



**Sterling Bancorp Full Year 2003 Financial Results Conference Call**  
**January 22, 2004, 10:00 a.m. ET**  
**Moderator: John Millman**

Operator: Good day ladies and gentlemen and welcome to the full year 2003 Financial Results Conference Call. At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session and instructions will follow at that time. If anyone should require assistance during the conference, please press star, then zero on your touch-tone telephone. As a reminder, this conference call is being recorded. It is now my pleasure to introduce your host for today's conference, moderator Kimberly Storin, the investor relations specialist for Sterling Bancorp. Ms. Storin, you may begin your conference.

Kimberly Storin: Thank you, Shawn. Good morning everyone and thank you for joining us today. Our news release announcing our full year 2003 results was issued this morning. We hope that you have had an opportunity to see it. The news release has also been posted to our website at [www.sterlingbancorp.com](http://www.sterlingbancorp.com). Before turning to the discussion of our financial results, let me remind you that any comments made today about future financial results or other future events are forward-looking statements under the Safe Harbor Provision of the Private Securities Litigation Reform Act of 1995. Actual results may differ substantially from such forward-looking statements. The amounts of any dividends in 2004 and beyond will depend on the company's future results of operations, financial conditions and other relevant factors. A discussion of factors that could cause actual results to vary is contained in Sterling's annual and quarterly reports filed with the SEC.

Joining us for the conference call today is John Millman, President of Sterling Bancorp, and John Tietjen, CFO. After our remarks, we will open up the call to take your questions. Now I would like to turn the call over to John Millman.

John Millman: Thank you, Kim. Good morning everyone and thank you for joining us for Sterling Bancorp's full year 2003 conference call.

It has been another good year for Sterling Bancorp and we are proud to announce that this was our eighth consecutive year of record financial results. Net income for the fourth quarter and full year grew at more than 11 percent. In addition, both demand deposits and loans reached historic levels this year. As average demand deposits increased by 17.4 percent and averaged loans grew 14.9 percent.

In the December 29<sup>th</sup> issue of Crain's New York Business, Sterling was listed among the top 50 fastest growing companies in New York City. We are proud to make this prestigious list and believe that it is further testament to the strength of our business model and strategies.

We have always focused on maintaining product diversity, providing "high touch" customer service, increasing shareholder value, and strengthening the strong brand. We also focus on serving the underserved niche of small and mid sized businesses, which in part differentiates Sterling from competitors especially in today's rapidly consolidating banking environment.

As many banks focus the majority of their attention on larger customers, small businesses that fall through the cracks are turning to banks like Sterling. We offer personalized attention and a full range of financial products. We are poised to take advantage of the enormous opportunities that industry consolidation provides us in our market. Our corporate strategies, business model, and target market are the reasons for our growth and consistent financial results in spite of this year's challenging economic environment.

In August, we kicked off a yearlong celebration of Sterling National Bank's 75<sup>th</sup> anniversary, when our Chairman rang the opening bell at the New York Stock Exchange. Our longevity and continued success reflects the expertise of our management team and again highlights the strength of our balanced business model.

In line with our business plan, this past year we increased our geographic reach and strengthened the Sterling brand in New York City and beyond through our branching strategies. As we review the year, I would like to highlight a few of our most notable accomplishments.

Our Long Island City regional banking center began serving Queens residents in December 2003. In addition to traditional banking and financial services the new regional banking center also included QuickCheck, a check cashing facility that provides money orders and wire transfer services principally to non-bank customers. Additionally in December, we announced plans to extend into Westchester County, New York by acquiring a City & Suburban Federal Savings Bank branch location in Yonkers. The transaction is scheduled to close in February 2004.

The new regional banking center in Long Island City and the new Westchester branch will both provide the full range of Sterling's banking and financial services through our commercial lending unit, a retail branch office, and an expanded residential mortgage facility.

In June, we formed SBC Abstract Company with Intercostal Abstract Company. This new company offers the highest level of title abstract services to New York State customers progressing through the title search process.

Now I will spend some time reviewing the financial results for the fiscal year ended December 31, 2003. Net income for the year increased by 11.1 percent to \$24.2 million from \$21.8 million last year. Diluted earnings per share for 2003 were at \$1.53 compared to a \$1.37 in 2002. We have adjusted the EPS to reflect the five-for-four stock split effected in September 2003. For the fourth quarter of 2003, net income was \$6.1 million, which is an 11.3 percent increase from 2002. Diluted earnings per share rose to \$0.40 from \$0.36 in the fourth quarter of 2002.

I would like to discuss our recent adoption of an accounting provision FIN 46R, which I would like to emphasize had no impact on the Company's net income for full year of fourth quarter. However, the changes did affect certain expenses and ratios for the full year and the fourth quarter of 2003 and 2002, resulting in reductions in net interest margin and non-interest expenses, and increases in interest expenses and the cost of funds. Under the provisions of FIN 46R, which we adopted as of December 31, 2003, we deconsolidated Sterling's wholly owned subsidiary, which issued trust-preferred securities. As a result, we accounted for investments in the trust as an asset. Junior subordinated debentures as long-term debt and the interest paid on those debentures is interest expense. As permitted by this pronouncement, we also restated prior periods to conform to the current presentation.

Net interest income for the year, on a tax equivalent basis, increased to \$75 million from \$74 million in 2002. Net interest margin on a tax equivalent basis for 2003 was 5.33 percent compared to 5.74 percent for 2002. The decreased was primarily the result of the impact of a lower interest rate environment in 2003, partially offset by the impact of an increase in average loans outstanding. Average total loans for the year grew 14.9 percent to \$857.4 million, this is an historic high of average outstanding for Sterling and we saw increases in average outstandings across all significant sectors of the loan portfolio.

For 2003 average demand deposits also hit an all time high increasing 17.4 percent to \$370.6 million. As of December 31, 2003, demand deposits were 39.1 percent of total deposits. That's worth repeating; our demand deposits were 39.1 percent of total deposits, placing Sterling among banks with the highest ratio of demand to total deposits. In 2003, we had success with our ongoing efforts to limit funding costs. These measures in conjunction with the historically low interest rate environment in 2003

decreased the cost the funds for 2003 to 1.76 percent from 2.24 percent in 2002. For the year, non-interest income increased 11.3 percent to \$32.6 million from \$29.3 million in 2002. This increase was primarily the result of increased income from mortgage banking activities and was partially offset by lower fees for various services, gains on sale of available-for-sale securities and revenue from bank-owned life insurance program.

Non-interest expenses for 2003 were \$58.9 million compared to \$57.4 million in 2002. This modest increase reflects our continued efforts to control costs throughout the year. Sterling's asset quality continues to be sound. As of December 31, 2003, non-performing assets were \$4.2 million representing 0.24 percent of total assets. The provision for loan losses for the year decreased to \$8.7 million from \$10.8 million at the end of 2002. The allowance for loan losses as a percentage of loans held in portfolio was 1.61 percent as of December 31, 2003.

As I mentioned earlier, Sterling is dedicated to increasing shareholder value and returning profits to our investors. The members of our senior management team are significant shareholders and therefore our interests coincide with the interest of our shareholders. This is evident in our long-standing commitment to provide dividends. We have distributed cash dividends for 232 consecutive quarters, which equates to 58 years. On November 20, 2003 our Board of Directors approved a fourth quarter cash dividend of \$0.19 per common share, which equals \$0.76 on an annual basis for the common shareholders. This year our Board of Directors also approved a five-for-four stock split, which increased our effective annual cash dividend rate by 25 percent. Sterling shareholders received one additional common share for each common share currently held. Our annual dividend pay out was 41.8 percent in 2003 compared to 34.8 percent in 2002. Outstanding shares of common stock as of December 31, 2003, were 14.9 million. Over the past few years, we have significantly increased the effective annual dividend rate and our market capitalization has grown substantially.

By dedicating ourselves to providing our customers with diverse personalized products, broadening our customer base and increasing activity with our current customers, Sterling continues to experience consistently strong financial results. We would be pleased to take your questions at this time.

Operator:

Thank you, sir. At this time if you have a question, please press the one key on your touchtone telephone. Once again if you have a question at this time, please press the one key on your touch-tone telephone. If your question has been answered or you wish to remove yourself from the queue, please press the pound key. We will pause one moment.

Our first question comes from Jared Shaw of KBW.

Jared Shaw: Hi, good morning.

John Millman: Good morning Jared.

Jared Shaw: Great quarter.

John Millman: Thank you.

Jared Shaw: Can you just give us a little more color on where you are seeing the loan and the deposit growth on the commercial side? Is it in the Manhattan footprint? How is the new branch out in Great Neck doing?

John Millman: As you know from previous conversations, the branch in Great Neck is a significant contributor to deposits. What we have found this past year is that there has been growth across all segments of the loan portfolio. Many community banks were reporting kind of sluggish activity in C&I. We are being favored really by two opportunities. With the continuing consolidation in the market, we are adding substantial numbers of new middle market relationships, which are borrowers and we are also finding that our existing clients who had been borrowing at lower levels are beginning to borrow more aggressively, obviously feeling more confident about the pick up in the economy. But loan growth is coming across all sectors, the Manhattan market is strong, but we are seeing activity now beyond Manhattan.

Jared Shaw: In terms of the utilization rates from your existing customers, do you have any numbers on what those are now and how they are growing over the course of the last quarter or the last few quarters?

John Millman: They are higher but I really can't quantify it. There are so many with more activity but I am not able to quantify.

Jared Shaw: Okay. On the deposit side, most of that growth in demand accounts are coming from the commercial customers as well, correct?

John Millman: Yes, absolutely. We have found that branching provides us with opportunities in the middle market lending area. Many small and midsize companies are somewhat more dependent upon branch locations than we had previously noted. And opening up branches in locations where there is a density of small and midsize businesses clearly leads development of demand deposits.

Jared Shaw: Great. Thank you very much.

John Millman: Thank you, Jared.

Operator: Our next question comes from Richard Weiss of Jane Montgomery.

Richard Weiss: Hi guys.

John Millman: Hi Rich, good morning.

Richard Weiss: Good morning. I was wondering if you could talk just a little bit about the mortgage banking. It held up pretty nice, I was expecting more of a fall off. Could you provide some of the reasons for that?

John Millman: We keep reading about the gloom and doom in the mortgage industry. We read all the same reports. Our mortgage business is unique; I think it is differentiated from a number of other mortgage companies. We don't really chase the refi market; we don't consider it an area of great profitability. When we acquired this company in 1986, 100 percent of its business was conforming brokerage business. Today, a very substantial amount of the business is non-conforming; the non-conforming market is less susceptible to this refi boom. Every non-conforming loan is worth 2.5 conforming loans in terms of margin. So we have never gone after volumes for the sake of volume, or growth for the sake of growth. We focus on margins. The nature of the business we do is a high component of purchase mortgage rather than refi. Substantial portion of the business is purchase mortgage and an increasingly large component of the business is non-conforming, where the margins are much broader, so we are optimistic about the mortgage banking business notwithstanding everything we see. Although I did see a report just yesterday that there is a may be a mini refi boom out there, but I don't think it affects us; it is not really our core business.

Richard Weiss: Okay, thank you very much.

John Millman: Thank you.

Operator: Our next comes from Randolph St. Leger of Advest.

Randolf St. Leger: Hi, good morning guys.

John Millman: Good morning.

Randolf St. Leger: I work with Lana Chan. Going over some of the numbers, I just wanted to ask you guys about the charge-offs. It looked like it came up quarter-to-quarter, year-over-year; I just want to get some more details on that.

John Millman: We don't see any significant or really any deterioration in the asset quality. We charge-off typically between \$7 million and \$8 million a year; it comes cross a number of business lines, but we are really not seeing any significant pickup in asset quality issues.

Randolf St. Leger: Okay. Thank you.

John Millman: Thank you.

Operator: There are no further questions at this time. You may proceed with your conference Mr. Millman.

John Millman: Thank you very much.

In conclusion, I want to comment that 2003 was our eighth consecutive year of record results, which we think is a testament to our ability to successfully execute our business model. This year we focused on broadening our customer base in and around New York, in the metropolitan areas, specifically in Queens and Westchester Counties. We also directed ourselves to providing customers with exceptional technology to meet their banking needs. Sterling's unique high-touch approach to customer service has been the cornerstone of our corporate strategy and we believe has differentiated us from our competitors for the past 75 years.

The differentiation is really never been more evident than in recent months as more and more banks consolidate. In fact, as the consolidation continues, Sterling is provided with vast opportunities as more and more smaller mid-sized business owners find themselves frustrated with the lack of attention in services provided by other banks. Our focus on the small and mid-sized entrepreneurial marketplace allows us to capitalize on the consolidation in the banking industry.

Sterling has been New York's hometown bank for the past 75 years, serving the area of small and mid-sized businesses with personalized financial service and products. This was a good year for Sterling and we look forward to building on the success in the future.

Kimberly Storin: Thank you for your attention. We appreciate your participation today. We look forward to speaking with you over the coming months. Thank you and good-bye.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may all disconnect. Have a wonderful day.