by market, legal and regulatory conditions.

Concentrations of Credit

There are no industry concentrations (exceeding 10% of loans, gross), other than loans to nondepository financial institutions, of loans held in portfolio. Loans to nondepository financial institutions, which include the Company s residential mortgage warehouse funding product and loans to finance companies, represent approximately 15.4% of all loans. Approximately 67.0% of loans are to borrowers located in the New York metropolitan area. A further deterioration in economic conditions within the region, including a decline in real estate values, higher unemployment and other factors which could adversely impact small and mid-sized businesses, could have a significant adverse impact on the quality of the Company s loan portfolio. In addition, a decline in real estate values and higher unemployment within the mid-Atlantic region and North Carolina could adversely impact the Company s residential real estate loan portfolio.

Approximately 25.2% or $8.3 million and 22.3% or $6.9 million of the Company s net interest income and noninterest income are related to real estate lending for the three months ended March 31, 2012 and 2011, respectively. Real estate prices in the U.S. market decreased during 2011 and have continued to decrease in 2012. Continuing declines in real estate values could necessitate charge-offs in our mortgage loan portfolio that may impact our operating results. In addition, a sustained period of declining real estate values combined with the continued turbulence in the financial and credit markets would continue to limit our mortgage-related revenues.

As of March 31, 2012 approximately 60.4% of the Company s loan portfolio consisted of commercial and industrial, factored receivables, construction and commercial real estate loans. Because the Company s loan portfolio contains a 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.

Related Party Loans

Loans are made to officers or directors (including their immediate families) of the Company or for the benefit of corporations in which they have a beneficial interest subject to applicable regulations. There were no outstanding balances on such loans in excess of $60 thousand to any individual or entity at March 31, 2012 or 2011.

Nonperforming Loans

Nonaccrual loans are those on which the accrual of interest has ceased. Loans, including loans that are individually identified as being impaired under FASB Codification Topic 310: *Receivables*, 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. 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 when interest and principal payments are brought current and future payments are reasonably assured.

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Nonaccrual loans at March 31, 2012 and December 31, 2011 totaled $6.4 million and $6.4 million, respectively. The interest income that would have been earned on nonaccrual loans outstanding at March 31, 2012 and December 31, 2011, in accordance with their original terms, is estimated to be $119 thousand and $780 thousand, respectively, for the three months and the year then ended. Applicable interest income actually realized was $1 thousand and $200 thousand, respectively, for the aforementioned periods and there were no commitments to lend additional funds on nonaccrual loans.

The following table sets forth the amount of nonaccrual loans of the Company as of the dates indicated:

	March 31, 2012	December 31, 2011
Commercial and industrial	$ 634	$ 834
Equipment financing receivables	266	370
Factored receivables		
Real estate residential mortgage	2,388	1,991
Real estate commercial mortgage	3,124	3,124
Real estate construction and land development		
Loans to individuals		39
Total nonaccrual loans	$ 6,412	$ 6,358

The following table provides information regarding the past due status of loans held in portfolio:

March 31, 2012	30 59 Days Past Due	60 89 Days Past Due	90 Days & Over Past Due	Total Past Due	Current	Total Loans	MEMO 90 & Over and Still Accruing
Commercial and industrial	$ 22,121	$ 4,523	$ 818	$ 27,462	$ 565,454	$ 592,916	$ 184
Loans to nondepository financial institutions					227,335	227,335	
Factored receivables	1,625	1,189	337	3,151	175,517	178,668	337
Equipment financing receivables	472	227	266	965	155,389	156,354	
Real estate residential mortgage portfolio	1,111	453	2,388	3,952	158,690	162,642	
Real estate commercial mortgage			3,124	3,124	106,486	109,610	
Real estate construction and land development					13,671	13,671	
Loans to individuals	4	3		7	11,472	11,479	
Loans to depository institutions							
Total loans, net of unearned discount	$ 25,333	$ 6,395	$ 6,933	$ 38,661	$ 1,414,014	$ 1,452,675	$ 521
December 31, 2011							
Commercial and industrial	$ 23,665	$ 5,344	$ 837	$ 29,846	$ 594,278	$ 624,124	$ 165
Loans to nondepository institutions					246,587	246,587	
Factored receivables	3,266	665	162	4,093	167,738	171,831	
Equipment financing receivables	546	386	370	1,302	149,480	150,782	
Real estate residential mortgage	1,570	633	1,991	4,194	165,959	170,153	
Real estate commercial mortgage			3,124	3,124	82,701	85,825	
Real estate construction and land development					13,621	13,621	
Loans to individuals	41	7	39	87	10,289	10,376	
Loans to depository institutions					10	10	
Total loans, net of unearned discount	$ 29,088	$ 7,035	$ 6,523	$ 42,646	$ 1,430,663	$ 1,473,309	$ 165

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Impaired Loans

Management considers a loan to be impaired when, based on current information and events, it is determined that the Company will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all classes of loans on a loan-by-loan basis. When management identifies a loan as impaired, the impairment is measured based on the present value of expected future cash flows, discounted at the loan s effective interest rate, except when the sole remaining source of repayment of the loan is the operation or liquidation of the collateral. In these cases management uses the current fair value of the collateral, less selling costs when foreclosure is probable, instead of discounted cash flows.

If management determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance.

When the ultimate collectibility of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectibility of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

The following tables include the recorded investment and unpaid principal balances for impaired financing receivables with the associated allowance amount, if applicable. Management determined the specific allowance based on the present value of the expected future cash flows, discounted at the loan s effective interest rate, except when the remaining source of repayment for the loan is the operation or liquidation of the collateral. In those cases, the current fair value of the collateral, less selling costs was used to determine the specific allowance recorded.

March 31, 2012	**Recorded Investment in Impaired Loans**	**Unpaid Principal Balance With No Allowance**	**Unpaid Principal Balance With Allowance**	**Related Allowance**	**Average [1] Recorded Investment in Impaired Loans**
Commercial and industrial	$ 955	$ 1,443	$	$	$ 1,955
Loans to nondepository institutions					
Factored receivables					
Equipment financing receivables	271		271	13	211
Real estate residential mortgage	5,646	865	5,312	1,437	5,460
Real estate commercial mortgage	3,124		3,124	1,113	3,124
Real estate construction and land development					
Loans to individuals					
Loans to depository institutions					
Total	$ 9,996	$ 2,308	$ 8,707	$ 2,563	$ 10,750
December 31, 2011					
Commercial and industrial	$ 2,954	$ 1,395	$ 2,159	$ 287	$ 2,596
Loans to nondepository institutions					
Factored receivables					
Equipment financing receivables	151		151	17	230
Real estate residential mortgage	5,275	825	4,966	1,234	4,886
Real estate commercial mortgage	3,124		3,124	1,113	3,124
Real estate construction and land development					
Loans to individuals					
Loans to depository institutions					
Total	$ 11,504	$ 2,220	$ 10,400	$ 2,651	$ 10,836

[1] Year-to-date

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The average recorded investment and interest income recognized in accruing impaired loans for the three months ended March 31, 2012 amounted to $6.2 million (commercial and industrial $1.2 million, equipment financing receivables $0.1 million, real estate-residential mortgage $4.9 million and real estate-commercial mortgage $-0- million) and $91 thousand (commercial and industrial $7 thousand, equipment financing receivables $1 thousand, real estate-residential mortgage $83 thousand and real estate-commercial mortgage $-0- thousand), respectively.

The average recorded investment and interest income recognized in accruing impaired loans for the year ended December 31, 2011 amounted to $6.7 million (commercial and industrial $1.8 million, equipment financing receivables $0.2 million and real estate residential mortgage $4.7 million) and $430 thousand (commercial and industrial $95 thousand, equipment financing receivables $8 thousand and real estate residential mortgage $327 thousand).

The Company had troubled debt restructured loans (TDRs) totaling $7.0 million as of March 31, 2012 and $6.4 million as of December 31, 2011. The Company has allocated $1.5 million and $1.3 million of specific reserves to customers with equipment financing receivables and residential real estate loans whose loan terms have been modified in troubled debt restructurings as of March 31, 2012 and December 31, 2011. The Company has no commitments to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

During the three months ended March 31, 2012, the terms of $723 thousand of residential real estate loans were modified as troubled debt restructurings. The modification of terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan. No lease financing receivables were modified during the three months ended March 31, 2012.

Modifications of residential real estate loans involving a reduction of the stated interest rate or an extension of the maturity date were for periods ranging up to 40 years.

The troubled debt restructurings described above increased the allowance for loan losses by $127 thousand for the three months ended March 31, 2012 and resulted in charge-offs of $-0- thousand during the three months ended March 31, 2012.

During the three months ended March 31, 2012, 12 residential real estate loans (TDRs) with a recorded investment of $1.3 million had a payment default, while no lease financing receivables had a payment default. A loan is considered to be in payment default once it is 60 days contractually past due under the modified terms.

Credit Quality Indicators

As part of the ongoing monitoring of the credit quality of the Company s loan portfolio, management tracks certain credit quality indicators including trends related to (i) the risk grade of loans, (ii) the level of classified loans, (iii) charge-offs, (iv) nonperforming loans and (v) the general economic conditions in the New York metropolitan area.

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company has a process for analyzing non-homogeneous loans, such as commercial and industrial and commercial real estate loans, individually by grading the loans based on credit risk. This analysis occurs at varying times based on the type of loan as well as the loan balance and occurs at least once every 18 months for those loans greater than $500,000.

For homogeneous loan pools, such as residential mortgages, leases and consumer loans, the Company uses payment status to identify the credit risk in these loan portfolios. Payment status is reviewed on a daily basis by the Company s personnel and on a monthly basis with respect to determining the adequacy of the allowance for loan losses. The payment status of these homogeneous pools at March 31, 2012 is included in the aging of the recorded investment of past due loans table above. In addition, the total nonperforming portion of these homogeneous loan pools at March 31, 2012 is presented in the recorded investment in nonaccrual loans table above.

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The Company utilizes a risk grading matrix to assign a risk grade to each of its commercial loans. Loans under $100,000 are not risk rated. Loans are graded on a scale of 1 to 9. A description of the general characteristics of the 9 risk grades is as follows:

Risk Rating 1 & 2/High Quality/Minimal Risk These loans are well secured by liquid or high quality, diversified, and readily marketable securities within the bank s defined margin requirements including cash surrender value of life insurance, or loans to strong privately held obligors secured by real estate with satisfactory loan to value, and support guarantors. They could include loans to publicly traded entities with strong credit ratings (A-1 or better) with Moody s or Standard & Poor s.

Risk Rating 3 & 4/Very Good/Good Quality These loans can be either unsecured or secured (with monthly monitoring of Accounts Receivable and/or Inventory) to adequately or moderately capitalized privately held obligors with satisfactory sales, revenue, earnings trends, cash flow, and leverage. These secured loans may be monitored in the Asset Based Lending or the Factoring Department to include control of cash receipts and defined formula advances. These categories could include loans to publicly traded entities with credit ratings of A-3 or lower by Moody s or Standard & Poor s.

Risk Rating 5/Watch List These loans are to companies with uneven financial performance containing exceptions to loan policy without mitigating factors. These loans may exist when the obligors experience temporary credit and/or structural deficiencies. Such credits have not been criticized by Loan Review. Close supervision is warranted to avoid further deterioration.

Risk Rating 6/Special Mention (OCC Definition) Other Assets Especially Mentioned (OAEM) are loans that are currently protected but are potentially weak. Special Mention ratings have potential weaknesses which may, if not checked or corrected, weaken the asset or inadequately protect the bank s credit position at some future date. Such assets constitute an undue and unwarranted credit risk but not to the point of justifying a classification of substandard. The credit risk may be relatively minor yet constitute an unwarranted risk in light of the circumstances surrounding a specific asset.

Risk Rating 7/Substandard (OCC Definition) These loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness that jeopardizes the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified as substandard.

Risk Rating 8/Doubtful (OCC Definition) These loans have all the weakness inherent in loans classified as substandard with the added characteristic that the weakness makes collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidating procedures, capital injection, perfecting liens or additional collateral and refinancing plans.

Risk Rating 9/Loss (OCC Definition) These loans are classified as loss and charged-off because they are determined to be uncollectible and unbankable assets. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future. The bank should not be allowed to attempt long-term recoveries while the asset remains booked. Losses should be taken in the period in which they are determined to be uncollectible.

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The following table presents weighted average risk grades and classified loans by class of loan. Classified loans include loans in Risk Grades 6, 7 and 8.

	March 31, 2012			December 31, 2011		
	Weighted Average Risk Grade		Loans	Weighted Average Risk Grade		Loans
Commercial and industrial						
Risk grades 1-4	3.18	$	575,090	3.41	$	603,375
Risk grade 5	5.00		7,231	5.00		5,006
Risk grade 6	6.00		8,423	6.00		11,872
Risk grade 7	7.00		2,172	7.00		3,871
Risk grade 8						
Risk grade 9						
Total	3.25	$	592,916	3.50	$	624,124
Loans to nondepository financial institutions						
Risk grade 1-4	3.15	$	220,902	3.14	$	240,154
Risk grade 5						
Risk grade 6						
Risk grade 7	7.00		6,433	7.00		6,433
Risk grade 8						
Risk grade 9						
Total	3.26	$	227,335	3.24	$	246,587
Factored receivables						
Risk grade 1-4	3.06	$	177,430	2.84	$	170,256
Risk grade 5	5.00		1,238	5.00		1,575
Risk grade 6						
Risk grade 7						
Risk grade 8						
Risk grade 9						
Total	3.08	$	178,668	2.86	$	171,831
Equipment financing receivables						
Risk grade 1-4	3.93	$	156,088	3.89	$	150,412
Risk grade 5						
Risk grade 6						
Risk grade 7	7.00		266	7.00		370
Risk grade 8						
Risk grade 9						
Total	3.93	$	156,354	3.90	$	150,782

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Allowance for Loan Losses

The allowance reflects management s best estimate of probable losses within the existing loan portfolio and of the risk inherent in various components of the loan portfolio. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risk inherent in the loan portfolio. Additions to the allowance for loan losses are made by charges to the provision for loan losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged-off amounts are credited to the allowance for loan losses.

The Company s allowance for loan loss methodology is based on guidance provided by the Interagency Policy Statement on the Allowance for Loan and Lease Losses issued by the Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration and the Office of Thrift Supervision in December 2006 and includes an allowance allocation calculated in accordance with U.S. GAAP guidance in FASB Codification Topic 310: *Receivables* and allowance allocations calculated in accordance with FASB Codification Topic 450: *Contingencies*. Accordingly, the methodology is based on historical loss experience by type of credit and internal risk grade, specific homogeneous risk pools and specific loss allocations, with adjustments for current events and conditions.

The level of the allowance for loan losses relies on a consistent process that requires multiple layers of management review and judgment and 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. Portions of the allowance may be allocated to specific credits; however, the entire allowance is available for any credit that, in management s judgment, should be charged-off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company s control, including, among other things, the performance of the Company s loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

The Company s allowance for loan losses includes (1) specific valuation allowances for impaired loans evaluated in accordance with FASB Codification Topic 310: *Receivables*; (2) formulaic allowances based on historical loss experience by loan category, adjusted, as necessary, to reflect the impact of current conditions; and (3) unallocated general valuation allowances determined in accordance with FASB Codification Topic 450: *Contingencies* based on general economic conditions and other qualitative risk factors both internal and external to the Company.

The allowance established for losses on specific loans is based on a regular analysis and evaluation of problem loans. Loans are classified based on an internal credit risk grading process that evaluates, among other things: (i) the obligor s ability to repay; (ii) the underlying collateral, if any; and (iii) the economic environment and industry in which the borrower operates. This analysis is performed at the relationship manager level for all loans. When a loan has a calculated grade of 6 or higher, an analysis is performed to determine whether the loan is impaired and, if impaired, the need to specifically allocate a portion of the allowance for loan losses to the loan. Specific valuation allowances are determined by analyzing the borrower s ability to repay amounts owed, collateral deficiencies, the relative risk grade of the loan and economic conditions affecting the borrower s industry, among other things.

Historical valuation allowances are calculated based on the historical loss experience of specific types of loans and the internal risk grade of such loans at the time they were charged-off. The Company calculates historical loss ratios for pools of similar loans with similar characteristics based on the portion of actual charge-offs experienced to the total population of loans in the pool. The historical loss ratios are periodically updated based on actual charge-off experience. A historical valuation allowance is established for each pool of similar loans based upon the product of the historical loss ratio and the total dollar amount of the loans in the pool.

The Company s pool of similar loans includes similarly risk-graded groups of commercial and industrial loans, commercial real estate loans, residential real estate loans and consumer and other loans.

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General valuation allowances are based on general economic conditions and other qualitative risk factors both internal and external to the Company. In general, such valuation allowances are determined by evaluating, among other things:

- Estimated losses in all significant loans
- Existence and effect of any concentrations of credit
- Existence and effect of any geographic concentration
- Other external factors such as competition, legal matters or regulation that may affect risk
- Effect of criticized and classified loans
- Effects from risk arising with international lending
- Effectiveness of internal problem loan identification and risk ratings
- Trends in portfolio volume, maturity and compositions of loans within segments
- Volumes and trends in delinquencies and nonaccrual loans
- Changes in the quality of lending policies and procedures
- Changes in local and national economic conditions
- Experience, ability and depth of lending staff
- Changes in value of underlying collateral

Management evaluates the degree of risk that each one of these components has on the quality of the loan portfolio on a quarterly basis. Each component is determined based on degree of risk. The results are then input into a general allocation matrix to determine an appropriate general valuation allowance.

Included in the general valuation allowances are allocations for groups of similar loans with risk characteristics that exceed certain concentration limits established by management. Concentration risk limits have been established, among other things, for certain industry concentrations, large and highly leveraged credit relationships that exceed specified risk grades, and loans originated with policy exceptions that exceed specified risk grades.

Loans are generally charged-off at the earlier of when it is determined that collection efforts are no longer productive or when they have been identified as losses by management, internal loan review and/or bank examiners. Furthermore, equipment financing receivables and revolving credit lines to small businesses are charged-off at the earlier of when payments are 120 days past due or when it is determined that collection efforts are no longer productive.

Factors considered in determining whether collection efforts are no longer productive include any amounts currently being collected, the status of discussions or negotiations with the lessee/borrower, the principal and/or guarantors, the cost of continuing efforts to collect, the status of any foreclosure or other legal actions, the value of the collateral, and any other pertinent factors.

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The following table presents the activity in the allowance for loan losses by portfolio segment:

Three Months Ended March 31, 2012	Balance, Beginning of Period	Charge-Offs[1]	Recoveries	Net Charge-Offs[1]	Provision for Loan Losses	Balance, End of Period
Commercial and industrial	$ 7,647	$ 1,869	$ 34	$ 1,835	$ 1,703	$ 7,515
Loans to nondepository financial institutions	1,369				(104)	1,265
Factored receivables	1,450	117	6	111	159	1,498
Equipment financing receivables	3,515	1,102	338	764	697	3,448
Real estate residential mortgage	3,490	131[1]	1	130[1]	386	3,746
Real estate commercial mortgage	2,151				77	2,228
Real estate construction and land development	165				(26)	139
Loans to individuals	104	87	3	84	105	125
Loans to depository institutions						
Unallocated	138				3	141
Total	$ 20,029	$ 3,306	$ 382	$ 2,924	$ 3,000	$ 20,105

Three Months Ended March 31, 2011	Balance, Beginning of Period	Charge-Offs[1]	Recoveries	Net Charge-Offs[1]	Provision for Loan Losses	Balance, End of Period
Commercial and industrial	$ 7,454	$ 169	$ 20	$ 149	$ 174	$ 7,479
Loans to nondepository financial institutions	564				100	664
Factored receivables	1,424	132	21	111	27	1,340
Equipment financing receivables	3,423	3,776	923	2,853	2,485	3,055
Real estate residential mortgage	2,497	248[1]	163	85[1]	184	2,596
Real estate commercial mortgage	2,275				10	2,285
Real estate construction and land development	310				(24)	286
Loans to individuals	119				(3)	116
Loans to depository institutions	46				31	77
Unallocated	126				16	142
Total	$ 18,238	$ 4,325	$ 1,127	$ 3,198	$ 3,000	$ 18,040

[1] Includes losses on transfers to OREO

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The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method:

	Ending Allowance Balance Attributable to Loans Evaluated for Impairment			Loan Balances Evaluated for Impairment		
March 31, 2012	**Individually**	**Collectively**	**Total**	**Individually**	**Collectively**	**Total**
Commercial and industrial	$	$ 7,515	$ 7,515	$ 955	$ 591,961	$ 592,916
Loans to nondepository institutions		1,265	1,265		227,335	227,335
Factored receivables		1,498	1,498		178,668	178,668
Equipment financing receivables	13	3,435	3,448	271	156,083	156,354
Real estate residential mortgage	1,437	2,309	3,746	5,646	156,996	162,642
Real estate commercial mortgage	1,113	1,115	2,228	3,124	106,486	109,610
Real estate construction and land development		139	139		13,671	13,671
Loans to individuals		125	125		11,479	11,479
Loans to depository institutions						
Unallocated		141	141			
Total	$ 2,563	$ 17,542	$ 20,105	$ 9,996	$ 1,442,679	$ 1,452,675

	Ending Allowance Balance Attributable to Loans Evaluated for Impairment			Loan Balances Evaluated for Impairment		
December 31, 2011	**Individually**	**Collectively**	**Total**	**Individually**	**Collectively**	**Total**
Commercial and industrial	$ 287	$ 7,360	$ 7,647	$ 2,954	$ 621,170	$ 624,124
Loans to nondepository institutions		1,369	1,369		246,587	246,587
Factored receivables		1,450	1,450		171,831	171,831
Equipment financing receivables	17	3,498	3,515	151	150,631	150,782
Real estate residential mortgage	1,234	2,256	3,490	5,275	164,878	170,153
Real estate commercial mortgage	1,113	1,038	2,151	3,124	82,701	85,825
Real estate construction and land development		165	165		13,621	13,621
Loans to individuals		104	104		10,376	10,376
Loans to depository institutions					10	10
Unallocated		138	138			
Total	$ 2,651	$ 17,378	$ 20,029	$ 11,504	$ 1,461,805	$ 1,473,309

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Note 4. Federal Home Loan Bank Advances

During the 2011 first quarter, the bank restructured a portion of its Federal Home Loan Bank fixed rate advances by repaying $100 million of existing borrowings and replacing them with $100 million of lower cost, floating rate advances. This transaction resulted in $4.2 million in prepayment penalties that were deferred and will be recognized in interest expense as an adjustment to the cost of these borrowings in future periods. The existing borrowings were a combination of fixed rate and amortizing advances with an average cost of 2.58% and an average duration of 3.2 years. The new borrowings were all floating-rate advances with a current average cost of 1.79%, including the deferred adjustment, with an average duration of three months. The relevant accounting treatment for this transaction was provided in ASC 470-50. This transaction was executed as an earnings and interest rate risk strategy, resulting in lower FHLB advance costs and a reduction of average duration.

Note 5. Preferred Stock

On April 27, 2011, the parent company paid $42.4 million to the U.S. Treasury for the repurchase in full of the Treasury s investment in 42,000 shares of the parent company s Fixed Rate Cumulative Perpetual Preferred Shares, Series A, liquidation preference of $1,000 per share (the Preferred Shares), issued under the provisions of the TARP Capital Purchase Program. As a result of this action, the Preferred Shares were redeemed in full, eliminating an annual dividend of $2.1 million. In this connection, in determining net income available to common shareholders, the Company recognized in the second quarter a $1.2 million charge for accelerated accretion which represents the difference between the carrying value and the liquidation value for the repurchased Preferred Shares.

On May 18, 2011, the parent company completed the repurchase of a warrant held by the U.S. Treasury. The ten-year warrant was issued on December 23, 2008 as part of the parent company s participation in the U.S. Treasury s TARP Capital Purchase Program, and entitled the U.S. Treasury to purchase 516,817 common shares of the parent company at an exercise price of $12.19 per share. The parent company paid approximately $0.95 million to the U.S. Treasury to repurchase the warrant. The parent company s repurchase of the warrant concluded its participation in the TARP Capital Purchase Program.

Note 6. Common Shares and Stock Incentive Plan

On March 9, 2011, the Company completed an underwritten public offering of 4.025 million common shares at an offering price of $9.60 per share, which resulted in net proceeds of $36.5 million after underwriting discounts and expenses.

On March 24, 2011, the Board of Directors, upon recommendation by the Compensation and Corporate Governance Committees, granted a total of 20,000 shares of restricted stock to the eight non-management directors (director restricted shares) and 41,565 restricted shares to the Chairman, President and five Executive Vice Presidents (officer restricted shares). The director restricted shares will vest 25% annually over four years beginning on the first anniversary of the grant date. The officer restricted shares vest 50% on the second anniversary of the grant date and 25% on each of the third and fourth anniversaries of the grant date and had been limited by the 2008 agreement between the Company and the U.S. Treasury until the Preferred Shares were redeemed on April 27, 2011. The director restricted shares and the officer restricted shares were issued at $9.71 per share, the closing price on the date of the grant. The agreements for both the director restricted shares and the officer restricted shares have additional provisions regarding transferability and accelerated vesting of the shares and the continuation of performing substantial services for the Company.

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Note 7. Other noninterest income and expenses

The following tables set forth the significant components of other noninterest income and other noninterest expenses:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
OTHER NONINTEREST INCOME		
Trade finance income	$ 500	$ 588
Other customer related fees	249	180
Trust fees		53
Income from life insurance policies	256	275
Loss on other real estate owned	(66)	
Other income	4	177
Total other noninterest income	$ 943	$ 1,273
OTHER NONINTEREST EXPENSES		
Advertising and marketing	$ 643	$ 425
Communications	470	410
Other expenses	2,472	2,334
Total other noninterest expenses	$ 3,585	$ 3,169

Note 8. Employee Benefit Plans

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Service Cost	$ 620	$ 554
Interest Cost	1,032	895
Expected return on plan assets	(994)	(771)
Amortization of prior service cost	10	16
Recognized actuarial loss	831	700
Net periodic benefit cost	$ 1,499	$ 1,384

The Company contributed $7.0 million to the defined benefit pension plan in January 2012 and expects to contribute an additional $2.0 million to the defined benefit pension plan in 2012.

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Note 9. Other Comprehensive Income

Information related to the components of other comprehensive income included in accumulated other comprehensive loss is as follows with related tax effects:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Other Comprehensive Income		
Unrealized holding gains on securities available for sale arising during the period:		
Before tax	$ 4,839	$ 1,088
Tax effect	(2,154)	(493)
Net of tax	2,685	595
Reclassification adjustment for securities gains included in net income:		
Before tax	(879)	(1,124)
Tax effect	391	510
Net of tax	(488)	(614)
Reclassification adjustment for amortization of prior service cost:		
Before tax	10	16
Tax effect	(5)	(7)
Net of tax	5	9
Reclassification adjustment for amortization of net actuarial losses:		
Before tax	816	712
Tax effect	(363)	(323)
Net of tax	453	389
Other comprehensive income	$ 2,655	$ 379

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Note 10. Fair Value Measurements

The fair value of an asset or liability is the price that would be received upon a sale of that asset or paid to transfer that liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are independent, knowledgeable, able to transact and willing to transact.

FASB Codification Topic 820: *Fair Value Measurements and Disclosures* establishes a hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair values hierarchy is as follows:

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Examples of financial instruments generally included in this level are U.S. Treasury securities, equity and trust preferred securities that trade in active markets and listed derivative instruments.

Level 2 Inputs - Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means. Examples of financial instruments generally included in this level are corporate debt, mortgage-backed certificates issued by U.S. government corporations and government sponsored enterprises, equity securities that trade in less active markets and certain derivative instruments.

Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity s own judgments about the assumptions that market participants would use in pricing the assets or liabilities. Examples of financial instruments generally included in this level are private equities, certain loans held for sale and other alternative investments.

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

Securities available for sale. Securities classified as available for sale are generally reported at fair value utilizing level 1 and level 2 inputs. Investments in fixed income securities, exclusive of preferred stock and mortgage-backed securities, are valued based on evaluations provided by Interactive Data Corporation (IDC), a leading global provider of market data information. IDC evaluations represent an exit price or their opinion as to what a buyer would pay for a security, typically in an institutional round lot position in a current sale. IDC seeks to utilize market data and observations in its evaluation service, and gives priority to observable benchmark yields and reported trades. IDC utilizes evaluated pricing techniques that vary by asset class and incorporate available market information; because many fixed income securities do not trade on a daily basis, IDC applies available information through processes such as benchmark curves, benchmarking of similar securities, sector groupings and matrix pricing. Model processes such as option-adjusted spread models are used to value securities that have prepayment features. Substantially all securities available for sale evaluated in this manner are deemed to be level 2 valuations.

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For mortgage-backed securities issued by U.S. government corporations and government sponsored enterprises, management considers dealer indicative bids in the valuation process. Indicative bids are estimates of value and do not necessarily represent the price at which the dealer would be willing to transact. Such bids are compared to IDC evaluated prices for reasonableness as well as consistency with observable market conditions. All mortgage-backed securities are deemed to be valued based on level 2 inputs.

Publicly traded common and preferred stocks are valued by reference to the market closing price (last trade) on the measurement date (level 1 inputs). In the unlikely event that no trade occurred on the measurement date, reference would be made to an indicative bid or the last trade most proximate to the measurement date (level 2 inputs).

The following table summarizes financial assets measured at fair value on a recurring basis, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value. There were no financial liabilities measured at fair value. There have been no transfers between level 1 and level 2 of the fair value hierarchy.

March 31, 2012	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**	**Total Fair Value**
Securities available for sale:				
Obligations of U.S. government corporations and government sponsored enterprises				
Residential mortgage-backed securities	$	$ 38,022	$	$ 38,022
Agency notes		881		881
Total obligations of U.S. government corporations and government sponsored enterprises		38,903		38,903
Obligations of state and political institutions New York Bank Qualified		19,492		19,492
Single-issuer, trust preferred securities	33,782			33,782
Other preferred securities	8,879			8,879
Corporate debt securities		269,143		269,143
Equity and other securities	16,329			16,329
Total marketable securities	$ 58,990	$ 327,538	$	$ 386,528
December 31, 2011				
Securities available for sale:				
Obligations of U.S. government corporations and government-sponsored enterprises				
Mortgage-backed securities	$	$ 29,752	$	$ 29,752
Agency notes		1,237		1,237
Total obligations of U.S. government corporations and government-sponsored enterprises		30,989		30,989
Obligations of state and political institutions institutions New York Bank Qualified		22,777		22,777
Single-issuer, trust preferred securities	27,059			27,059
Corporate debt securities		173,307		173,307
Equity and other securities	15,882			15,882
Total marketable securities	$ 42,941	$ 227,073	$	$ 270,014

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Certain financial assets, such as collateral-dependent impaired loans, are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table summarizes the period end fair value of financial assets, based on significant unobservable (level 3) inputs, measured on a non-recurring basis:

	March 31, 2012	December 31, 2011
Impaired loans		
Commercial and industrial	$	$ 1,298
Commercial real estate	2,011	2,011
Other real estate owned, net	1,563	1,929

Impaired loans. At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value may receive specific allocations of the allowance for loan losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a level 3 classification of the inputs for determining fair value. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Other real estate owned. Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair values are generally based on third-party appraisals of the property utilizing a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a level 3 classification of the inputs for determining fair value. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

Impaired loans that are measured for impairment using the fair value of the collateral dependent loans had a principal balance of $3.1 million, with a valuation allowance of $1.1 million at March 31, 2012, resulting in no additional provision for loan losses for the three months ended March 31, 2012. At December 31, 2011, impaired loans had a principal balance of $4.5 million, and a valuation allowance of $1.2 million.

Other real estate owned measured at fair value less costs to sell had a net carrying amount of $1.6 million, which is made up of the outstanding balance of $1.6 million, net of valuation allowance of $-0- million. For the three months ended March 31, 2012, $34 thousand of other real estate owned was written down through a charge to noninterest expense. At December 31, 2011, other real estate owned had net carrying amount of $1.9 million, made up of the outstanding balance of $1.9 million, net of valuation allowance of $-0- million.

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

For those financial instruments that are not recorded at fair value in the Consolidated Balance Sheets, but are measured at fair value for disclosure purposes, management follows the same fair value measurement principles and guidance as for instruments recorded at 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, interest rates and other market factors, all of which are subject to change. With the exception of investment securities and certain 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.

Fair value estimates are made at a point in time, based on relevant market data as well as the best information available about the financial instrument. Fair value estimates for financial instruments for which no or limited observable market data is available are based on our judgments regarding current economic conditions, liquidity discounts, currency, credit, and interest rate risks, loss experience and other factors, all of which are level 3 inputs as discussed above. These estimates involve significant judgments and uncertainties and cannot be substantiated by comparison to quoted prices in active markets and cannot be determined with precision. As a result, such calculated fair value estimates may not be realizable in a current sale or immediate settlement of the instrument. In addition, there are inherent uncertainties in any fair value measurement technique, and changes in the underlying assumptions used in the fair value measurement technique, including discount rates, liquidity risks, and estimates of future cash flows, could significantly affect these fair value estimates.

A description of the methods, factors and significant assumptions utilized in estimating the fair values for significant categories of financial instruments follows:

Financial Instruments with Carrying Amounts Equal to Fair Value

The carrying amounts for cash and due from banks, interest-bearing deposits with other banks, accrued interest receivable, Federal funds purchased, securities sold under agreements to repurchase, commercial paper, other short-term borrowings, and accrued interest payable, as a result of their short-term nature, are considered to approximate fair value.

Investment Securities

The methods, factors and significant assumptions used to estimate fair values of all securities are described more fully beginning on page 34.

Loans, Net

The fair value of loans, net, which reprice within 90 days reflecting changes in the base rate, approximate their carrying amount. For other loans held in portfolio, the 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 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 fair value represents book value less a credit risk adjustment based on the Company s historical credit loss experience.

The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

Deposits

FASB Codification Topic 825: *Financial Instruments* 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, including the value of deposit relationships, is greater than that prescribed by FASB Codification Topic 825. 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.

Advances FHLB and Long-Term Borrowings

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

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
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Commitments to Extend Credit, Standby Letters of Credit and Financial Guarantees

The fees received for the issuance of commitments to extend credit, standby letters of credit, and financial guarantees, are 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 amount of consideration received.

The following is a summary of the carrying amounts and fair values of the Company s financial assets and liabilities. There were no transfers between Level 1 and Level 2 during 2012 or 2011.

		Fair Value Measurements at March 31, 2012			
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS					
Cash and due from banks	$ 34,731	$ 34,731	$	$	$ 34,731
Interest-bearing deposits with other banks	26,938	26,938			26,938
Investment securities	802,386	58,990	760,634		819,624
Loans, net	1,460,434			1,466,155	1,466,155
Accrued interest receivable	8,835	475	6,679	1,681	8,835
FINANCIAL LIABILITIES					
Demand, NOW, savings and money market deposits	1,459,905	1,459,905			1,459,905
Time deposits	528,382		529,668		529,668
Securities sold under agreements to repurchase	45,602	45,602			45,602
Federal funds purchased	15,000	15,000			15,000
Commercial paper	15,890	15,890			15,890
Accrued interest payable	995	138		857	995
Advances-FHLB and long-term borrowings	148,142	100,000	22,463	26,110	148,573

		Fair Value Measurements at December 31, 2011			
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS					
Cash and due from banks	$ 31,046	$ 31,046	$	$	$ 31,046
Interest-bearing deposits with other banks	126,448	126,448			126,448
Investment securities	677,871	42,941	652,848		695,789
Loans, net	1,496,652			1,505,005	1,505,005
Accrued interest receivable	6,838	377	4,732	1,729	6,838
FINANCIAL LIABILITIES					
Demand, NOW, savings and money market deposits	1,331,223	1,331,223			1,331,223
Time deposits	657,848		659,439		659,439
Securities sold under agreements to repurchase	52,313	52,313			52,313
Federal funds purchased					
Commercial paper	13,485	13,485			13,485
Accrued interest payable	1,064	135		929	1,064
Advances-FHLB and long-term borrowings	148,507	100,000	22,886	26,170	149,056

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
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Note 11. New Accounting Standards

ASU No. 2011-03, *Transfers and Servicing (Topic 860) Reconsideration of Effective Control for Repurchase Agreements.* ASU 2011-03 is intended to improve financial reporting of repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. ASU 2011-03 removes from the assessment of effective control (i) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (ii) the collateral maintenance guidance related to that criterion. ASU 2011-03 was effective for the Company on January 1, 2012. The effect of adopting this guidance did not have a significant impact on the Company s financial statements.

ASU No. 2011-04, *Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs.* ASU 2011-04 amends Topic 820, Fair Value Measurements and Disclosures, to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. ASU 2011-04 was effective for the Company on January 1, 2012. The effect of adopting this guidance did not have a significant impact on the Company s financial statements.

ASU No. 2011-05, *Comprehensive Income (Topic 220) Presentation of Comprehensive Income.* ASU 2011-05 amends Topic 220, Comprehensive Income, to require that all nonowner changes in stockholders equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders equity was eliminated. ASU 2011-05 was effective for the Company on January 1, 2012. The effect of adopting this guidance did not have a significant impact on the Company s financial statements.

ASU No. 2011-08, *Intangibles-Goodwill and Other (Topic 350) Testing Goodwill for Impairment*. ASU 2011-08 amends Topic 350, *Intangibles-Goodwill and Other,* so that entities testing goodwill for impairment have the option of performing a qualitative assessment before calculating the fair value of the reporting unit (i.e., step 1 of the goodwill impairment test). If an entity determines, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. The ASU does not change how goodwill is calculated or assigned to reporting units, nor does it revise the requirement to test goodwill annually for impairment. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed beginning after December 15, 2011, with early adoption permitted. The Company adopted ASU 2011-08 for its annual period ending December 31, 2011. The effect of adopting this guidance did not have a significant impact on the Company s financial statements.

ASU No. 2011-11, *Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11 amends Topic 210, Balance Sheet , to require an entity to disclose both gross and net information about financial instruments, such as sales and repurchase agreements and reverse sale and repurchase agreements and securities borrowing/lending arrangements, and derivative instruments that are eligible for offset in the statement of financial position and/or subject to master netting arrangement or similar agreement. ASU 2011-11 is effective for annual and interim periods beginning on January 1, 2013, and is not expected to have significant impact on the Company s financial statements.

ASU 2011-12, *Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. ASU 2011-12 defers changes in ASU No. 2011-05 that relate to the presentation of reclassification adjustments to allow the FASB time to redeliberate whether to require presentation of such adjustments on the face of the financial statements to show the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. ASU 2011-12 allows entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU No. 2011-05. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12. ASU 2011-12 is effective for annual and interim periods beginning after December 15, 2011 and did not have a significant impact on the Company s financial statements.

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

The following commentary presents management s discussion and analysis of the financial condition and results of operations of Sterling Bancorp (the parent company), a financial holding company under the Bank Holding Company Act of 1956, as amended by the Gramm-Leach-Bliley Act of 1999, and its subsidiaries, principally Sterling National Bank. Throughout this discussion and analysis, the term the Company refers to Sterling Bancorp and its subsidiaries and the term the bank refers to Sterling National Bank and its subsidiaries. This discussion and analysis should be read in conjunction with the consolidated financial statements and supplemental data contained elsewhere in this quarterly report and the Company s annual report on Form 10-K for the year ended December 31, 2011 (the 2011 Form 10-K). Certain reclassifications have been made to prior years financial data to conform to current financial statement presentations. Throughout management s discussion and analysis of financial condition and results of operations, dollar amounts in tables are presented in thousands, except per share data.

OVERVIEW

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

For the three months ended March 31, 2012, the bank s average earning assets represented approximately 99.0% of the Company s average earning assets. Loans represented 62.7% and investment securities represented 33.5% of the bank s average earning assets for the first three months of 2012.

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.

While the domestic economy continued to show moderate improvement during the 2012 first quarter, the pace was not consistent month-to-month and the rate of expansion also varied across regions of the country. Recent economic conditions during 2012, such as the continuing decrease in real estate values in the principal markets the Company serves, have reduced overall demand for residential real estate lending. However, the Company believes there are opportunities to prudently expand its loan portfolio, particularly in the corporate and commercial real estate sectors, under current economic conditions. If some of the positive economic trends observed during the first quarter of 2012 were not to continue, the Company would expect its income from corporate and real estate lending to decrease from the current levels in the near term. In addition, due to the geographic concentration of the Company s loan portfolio in the New York metropolitan area, representing approximately 67.0% of total loans at March 31, 2012, an adverse change in market conditions in that geographic area could result in a decrease in our income from corporate and real estate lending. A significant prolonged decrease in income from our lending segments, if realized, may have a severe adverse impact on the operations of the Company.

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 beginning on page 53. Information as to the components of interest income and interest expense and average rates is provided in the Average Balance Sheets shown beginning on page 52.

Comparison of the Three Months Ended March 31, 2012 and 2011

The Company reported net income available to common shareholders for the three months ended March 31, 2012 of $4.6 million, representing $0.15 per share calculated on a diluted basis, compared to $3.3 million, or $0.12 per share calculated on a diluted basis, for the first quarter of 2011. The increase in net income available to common shareholders was primarily due to a $2.5 million increase in net interest income and a $0.6 million decrease in dividend and accretion on the preferred shares, resulting from the repurchase in the second quarter of 2011 of all of the preferred shares and the warrant issued under the TARP Capital Purchase Program. Those benefits were partially offset by a $0.6 million decrease in noninterest income, a $0.7 million increase in noninterest expenses and a $0.6 million increase in provision for income taxes.

Net Interest Income

Net interest income, on a tax-equivalent basis, was $23.3 million for the first quarter of 2012 compared to $20.7 million for the corresponding 2011 period. Net interest income benefitted from higher average loan balances, lower borrowing balances and lower cost of funding. Net interest income also benefitted from the reclassification from accounts receivable management/factoring commissions and other fees into interest income from loans of revenues related to one of the Company s lending products, thereby more appropriately reflecting the characteristics of the product. Those benefits were partially offset by the impact of lower yields on loans, lower average investment securities balances and higher interest-bearing deposits balances. The net interest margin, on a tax-equivalent basis, was 4.07% for the first quarter of 2012 compared to 3.89% for the corresponding 2011 period. The net interest margin was impacted by the mix of earning assets and funding, including the higher level of noninterest-bearing demand deposits.

Total interest income, on a tax-equivalent basis, aggregated $26.1 million for the first quarter of 2012, up $2.1 million from the corresponding 2011 period as the benefit of higher average balances more than offset the impact of lower yields. Total interest earning assets increased to $2.3 billion for the first quarter of 2012 compared to $2.2 billion in the prior year period. The tax-equivalent yield on interest-earning assets was 4.58% for the first quarter of 2012 compared to 4.54% for the corresponding 2011 period.

Interest earned on the loan portfolio increased to $19.7 million for the first quarter of 2012 from $17.2 million in the prior year period. Average loan balances amounted to $1,442.0 million for the first quarter of 2012, an increase of $187.7 million from an average of $1,254.3 million in the prior year period. The increase in average loans, primarily due to the Company s business development activities, accounted for a $2.9 million increase in interest earned on loans. The yield on the loan portfolio decreased to 5.56% for the first quarter of 2012 from 5.69% for the corresponding 2011 period, which was primarily attributable to the mix of average outstanding balances among the components of the loan portfolio.

Interest earned on the securities portfolio, on a tax-equivalent basis, decreased to $6.3 million for the first quarter of 2012 from $6.8 million in the corresponding 2011 period. Average outstandings decreased to $764.3 million (33.3% of average earning assets) for the first quarter of 2012 from $842.0 million (39.0% of average earning assets) in the first quarter of 2011. The average yield on investment securities increased to 3.28% for the first quarter of 2012 from 3.23% in the corresponding 2011 period. The decrease in balances and increase in yield reflect the Company s decision to replace a portion of called longer term, lower yielding U.S. Government Agency securities with shorter term, higher yielding corporate securities. Management s Asset/Liability strategy continues to be designed to shorten the average life of the portfolio to position the Company for rising interest rates in future periods. In addition to the above, the strategy was implemented through the sale of available for sale securities, principally longer dated corporate securities and selected obligations of states and political subdivisions, with longer average lives.

Total interest expense decreased by $0.5 million for the first quarter of 2012 from $3.3 million for the corresponding 2011 period, primarily due to the impact of lower rates paid for interest-bearing deposits and borrowings and lower borrowings balances, partially offset by the impact of higher interest-bearing deposits balances.

Interest expense on deposits decreased to $1.7 million for the first quarter of 2012 from $2.1 million for the corresponding 2011 period, due to decreases in the cost of those funds, partially offset by the impact of higher balances. The average rate paid on interest-bearing deposits was 0.57%, which was 14 basis points lower than the prior year period. The decrease in average cost of deposits reflects the impact of deposit pricing strategies and the Company s purchase of certificates of deposit from the Certificate of Deposit Account Registry Service (CDARS) and various listing services which provided certificate of deposit balances at lower rates. Average interest-bearing deposits were $1,210.2 million for the first quarter of 2012 compared to $1,181.5 million for the prior year period, reflecting the impact of the Company s business development activities as well as funds received from CDARS and various listing services.

Interest expense on borrowings decreased to $1.1 million for the first quarter of 2012 from $1.3 million for the corresponding 2011 period, primarily due to lower cost of those funds, partially offset by the impact of the changes in mix. Average borrowings decreased to $210.1 million for the first quarter of 2012 from $234.3 million in the prior year period, reflecting a lesser reliance by the Company on wholesale borrowed funds.

Provision for Loan Losses

Based on management s continuing evaluation of the loan portfolio (discussed under Asset Quality on page 45), the provision for loan losses for the first quarter of 2012 was $3.0 million, unchanged from the prior year period. Factors affecting the provision for the first quarter of 2012 included current economic conditions during the quarter and a lower level of net charge-offs and lower nonaccrual loan balances.

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

As of March 31, 2012, the allowance for loan losses increased $0.1 million from $20.0 million at December 31, 2011, primarily due to an increase in the level of special mention and substandard loans partially offset by a lower level of nonaccrual loans, primarily in the equipment finance portfolio.

Noninterest Income

Noninterest income decreased to $10.4 million for the first quarter of 2012 from $11.0 million in the corresponding 2011 period. The decrease principally resulted from lower securities gains and accounts receivable management/factoring commissions and other fees partially offset by higher mortgage banking income. Securities gains declined and reflected a continuation of the asset liability management program commenced in 2009 that was designed to reduce the average life of the investment securities portfolio which was described under Net Interest Income on page 41. The Company sold approximately $47.6 million of securities with a weighted average life of about 1.8 years. A significant portion of the proceeds was used to fund loan growth. Noninterest income was negatively impacted by the reclassification from accounts receivable management/factoring commissions and other fees into interest income from loans of revenues related to one of the Company s lending products, thereby more appropriately reflecting the characteristics of the product. Mortgage banking income increased principally due to higher volume of loans sold.

Noninterest Expense

Noninterest expenses were $23.2 million for the first quarter of 2012, compared to $22.5 million for the prior year period. Higher compensation and advertising and marketing expenses, reflecting the Company s continued investment in the franchise, were partially offset by reductions in deposit insurance premiums.

Provision for Income Taxes

Reflecting an increase in pre-tax income of $1.2 million, the provision for income taxes for the first quarter of 2012 was $2.0 million, reflecting an effective tax rate of 30.8%, compared with $1.5 million for the first quarter of 2011, reflecting an effective tax rate of 27.2%. The increase in the effective tax rate was primarily due to a higher level of pre-tax income in the 2012 period compared to the 2011 period.

BALANCE SHEET ANALYSIS

Securities

At March 31, 2012, the Company s portfolio of securities totaled $802.4 million, of which obligations of U.S. government corporations and government sponsored enterprises amounted to $317.0 million, which is approximately 39.5% of the total. The Company has the intent and ability to hold to maturity securities classified as held to maturity, at which time it will receive full value for these securities. These securities are carried at cost, adjusted for amortization of premiums and accretion of discounts. The gross unrealized gains and losses on held to maturity securities were $18.0 million and $0.7 million, respectively. Securities classified as available for sale may be sold in the future, prior to maturity. These securities are carried at fair value. Net aggregate unrealized gains or losses on these securities are included, net of taxes, as a component of shareholders equity. Given the generally high credit quality of the portfolio, management expects to realize all of its investments upon market recovery or the maturity of such instruments, and thus believes that any impairment in value is related to either interest rates or market conditions and therefore temporary. Available for sale securities included gross unrealized gains of $4.4 million and gross unrealized losses of $2.2 million. As of March 31, 2012, management does not have the intent to sell any of the securities classified as available for sale in the table on page 9 and management believes that it is not more likely than not that the Company would be required to sell any such securities before a recovery of cost.

In connection with an asset-liability management strategy described under Net Interest Income on page 41, during the first quarter 2012 the Company sold approximately $47.6 million of securities with a weighted average life of about 1.8 years. A significant portion of the proceeds was used to fund loan growth.

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

March 31, 2012	**Weighted Average Life**		**Weighted Average Yield**	
	AFS	**HTM**	**AFS**	**HTM**
Residential mortgage-backed securities	2.5 Years	3.4 Years	1.91%	4.51%
Agency notes (with original call dates ranging between 3 and 36 months)	3.8 Years	8.5 Years	1.06%	1.47%
Corporate debt securities	1.5 Years		2.35%	
Obligations of state and political subdivisions New York Bank Qualified	5.4 Years	6.5 Years	5.74%[1]	5.82%[1]

[1] tax equivalent

The following table sets forth the composition of the Company s investment securities by type, with related values:

	March 31, 2012		December 31, 2011	
	Balances	% of Total	Balances	% of Total
Obligations of U.S. government corporations and government sponsored enterprises				
Residential mortgage-backed securities				
CMOs (Federal National Mortgage Association)	$ 3,309	0.41%	$ 3,942	0.58%
CMOs (Federal Home Loan Mortgage Corporation)	35,944	4.48	28,213	4.16
CMOs (Government National Mortgage Association)	5,218	0.65	5,667	0.84
Federal National Mortgage Association	45,318	5.65	49,148	7.25
Federal Home Loan Mortgage Corporation	20,423	2.55	23,719	3.50
Government National Mortgage Association	4,037	0.50	4,230	0.62
Total residential mortgage-backed securities	114,249	14.24	114,919	16.95
Agency notes				
Federal National Mortgage Association	98,979	12.34	105,482	15.56
Federal Home Loan Bank	63,440	7.91	45,094	6.65
Federal Home Loan Mortgage Corporation	40,372	5.03	35,374	5.22
Federal Farm Credit Bank			251	0.04
Total obligations of U.S. government corporations and government sponsored enterprises	317,040	39.52	301,120	44.42
Obligations of state and political institutions-New York Bank Qualified	157,213	19.59	160,503	23.68
Single-issuer, trust preferred securities	33,782	4.21	27,059	3.99
Other preferred securities	8,879	1.11		
Corporate debt securities	269,143	33.54	173,307	25.57
Equity and other securities	16,329	2.03	15,882	2.34
Total	$ 802,386	100.00%	$ 677,871	100.00%

Loan Portfolio

A management objective is to maintain the quality of the loan portfolio. The Company seeks to achieve this objective by maintaining rigorous underwriting standards coupled with regular evaluation of the creditworthiness of, and the designation of lending limits for, each borrower. The portfolio strategies include seeking industry and loan size diversification in order to minimize credit exposure and originating loans in markets with which the Company is familiar. Approximately 67.0% of loans are to borrowers located in the New York metropolitan area.

The Company s commercial and industrial loan and factored receivables portfolios represent approximately 52.1% of all loans. Loans in this category are typically made to small- and medium-sized businesses, primarily located in the New York metropolitan area, and range between $250 thousand and $15 million. The Company s real estate mortgage portfolio, which represents approximately 21.2% of all loans, is comprised of mortgages secured by real property located principally in the New York metropolitan area. The Company s leasing portfolio, which consists of finance leases, to lessees primarily located in the New York metropolitan area for various types of business equipment, represents approximately 10.6% of all loans. Primarily as the result of the Company s new mortgage warehouse lending product, loans to nondepository financial institutions, primarily located in the New York metropolitan area, represent 15.4% of all loans. Sources of repayment are the borrower s operating profits, cash flows and liquidation of pledged collateral. Based on underwriting standards, loans may be secured in whole or in part by collateral such as liquid assets, accounts receivable, equipment, inventory and real property. The collateral securing any loan or lease may depend on the type of loan or lease and may vary in value based on market conditions.

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

	March 31, 2012		December 31, 2011	
	Balances	**% of Total**	**Balances**	**% of Total**
Domestic				
Commercial and industrial	$ 592,916	40.05%	$ 624,124	41.15%
Loans to nondepository financial institutions	227,335	15.35	246,587	16.26
Factored receivables	178,668	12.07	171,831	11.33
Equipment financing receivables	156,354	10.56	150,782	9.94
Real estate residential mortgage				
Portfolio	162,642	10.99	170,153	11.22
HFS	27,864	1.88	43,372	2.86
Real estate commercial mortgage	109,610	7.40	85,825	5.66
Real estate construction	13,671	0.92	13,621	0.90
Loans to individuals	11,479	0.78	10,376	0.68
Loans to depository institutions			10	
Loans, net of unearned discounts	$ 1,480,539	100.00%	$ 1,516,681	100.00%

Asset Quality

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

While the domestic economy continued to show moderate improvement during the 2012 first quarter, the pace was not consistent month-to-month and the rate of expansion also varied across regions of the country. Nonaccrual loans increased by $0.1 million at March 31, 2012 compared to December 31, 2011, primarily reflecting a $0.4 million increase in residential real estate loans, partially offset by a $0.2 million decrease in nonaccrual commercial and industrial loans and a $0.1 million decrease in nonaccrual equipment financing receivables. Net charge-offs for the first three months of 2012 were $2.9 million, compared to $3.2 million for the corresponding 2011 period, reflecting lower net charge-offs of $2.1 million in equipment financing receivables, partially offset by higher net charge-offs of $1.7 million in commercial and industrial loans. Nevertheless, a worsening of existing economic conditions will likely result in levels of charge-offs and nonaccrual loans that will be higher than those in prior periods.

The following table sets forth the amount of non-performing assets (nonaccrual loans and other real estate owned). Also shown are loans that are past due more than 90 days and are still accruing because they are both well secured or guaranteed by financially responsible third parties and are in the process of collection.

	March 31, 2012		December 31, 2011	
Gross loans	$	1,504,996	$	1,534,779
Nonaccrual loans				
Commercial and industrial	$	634	$	834
Factored receivables				
Equipment financing receivables		266		370
Real estate-residential mortgage		2,388		1,991
Real estate-commercial mortgage		3,124		3,124
Real estate-construction and land development				
Loans to individuals				39
	$	6,412	$	6,358
Total nonaccrual loans				
Other real estate owned		1,563		1,929
Total non-performing assets	$	7,975	$	8,287
Loans past due 90 days or more and still accruing	$	521	$	165

At March 31, 2012, commercial and industrial nonaccruals represented 0.11% of commercial and industrial loans. There was 1 loan made to a borrower located in New York State.

At March 31, 2012, equipment financing nonaccruals represented 0.17% of lease financing receivables. The lessees of the equipment are located in 5 states. There were 9 leases ranging between approximately $1.4 thousand and $96.9 thousand. The value of the underlying collateral related to lease financing nonaccruals varies depending on the type and condition of equipment. While most leases are written on a recourse basis, with personal guarantees of the principals, the current value of the collateral is often less than the lease financing balance. Collection efforts include repossession and/or sale of leased equipment, payment discussions with the lessee, the principal and/or guarantors, and obtaining judgments against the lessee, the principal and/or guarantors. The balance is charged-off when it is determined that collection efforts are no longer productive. Factors considered in determining whether collection efforts are no longer productive include any amounts currently being collected, the status of discussions or negotiations with the lessee, the principal and/or guarantors, the cost of continuing efforts to collect, the status of any foreclosure or other legal actions, the value of the collateral, and any other pertinent factors.

At March 31, 2012, residential real estate nonaccruals represented 1.47% of residential real estate loans held in portfolio. There were 14 loans ranging between approximately $4.4 thousand and $658.0 thousand secured by properties located in 5 states.

At March 31, 2012, commercial real estate nonaccruals represented 2.85% of commercial mortgage real estate loans. There were 2 loans for $745.3 thousand and $2.4 million, respectively, secured by properties located in New York State.

At March 31, 2012, other real estate owned consisted of 7 properties with values of approximately $25.6 thousand to $554.6 thousand located in 4 states.

The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management s best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The Company s allowance for loan losses methodology includes allowance allocations calculated in accordance with FASB Codification Topic 310, *Receivables* and allowance allocations calculated in accordance with FASB Codification Topic 450, *Contingencies*. Accordingly, the methodology is based on historical experience by type of credit and internal risk grade, specific homogenous pools and specific loss allocations, with adjustments for current events and conditions. The Company s process for determining the appropriate level of the allowance for loan losses is designed to account for credit deterioration as it occurs. The provision for loan losses reflects loan quality trends, including the levels of trends related to nonaccrual loans, past due loans, potential problem loans, classified and criticized loans and net charge-offs or recoveries, among other factors. The provision for loan losses also reflects the totality of actions taken on all loans for a particular period. In other words, the amount of the provision reflects not only the necessary increases in the allowance for loan losses related to newly identified criticized loans, but it also reflects actions taken related to other loans including, among other things, any necessary increases or decreases in required allowance for specific loans or loan pools. See Note 3-Loans and Allowance for Loan Losses in the accompanying notes to consolidated financial statements included elsewhere in this report for further details regarding the methodology for estimating the appropriate level of the allowance for loan losses.

At March 31, 2012, the ratio of the allowance to loans held in portfolio, net unearned discounts, was 1.38% and the allowance was $20.1 million. Loans 90 days past due and still accruing amounted to $521 thousand. At such date, the Company s nonaccrual loans amounted to $6.4 million; $4.5 million of such loans were judged to be impaired within the scope of FASB Codification Topic 310, *Receivables*, and had a valuation allowance totalling $1.2 million, which is included within the overall allowance for loan losses. Based on the foregoing, as well as management s judgment as to the current risks inherent in loans held in portfolio, the Company s allowance for loan losses was deemed adequate to absorb all probable losses on specifically known and other credit risks associated with the portfolio as of March 31, 2012. 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 different from the provision taken in the first three months of 2012. Potential problem loans, which are loans that are currently performing under present loan repayment terms but where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of the borrowers to continue to comply with the present repayment terms, aggregated $-0- at March 31, 2012 and 2011, respectively.

The following table sets forth certain information with respect to the Company s loan loss experience:

	Three Months Ended March 31, 2012	2011
Average loans held in portfolio, net of unearned discounts, during period	$ 1,405,266	$ 1,228,301
Allowance for loan losses:		
Balance at beginning of period	$ 20,029	$ 18,238
Charge-offs:		
Commercial and industrial	1,869	169
Lease financing receivables	1,102	3,776
Factored receivables	117	132
Real estate - residential mortgage	90	248
Real estate - commercial mortgage		
Real estate - construction and land development		
Loans to individuals	87	
Total charge-offs	3,265	4,325
Recoveries:		
Commercial and industrial	34	20
Lease financing receivables	338	923
Factored receivables	6	21
Real estate - residential mortgage	1	163
Real estate - commercial mortgage		
Real estate - construction and land development		
Loans to individuals	3	
Total recoveries	382	1,127
Subtract:		
Net charge-offs	2,883	3,198
Provision for loan losses	3,000	3,000
Less losses on transfers to other real estate owned	41	
Balance at end of period	$ 20,105	$ 18,040
Ratio of annualized net charge-offs to average loans held in portfolio, net of unearned discounts	0.82%	1.04%

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 period to period based on management s evaluation of the risk characteristics of the loan portfolio. The amount allocated to a particular loan category of the Company s loans held in portfolio may not necessarily be indicative of actual future charge-offs in that loan category.

	March 31, 2012		December 31, 2011	
	Amount	% of loans in each category to total loans held in portfolio	Amount	% of loans in each category to total loans held in portfolio
Domestic				
Commercial and industrial	$ 7,515	40.82%	$ 7,647	42.36%
Loans to depository institutions				
Loans to nondepository financial institutions	1,265	15.65	1,369	16.74
Factored receivables	1,498	12.30	1,450	11.66
Equipment financing receivables	3,448	10.76	3,515	10.24
Real estate - residential mortgage	3,746	11.20	3,490	11.55
Real estate - commercial mortgage	2,228	7.54	2,151	5.83
Real estate - construction and land development	139	0.94	165	0.92
Loans to individuals	125	0.79	104	0.70
Unallocated	141		138	
Total	$ 20,105	100.00%	$ 20,029	100.00%

As of March 31, 2012, the allowance for loan losses increased $0.1 million from $20.0 million at December 31, 2011, primarily due to an increase in the allowance allocated to real estate residential mortgage ($0.3 million), partially offset by a reduction in the allowance allocated to commercial and industrial ($0.1 million) and loans to nondepository financial institutions ($0.1 million). The allowance allocated to real estate residential mortgage increased primarily due to higher nonaccrual loan balances.

Deposits

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

The following table provides certain information with respect to the Company s deposits; there were no foreign deposits at either date:

	March 31, 2012		December 31, 2011	
	Balances	% of Total	Balances	% of Total
Demand	$ 815,513	41.02%	$ 765,800	38.50%
NOW	202,915	10.20	177,495	8.93
Savings	19,608	0.99	18,566	0.93
Money Market	421,869	21.22	369,362	18.57
Time deposits	528,382	26.57	657,848	33.07
Total deposits	$ 1,988,287	100.00%	$ 1,989,071	100.00%

Fluctuations of balances in total or among categories at any date may occur based on the Company s mix of assets and liabilities as well as on customers balance sheet strategies. Historically, however, average balances for deposits have been relatively stable. Information regarding these average balances is presented beginning on page 52.

CAPITAL

The Company and the bank are subject to risk-based capital regulations which quantitatively measure capital against risk-weighted assets, including certain off-balance sheet items. These regulations define the elements of the Tier 1 and Tier 2 components of total capital and establish minimum ratios of 4% for Tier 1 capital and 8% for total capital for capital adequacy purposes. Supplementing these regulations is a leverage requirement. This requirement establishes a minimum leverage ratio (at least 3% or 4%, depending upon an institution s regulatory status) which is calculated by dividing Tier 1 capital by adjusted quarterly average assets (after deducting goodwill). Information regarding the Company s and the bank s risk-based capital is presented on page 54. In addition, the bank is subject to the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) which imposes a number of mandatory supervisory measures. Among other matters, FDICIA established five capital categories, ranging from well capitalized to critically under capitalized. Such classifications are used by regulatory agencies to determine a bank s deposit insurance premium and 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 parent company. At March 31, 2012, the parent company and the bank exceeded the requirements for well capitalized institutions under the tests pursuant to FDICIA and of the Federal Reserve Board.

The bank regulatory agencies have encouraged banking organizations, including healthy, well-run banking organizations, to operate with capital ratios substantially in excess of the stated ratios required to maintain well capitalized status. This has resulted from, among other things, past and current economic conditions, the global financial crisis and the likelihood, as described in the 2011 Form 10-K, of increased formal capital requirements for banking organizations. In light of the foregoing, the parent company and the bank expect that they will maintain capital ratios substantially in excess of the well capitalized ratios.

During the first quarter of 2011, we completed an underwritten public offering of 4,025,000 shares of our common shares at an offering price of $9.60 per share, which resulted in net proceeds of $36.5 million after underwriting discounts and expenses. The proceeds from the issuance of shares were intended to be used for general corporate purposes, which could include the financing of possible acquisitions of complementary businesses or assets, including FDIC-assisted transactions, the extension of credit to, or the funding of the investments in, our subsidiaries, or the repurchase of Series A Preferred Shares, separately or together with the warrant for 516,817 common shares held by the U.S. Treasury, subject to the receipt of any required regulatory approval.

On April 27, 2011, after obtaining regulatory approvals, the parent company repurchased from the U.S. Treasury all of the issued and outstanding Fixed Rate Cumulative Perpetual Preferred Shares, Series A, for an aggregate purchase price of $42,420,000, which includes accrued and unpaid dividends. The repurchase was funded with a combination of the proceeds from the March 2011 and March 2010 offerings of common shares.

On May 18, 2011, the parent company completed the repurchase of the warrant to purchase 516,817 common shares of the parent company from the U.S. Treasury. The parent company paid approximately $0.95 million to the U.S. Treasury to repurchase the warrant. The parent company s repurchase of the warrant concluded its participation in the TARP Capital Purchase Program.

For a discussion of the Company s liquidity risks and management s assessment thereof and certain information regarding the Company s contractual obligations, see Item 3. Quantitative and Qualitative Disclosures about Market Risk below.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

For information regarding recently issued accounting pronouncements and their expected impact on the Company s consolidated financial statements, see Note 11 of the Company s unaudited consolidated financial statements in this quarterly report on Form 10-Q.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained or incorporated by reference in this quarterly report on Form 10-Q, including but not limited to, statements concerning future results of operations or financial position, borrowing capacity and future liquidity, future investment results, future credit exposure, future loan losses and plans and objectives for future operations, economic environment and other statements contained herein regarding matters that are not historical facts, are forward-looking statements as defined in the Securities Exchange Act of 1934-as amended (the Exchange Act). 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 and we make no commitment to update or revise forward-looking statements in order to reflect new information, subsequent events or changes in expectations.

Factors that could cause our actual results to differ materially from those in the forward-looking statements include, but are not limited to, the following: inflation, interest rates, and 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 and laws and regulations concerning taxes, banking and securities with which the Company must comply; 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); U.S. and foreign governmental budget deficits (including, with respect to the United States, at federal, state and municipal level) and default by governments on sovereign or other governmental debt; changes in accounting principles, policies and guidelines; any acquisitions of assets or businesses by us and our ability to successfully integrate acquired assets or businesses; continued improvement in U.S. economy and our ability to prudently expand our loan portfolio under then-current economic conditions; our intention and ability to hold investment securities held to maturity until maturity and our ability not to sell investment securities available for sale before a recovery of cost; our and the bank s ability to maintain capital ratios in excess of the well capitalized thresholds; the adequacy of our and the bank s borrowing capacity upon any dramatic change in market conditions; the risks and uncertainties described in Risk Factors in the 2011 Form 10-K; other risks and uncertainties detailed from time to time in press releases and other public filings; and the Company s performance in managing the risks involved in any of the foregoing. The foregoing list of important factors is not exclusive, and we will not update any forward-looking statement, whether written or oral, that may be made from time to time.

STERLING BANCORP AND SUBSIDIARIES
Average Balance Sheets [1]
Three Months Ended March 31,
(Unaudited)

	2012			2011		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS						
Interest-bearing deposits with other banks	$ 77,072	$ 46	0.24%	$ 52,589	$ 35	0.27%
Investment Securities						
Available for sale - taxable	325,871	2,170	2.66	369,002	2,188	2.37
Held to maturity - taxable	280,377	1,633	2.33	316,118	2,187	2.77
Tax-exempt [2]	158,018	2,468	6.25	156,867	2,425	6.18
Total investment securities	764,266	6,271	3.28	841,987	6,800	3.23
FRB and FHLB stock [2]	8,476	81	3.82	9,142	23	1.02
Loans, net of unearned discounts [3]	1,441,967	19,686	5.56	1,254,344	17,175	5.69
TOTAL INTEREST-EARNING ASSETS	2,291,781	26,084	4.58%	2,158,062	24,033	4.54%
Cash and due from banks	37,628			36,937		
Allowance for loan losses	(21,584)			(19,817)		
Goodwill	22,901			22,901		
Other assets	129,380			125,925		
TOTAL ASSETS	$ 2,460,106			$ 2,324,008		
LIABILITIES AND SHAREHOLDERS EQUITY						
Interest-bearing deposits						
Domestic						
Savings	$ 18,966	1	0.02%	$ 19,964	2	0.05%
NOW	221,710	79	0.14	205,789	71	0.14
Money market	380,851	564	0.60	342,173	627	0.74
Time	588,641	1,063	0.73	613,586	1,360	0.90
Total interest-bearing deposits	1,210,168	1,707	0.57	1,181,512	2,060	0.71
Borrowings						
Securities sold under agreements to repurchase - customers	39,772	36	0.36	41,269	48	0.47
Securities sold under agreements to repurchase - dealers	5,001	16	1.30	5,000	16	1.29
Federal funds purchased	2,473	1	0.14	4,833	2	0.15
Commercial paper	14,580	11	0.29	15,656	12	0.30
Short-term borrowings - other				2,590		
Advances - FHLB	122,492	519	1.70	139,215	664	1.93
Long-term borrowings - sub debt	25,774	523	8.38	25,774	523	8.38
Total borrowings	210,092	1,106	2.12	234,337	1,265	2.18
TOTAL INTEREST-BEARING LIABILITIES	1,420,260	2,813	0.80%	1,415,849	3,325	0.95%
Noninterest-bearing deposits	759,002			538,136		
Total including noninterest-bearing demand deposits	2,179,262	2,813	0.54%	1,953,985	3,325	0.69%
Other liabilities	59,160			138,610		
Total liabilities	2,238,422			2,092,595		
Shareholders equity	221,684			231,413		
	$ 2,460,106			$ 2,324,008		

TOTAL LIABILITIES AND SHAREHOLDERS EQUITY				
Net interest income/spread	**23,271**	**3.78%**	**20,708**	**3.59%**
Net yield on interest-earning assets (margin)		**4.07%**		**3.89%**
Less: Tax equivalent adjustment	**864**		**849**	
Net interest income	**$ 22,407**		**$ 19,859**	

[1] The average balances of assets, liabilities and shareholders equity are computed on the basis of daily averages. Average rates are presented on a tax-equivalent basis. Certain reclassifications have been made to amounts for prior periods to conform to the current presentation.

[2] Interest on tax-exempt securities is presented on a tax-equivalent basis.

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

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

	Increase/(Decrease) Three Months Ended March 31, 2012 to March 31, 2011		
	Volume	Rate	Net [2]
INTEREST INCOME			
Interest-bearing deposits with other banks	$ 15	$ (4)	$ 11
Investment Securities			
Available for sale - taxable	(259)	241	(18)
Held to maturity - taxable	(216)	(338)	(554)
Tax-exempt [2]	27	16	43
Total investment securities	(448)	(81)	(529)
FRB and FHLB stock	(2)	60	58
Loans, net of unearned discounts [3]	2,910	(399)	2,511
TOTAL INTEREST INCOME	$ 2,475	$ (424)	$ 2,051
INTEREST EXPENSE			
Interest-bearing deposits			
Domestic			
Savings	$	$ (1)	$ (1)
NOW	8		8
Money market	69	(132)	(63)
Time	(40)	(257)	(297)
Total interest-bearing deposits	37	(390)	(353)
Borrowings			
Securities sold under agreements to repurchase - customers	(1)	(11)	(12)
Securities sold under agreements to repurchase - dealers			
Federal funds purchased	(1)		(1)
Commercial paper	(1)		(1)
Short-term borrowings - other			
Advances - FHLB	(69)	(76)	(145)
Long-term borrowings - sub debt			
Total borrowings	(72)	(87)	(159)
TOTAL INTEREST EXPENSE	$ (35)	$ (477)	$ (512)
NET INTEREST INCOME	$ 2,510	$ 53	$ 2,563

[1] This table is presented on a tax-equivalent basis.

[2] Changes in interest income and interest expense due to a combination of both volume and rate have been allocated to the change due to volume and the change due to rate in proportion to the relationship of the change due solely to each. The effect of the extra day in 2012 has been allocated entirely to the volume variance.

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

STERLING BANCORP AND SUBSIDIARIES
Regulatory Capital and Ratios

Ratios and Minimums

As of March 31, 2012	Actual Amount	Actual Ratio	For Capital Adequacy Minimum Amount	For Capital Adequacy Minimum Ratio	To Be Well Capitalized Amount	To Be Well Capitalized Ratio
Total Capital(to Risk-Weighted Assets):						
The Company	$ 259,166	13.15%	$ 157,695	8.00%	$ 197,119	10.00%
The bank	240,482	12.30	156,445	8.00	195,556	10.00
Tier 1 Capital(to Risk-Weighted Assets):						
The Company	238,129	12.08	78,848	4.00	118,272	6.00
The bank	219,446	11.22	78,222	4.00	117,334	6.00
Tier 1 Leverage Capital(to Average Assets):						
The Company	238,129	9.77	97,485	4.00	121,857	5.00
The bank	219,446	9.08	96,710	4.00	120,887	5.00
As of December 31, 2011						
Total Capital(to Risk-Weighted Assets):						
The Company	$ 256,526	13.71%	$ 149,738	8.00%	$ 187,173	10.00%
The bank	234,737	12.63	148,732	8.00	185,915	10.00
Tier 1 Capital(to Risk-Weighted Assets):						
The Company	235,947	12.61	74,869	4.00	112,304	6.00
The bank	214,159	11.52	74,366	4.00	111,549	6.00
Tier 1 Leverage Capital(to Average Assets):						
The Company	235,947	9.02	104,593	4.00	130,741	5.00
The bank	214,159	8.30	103,148	4.00	128,935	5.00

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ASSET/LIABILITY MANAGEMENT

The Company s primary earnings source is its net interest income; therefore, the Company devotes significant time and has invested in resources to assist in the management of interest rate risk and asset quality. The Company s net interest income is affected by changes in market interest rates, and by the level and composition of interest-earning assets and interest-bearing liabilities. The Company s objectives in its asset/liability management are to utilize its capital effectively, to provide adequate liquidity and to enhance net interest income, without taking undue risks or subjecting the Company unduly to interest rate fluctuations. For the three months ended March 31, 2012, the Company did not hold any instrument entered into for trading purposes.

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

Market Risk

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

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

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

The Company s balance sheet structure is primarily short-term in nature with a substantial portion of assets and liabilities repricing or maturing within one year. The Company s gap analysis at March 31, 2012, presented on page 58, indicates that net interest income would increase during periods of rising interest rates and decrease during periods of falling interest rates, but, as mentioned above, gap analysis may not be an accurate predictor of net interest income.

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

As of March 31, 2012, the Company was not a party to any financial instrument derivative agreement.

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

The Company s interest rate sensitivity is determined by identifying the probable impact of changes in market interest rates on the yields on the Company s assets and the rates that would be paid on its liabilities. This modeling technique involves a degree of estimation based on certain assumptions that management believes to be reasonable. Utilizing this process, management projects the impact of changes in interest rates on net interest margin. The Company has established certain policy limits for the potential volatility of its net interest margin assuming certain levels of changes in market interest rates with the objective of maintaining a stable net interest margin under various probable rate scenarios. Management generally has maintained a risk position well within the policy limits. As of December 31, 2011, the model indicated the impact of a 100 and 200 basis point parallel and pro rata rise in rates over 12 months would approximate a 2.4% ($2.8 million) and a 5.0% ($6.0 million) increase in net interest income, respectively, while the impact of a 25 basis point decline in rates over the same period would approximate a 0.8% ($0.9 million) decline from an unchanged rate environment. The likelihood of a decrease in interest rates beyond 25 basis points as of December 31, 2011 was considered to be remote given then-current interest rate levels. As of March 31, 2012, the model indicated the impact of a 100 and 200 basis point parallel and pro rata rise in rates over 12 months would approximate a 1.5% ($1.8 million) and a 4.0% ($4.8 million) increase in net interest income, respectively, while the impact of a 25 basis point decline in rates over the same period would approximate a 0.04% ($50 thousand) decline from an unchanged rate environment. The likelihood of a decrease in interest rates beyond 25 basis points as of March 31, 2012 was considered to be remote given then-current interest rate levels.

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

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

The shape of the yield curve can cause downward pressure on net interest income. In general, if and to the extent that the yield curve is flatter (i.e., the differences between interest rates for different maturities are relatively smaller) than previously anticipated, then the yield on the Company s interest-earning assets and its cash flows will tend to be lower. Management believes that a relatively flat yield curve could continue to adversely affect the Company s results in 2012.

Liquidity Risk

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

The parent company depends for its cash requirements on funds maintained or generated by its subsidiaries, principally the bank. Such sources have been adequate to meet the parent company s cash requirements throughout its history.

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

At March 31, 2012, the parent company s short-term debt, consisting principally of commercial paper used to finance ongoing current business activities, was approximately $16.9 million. The parent company had cash, interest-bearing deposits with banks and other current assets aggregating $48.5 million. The parent company also has back-up credit lines with banks of $19.0 million. Since 1979, the parent company has had no need to use the available back-up lines of credit.

The following table sets forth information regarding the Company s obligations and commitments to make future payments under contract as of March 31, 2012:

	Payments Due by Period				
Contractual obligations (1)	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-Term Debt	$ 148,142	$ 21,475	$ 893	$ 100,000	$ 25,774
Operating Leases	43,082	3,868	9,249	7,980	21,985
Total Contractual Cash Obligations	$ 191,224	$ 25,343	$ 10,142	$ 107,980	$ 47,759

(1) Based on contractual maturity dates.

The following table sets forth information regarding the Company s obligations under other commercial commitments as of March 31, 2012:

		Amount of Commitment Expiration per Period			
Other Commercial Commitments	Total Amount Committed	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Residential Loans	$ 63,109	$ 63,109	$	$	$
Commercial Loans	23,011	15,511	7,500		
Total Loans	86,120	78,620	7,500		
Standby Letters of Credit	24,616	20,467	4,149		
Other Commercial Commitments	51,627	51,033			594
Total Commercial Commitments	$ 162,363	$ 150,120	$ 11,649	$	$ 594

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 Exchange Act 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, our Excessive or Luxury Expenditures Policy 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.

The contents of our web site are not incorporated by reference into this quarterly report on Form 10-Q.

STERLING BANCORP AND SUBSIDIARIES
Interest Rate Sensitivity

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

	Repricing Date						
	3 Months or Less	More than 3 Months to 1 Year	More than 1 Year to 5 Years	More than 5 Years to 10 Years	Over 10 Years	Nonrate Sensitive	Total
ASSETS							
Interest-bearing deposits with other banks	$ 26,938	$	$	$	$	$	$ 26,938
Investment securities	240,467	139,537	136,800	32,403	253,179		802,386
Commercial and industrial loans	443,901	58,569	92,070	611		(2,235)	592,916
Lease financing receivables	723	11,255	74,258	85,939		(15,821)	156,354
Factored receivables	178,912					(244)	178,668
Real estate-residential mortgage	53,761	46,772	31,440	26,445	32,088		190,506
Real estate-commercial mortgage	17,786	18,293	42,812	30,719			109,610
Real estate-construction and land development	4,000	9,671					13,671
Loans to individuals	8,357	220	2,902				11,479
Loans to nondepository financial institutions	194,848	6,000	26,433		54		227,335
Loans to depository institutions							
Noninterest-earning assets & allowance for loan losses						188,781	188,781
Total Assets	1,169,693	290,317	406,715	176,117	285,321	170,481	2,498,644
LIABILITIES AND SHAREHOLDERS EQUITY							
Interest-bearing deposits							
Savings [1]			19,608				19,608
NOW [1]			202,915				202,915
Money market [1]	267,745		154,124				421,869
Time	225,847	255,943	46,592				528,382
Securities sold under agreement to repurchase - customers	40,602						40,602
Securities sold under agreement to repurchase - dealers	5,000						5,000
Federal funds purchased	15,000						15,000
Commercial paper	15,840	50					15,890
Short-term borrowings - other							
Advances - FHLB	100,366	21,108	894				122,368
Long-term borrowings - subordinated debentures					25,774		25,774
Noninterest-bearing liabilities & shareholders equity						1,101,236	1,101,236
Total Liabilities and Shareholders Equity	670,400	277,101	424,133		25,774	1,101,236	2,498,644
Net Interest Rate Sensitivity Gap	$ 499,293	$ 13,216	$ (17,418)	$ 176,117	$ 259,547	$ (930,755)	$
Cumulative Gap March 31, 2012	$ 499,293						