

STERLING BANCORP  
Form 10-Q  
November 05, 2009

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2009

or

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

For the transition period from to

Commission File Number: 1-5273-1

## Sterling Bancorp

(Exact name of registrant as specified in its charter)

New York

13-2565216

(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.  Yes  No

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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).

Yes  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  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company

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

Yes  No

As of October 31, 2009 there were 18,106,491 shares of common stock, \$1.00 par value, outstanding.

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**STERLING BANCORP AND SUBSIDIARIES**  
**Consolidated Balance Sheets**  
**(Unaudited)**  
**(dollars in thousands)**

|  | September 30,<br>2009 | December 31,<br>2008 |
|--|-----------------------|----------------------|
| <b>ASSETS</b>  |                       |                      |
| Cash and due from banks  | \$ 31,188             | \$ 31,832            |
| Interest-bearing deposits with other banks   | 21,119                | 13,949               |
| Securities available for sale (at estimated fair value; pledged: \$105,856 in 2009 and \$334,048 in 2008)                                      | 327,109               | 492,797              |
| Securities held to maturity (pledged: \$264,985 in 2009 and \$206,726 in 2008) (estimated fair value: \$407,730 in 2009 and \$305,628 in 2008) | 395,508               | 301,127              |
| Total investment securities  | 722,617               | 793,924              |
| Loans held for sale  | 25,782                | 23,403               |
| Loans held in portfolio, net of unearned discounts   | 1,207,788             | 1,184,585            |
| Less allowance for loan losses   | 19,099                | 16,010               |
| Loans, net   | 1,188,689             | 1,168,575            |
| Federal Reserve and Federal Home Loan Bank stock, at cost  | 9,832                 | 12,705               |
| Customers' liability under acceptances   | 0                     | 95                   |
| Goodwill   | 22,901                | 22,901               |
| Premises and equipment, net  | 9,666                 | 10,668               |
| Other real estate  | 1,837                 | 1,544                |
| Accrued interest receivable  | 8,141                 | 8,917                |
| Cash surrender value of life insurance policies  | 48,419                | 45,845               |
| Other assets   | 46,614                | 43,382               |
|  | \$ 2,136,805          | \$ 2,177,740         |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                       |                      |
| <b>Deposits</b>  |                       |                      |
| Demand deposits  | \$ 470,404            | \$ 464,585           |
| Savings, NOW and money market deposits   | 545,829               | 564,205              |
| Time deposits  | 392,292               | 329,034              |
| Total deposits   | 1,408,525             | 1,357,824            |
| Securities sold under agreements to repurchase - customers   | 55,628                | 44,334               |
| Federal funds purchased  | 25,675                | 131,000              |
| Commercial paper   | 14,692                | 11,732               |
| Short-term borrowings - FHLB   | 0                     | 75,000               |

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|  |              |              |
|--|--------------|--------------|
| Short-term borrowings - FRB  | 135,000      | 100,000      |
| Short-term borrowings - other  | 3,787        | 1,338        |
| Long-term borrowings - FHLB  | 160,000      | 150,000      |
| Long-term borrowings - subordinated debentures   | 25,774       | 25,774       |
| Total borrowings   | 420,556      | 539,178      |
| Acceptances outstanding  | 0            | 95           |
| Accrued interest payable   | 1,529        | 2,046        |
| Accrued expenses and other liabilities   | 145,657      | 118,117      |
| Total liabilities  | 1,976,267    | 2,017,260    |
| Shareholders' equity   |              |              |
| Preferred stock, Series A, \$5 par value; \$1,000 liquidation value. Authorized 644,389 shares; issued 42,000 shares, respectively | 39,990       | 39,440       |
| Common stock, \$1 par value. Authorized 50,000,000 shares; issued 22,226,425 and 22,202,419 shares, respectively                   | 22,227       | 22,203       |
| Warrants to purchase common stock  | 2,615        | 2,615        |
| Capital surplus  | 178,701      | 178,417      |
| Retained earnings  | 15,467       | 19,088       |
| Accumulated other comprehensive loss   | (13,294)     | (16,259)     |
| Common shares in treasury at cost, 4,119,934 and 4,107,191 shares, respectively  | (85,168)     | (85,024)     |
| Total shareholders' equity   | 160,538      | 160,480      |
|  | \$ 2,136,805 | \$ 2,177,740 |

See Notes to Consolidated Financial Statements.

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

|  | Three Months Ended<br>September 30, |               | Nine Months Ended<br>September 30, |               |
|--|-------------------------------------|---------------|------------------------------------|---------------|
|  | 2009                                | 2008          | 2009                               | 2008          |
| <b>INTEREST INCOME</b>                                     |                                     |               |                                    |               |
| Loans  | \$ 18,024                           | \$ 20,387     | \$ 53,840                          | \$ 61,208     |
| <b>Investment securities</b>                               |                                     |               |                                    |               |
| Available for sale   | 4,123                               | 5,523         | 13,751                             | 15,662        |
| Held to maturity   | 4,357                               | 3,795         | 11,485                             | 12,054        |
| FRB and FHLB stock   | 191                                 | 257           | 387                                | 500           |
| Federal funds sold   | 0                                   | 7             | 0                                  | 8             |
| Deposits with other banks                                  | 27                                  | 11            | 46                                 | 30            |
| <b>Total interest income</b>                               | <b>26,722</b>                       | <b>29,980</b> | <b>79,509</b>                      | <b>89,462</b> |
| <b>INTEREST EXPENSE</b>                                    |                                     |               |                                    |               |
| <b>Deposits</b>  |                                     |               |                                    |               |
| Savings, NOW and money market                              | 872                                 | 2,011         | 2,940                              | 4,710         |
| Time   | 1,933                               | 3,062         | 6,148                              | 12,434        |
| <b>Securities sold under agreements to repurchase</b>      |                                     |               |                                    |               |
| - customers  | 79                                  | 419           | 282                                | 1,507         |
| - dealers  | 0                                   | 382           | 0                                  | 1,115         |
| Federal funds purchased                                    | 2                                   | 197           | 43                                 | 776           |
| Commercial paper   | 15                                  | 99            | 55                                 | 411           |
| Short-term borrowings - FHLB                               | 0                                   | 470           | 11                                 | 996           |
| Short-term borrowings - FRB                                | 131                                 | 1             | 356                                | 2             |
| Short-term borrowings - other                              | 0                                   | 9             | 1                                  | 28            |
| Long-term borrowings - FHLB                                | 1,197                               | 1,107         | 3,453                              | 2,906         |
| Long-term borrowings - subordinated debentures             | 523                                 | 523           | 1,570                              | 1,570         |
| <b>Total interest expense</b>                              | <b>4,752</b>                        | <b>8,280</b>  | <b>14,859</b>                      | <b>26,455</b> |
| <b>Net interest income</b>                                 | <b>21,970</b>                       | <b>21,700</b> | <b>64,650</b>                      | <b>63,007</b> |
| Provision for loan losses                                  | 6,950                               | 1,950         | 19,950                             | 6,100         |
| <b>Net interest income after provision for loan losses</b> | <b>15,020</b>                       | <b>19,750</b> | <b>44,700</b>                      | <b>56,907</b> |
| <b>Total noninterest income</b>                            | <b>11,735</b>                       | <b>7,243</b>  | <b>33,337</b>                      | <b>24,487</b> |

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|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Total noninterest expenses  | 23,177     | 21,677     | 67,372     | 62,973     |
| Income before income taxes  | 3,578      | 5,316      | 10,665     | 18,421     |
| Provision for income taxes  | 1,180      | 1,531      | 3,880      | 6,464      |
| Net income  | 2,398      | 3,785      | 6,785      | 11,957     |
| Dividends on preferred shares and accretion                           | 646        | 0          | 2,125      | 0          |
| Net income available to common shareholders                           | \$ 1,752   | \$ 3,785   | \$ 4,660   | \$ 11,957  |
| Average number of common shares outstanding                           |            |            |            |            |
| Basic   | 18,106,491 | 18,015,871 | 18,104,057 | 17,972,517 |
| Diluted   | 18,120,412 | 18,226,811 | 18,192,585 | 18,219,375 |
| Net income available to common shareholders, per average common share |            |            |            |            |
| Basic   | \$ 0.10    | \$ 0.21    | \$ 0.26    | \$ 0.67    |
| Diluted   | 0.10       | 0.21       | 0.26       | 0.66       |
| Dividends per common share  | 0.09       | 0.19       | 0.47       | 0.57       |

*See Notes to Consolidated Financial Statements.*



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

|  | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |           |
|--|-------------------------------------|----------|------------------------------------|-----------|
|  | 2009                                | 2008     | 2009                               | 2008      |
| Net Income   | \$ 2,398                            | \$ 3,785 | \$ 6,785                           | \$ 11,957 |
| Other comprehensive income (loss), net of tax:   |                                     |          |                                    |           |
| Unrealized gains on securities:  |                                     |          |                                    |           |
| Unrealized holding gains (losses) on available for sale securities and other investments arising during the year | 2,664                               | (2,727)  | 4,352                              | (6,531)   |
| Reclassification adjustment for (gains) losses included in net income  | (666)                               | 645      | (2,818)                            | 923       |
| Reclassification adjustment for amortization of:   |                                     |          |                                    |           |
| Prior service cost   | 9                                   | 9        | 27                                 | 27        |
| Net actuarial losses   | 532                                 | 228      | 1,404                              | 689       |
| Other comprehensive income (loss)  | 2,539                               | (1,845)  | 2,965                              | (4,892)   |
| Comprehensive income (loss)  | \$ 4,937                            | \$ 1,940 | \$ 9,750                           | \$ 7,065  |

*See Notes to Consolidated Financial Statements.*

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

|  | Nine Months Ended<br>September 30, |             |
|--|------------------------------------|-------------|
|  | 2009                               | 2008        |
| <b>Preferred Stock</b>   |                                    |             |
| Balance at January 1,  | \$ 39,440                          | \$ 0        |
| Discount accretion   | 550                                | 0           |
| Balance at September 30,   | \$ 39,990                          | \$ 0        |
| <b>Common Stock</b>  |                                    |             |
| Balance at January 1,  | \$ 22,203                          | \$ 21,278   |
| Common shares issued under stock incentive plan                          | 24                                 | 684         |
| Balance at September 30,   | \$ 22,227                          | \$ 21,962   |
| <b>Warrants to Purchase Common Stock</b>                                 |                                    |             |
| Balance at January 1, and September 30,                                  | \$ 2,615                           | \$ 0        |
| <b>Capital Surplus</b>   |                                    |             |
| Balance at January 1,  | \$ 178,417                         | \$ 168,869  |
| Common shares issued under stock incentive plan and related tax benefits | 185                                | 7,287       |
| Stock option compensation expense  | 99                                 | 0           |
| Balance at September 30,   | \$ 178,701                         | \$ 176,156  |
| <b>Retained Earnings</b>   |                                    |             |
| Balance at January 1,  | \$ 19,088                          | \$ 17,538   |
| Adjustment upon adoption of EITF 06-4 effective January 1, 2008          | 0                                  | (726)       |
| Balance at January 1, as adjusted  | 19,088                             | 16,812      |
| Net income   | 6,785                              | 11,957      |
| Cash dividends paid - preferred shares                                   | (1,353)                            | 0           |
| Cash dividends paid - common shares                                      | (8,503)                            | (10,249)    |
| Discount accretion on series A preferred stock                           | (550)                              | 0           |
| Balance at September 30,   | \$ 15,467                          | \$ 18,520   |
| <b>Accumulated Other Comprehensive Loss</b>                              |                                    |             |
| Balance at January 1,  | \$ (16,259)                        | \$ (10,812) |

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|   |    |          |    |          |
|---|----|----------|----|----------|
| Other comprehensive income (loss), net of tax         |    | 2,965    |    | (4,892)  |
| Balance at September 30,                              | \$ | (13,294) | \$ | (15,704) |
| <b>Treasury Stock</b>                                 |    |          |    |          |
| Balance at January 1,                                 | \$ | (85,024) | \$ | (75,803) |
| Surrender of shares issued under stock incentive plan |    | (144)    |    | (6,787)  |
| Balance at September 30,                              | \$ | (85,168) | \$ | (82,590) |
| <b>Total Shareholders' Equity</b>                     |    |          |    |          |
| Balance at January 1,                                 | \$ | 160,480  | \$ | 121,070  |
| Net changes during the period                         |    | 58       |    | (2,726)  |
| Balance at September 30,                              | \$ | 160,538  | \$ | 118,344  |

*See Notes to Consolidated Financial Statements.*

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

|   | Nine Months Ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2009                               | 2008      |
| <b>Operating Activities</b>   |                                    |           |
| Net Income  | \$ 6,785                           | \$ 11,957 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                                    |           |
| Provision for loan losses   | 19,950                             | 6,100     |
| Depreciation and amortization of premises and equipment                                     | 1,679                              | 1,882     |
| Securities (gains) losses   | (5,160)                            | 1,684     |
| Income from life insurance policies, net  | (1,094)                            | (852)     |
| Deferred income tax (benefit) provision   | (2,076)                            | 2,680     |
| Proceeds from sale of loans   | 492,589                            | 346,302   |
| Gains on sales of loans, net  | (7,146)                            | (6,670)   |
| Originations of loans held for sale   | (487,822)                          | (336,247) |
| Amortization of premiums on securities  | 1,386                              | 304       |
| Accretion of discounts on securities  | (1,035)                            | (529)     |
| Decrease (Increase) in accrued interest receivable  | 776                                | (1,289)   |
| Decrease in accrued interest payable  | (509)                              | (1,348)   |
| Increase in accrued expenses and other liabilities  | 24,538                             | 6,482     |
| Increase in other assets  | (2,041)                            | (6,906)   |
| (Gain) Loss on other real estate owned  | (39)                               | 360       |
| Other, net  | 0                                  | 674       |
| Net cash provided by operating activities   | 40,781                             | 24,584    |
| <b>Investing Activities</b>   |                                    |           |
| Purchase of premises and equipment  | (641)                              | (1,363)   |
| Net increase in interest-bearing deposits with other banks                                  | (7,171)                            | (2,793)   |
| Net decrease (increase) in loans held in portfolio  | 21,254                             | (31,914)  |
| Net increase in short-term factored receivables   | (42,870)                           | (1,412)   |
| Decrease in other real estate   | 1,284                              | 1,447     |
| Proceeds from prepayments, redemptions or maturities of securities - held to maturity       | 60,172                             | 49,248    |
| Purchases of securities - held to maturity  | (183,996)                          | 0         |
| Proceeds from calls of securities - held to maturity  | 30,000                             | 0         |
| Proceeds from calls/sales of securities - available for sale                                | 366,526                            | 0         |
| Proceeds from prepayments, redemptions or maturities of securities - available for sale     | 95,607                             | 180,897   |
| Purchases of securities - available for sale  | (285,516)                          | (341,837) |
| Proceeds from redemptions or maturities of securities - FHLB & FRB stock                    | 3,375                              | 9,581     |
| Purchases of securities - FHLB & FRB Stock  | (503)                              | (17,820)  |
| Cash paid in acquisition  | (21,333)                           | 0         |
| Net cash provided by (used in) investing activities   | 36,188                             | (155,966) |

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|   |  |           |           |
|---|--|-----------|-----------|
| <b>Financing Activities</b>   |  |           |           |
| Net increase (decrease) in noninterest-bearing demand deposits              |  | 5,819     | (48,979)  |
| Net (decrease) increase in savings, NOW and money market deposits           |  | (18,376)  | 132,291   |
| Net increase (decrease) in time deposits                                    |  | 63,258    | (160,836) |
| Decrease in Federal funds purchased   |  | (105,325) | (10,000)  |
| Net increase in securities sold under agreements to repurchase              |  | 11,294    | 4,283     |
| Net (decrease) increase in commercial paper and other short-term borrowings |  | (34,590)  | 79,811    |
| Increase in long-term borrowings  |  | 10,000    | 110,000   |
| Proceeds from exercise of stock options                                     |  | 163       | 900       |
| Cash dividends paid on preferred stock                                      |  | (1,353)   | 0         |
| Cash dividends paid on common stock   |  | (8,503)   | (10,249)  |
| Net cash (used in) provided by financing activities                         |  | (77,613)  | 97,221    |
|   |  |           |           |
| Net decrease in cash and due from banks                                     |  | (644)     | (34,161)  |
| Cash and due from banks - beginning of period                               |  | 31,832    | 66,412    |
|   |  |           |           |
| Cash and due from banks - end of period                                     |  | \$ 31,188 | \$ 32,251 |
|   |  |           |           |
| <b>Supplemental disclosures:</b>  |  |           |           |
| Interest paid   |  | \$ 15,368 | \$ 27,802 |
| Income taxes paid   |  | 5,746     | 8,809     |
|   |  |           |           |
| Loans held for sale transferred to portfolio                                |  | 0         | 3,619     |
| Loans transferred to other real estate                                      |  | 1,538     | 2,128     |
| Due to brokers on purchases of securities - AFS                             |  | 5,000     | 0         |
| Due to brokers on purchases of securities - HTM                             |  | 613       | 0         |
| <i>See Notes to Consolidated Financial Statements.</i>                      |  |           |           |

**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. The Company provides a full range of financial products and services, including business and consumer loans, commercial and residential mortgage lending and brokerage, asset-based financing, factoring/accounts receivable management services, trade financing, leasing, deposit services, trust and estate administration and investment management services. The Company has operations principally in New York and conducts business throughout the United States.

The Company’s financial statements are prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) which, effective for all interim and annual periods ending after September 15, 2009, 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 Sterling National Bank and its subsidiaries (the “bank”), after elimination of intercompany transactions. The consolidated financial statements as of and for the interim periods ended September 30, 2009 and 2008 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. 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, 2008 (the “2008 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. Certain reclassifications have been made to the prior years’ consolidated financial statements to conform to the current presentation.

*Fair Value Measurements.* On January 1, 2008, the Company adopted the provisions of FASB Codification Topic 820: *Fair Value Measurements* which defines fair value, establishes a framework for measuring fair value under U.S. GAAP, and expands disclosures about fair value measurements (See Note 9. Fair Value Measurements). The Company also adopted FASB Codification Topic 825: *Financial Instruments* on January 1, 2008 but did not elect the fair value option for any of its financial assets or financial liabilities.

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**Note 2. Loans**

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

|   | September 30,<br>2009 | December 31,<br>2008 |
|---|-----------------------|----------------------|
|   | (in thousands)        |                      |
| Loans held for sale, net of valuation reserve<br>(\$-0- at September 30, 2009 and at December 31, 2008) |                       |                      |
| Real estate-residential mortgage  | \$ 25,782             | \$ 23,403            |
| Loans held in portfolio   |                       |                      |
| Commercial and industrial   | \$ 544,872            | \$ 533,613           |
| Lease financing receivables   | 238,425               | 290,656              |
| Factored receivables  | 152,279               | 89,365               |
| Real estate-residential mortgage  | 134,023               | 142,135              |
| Real estate-commercial mortgage   | 103,785               | 96,883               |
| Real estate-construction and land development   | 24,112                | 25,249               |
| Loans to individuals  | 13,660                | 18,959               |
| Loans to depository institutions  | 25,000                | 25,000               |
| Loans held in portfolio, gross  | 1,236,156             | 1,221,860            |
| Less unearned discounts   | 28,368                | 37,275               |
| Loans held in portfolio, net of unearned discounts  | \$ 1,207,788          | \$ 1,184,585         |

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

**Note 3. Investment Securities**

The following tables present information regarding securities available for sale:

| September 30, 2009  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
|---|-------------------|------------------------------|-------------------------------|----------------------------|
| (in thousands)  |                   |                              |                               |                            |
| Obligations of U.S. government corporations and government sponsored enterprises              |                   |                              |                               |                            |
| Mortgage-backed securities  |                   |                              |                               |                            |
| CMO's (Federal National Mortgage Association)   | \$ 2,963          | \$ 38                        | \$ 0                          | \$ 3,001                   |
| CMO's (Federal Home Loan Mortgage Corporation)  | 5,695             | 165                          | 0                             | 5,860                      |
| CMO's (Government National Mortgage Association)  | 4,861             | 0                            | 83                            | 4,778                      |
| Federal National Mortgage Association   | 20,237            | 971                          | 0                             | 21,208                     |
| Federal Home Loan Mortgage Corporation  | 11,031            | 323                          | 0                             | 11,354                     |
| Government National Mortgage Association  | 13,137            | 394                          | 1                             | 13,530                     |
| <b>Total mortgage-backed securities</b>   | <b>57,924</b>     | <b>1,891</b>                 | <b>84</b>                     | <b>59,731</b>              |
| Agency Notes  |                   |                              |                               |                            |
| Federal National Mortgage Association   | 20,296            | 0                            | 292                           | 20,004                     |
| Federal Home Loan Bank  | 45,000            | 133                          | 78                            | 45,055                     |
| Federal Farm Credit Bank  | 24,998            | 0                            | 243                           | 24,755                     |
| <b>Total obligations of U.S. government corporations and government sponsored enterprises</b> | <b>148,218</b>    | <b>2,024</b>                 | <b>697</b>                    | <b>149,545</b>             |
| Obligations of state and political institutions   | 22,944            | 1,660                        | 0                             | 24,604                     |
| Single-issuer, trust preferred securities   | 5,603             | 103                          | 527                           | 5,179                      |
| Corporate debt securities   | 146,318           | 1,542                        | 134                           | 147,726                    |
| Other securities  | 44                | 11                           | 0                             | 55                         |
| <b>Total</b>  | <b>\$ 323,127</b> | <b>\$ 5,340</b>              | <b>\$ 1,358</b>               | <b>\$ 327,109</b>          |



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

| December 31, 2008   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
|---|-------------------|------------------------------|-------------------------------|----------------------------|
| (in thousands)  |                   |                              |                               |                            |
| Obligations of U.S. government corporations and government sponsored enterprises              |                   |                              |                               |                            |
| Mortgage-backed securities  |                   |                              |                               |                            |
| CMO's (Federal National Mortgage Association)   | \$ 8,771          | \$ 1                         | \$ 72                         | \$ 8,700                   |
| CMO's (Federal Home Loan Mortgage Corporation)  | 22,276            | 60                           | 223                           | 22,113                     |
| CMO's (Government National Mortgage Association)  | 6,610             | 0                            | 45                            | 6,565                      |
| Federal National Mortgage Association   | 100,712           | 2,116                        | 40                            | 102,788                    |
| Federal Home Loan Mortgage Corporation  | 37,719            | 832                          | 15                            | 38,536                     |
| Government National Mortgage Association  | 31,463            | 723                          | 6                             | 32,180                     |
| <b>Total mortgage-backed securities</b>   | <b>207,551</b>    | <b>3,732</b>                 | <b>401</b>                    | <b>210,882</b>             |
| Agency Notes  |                   |                              |                               |                            |
| Federal Home Loan Bank  | 153,977           | 1,224                        | 526                           | 154,675                    |
| Federal Farm Credit Bank  | 89,918            | 232                          | 306                           | 89,844                     |
| <b>Total obligations of U.S. government corporations and government sponsored enterprises</b> | <b>451,446</b>    | <b>5,188</b>                 | <b>1,233</b>                  | <b>455,401</b>             |
| Obligations of state and political institutions   | 23,058            | 567                          | 219                           | 23,406                     |
| Single-issuer, trust preferred securities   | 5,369             | 224                          | 1,384                         | 4,209                      |
| Corporate debt securities   | 9,962             | 0                            | 238                           | 9,724                      |
| Other securities  | 44                | 13                           | 0                             | 57                         |
| <b>Total</b>  | <b>\$ 489,879</b> | <b>\$ 5,992</b>              | <b>\$ 3,074</b>               | <b>\$ 492,797</b>          |

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

The following tables present information regarding securities held to maturity:

| September 30, 2009  | Carrying<br>Value | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
|---|-------------------|------------------------------|-------------------------------|----------------------------|
| (in thousands)  |                   |                              |                               |                            |
| Obligations of U.S. government corporations and government sponsored enterprises              |                   |                              |                               |                            |
| Mortgage-backed securities  |                   |                              |                               |                            |
| CMO's (Federal National Mortgage Association)   | \$ 11,265         | \$ 348                       | \$ 0                          | \$ 11,613                  |
| CMO's (Federal Home Loan Mortgage Corporation)  | 17,645            | 626                          | 0                             | 18,271                     |
| Federal National Mortgage Association   | 112,433           | 4,915                        | 1                             | 117,347                    |
| Federal Home Loan Mortgage Corporation  | 72,961            | 2,459                        | 23                            | 75,397                     |
| Government National Mortgage Association  | 6,343             | 508                          | 0                             | 6,851                      |
| <b>Total mortgage-backed securities</b>   | <b>220,647</b>    | <b>8,856</b>                 | <b>24</b>                     | <b>229,479</b>             |
| Agency Notes  |                   |                              |                               |                            |
| Federal National Mortgage Association   | 87,143            | 611                          | 175                           | 87,579                     |
| Federal Home Loan Bank  | 19,846            | 79                           | 69                            | 19,856                     |
| Federal Home Loan Mortgage Corporation  | 20,000            | 33                           | 58                            | 19,975                     |
| Federal Farm Credit Bank  | 5,090             | 0                            | 1                             | 5,089                      |
| <b>Total obligations of U.S. government corporations and government sponsored enterprises</b> | <b>352,726</b>    | <b>9,579</b>                 | <b>327</b>                    | <b>361,978</b>             |
| Obligations of state and political institutions   | 42,532            | 2,970                        | 0                             | 45,502                     |
| Debt securities issued by foreign governments   | 250               | 0                            | 0                             | 250                        |
| <b>Total</b>  | <b>\$ 395,508</b> | <b>\$ 12,549</b>             | <b>\$ 327</b>                 | <b>\$ 407,730</b>          |

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

| December 31, 2008   | Carrying<br>Value | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
|---|-------------------|------------------------------|-------------------------------|----------------------------|
| (in thousands)  |                   |                              |                               |                            |
| Obligations of U.S. government corporations and government sponsored enterprises              |                   |                              |                               |                            |
| Mortgage-backed securities  |                   |                              |                               |                            |
| CMO's (Federal National Mortgage Association)   | \$ 12,099         | \$ 11                        | \$ 65                         | \$ 12,045                  |
| CMO's (Federal Home Loan Mortgage Corporation)  | 20,181            | 104                          | 189                           | 20,096                     |
| Federal National Mortgage Association   | 142,312           | 2,929                        | 94                            | 145,147                    |
| Federal Home Loan Mortgage Corporation  | 98,901            | 1,299                        | 296                           | 99,904                     |
| Government National Mortgage Association  | 7,384             | 339                          | 0                             | 7,723                      |
| <b>Total mortgage-backed securities</b>   | <b>280,877</b>    | <b>4,682</b>                 | <b>644</b>                    | <b>284,915</b>             |
| Agency Notes  |                   |                              |                               |                            |
| Federal Home Loan Bank  | 20,000            | 463                          | 0                             | 20,463                     |
| <b>Total obligations of U.S. government corporations and government sponsored enterprises</b> | <b>300,877</b>    | <b>5,145</b>                 | <b>644</b>                    | <b>305,378</b>             |
| Debt securities issued by foreign governments   | 250               | 0                            | 0                             | 250                        |
| <b>Total</b>  | <b>\$ 301,127</b> | <b>\$ 5,145</b>              | <b>\$ 644</b>                 | <b>\$ 305,628</b>          |

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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      |                   |
|--|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
|  | Fair Value          | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value | Unrealized Losses |
| September 30, 2009   |                     |                   |                     |                   |            |                   |
| (in thousands)   |                     |                   |                     |                   |            |                   |
| Obligations of U.S. government corporations and government sponsored enterprises       |                     |                   |                     |                   |            |                   |
| Mortgage-backed securities   |                     |                   |                     |                   |            |                   |
| CMO's (Government National Mortgage Association)                                       | \$ 0                | \$ 0              | \$ 4,778            | \$ 83             | \$ 4,778   | \$ 83             |
| Government National Mortgage Association   | 0                   | 0                 | 128                 | 1                 | 128        | 1                 |
| Total mortgage-backed securities   | 0                   | 0                 | 4,906               | 84                | 4,906      | 84                |
| Agency Notes   |                     |                   |                     |                   |            |                   |
| Federal National Mortgage Association  | 20,004              | 292               | 0                   | 0                 | 20,004     | 292               |
| Federal Home Loan Bank   | 14,978              | 22                | 9,944               | 56                | 24,922     | 78                |
| Federal Farm Credit Bank   | 24,755              | 243               | 0                   | 0                 | 24,755     | 243               |
| Total obligations of U.S. government corporations and government sponsored enterprises | 59,737              | 557               | 14,850              | 140               | 74,587     | 697               |
| Single-issuer, trust preferred securities  | 0                   | 0                 | 4,350               | 527               | 4,350      | 527               |
| Corporate debt securities  | 38,901              | 134               | 0                   | 0                 | 38,901     | 134               |
| Total  | \$ 98,638           | \$ 691            | \$ 19,200           | \$ 667            | \$ 117,838 | \$ 1,358          |

December 31, 2008

|  |       |      |          |       |          |       |
|--|-------|------|----------|-------|----------|-------|
| Obligations of U.S. government corporations and government sponsored enterprises |       |      |          |       |          |       |
| Mortgage-backed securities   |       |      |          |       |          |       |
| CMO's (Federal National Mortgage Association)                                    | \$ 0  | \$ 0 | \$ 2,890 | \$ 72 | \$ 2,890 | \$ 72 |
| CMO's (Federal Home Loan Mortgage Corporation)                                   | 5,378 | 40   | 9,125    | 183   | 14,503   | 223   |
| CMO's (Government National Mortgage Association)                                 | 0     | 0    | 6,565    | 45    | 6,565    | 45    |
| Federal National Mortgage Association  | 3,161 | 7    | 3,906    | 33    | 7,067    | 40    |
| Federal Home Loan Mortgage Corporation   | 1,676 | 15   | 0        | 0     | 1,676    | 15    |
|  | 0     | 0    | 133      | 6     | 133      | 6     |

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Government National Mortgage  
Association

|  |           |          |           |        |            |          |
|--|-----------|----------|-----------|--------|------------|----------|
| Total mortgage-backed securities   | 10,215    | 62       | 22,619    | 339    | 32,834     | 401      |
| Agency Notes   |           |          |           |        |            |          |
| Federal Home Loan Bank   | 49,466    | 526      | 0         | 0      | 49,466     | 526      |
| Federal Farm Credit Bank   | 9,694     | 306      | 0         | 0      | 9,694      | 306      |
| Total obligations of U.S. government corporations and government sponsored enterprises | 69,375    | 894      | 22,619    | 339    | 91,994     | 1,233    |
| Obligations of state and political institutions  | 6,490     | 181      | 414       | 38     | 6,904      | 219      |
| Single-issuer, trust preferred securities  | 2,784     | 1,115    | 709       | 269    | 3,493      | 1,384    |
| Corporate debt securities  | 9,724     | 238      | 0         | 0      | 9,724      | 238      |
| Total  | \$ 88,373 | \$ 2,428 | \$ 23,742 | \$ 646 | \$ 112,115 | \$ 3,074 |

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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            |                   |
|--|---------------------|-------------------|---------------------|-------------------|------------------|-------------------|
|  | Fair Value          | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value       | Unrealized Losses |
| September 30, 2009   |                     |                   |                     |                   |                  |                   |
| (in thousands)   |                     |                   |                     |                   |                  |                   |
| Obligations of U.S. government corporations and government sponsored enterprises |                     |                   |                     |                   |                  |                   |
| Mortgage-backed securities   |                     |                   |                     |                   |                  |                   |
| Federal National Mortgage Association  | \$ 0                | \$ 0              | \$ 112              | \$ 1              | \$ 112           | \$ 1              |
| Federal Home Loan Mortgage Corporation   | 0                   | 0                 | 2,818               | 23                | 2,818            | 23                |
| <b>Total mortgage-backed securities</b>  | <b>0</b>            | <b>0</b>          | <b>2,930</b>        | <b>24</b>         | <b>2,930</b>     | <b>24</b>         |
| Agency Notes   |                     |                   |                     |                   |                  |                   |
| Federal National Mortgage Association  | 27,716              | 175               | 0                   | 0                 | 27,716           | 175               |
| Federal Home Loan Bank   | 9,931               | 69                | 0                   | 0                 | 9,931            | 69                |
| Federal Home Loan Mortgage Corporation   | 9,942               | 58                | 0                   | 0                 | 9,942            | 58                |
| Federal Farm Credit Bank   | 5,090               | 1                 | 0                   | 0                 | 5,090            | 1                 |
| <b>Total</b>   | <b>\$ 52,679</b>    | <b>\$ 303</b>     | <b>\$ 2,930</b>     | <b>\$ 24</b>      | <b>\$ 55,609</b> | <b>\$ 327</b>     |

December 31, 2008

|  |                  |               |                  |               |                  |               |
|--|------------------|---------------|------------------|---------------|------------------|---------------|
| Obligations of U.S. government corporations and government sponsored enterprises |                  |               |                  |               |                  |               |
| Mortgage-backed securities   |                  |               |                  |               |                  |               |
| CMO's (Federal National Mortgage Association)                                    | \$ 0             | \$ 0          | \$ 8,059         | \$ 65         | \$ 8,059         | \$ 65         |
| CMO's (Federal Home Loan Mortgage Corporation)                                   | 937              | 5             | 14,563           | 184           | 15,500           | 189           |
| Federal National Mortgage Association  | 20,942           | 88            | 781              | 6             | 21,723           | 94            |
| Federal Home Loan Mortgage Corporation   | 15,381           | 101           | 19,895           | 195           | 35,276           | 296           |
| <b>Total</b>   | <b>\$ 37,260</b> | <b>\$ 194</b> | <b>\$ 43,298</b> | <b>\$ 450</b> | <b>\$ 80,558</b> | <b>\$ 644</b> |

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

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 September 30, 2009, approximately \$153 million, representing approximately 21.2%, of the Company's held to maturity and available for sale securities are comprised of securities issued by financial service companies/banks including trust preferred securities (21 issuers), corporate debt (16 issuers) and equity securities (8 issuers). These investments may pose a higher risk of future impairment charges as result of a continued 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 September 30, 2009, the Company held 2 mortgage-backed securities issued by U.S. government sponsored enterprises and 1 agency debt security, in the available for sale portfolio, that were in an unrealized loss position for more than 12 months. Management has concluded that the unrealized losses are due to changes in market interest rates and/or changes in securities markets which resulted from temporary illiquidity and/or uncertainty in those markets. As a result, the unrealized losses are deemed to be temporary.

At September 30, 2009, the Company held 26 debt securities positions issued by commercial and industrial enterprises, in the available for sale portfolio, all of which are paying in accordance with their terms and have no deferrals of interest or principal. All of these debt securities mature within the next 16 months. Management performs an initial credit review prior to purchasing these securities and monitors their performance on a quarterly basis. Based upon management's review of the issuers, their performance record for paying all principal and interest when due and the relatively short-term maturity of each issue, the unrealized losses are deemed to be temporary.

At September 30, 2009, the Company held 7 securities positions of single-issuer, trust preferred securities and 31 security positions of corporate debt securities issued by financial institutions, in the available for sale portfolio, all of which 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 report to assess credit risk and the probability of impairment of the contractual cash flows of the applicable securities. Based upon management's third quarter review, all of the issuers have maintained performance levels adequate to support the contractual cash flows of the securities.

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

The following table presents information regarding single-issuer, trust preferred securities at September 30, 2009:

| Issuer  | TARP<br>Recipient | Credit<br>Rating | Amortized<br>Cost | Fair<br>Value | Unrealized<br>Loss |
|---|-------------------|------------------|-------------------|---------------|--------------------|
| (in thousands)  |                   |                  |                   |               |                    |
| Sovereign Capital Trust V, 7.75%,<br>due 5/15/2036,<br>owned by Banco Santander Central Hispano | No                | BBB+             | \$ 1,000          | \$ 971        | \$ (29)            |
|   | No                |                  |                   |               |                    |
| Sterling Bancorp Trust I, 8.375%,<br>due 3/31/2032  | Yes               | NA               | 979               | 903           | (76)               |
| NPB Capital Trust II, 7.85%,<br>due 9/30/2032   | Yes               | NA               | 127               | 112           | (15)               |
| VNB Capital Trust I, 7.75%,<br>due 12/15/2031   | Yes               | BBB-             | 22                | 22            | 0                  |
| HSBC Finance, 6.875%,<br>due 1/30/2033,<br>owned by HSBC Group, plc                             | No                | A                | 740               | 720           | (20)               |
|   | No                |                  |                   |               |                    |
| Citigroup Capital VII, 7.125%,<br>due 7/31/2031   | Yes               | B+               | 1,508             | 1,203         | (305)              |
| Fleet Capital Trust VIII, 7.20%,<br>due 3/15/2032,<br>owned by Bank of America Corporation      | No                | B                | 1,227             | 1,248         | 21                 |
|   | Yes               |                  |                   |               |                    |
|   |                   |                  | \$ 5,603          | \$ 5,179      | \$ (424)           |

At September 30, 2009, the Company held 3 mortgage-backed debt securities, in the held to maturity portfolio, that were in an unrealized loss position for more than 12 months. All of these securities were obligations of U.S. government corporations or government sponsored enterprises which guarantee principal and interest payments. Management has concluded that the unrealized losses are due to changes in market interest rates and/or changes in securities markets which resulted from temporary illiquidity and/or uncertainty in those markets. Further, management has made an evaluation that it has the intent to hold these securities until their maturity and it is not more likely than not that the Company would be required to sell before anticipated recovery. As a result, the unrealized losses are deemed to be temporary.



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

The following tables present information regarding securities available for sale and securities held to maturity at September 30, 2009, 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<br>Cost | Fair<br>Value  |
|---|-------------------|----------------|
| (in thousands)  |                   |                |
| <b>Obligations of U.S. government corporations and government sponsored enterprises</b>       |                   |                |
| Mortgage-backed securities  |                   |                |
| CMO's (Federal National Mortgage Association)   | \$ 2,963          | \$ 3,001       |
| CMO's (Federal Home Loan Mortgage Corporation)  | 5,695             | 5,860          |
| CMO's (Government National Mortgage Association)  | 4,861             | 4,778          |
| Federal National Mortgage Association   | 20,237            | 21,208         |
| Federal Home Loan Mortgage Corporation  | 11,031            | 11,354         |
| Government National Mortgage Association  | 13,137            | 13,530         |
| <b>Total mortgage-backed securities</b>   | <b>57,924</b>     | <b>59,731</b>  |
| Agency Notes  |                   |                |
| Federal National Mortgage Association   |                   |                |
| Due after 5 years   | 20,296            | 20,004         |
| Federal Home Loan Bank  |                   |                |
| Due within 1 year   | 5,000             | 5,015          |
| Due after 5 years   | 40,000            | 40,040         |
| Federal Farm Credit Bank  |                   |                |
| Due after 5 years   | 24,998            | 24,755         |
| <b>Total obligations of U.S. government corporations and government sponsored enterprises</b> | <b>148,218</b>    | <b>149,545</b> |
| <b>Obligations of state and political institutions</b>  |                   |                |
| Due within 1 year   | 115               | 116            |
| Due after 1 year but within 5 years   | 11,689            | 12,437         |
| Due after 5 years   | 11,140            | 12,051         |
| <b>Total obligations of state and political institutions</b>                                  | <b>22,944</b>     | <b>24,604</b>  |
| Single-issuer, trust preferred securities   |                   |                |
| Due after 5 years   | 5,603             | 5,179          |
| Corporate debt securities   |                   |                |
| Due within 6 months   | 55,953            | 56,108         |
| Due after 6 months but within 1 year  | 62,458            | 63,038         |
| Due after 1 year but within 2 years   | 21,282            | 21,640         |

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|                                      |            |            |
|--------------------------------------|------------|------------|
| Due after 2 years but within 5 years | 0          | 0          |
| Due after 5 years                    | 6,625      | 6,940      |
| Total corporate debt securities      | 146,318    | 147,726    |
| Other securities                     | 44         | 55         |
| Total                                | \$ 323,127 | \$ 327,109 |

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

| Held to maturity  | Carrying<br>Value | Fair<br>Value |
|---|-------------------|---------------|
|   | (in thousands)    |               |
| <b>Obligations of U.S. government corporations and government sponsored enterprises</b> |                   |               |
| Mortgage-backed securities  |                   |               |
| CMO's (Federal National Mortgage Association)   | \$ 11,265         | \$ 11,613     |
| CMO's (Federal Home Loan Mortgage Corporation)  | 17,645            | 18,271        |
| Federal National Mortgage Association   | 112,433           | 117,347       |
| Federal Home Loan Mortgage Corporation  | 72,961            | 75,397        |
| Government National Mortgage Association  | 6,343             | 6,851         |
| <br>  |                   |               |
| Total mortgage-backed securities  | 220,647           | 229,479       |
| <b>Agency Notes</b>   |                   |               |
| Federal National Mortgage Association   |                   |               |
| Due after 5 years   | 87,143            | 87,579        |
| Federal Home Loan Bank  |                   |               |
| Due after 5 years   | 19,846            | 19,856        |
| Federal Home Loan Mortgage Corporation  |                   |               |
| Due after 5 years   | 20,000            | 19,975        |
| Federal Farm Credit Bank  |                   |               |
| Due after 5 years   | 5,090             | 5,089         |
| <br>  |                   |               |
| Total obligations of U.S. government corporations and government sponsored enterprises  | 352,726           | 361,978       |
| <b>Obligations of state and political institutions</b>                                  |                   |               |
| Due after 5 years   | 42,532            | 45,502        |
| <br>  |                   |               |
| Total obligations of state and political institutions                                   | 42,532            | 45,502        |
| <br>  |                   |               |
| Debt securities issued by foreign governments   |                   |               |
| Due within 1 year   | 250               | 250           |
| <br>  |                   |               |
| Total   | \$ 395,508        | \$ 407,730    |

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

|              | Three Months Ended<br>September 30, |      | Nine Months Ended<br>September 30, |      |
|--------------|-------------------------------------|------|------------------------------------|------|
|              | 2009                                | 2008 | 2009                               | 2008 |
|              | (in thousands)                      |      |                                    |      |
| Proceeds     | \$ 143,682                          | \$ 0 | \$ 396,526                         | \$ 0 |
| Gross gains  | 1,221                               | 0    | 5,160                              | 0    |
| Gross losses | 0                                   | 0    | 0                                  | 0    |

There were no sales and/or calls of held to maturity securities in 2009 or 2008.

During the three months ended September 30, 2008, the Company incurred an other-than-temporary impairment charge of approximately \$1.2 million on a corporate debt security that was recorded in securities losses. The charge resulted from management's regular review of the investment portfolio and reduced the carrying amount of the security to approximately \$2.6 million. This corporate debt security was sold in October 2008 at a price equal to its reduced carrying amount.

In addition, in the second quarter 2008, the Company incurred an other-than-temporary charge of approximately \$507 thousand against a single-issuer, investment grade trust preferred security that was recorded in securities losses. The charge resulted from management's regular review of the valuation of the investment portfolio and reduced the carrying amount of the security to approximately \$493 thousand. This trust preferred security was sold in June 2009 at a price in excess of its reduced carrying amount, resulting in a \$233,000 gain.

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

**Note 4. Noninterest income and expenses**

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

|   | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |           |
|---|-------------------------------------|----------|------------------------------------|-----------|
|   | 2009                                | 2008     | 2009                               | 2008      |
|   | (in thousands)                      |          |                                    |           |
| <b>NONINTEREST INCOME</b>   |                                     |          |                                    |           |
| Accounts receivable management/factoring commissions and other fees | \$ 4,997                            | \$ 4,348 | \$ 13,098                          | \$ 11,712 |
| Service charges on deposit accounts                                 | 1,553                               | 1,346    | 4,296                              | 4,029     |
| Trade finance income  | 569                                 | 459      | 1,411                              | 1,258     |
| Other customer related fees   | 248                                 | 223      | 725                                | 836       |
| Mortgage banking income   | 2,505                               | 1,469    | 7,152                              | 6,670     |
| Trust fees  | 110                                 | 136      | 366                                | 395       |
| Income from life insurance policies                                 | 280                                 | 289      | 828                                | 852       |
| Securities gains (losses)   | 1,221                               | (1,177)  | 5,160                              | (1,684)   |
| Gain (Loss) on other real estate owned                              | 19                                  | (58)     | 39                                 | (361)     |
| Other income  | 233                                 | 208      | 262                                | 780       |
| Total noninterest income  | \$ 11,735                           | \$ 7,243 | \$ 33,337                          | \$ 24,487 |

**NONINTEREST EXPENSES**

|                                       |           |           |           |           |
|---------------------------------------|-----------|-----------|-----------|-----------|
| Salaries                              | \$ 9,960  | \$ 9,617  | \$ 29,934 | \$ 28,456 |
| Employee benefits                     | 3,206     | 2,411     | 9,151     | 7,499     |
| Total personnel expense               | 13,166    | 12,028    | 39,085    | 35,955    |
| Occupancy and equipment expenses, net | 2,806     | 2,919     | 8,381     | 8,702     |
| Advertising and marketing             | 916       | 740       | 2,596     | 2,728     |
| Professional fees                     | 1,847     | 2,644     | 4,870     | 5,882     |
| Communications                        | 429       | 450       | 1,295     | 1,311     |
| Deposit insurance                     | 1,195     | 243       | 3,059     | 512       |
| Other expenses                        | 2,818     | 2,653     | 8,086     | 7,883     |
| Total noninterest expenses            | \$ 23,177 | \$ 21,677 | \$ 67,372 | \$ 62,973 |

**STERLING BANCORP AND SUBSIDIARIES**  
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**Note 5. 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 September 30, |          | Nine Months Ended September 30, |          |
|------------------------------------|----------------------------------|----------|---------------------------------|----------|
|                                    | 2009                             | 2008     | 2009                            | 2008     |
|                                    | (in thousands)                   |          |                                 |          |
| Service cost                       | \$ 620                           | \$ 510   | \$ 1,626                        | \$ 1,503 |
| Interest cost                      | 959                              | 809      | 2,467                           | 2,313    |
| Expected return on plan assets     | (760)                            | (714)    | (1,906)                         | (2,009)  |
| Amortization of prior service cost | 17                               | 17       | 50                              | 50       |
| Recognized actuarial loss          | 974                              | 415      | 2,570                           | 1,255    |
| Net periodic benefit cost          | \$ 1,810                         | \$ 1,037 | \$ 4,807                        | \$ 3,112 |

The Company has contributed approximately \$2.0 million to the defined benefit pension plan in 2009.

**Note 6. Income Taxes**

The Internal Revenue Service ("IRS") has completed its examination of the Company's federal tax returns for the years 2002 through 2004 and has issued a report disallowing certain bad debt deductions arising from the worthlessness of loans made to customers. The Company, assisted by outside counsel, has prepared a written protest which vigorously challenges all of the IRS findings and the Company will exercise its right to a conference with the Appeals Office of the IRS to discuss the issues and arguments raised in the Company's protest. The Company and its outside counsel believe that the bad debt deductions were proper and that the position of the IRS is unsupported as a matter of fact and law.

**Note 7. Segment Reporting**

The Company provides a broad range of financial products and services, including commercial loans, asset-based financing, factoring and accounts receivable management services, trade financing, equipment leasing, corporate and consumer deposit services, commercial and residential mortgage lending and brokerage, trust and estate administration and investment management services. The Company's primary source of earnings is net interest income, which represents the difference between interest earned on interest-earning assets and the interest incurred on interest-bearing liabilities. The Company's 2009 year-to-date average interest-earning assets were 61.2% loans (corporate lending was 67.6% and real estate lending was 27.6% of total loans, respectively) and 36.8% investment securities and money market investments. There are no industry concentrations exceeding 10% of loans, gross, in the corporate lending segment. Approximately 75% of loans are to borrowers located in the metropolitan New York area. In order to comply with the segment reporting guidance under U.S. GAAP, the Company has determined that it has three reportable operating segments: corporate lending, real estate lending and company-wide treasury.

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The following tables provide certain information regarding the Company's operating segments:

|  | Corporate<br>Lending | Real Estate<br>Lending | Company-wide<br>Treasury | Totals    |
|--|----------------------|------------------------|--------------------------|-----------|
| (in thousands)                               |                      |                        |                          |           |
| <b>Three Months Ended September 30, 2009</b> |                      |                        |                          |           |
| Net interest income                          | \$ 9,815             | \$ 4,967               | \$ 6,984                 | \$ 21,766 |
| Noninterest income                           | 7,059                | 2,536                  | 1,608                    | 11,203    |
| Depreciation and amortization                | 158                  | 29                     | 1                        | 188       |
| Segment income before income taxes           | 8,273                | 4,745                  | 8,374                    | 21,392    |
| Segment assets                               | 822,485              | 383,694                | 896,507                  | 2,102,686 |
| <b>Three Months Ended September 30, 2008</b> |                      |                        |                          |           |
| Net interest income                          | \$ 9,707             | \$ 5,223               | \$ 6,567                 | \$ 21,497 |
| Noninterest income                           | 5,920                | 1,542                  | (834)                    | 6,628     |
| Depreciation and amortization                | 165                  | 36                     | 1                        | 202       |
| Segment income before income taxes           | 7,295                | 3,148                  | 5,565                    | 16,008    |
| Segment assets                               | 834,640              | 390,333                | 831,487                  | 2,056,460 |
| <b>Nine Months Ended September 30, 2009</b>  |                      |                        |                          |           |
| Net interest income                          | \$ 28,493            | \$ 14,884              | \$ 20,701                | \$ 64,078 |
| Noninterest income                           | 18,740               | 7,274                  | 5,983                    | 31,997    |
| Depreciation and amortization                | 513                  | 106                    | 2                        | 621       |
| Segment income before income taxes           | 20,382               | 13,510                 | 25,876                   | 59,768    |
| Segment assets                               | 822,485              | 383,694                | 896,507                  | 2,102,686 |
| <b>Nine Months Ended September 30, 2008</b>  |                      |                        |                          |           |
| Net interest income                          | \$ 27,070            | \$ 15,753              | \$ 19,521                | \$ 62,344 |
| Noninterest income                           | 16,699               | 6,683                  | (410)                    | 22,972    |
| Depreciation and amortization                | 571                  | 217                    | 2                        | 790       |
| Segment income before income taxes           | 21,830               | 9,655                  | 18,420                   | 49,905    |
| Segment assets                               | 834,640              | 390,333                | 831,487                  | 2,056,460 |

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

|                      | Three Months Ended<br>September 30, |      | Nine Months Ended<br>September 30, |      |
|----------------------|-------------------------------------|------|------------------------------------|------|
|                      | 2009                                | 2008 | 2009                               | 2008 |
| (in thousands)       |                                     |      |                                    |      |
| Net interest income: |                                     |      |                                    |      |

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|   |    |           |    |           |    |           |    |           |
|---|----|-----------|----|-----------|----|-----------|----|-----------|
| Total for reportable operating segments | \$ | 21,766    | \$ | 21,497    | \$ | 64,078    | \$ | 62,344    |
| Other [1]                               |    | 204       |    | 203       |    | 572       |    | 663       |
| Consolidated net interest income        | \$ | 21,970    | \$ | 21,700    | \$ | 64,650    | \$ | 63,007    |
| Noninterest income:                     |    |           |    |           |    |           |    |           |
| Total for reportable operating segments | \$ | 11,203    | \$ | 6,628     | \$ | 31,997    | \$ | 22,972    |
| Other [1]                               |    | 532       |    | 615       |    | 1,340     |    | 1,515     |
| Consolidated noninterest income         | \$ | 11,735    | \$ | 7,243     | \$ | 33,337    | \$ | 24,487    |
| Income before taxes:                    |    |           |    |           |    |           |    |           |
| Total for reportable operating segments | \$ | 21,392    | \$ | 16,008    | \$ | 59,768    | \$ | 49,905    |
| Other [1]                               |    | (17,814)  |    | (10,692)  |    | (49,103)  |    | (31,484)  |
| Consolidated income before income taxes | \$ | 3,578     | \$ | 5,316     | \$ | 10,665    | \$ | 18,421    |
| Assets:                                 |    |           |    |           |    |           |    |           |
| Total for reportable operating segments | \$ | 2,102,686 | \$ | 2,056,460 | \$ | 2,102,686 | \$ | 2,056,460 |
| Other [1]                               |    | 34,119    |    | 32,430    |    | 34,119    |    | 32,430    |
| Consolidated assets                     | \$ | 2,136,805 | \$ | 2,088,890 | \$ | 2,136,805 | \$ | 2,088,890 |

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



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**Note 8. Accumulated Other Comprehensive Income (Loss)**

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

|   | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |             |
|---|-------------------------------------|------------|------------------------------------|-------------|
|   | 2009                                | 2008       | 2009                               | 2008        |
| (in thousands)  |                                     |            |                                    |             |
| <b>Other Comprehensive Income (Loss)</b>  |                                     |            |                                    |             |
| Unrealized holding gains (losses) on securities, arising during the period:       |                                     |            |                                    |             |
| Before tax  | \$ 4,878                            | \$ (4,970) | \$ 7,968                           | \$ (11,909) |
| Tax effect  | (2,214)                             | 2,243      | (3,616)                            | 5,378       |
| Net of tax  | 2,664                               | (2,727)    | 4,352                              | (6,531)     |
| Reclassification adjustment for securities (gains) losses included in net income: |                                     |            |                                    |             |
| Before tax  | (1,221)                             | 1,177      | (5,160)                            | 1,684       |
| Tax effect  | 555                                 | (532)      | 2,342                              | (761)       |
| Net of tax  | (666)                               | 645        | (2,818)                            | 923         |
| Reclassification adjustment for amortization of prior service cost:               |                                     |            |                                    |             |
| Before tax  | 17                                  | 17         | 50                                 | 50          |
| Tax effect  | (8)                                 | (8)        | (23)                               | (23)        |
| Net of tax  | 9                                   | 9          | 27                                 | 27          |
| Reclassification adjustment for amortization of net actuarial losses:             |                                     |            |                                    |             |
| Before tax  | 974                                 | 415        | 2,570                              | 1,255       |
| Tax effect  | (442)                               | (187)      | (1,166)                            | (566)       |
| Net of tax  | 532                                 | 228        | 1,404                              | 689         |
| Other comprehensive income (loss)   | \$ 2,539                            | \$ (1,845) | \$ 2,965                           | \$ (4,892)  |

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**Note 9. Fair Value Measurements**

The fair value of an asset or liability is the price that would be received to sell 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.

In general, fair value of securities is based upon quoted market prices, where available. 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. 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, the Company's creditworthiness, among other things, as well as unobservable parameters. 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. A more detailed description of the valuation methodologies used for assets and liabilities measured at fair value is set forth in the 2008 Form 10-K.

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*Financial Assets and Financial Liabilities:* The following tables summarize financial assets and financial liabilities 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:

| September 30, 2009 (in thousands)  | Level 1<br>Inputs | Level 2<br>Inputs | Level 3<br>Inputs | Total<br>Fair Value |
|--|-------------------|-------------------|-------------------|---------------------|
| <b>Securities available for sale:</b>  |                   |                   |                   |                     |
| Obligations of U.S. government corporations and government sponsored enterprises       |                   |                   |                   |                     |
| Mortgage-backed securities   | \$ -              | \$ 59,731         | \$ -              | \$ 59,731           |
| Agency Notes   | -                 | 89,814            | -                 | \$ 89,814           |
| Total obligations of U.S. government corporations and government sponsored enterprises |                   |                   |                   |                     |
|  | -                 | 149,545           | -                 | 149,545             |
| Obligations of state and political institutions  | -                 | 24,604            | -                 | 24,604              |
| Single-issuer, trust preferred securities  | 5,179             | -                 | -                 | 5,179               |
| Corporate debt securities  | -                 | 147,726           | -                 | 147,726             |
| Equity and other securities  | 55                | -                 | -                 | 55                  |
| Total marketable securities  | \$ 5,234          | \$ 321,875        | \$ -              | \$ 327,109          |

|                   |          |          |      |           |
|-------------------|----------|----------|------|-----------|
| Other investments | \$ 8,660 | \$ 5,393 | \$ - | \$ 14,053 |
|-------------------|----------|----------|------|-----------|

December 31, 2008 (in thousands)

|  |          |            |      |            |
|--|----------|------------|------|------------|
| <b>Securities available for sale:</b>  |          |            |      |            |
| Obligations of U.S. government corporations and government sponsored enterprises       |          |            |      |            |
| Mortgage-backed securities   | \$ -     | \$ 210,882 | \$ - | \$ 210,882 |
| Agency Notes   | -        | 244,519    | -    | \$ 244,519 |
| Total obligations of U.S. government corporations and government sponsored enterprises |          |            |      |            |
|  | -        | 455,401    | -    | 455,401    |
| Obligations of state and political institutions  | -        | 23,406     | -    | 23,406     |
| Single-issuer, trust preferred securities  | 4,209    | -          | -    | 4,209      |
| Corporate debt securities  | -        | 9,724      | -    | 9,724      |
| Equity and other securities  | 57       | -          | -    | 57         |
| Total marketable securities  | \$ 4,266 | \$ 488,531 | \$ - | \$ 492,797 |

|                   |          |          |      |           |
|-------------------|----------|----------|------|-----------|
| Other investments | \$ 7,266 | \$ 3,116 | \$ - | \$ 10,382 |
|-------------------|----------|----------|------|-----------|

Certain financial assets and financial liabilities, including 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

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unobservable (Level 3) inputs, measured on a non-recurring basis:

|  | September<br>2009 | December 31,<br>2008 |
|--|-------------------|----------------------|
|--|-------------------|----------------------|

(in thousands)

|                |          |          |
|----------------|----------|----------|
| Impaired loans | \$ 3,741 | \$ 4,203 |
|----------------|----------|----------|

*Non-Financial Assets and Non-Financial Liabilities:* Certain non-financial assets measured at fair value on a non-recurring basis include foreclosed assets (upon initial recognition or subsequent impairment), non-financial assets and non-financial liabilities measured at fair value in the second step of a goodwill impairment test, and intangible assets and other non-financial long-lived assets measured at fair value for impairment assessment.

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During the third quarter of 2009, certain foreclosed assets, upon initial recognition, were remeasured and reported at fair value through a charge-off to the allowance for loan losses based upon the fair value of the foreclosed asset. The fair value of a foreclosed asset, upon initial recognition, is estimated using level 2 inputs based on observable market data or level 3 inputs based on customized discount criteria. Foreclosed assets measured at fair value upon initial recognition totaled \$1.3 million (utilizing level 2 valuation inputs) during the three months ended September 30, 2009. In connection with the measurement and initial recognition of the foregoing foreclosed assets, the Company recognized charge-offs in the allowance for loan losses totaling \$331 thousand. Other than foreclosed assets measured at fair value upon initial recognition, two foreclosed properties were remeasured at fair value during the three months ended September 30, 2009 resulting in a \$90 thousand charge to noninterest expense.

FASB Codification Topic 825: *Financial Instruments* requires disclosures about the fair value of financial instruments for interim reporting periods as well as in annual financial statements. 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 and interest rates, all of which are subject to change. With the exception of investment securities and long-term debt, the Company’s financial instruments are not readily marketable and market prices do not exist. Since negotiated prices for the instruments that are not readily marketable depend greatly on the motivation of the buyer and seller, the amounts that will actually be realized or paid per settlement or maturity of the instruments could be significantly different.

A more detailed description of the methods, factors and significant assumptions utilized in estimating the fair values for significant categories of financial instruments is set forth in the 2008 Form 10-K.

|  | September 30, 2009 |            |
|--|--------------------|------------|
|  | Carrying<br>Amount | Fair Value |
|  | (in thousands)     |            |
| <b>FINANCIAL ASSETS</b>                        |                    |            |
| Cash and due from banks                        | \$ 31,188          | \$ 31,188  |
| Interest-bearing deposits with other banks     | 21,119             | 21,119     |
| Investment securities                          | 722,617            | 734,839    |
| Loans held for sale                            | 25,782             | 25,782     |
| Loans held in portfolio, net                   | 1,188,689          | 1,169,434  |
| Customers’ liability under acceptances         | -                  | -          |
| Accrued interest receivable                    | 8,141              | 8,141      |
| <b>FINANCIAL LIABILITIES</b>                   |                    |            |
| Demand, NOW, savings and money market deposits | 1,016,233          | 1,016,233  |
| Time deposits                                  | 392,292            | 394,929    |
| Securities sold under agreements to repurchase | 55,628             | 55,628     |
| Federal funds purchased                        | 25,675             | 25,675     |
| Commercial paper                               | 14,692             | 14,692     |
| Short-term borrowings-FRB                      | 135,000            | 135,000    |
| Other short-term borrowings                    | 3,787              | 3,787      |
| Acceptances outstanding                        | -                  | -          |
| Accrued interest payable                       | 1,529              | 1,529      |
| Long-term borrowings                           | 185,774            | 190,413    |



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**Note 10. New Accounting Standards**

On January 1, 2009, the Company adopted amendments to FASB Codification Topic 815: *Derivatives and Hedging*, which expand the disclosure requirements to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for, and (iii) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. To meet those objectives, U.S. GAAP requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. The adoption of these amendments did not have a significant impact on the Company's financial statements.

FASB Codification Topic 855: *Subsequent Events* establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. U.S. GAAP specifies that (i) the period after the balance sheet date during which a reporting entity's management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and (iii) disclosures an entity should make about events or transactions that occurred after the balance sheet date. The Company evaluates subsequent events through the date that the financial statements are issued. Subsequent events guidance under U.S. GAAP became effective for the Company's financial statements for periods ending after June 15, 2009 and did not have a significant impact on the Company's financial statements.

FASB Codification Topic 860: *Transfers and Servicing* includes amendments to improve the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. The amendments to U.S. GAAP guidance on transfer and servicing of financial assets eliminate the concept of a "qualifying special-purpose entity", change the requirements for derecognizing financial assets and requires additional disclosures about all continuing involvements with transferred financial information about gains and losses (resulting from transfers) during the period. These amendments will be effective January 1, 2010 and are not expected to have a significant impact on the Company's financial statements.

Amendments to FASB Codification Topic 810: *Consolidation* change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design as well as its ability to direct the activities of the entity that most significantly impact the entity's economic performance. The amendments to U.S. GAAP require additional disclosures about the reporting entity's involvement with variable-interest entities, as well as any significant changes in risk exposure due to that involvement and its effect on the entity's financial statements. These amendments will be effective January 1, 2010 and are not expected to have a significant impact on the Company's financial statements.

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**(Unaudited)**

In April 2009, FASB issued the following Staff Positions that amended the FASB Codification:

Effective for the Company's interim period ended June 30, 2009, FASB Codification Topic 820: *Fair Value Measurements and Disclosures* was amended to provide additional guidance for estimating fair value when the volume and level of activity for the asset or liability have decreased significantly. The amendments also provide guidance on identifying circumstances that indicate a transaction is not orderly. The adoption of these amendments did not have a material impact on the Company's financial statements.

FASB Codification Topic 825: *Financial Instruments* now requires enhanced disclosures about the fair value of financial instruments in interim reporting periods of publicly traded companies that were previously only required to be disclosed in annual financial statements. The provisions of these amendments were effective for the Company's interim period ending on June 30, 2009. Since the new requirements only enhance disclosure about fair value of financial instruments in interim periods, the adoption of these amendments did not have a material impact on the Company's financial statements.

FASB Codification Topic 320: *Investments-Debt and Equity Securities* was amended to make the other-than-temporary impairment guidance more operational and to improve the presentation and disclosure of other-than-temporary impairment on debt and equity securities in the financial statements. Existing U.S. GAAP regarding the recognition and measurement of other-than-temporary impairment of equity securities remains unchanged. The amendments were effective for the Company's interim period ending on June 30, 2009, and their adoption did not have a material impact on the Company's financial statements.

FASB Codification Topic 805: *Business Combinations* was amended to require that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if fair value can be reasonably estimated. If fair value of such an asset or liability cannot be reasonably estimated, the asset or liability would generally be recognized in accordance with FASB Codification Topic 450: *Contingencies*. Certain guidance on accounting for contingencies in a business combination is no longer provided by U.S. GAAP. Instead, entities are required to develop a systematic and rational basis for subsequently measuring and accounting for assets and liabilities arising from contingencies. The amendments eliminate the requirement to disclose and estimate the range of outcomes of recognized contingencies at the acquisition date. For unrecognized contingencies, entities are required to include only the disclosures specified in FASB Codification Topic 805. Under these amendments, contingent consideration arrangements of an acquiree that are assumed by the acquirer in a business combination should be treated as contingent consideration of the acquirer and should be initially and subsequently measured at fair value in accordance with U.S. GAAP on business combinations. The amendments to FASB Codification Topic 805: *Business Combinations* are effective for assets or liabilities arising from contingencies the Company acquires in business combinations occurring after January 1, 2009.



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

The following commentary presents management's discussion and analysis of the financial condition and results of operations of Sterling Bancorp (the "parent company"), a financial holding company under the Gramm-Leach-Bliley Act of 1999, and its subsidiaries, principally Sterling National Bank. 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, 2008. Certain reclassifications have been made to prior years' financial data to conform to current financial statement presentations.

**OVERVIEW**

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

For the nine months ended September 30, 2009, the bank's average earning assets represented approximately 97.7% of the Company's average earning assets. Loans represented 61.1% and investment securities represented 36.8% of the bank's average earning assets for the first nine months of 2009.

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.

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

### INCOME STATEMENT ANALYSIS

Net interest income, which represents the difference between interest earned on interest-earning assets and interest incurred on interest-bearing liabilities, is the Company's primary source of earnings. Net interest income can be affected by changes in market interest rates as well as the level and composition of assets, liabilities and shareholders' equity. Net interest spread is the difference between the average rate earned, on a tax-equivalent basis, on interest-earning assets and the average rate paid on interest-bearing liabilities. The net yield on interest-earning assets ("net interest margin") is calculated by dividing tax-equivalent net interest income by average interest-earning assets. Generally, the net interest margin will exceed the net interest spread because a portion of interest-earning assets are funded by various noninterest-bearing sources, principally noninterest-bearing deposits and shareholders' equity. The increases (decreases) in the components of interest income and interest expense, expressed in terms of fluctuation in average volume and rate, are provided in the Rate/Volume Analysis shown on pages 47 and 48. Information as to the components of interest income and interest expense and average rates is provided in the Average Balance Sheets shown on pages 45 and 46.

### Comparison of the Three Months Ended September 30, 2009 and 2008

The Company reported net income available to common shareholders for the three months ended September 30, 2009 of \$1.8 million, representing \$0.10 per share calculated on a diluted basis, compared to \$3.8 million, or \$0.21 per share calculated on a diluted basis, for the third quarter of 2008. The \$2.0 million decrease in net income available to common shareholders was primarily due to a \$5.0 million increase in the provision for loans losses, a \$1.5 million increase in noninterest expenses and a \$0.6 million increase in dividends and accretion related to the preferred shares issued to the U.S. Treasury under the TARP Capital Purchase Program, which more than offset a \$4.5 million increase in noninterest income, a \$0.3 million increase in net interest income and a lower provision for income taxes.

#### *Net Interest Income*

Net interest income, on a tax-equivalent basis, was \$22.3 million for the third quarter of 2009 compared to \$21.8 million for the 2008 period. Net interest income benefitted from higher average loan balances, lower interest-bearing deposit balances and lower cost of funding. Partially offsetting those benefits was the impact of lower yields on loans and investment securities, lower investment securities outstanding and higher borrowed funds balances. The net interest margin, on a tax-equivalent basis, was 4.53% for the third quarter of 2009 compared to 4.46% for the 2008 period. The net interest margin was impacted by the lower interest rate environment in 2009, the higher level of noninterest-bearing demand deposits and the effect of higher average loans outstanding.

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Total interest income, on a tax-equivalent basis, aggregated \$27.1 million for the third quarter of 2009, down \$3.0 million from the 2008 period. The tax-equivalent yield on interest-earning assets was 5.53% for the third quarter of 2009 compared to 6.19% for the 2008 period.

Interest earned on the loan portfolio decreased to \$18.0 million for the third quarter of 2009 from \$20.4 million in the prior year period. Average loan balances amounted to \$1,189.0 million, an increase of \$16.3 million from an average of \$1,172.7 million in the prior year period. The increase in average loans, primarily due to the Company's business development activities, accounted for a \$0.2 million increase in interest earned on loans. The decrease in the yield on the loan portfolio to 6.25% for the third quarter of 2009 from 6.99% for the 2008 period was primarily attributable to the lower interest rate environment in 2009 and the mix of average outstanding balances among the components of the loan portfolio.

Interest earned on the securities portfolio, on a tax-equivalent basis, decreased to \$8.8 million for the third quarter of 2009 from \$9.5 million in the prior year period. Average outstandings decreased to \$726.9 million (36.8% of average earning assets) for the third quarter of 2009 from \$755.4 million (38.8% of average earning assets) in the prior year period. The decrease reflects the impact of the Company's asset/liability management strategy designed to shorten the average life of the portfolio. The average life of the securities portfolio was approximately 4.6 years at September 30, 2009 compared to 7.1 years at September 30, 2008. The average yield in the investment securities portfolio decreased to 4.87% from 5.01% reflecting the impact of the above referenced asset/liability management strategy coupled with calls of higher yielding securities.

Total interest expense decreased by \$3.5 million for the third quarter of 2009 from \$8.3 million for the 2008 period, primarily due to the impact of lower rates paid for interest-bearing deposits and borrowings and lower interest-bearing deposits.

Interest expense on deposits decreased to \$2.8 million for the third quarter of 2009 from \$5.1 million for the 2008 period, due to decreases in the cost of those funds and lower balances. The average rate paid on interest-bearing deposits was 1.23%, which was 84 basis points lower than the prior year period. The decrease in average cost of deposits reflects the lower interest rate environment during 2009. Average interest-bearing deposits were \$903.9 million for the third quarter of 2009 compared to \$976.7 million for the prior year period, reflecting the Company's strategy to reduce reliance on higher-priced deposits.

Interest expense on borrowings decreased to \$1.9 million for the third quarter of 2009 from \$3.2 million for the 2008 period, primarily due to lower rates paid for borrowed funds coupled with the benefit (reflected in the volume change) derived from the elimination of funding through dealer repurchase agreements and short-term Federal Home Loan Bank borrowings partially offset by increased short-term borrowings from the Federal Reserve Bank (reflected in the volume change). The average rate paid for borrowed funds was 1.58%, which was 107 basis points lower than the prior year period. The decrease in the average cost of borrowings reflects the lower interest rate environment in 2009. Average borrowings increased to \$490.8 million for the third quarter of 2009 from \$482.4 million in the prior year period, reflecting greater reliance by the Company on wholesale funding.

*Provision for Loan Losses*

Based on management's continuing evaluation of the loan portfolio (discussed under "Asset Quality" on page 38), the provision for loan losses for the third quarter of 2009 was \$7.0 million, compared to \$2.0 million for the prior year period. Factors affecting the larger provision for the third quarter of 2009 included further deterioration of economic conditions during the quarter, a \$4.3 million increase in net charge-offs, a \$13.0 million increase in nonaccrual loans and growth in the loan portfolio.

*Noninterest Income*

Noninterest income increased to \$11.7 million for the third quarter of 2009 from \$7.2 million in the 2008 period. The increase principally resulted from the benefit derived from securities gains recognized in the 2009 third quarter compared to securities losses recognized in the 2008 period. Also contributing to the increase were higher income related to accounts receivable management and factoring services, higher mortgage banking income and higher service charges on deposit accounts. In connection with an asset liability management program designed to reduce the average life of the investment securities portfolio, the Company sold in the third quarter approximately \$82 million of securities with a weighted average life of approximately 3 years at a gain of \$1.2 million. The Company expects to reinvest a significant portion of the proceeds in securities with an average life of less than two years. The 2008 amount was reduced by an other-than-temporary impairment charge for a debt security. The charge, which resulted from management's regular review of the valuation of the investment portfolio, amounted to approximately \$1.2 million and reduced the carrying amount of the security to \$2.6 million. Commissions and other fees earned from accounts receivable management and factoring services were higher primarily due to the impact of the acquisition of the business of DCD Finance Inc. on April 6, 2009. Partially offsetting that benefit was the impact of reduced volume of billing by clients providing temporary staffing. The increase in mortgage banking income was due to higher volume of loans sold.

*Noninterest Expenses*

Noninterest expenses for the third quarter of 2009 increased \$1.5 million when compared to the 2008 period. The increase was primarily due to the impact of the acquisition of the business of DCD Finance Inc. on April 6, 2009 and higher deposit insurance and pension costs. Partially offsetting those increases was a reduction in professional fees. The increase in deposit insurance cost was primarily due to the significant increase in quarterly FDIC premium rates. On September 29, 2009, the FDIC amended its plan for returning the Deposit Insurance Fund ("DIF") to its statutorily mandated minimum reserve ratio within eight years by, among other things, increasing assessment rates by a uniform three basis points effective January 1, 2011. In conjunction with the amended plan, the FDIC proposed a rule that would require insured institutions to prepay their estimated quarterly assessments through December 31, 2012 to strengthen the cash position of the DIF. The proposed rule would require the cash prepayment on December 30, 2009. The bank estimates that its prepayment would be approximately \$8.0 million.

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The increase in pension expense was primarily the result of a weaker return on plan assets during 2008. The Company's defined benefit retirement plan was closed to new members effective as of January 3, 2007. There have been no new participants in the Company's Supplemental Executive Retirement Plan ("SERP"). The defined benefit plan was replaced by an enhanced 401(k) contribution for new employees. The Company still has funding obligations related to the defined benefit retirement and SERP plans and will recognize retirement expense related to these plans in future years, which will be dependent on the return earned on plan assets, the level of interest rates, salary increases, employee turnover and other factors. The reduction in professional fees was primarily due to lower audit and examination expenses.

### *Provision for Income Taxes*

The provision for income taxes for the third quarter of 2009 decreased to \$1.2 million from \$1.5 million for the third quarter of 2008. The decrease was primarily due to the lower level of pre-tax income in the 2009 period.

### **Comparison of the Nine Months Ended September 30, 2009 and 2008**

The Company reported net income available to common shareholders for the nine months ended September 30, 2009 of \$4.7 million, representing \$0.26 per share calculated on a diluted basis, compared to \$12.0 million, or \$0.66 per share calculated on a diluted basis, for the first nine months of 2008. The \$7.3 million decrease in net income available to common shareholders was primarily due to a \$13.9 million increase in the provision for loan losses, a \$4.4 million increase in noninterest expenses and a \$2.1 million increase in dividends and accretion related to the preferred shares issued to the U.S. Treasury under the TARP Capital Purchase Program, which more than offset a \$8.9 million increase in noninterest income, a \$1.6 million increase in net interest income and a lower provision for income taxes.

### *Net Interest Income*

Net interest income, on a tax-equivalent basis, was \$65.4 million for the first nine months of 2009 compared to \$63.4 million for the 2008 period. Net interest income benefitted from higher average loan balances, lower interest-bearing deposit balances and lower cost of funding. Partially offsetting those benefits was the impact of lower yield on loans and investment securities, lower investment securities balances and higher borrowed funds balances. The net interest margin, on a tax-equivalent basis, was 4.58% for the first nine months of 2009 compared to 4.53% for the 2008 period. The net interest margin was impacted by the lower interest rate environment in 2009, the lower level of noninterest-bearing demand deposits and the effect of higher average loans outstanding.

Total interest income, on a tax-equivalent basis, aggregated \$80.2 million for the first nine months of 2009, down \$9.6 million from the 2008 period. The tax-equivalent yield on interest-earning assets was 5.64% for the first nine months of 2009 compared to 6.45% for the 2008 period.

Interest earned on the loan portfolio decreased to \$53.8 million for the first nine months of 2009 from \$61.2 million for the prior year period. Average loan balances amounted to \$1,185.0 million, an increase of \$54.7 million from an average of \$1,130.3 million in the prior year period. The increase in average loans, primarily due to the Company's business development activities, accounted for a \$2.7 million increase in interest earned on loans. The yield on the loan portfolio decreased to 6.32% for the first nine months of 2009 from 7.46% for the 2008 period, which was primarily attributable to the lower interest rate environment in 2009 and the mix of average outstanding balances among the components of the loan portfolio.

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Interest earned on the securities portfolio, on a tax-equivalent basis, decreased to \$25.9 million for the first nine months of 2009 from \$28.1 million in the prior year period. Average outstandings decreased to \$712.2 million (36.8% of average earning assets) for the first nine months of 2009 from \$745.6 million (39.4% of average earning assets) in the prior year period. The decrease reflects the impact of the Company's asset/liability management strategy designed to shorten the average life of the portfolio. The average life of the securities portfolio was approximately 4.6 years at September 30, 2009 compared to 7.1 years at September 30, 2008. The average yield on the investment securities portfolio decreased to 4.86% from 5.02%, reflecting the impact of the above referenced asset/liability management strategy coupled with calls of higher yielding securities.

Total interest expense decreased by \$11.6 million for the first nine months of 2009 from \$26.5 million for the 2008 period, primarily due to the impact of lower rates paid for interest-bearing deposits and borrowings and lower interest-bearing deposit balances.

Interest expense on deposits decreased to \$9.1 million for the first nine months of 2009 from \$17.1 million for the 2008 period, primarily due to a decrease in the cost of those funds. The average rate paid on interest-bearing deposits was 1.35%, which was 96 basis points lower than the prior year period. The decrease in average cost of deposits reflects the lower interest rate environment during 2009. Average interest-bearing deposits were \$902.4 million for the first nine months of 2009 compared to \$990.8 million for the prior year period, reflecting the Company's strategy to reduce reliance on higher-priced certificates of deposit.

Interest expense on borrowings decreased to \$5.8 million for the first nine months of 2009 from \$9.3 million for the 2008 period, primarily due to lower rates paid for borrowed funds coupled with the benefit (reflected in the volume change) derived from the elimination of funding through dealer repurchase agreements partially offset by increased short-term borrowings from the Federal Reserve Bank (reflected in the volume change). The average rate paid for borrowed funds was 1.60%, which was 135 basis points lower than the prior year period. The decrease in the average cost of borrowings reflects the lower interest rate environment in 2009. Average borrowings increased to \$482.9 million for the first nine months of 2009 from \$421.8 million in the prior year period, reflecting greater reliance by the Company on wholesale funding.

### *Provision for Loan Losses*

Based on management's continuing evaluation of the loan portfolio (discussed under "Asset Quality" on page 38), the provision for loan losses for the first nine months of 2009 was \$20.0 million, compared to \$6.1 million for the prior year period. Factors affecting the larger provision for the first nine months of 2009 included further deterioration of economic conditions during that period, a \$11.8 million increase in net charge-offs, a \$13.0 million increase in nonaccrual loans and growth in the loan portfolio.

*Noninterest Income*

Noninterest income increased to \$33.3 million for the first nine months of 2009 from \$24.5 million in the 2008 period. The increase principally resulted from securities gains recognized in the 2009 period compared to securities losses recognized in the 2008 period. Also contributing to the increase were higher income related to accounts receivable management and factoring services, higher mortgage banking income, and higher service charges on deposit accounts. In connection with an asset liability management program designed to reduce the average life of the investment securities portfolio, the Company sold approximately \$206 million of securities with a weighted average life of approximately 3.5 years. The Company expects to reinvest a significant portion of the proceeds in securities with an average life of less than two years. The 2008 amount was reduced by other-than-temporary impairment charges which resulted from management's regular review of the investment portfolio. One charge, taken in the second quarter of 2008 for a single-issuer, investment grade trust preferred security, amounted to approximately \$0.5 million and reduced the carrying amount of the security to \$0.5 million. A second charge, taken in the third quarter of 2008 for a debt security, amounted to approximately \$1.2 million and reduced the carrying amount of the security to \$2.6 million. Commissions and other fees earned from accounts receivable management and factoring services were higher primarily due to the impact of the acquisition of the business of DCD Finance Inc. on April 6, 2009. Partially offsetting that benefit was the impact of reduced volume of billing by clients providing temporary staffing. The increase in mortgage banking income was due to higher volume of loans sold.

*Noninterest Expenses*

Noninterest expenses for the first nine months of 2009 increased \$4.4 million when compared to the 2008 period. The increase was primarily due to the impact of the acquisition of the business of DCD Finance Inc. on April 6, 2009 and higher deposit insurance and pension costs. The increase in deposit insurance cost was due to a special assessment levied in the 2009 second quarter by the FDIC on all insured depository institutions totaling 5 basis points of each institution's total assets less Tier 1 capital as of June 30, 2009, not to exceed 10 basis points of domestic deposits. The special assessment is part of the FDIC's effort to rebuild the DIF. Deposit insurance expense during the nine months ended September 30, 2009 included a \$1.0 million accrual related to the special assessment. Also contributing to the increase in deposit insurance costs was the significant increase in quarterly FDIC premium rates. On September 29, 2009, the FDIC amended its plan for rebuilding the DIF. Under the amended plan, the FDIC increased assessment rates by a uniform three basis points effective January 1, 2011 and will not impose additional special assessments in 2009. In conjunction with the amended plan, the FDIC proposed a rule that would require insured institutions to prepay the cash position of the DIF. The proposed rule would require the cash prepayment on December 30, 2009. The bank estimates that its prepayment would be approximately \$8.0 million.

The increase in pension expense was primarily the result of weaker return on plan assets during 2008. The Company's defined benefit retirement plan was closed to new members effective as of January 3, 2007. There have been no new participants in the Company's SERP. The defined benefit plan was replaced by an enhanced 401(k) contribution for new employees. The Company still has funding obligations related to the defined benefit retirement and SERP plans and will recognize retirement expense related to these plans in future years, which will be dependent on the return earned on plan assets, the level of interest rates, salary increases, employee turnover and other factors.

*Provision for Income Taxes*

The provision for income taxes for the first nine months of 2009 decreased to \$3.9 million from \$6.5 million for the first nine months of 2008. The decrease was primarily due to the lower level of pre-tax income in the 2009 period.

**BALANCE SHEET ANALYSIS***Securities*

At September 30, 2009, the Company's portfolio of securities totaled \$722.6 million, of which obligations of U.S. government corporations and government-sponsored enterprises amounted to \$502.3 million, (69.5% of total investment securities), corporate debt securities amounted to \$147.7 million (20.4% of total investment securities) and obligations of states and political subdivisions amounted to \$67.1 million (9.3% of total investment securities). The Company has the intent and ability to hold to maturity securities classified as "held to maturity". These securities are carried at cost, adjusted for amortization of premiums and accretion of discounts. The gross unrealized gains and losses on "held to maturity" securities were \$12.5 million and \$0.3 million, respectively. Securities classified as "available for sale" may be sold in the future, prior to maturity. These securities are carried at estimated fair value. Net aggregate unrealized gains or losses on these securities are included in a valuation allowance account and are shown net of taxes, as a component of shareholders' equity. Given the generally high credit quality of the portfolio, management expects to realize all of its investment upon market recovery or the maturity of such instruments and thus believes that any impairment in value is interest rate related and therefore temporary. "Available for sale" securities included gross unrealized gains of \$5.3 million and gross unrealized losses of \$1.4 million. After reviewing all investment securities the Company holds in order to determine if the decline in the fair value of any security appears to be other-than-temporary, management expects to realize all of its investment upon the maturity of such instruments and, thus, believes that any fair value impairment is temporary. Management has made an evaluation it is not more likely than not that the Company would be required to sell before anticipated recovery of the full carrying value of its investment.

In connection with an asset liability management program designed to reduce the average life of the investment securities portfolio, the Company sold approximately \$206 million of securities with a weighted average life of approximately 3.5 years during the first nine months of 2009. The Company expects to reinvest a significant portion of the proceeds in securities with an average life of less than two years.

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

|  | Weighted Average Life |           | Weighted Average Yield |                      |
|--|-----------------------|-----------|------------------------|----------------------|
|  | AFS                   | HTM       | AFS                    | HTM                  |
| September 30, 2009   |                       |           |                        |                      |
| Mortgage-backed securities   | 3.8 Years             | 2.8 Years | 4.51%                  | 4.48%                |
| Agency notes (with original call dates ranging between 3 and 36 months)          | 10.3 Years            | 5.8 Years | 5.08%                  | 5.45%                |
| Corporate debt securities  | 1.7 Years             | -         | 4.76%                  | -                    |
| Obligations of state and political subdivisions<br><sup>(1)</sup> tax equivalent | 5.2 Years             | 9.3 Years | 6.04% <sup>(1)</sup>   | 6.38% <sup>(1)</sup> |



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

|   | September 30, 2009 |                | December 31, 2008 |                |
|---|--------------------|----------------|-------------------|----------------|
|   | Balances           | % of Total     | Balances          | % of Total     |
| (in thousands)  |                    |                |                   |                |
| Obligations of U.S. government corporations and government sponsored enterprises              |                    |                |                   |                |
| Mortgage-backed securities  |                    |                |                   |                |
| CMO's (Federal National Mortgage Association)   | \$ 14,266          | 1.97%          | \$ 20,799         | 2.62%          |
| CMO's (Federal Home Loan Mortgage Corporation)  | 23,505             | 3.25           | 42,294            | 5.33           |
| CMO's (Government National Mortgage Association)  | 4,778              | 0.66           | 6,565             | 0.83           |
| Federal National Mortgage Association   | 133,641            | 18.49          | 245,100           | 30.87          |
| Federal Home Loan Mortgage Corporation  | 84,315             | 11.67          | 137,437           | 17.31          |
| Government National Mortgage Association  | 19,873             | 2.75           | 39,564            | 4.98           |
| <b>Total mortgage-backed securities</b>   | <b>280,378</b>     | <b>38.79</b>   | <b>491,759</b>    | <b>61.94</b>   |
| Agency Notes  |                    |                |                   |                |
| Federal National Mortgage Association   | 107,147            | 14.83          | 0                 | 0.00           |
| Federal Home Loan Bank  | 64,901             | 8.98           | 174,675           | 22.00          |
| Federal Home Loan Mortgage Corporation  | 20,000             | 2.77           | 0                 | 0.00           |
| Federal Farm Credit Bank  | 29,845             | 4.13           | 89,844            | 11.32          |
| <b>Total obligations of U.S. government corporations and government sponsored enterprises</b> | <b>502,271</b>     | <b>69.50</b>   | <b>756,278</b>    | <b>95.26</b>   |
| Obligations of state and political institutions   | 67,136             | 9.29           | 23,406            | 2.95           |
| Single-issuer, trust preferred securities   | 5,179              | 0.72           | 4,209             | 0.53           |
| Corporate debt securities   | 147,726            | 20.44          | 9,724             | 1.22           |
| Other securities  | 55                 | 0.01           | 57                | 0.01           |
| <b>Total marketable securities</b>  | <b>722,367</b>     | <b>99.96</b>   | <b>793,674</b>    | <b>99.97</b>   |
| Debt securities issued by foreign governments   | 250                | 0.04           | 250               | 0.03           |
| <b>Total</b>  | <b>\$ 722,617</b>  | <b>100.00%</b> | <b>\$ 793,924</b> | <b>100.00%</b> |

*Loan Portfolio*

One of Management's objectives is to maintain the quality of the loan portfolio. The Company seeks to achieve this objective by maintaining rigorous underwriting standards coupled with regular evaluation of the creditworthiness of, and the designation of lending limits for, each borrower. The portfolio strategies include seeking industry and loan size diversification in order to minimize credit exposure and originating loans in markets with which the Company is familiar.

The Company's commercial and industrial loan and factored receivables portfolios represent approximately 56% of all loans. Loans in this category are typically made to small- and medium-sized businesses and range between \$25,000 and \$10 million. The Company's real estate mortgage portfolio, which represents approximately 23% of all loans, is comprised of mortgages secured by real property located principally in the states of New York, New Jersey, Virginia and North Carolina. The Company's leasing portfolio, which consists of finance leases for various types of business equipment, represents approximately 17% 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:

|   | September 30,          |               |              |               |
|---|------------------------|---------------|--------------|---------------|
|   | 2009                   |               | 2008         |               |
|   | (dollars in thousands) |               |              |               |
|   | Balances               | % of<br>Total | Balances     | % of<br>Total |
| <b>Domestic</b>                                 |                        |               |              |               |
| Commercial and industrial                       | \$ 543,443             | 44.05%        | \$ 510,653   | 42.59%        |
| Lease financing receivables                     | 211,697                | 17.16         | 256,062      | 21.36         |
| Factored receivables                            | 152,068                | 12.33         | 111,921      | 9.33          |
| Real estate - residential mortgage              | 159,805                | 12.96         | 160,307      | 13.37         |
| Real estate - commercial mortgage               | 103,785                | 8.41          | 96,275       | 8.03          |
| Real estate - construction and land development | 24,112                 | 1.95          | 25,481       | 2.13          |
| Loans to individuals                            | 13,660                 | 1.11          | 18,214       | 1.52          |
| Loans to depository institutions                | 25,000                 | 2.03          | 20,000       | 1.67          |
| Loans, net of unearned discounts                | \$ 1,233,570           | 100.00%       | \$ 1,198,913 | 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 expected economic conditions, the financial condition of borrowers, the realization of collateral and the credit management process.

During the first nine months of 2009, conditions across many segments of the economy continued to deteriorate, adversely affecting the financial condition of our small business borrowers as well as the value of our collateral. As a result of the adverse effects of existing economic conditions, nonaccrual loans increased \$13.0 million during the first nine months of 2009 (primarily reflecting a \$10.9 million increase in nonaccrual lease financing receivables), and charge-offs for the first nine months of 2009 were \$11.8 million higher than for the corresponding period in 2008 (primarily reflecting a \$11.2 million increase in charge-offs for lease financing receivables). The Company experienced a disruption in our collection efforts due to resignations, during the first quarter of 2009, of our collection manager and other members of the collection staff, which also resulted in increases in charge-offs and nonaccruals during the first nine months of 2009. We have since upgraded our collection staff, intensified our collection activities, tightened our credit standards and enhanced other credit evaluation criteria. Nevertheless, continuation and/or 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.

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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.

|   | September 30,  |          |
|---|----------------|----------|
|   | 2009           | 2008     |
|   | (in thousands) |          |
| Gross loans                                       | \$ -           | \$ -     |
| Nonaccrual loans                                  |                |          |
| Commercial and industrial                         | \$ 3,809       | \$ 1,287 |
| Lease financing receivables                       | 13,276         | 2,411    |
| Factored receivables                              | -              | -        |
| Real estate-residential mortgage                  | 2,609          | 2,983    |
| Real estate-commercial mortgage                   | -              | -        |
| Real estate-construction and land development     | -              | -        |
| Loans to individuals                              | 100            | 95       |
| <br>  |                |          |
| Total nonaccrual loans                            | 19,794         | 6,776    |
| <br>  |                |          |
| Other real estate owned                           | 1,837          | 1,991    |
| <br>  |                |          |
| Total non-performing assets                       | \$ 21,631      | \$ 8,767 |
| <br>  |                |          |
| Loans past due 90 days or more and still accruing | \$ 1,523       | \$ 976   |

At September 30, 2009, commercial and industrial nonaccruals represented 0.70% of commercial and industrial loans. There were 45 loans made to small business borrowers located in 5 states with balances ranging between approximately \$9,700 and \$254,000.

At September 30, 2009, lease financing nonaccruals represented 6.27% of lease financing receivables. The lessees of the equipment are located in 35 states. There were 281 leases ranging between approximately \$400 and \$345,100, 259 of which were under \$100,000. 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 September 30, 2009, residential real estate nonaccruals represented 1.95% of residential real estate loans held in portfolio. There were 15 loans ranging between approximately \$10,000 and \$332,000 secured by properties located in 10 states.

At September 30, 2009, other real estate owned consisted of 8 properties with values between approximately \$42,000 and \$499,000 located in 4 states.

Management views the allowance for loan losses as a critical accounting policy due to its subjectivity. The allowance for loan losses is maintained through the provision for loan losses, which is a charge to operating earnings. The adequacy of the provision and the resulting allowance for loan losses is determined by a management evaluation process of the loan portfolio, including identification and review of individual problem situations that may affect the borrower's ability to repay, review of overall portfolio quality through an analysis of current charge-offs, delinquency and nonperforming loan data, estimates of the value of any underlying collateral, an assessment of current and expected economic conditions and changes in the size and character of the loan portfolio. Other data utilized by management in determining the adequacy of the allowance for loan losses include, but are not limited to, the results of regulatory reviews; the amount of, trend of and/or borrower characteristics on loans that are identified as requiring special attention as part of the credit review process and peer group comparisons. The impact of this other data might result in an allowance greater than that indicated by the evaluation process previously described. 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, including loans identified as impaired as required by FASB Codification Topic 310: *Receivables*. Thus, an increase in the size of the portfolio or in any of its components could necessitate an increase in the allowance even though there may not be a decline in credit quality or an increase in potential problem loans. A significant change in any of the evaluation factors described above could result in future additions to the allowance. At September 30, 2009, the ratio of the allowance to loans held in portfolio, net of unearned discounts, was 1.58% and the allowance was \$19.1 million. At such date, the Company's nonaccrual loans amounted to \$19.8 million. Loans 90 days past due and still accruing amounted to \$1.5 million. At September 30, 2009, loans judged to be impaired under U.S. GAAP guidance on receivables, amounted to \$3.7 million and had a valuation allowance totaling \$601 thousand, which is included within the overall allowance for loan losses. Included in the impaired loans are \$3.2 million in accruing impaired restructured loans as defined by U.S. GAAP guidance on receivables, with allowances for loan impairment of \$438 thousand. Based on the foregoing, as well as management's judgment as to the current risk 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 September 30, 2009. Net losses within loans held in portfolio are not statistically predictable and changes in conditions in the next twelve months could result in future provisions for loan losses varying from the provision recognized in the first nine months of 2009. 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 \$8.2 million and \$2.3 million at September 30, 2009 and September 30, 2008, respectively.

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

|   | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |              |
|---|-------------------------------------|--------------|------------------------------------|--------------|
|   | 2009                                | 2008         | 2009                               | 2008         |
| (dollars in thousands)  |                                     |              |                                    |              |
| Average loans held in portfolio, net of unearned discounts, during period | \$ 1,144,597                        | \$ 1,154,487 | \$ 1,141,475                       | \$ 1,106,021 |
| Allowance for loan losses:  |                                     |              |                                    |              |
| Balance at beginning of period  | \$ 18,134                           | \$ 15,480    | \$ 16,010                          | \$ 15,085    |
| Charge-offs:  |                                     |              |                                    |              |
| Commercial and industrial   | 1,230                               | 675          | 2,107                              | 1,963        |
| Lease financing receivables   | 4,517                               | 992          | 14,144                             | 2,959        |
| Factored receivables  | 69                                  | 54           | 378                                | 249          |
| Real estate - residential mortgage  | 41                                  | 0            | 41                                 | 15           |
| Real estate - commercial mortgage   | 0                                   | 0            | 0                                  | 0            |
| Real estate - construction and land development                           | 0                                   | 0            | 0                                  | 0            |
| Loans to individuals  | 0                                   | 0            | 0                                  | 0            |
| Total charge-offs   | 5,857                               | 1,721        | 16,670                             | 5,186        |
| Recoveries:   |                                     |              |                                    |              |
| Commercial and industrial   | 7                                   | 183          | 23                                 | 294          |
| Lease financing receivables   | 79                                  | 110          | 221                                | 271          |
| Factored receivables  | 15                                  | 6            | 38                                 | 21           |
| Real estate - residential mortgage  | 102                                 | 61           | 102                                | 61           |
| Real estate - commercial mortgage   | 0                                   | 0            | 0                                  | 0            |
| Real estate - construction and land development                           | 0                                   | 0            | 0                                  | 0            |
| Loans to individuals  | 0                                   | 0            | 0                                  | 69           |
| Total recoveries  | 203                                 | 360          | 384                                | 716          |
| Subtract:   |                                     |              |                                    |              |
| Net charge-offs   | 5,654                               | 1,361        | 16,286                             | 4,470        |
| Provision for loan losses   | 6,950                               | 1,950        | 19,950                             | 6,100        |
| Less losses on transfers to other real estate owned                       | 331                                 | 336          | 575                                | 982          |

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|                          |    |        |    |        |    |        |    |        |
|--------------------------|----|--------|----|--------|----|--------|----|--------|
| Balance at end of period | \$ | 19,099 | \$ | 15,733 | \$ | 19,099 | \$ | 15,733 |
|--------------------------|----|--------|----|--------|----|--------|----|--------|

|   |  |       |  |       |  |       |  |       |
|---|--|-------|--|-------|--|-------|--|-------|
| Ratio of annualized net charge-offs to average loans held in portfolio, net of unearned discounts |  | 1.98% |  | 0.47% |  | 1.90% |  | 0.54% |
|---|--|-------|--|-------|--|-------|--|-------|

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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.

|   | September 30,<br>2009 | % of Loans in<br>each category<br>to total loans<br>held in<br>portfolio | December 31,<br>2008 | % of Loans in<br>each category<br>to total loans<br>held in<br>portfolio |
|---|-----------------------|--|----------------------|--|
|   | Amount                |  | Amount               |  |
| (dollars in thousands)                          |                       |  |                      |  |
| <b>Domestic</b>                                 |                       |  |                      |  |
| Commercial and industrial                       | \$ 5,613              | 44.99%   | \$ 5,530             | 44.87%   |
| Loans to depository institutions                | 0                     | 2.07   | 88                   | 2.11   |
| Lease financing receivables                     | 9,909                 | 17.53  | 6,130                | 21.59  |
| Factored receivables                            | 977                   | 12.59  | 933                  | 7.52   |
| Real estate - residential mortgage              | 1,580                 | 11.10  | 2,355                | 12.00  |
| Real estate - commercial mortgage               | 614                   | 8.59   | 674                  | 8.18   |
| Real estate - construction and land development | 145                   | 2.00   | 175                  | 2.13   |
| Loans to individuals                            | 82                    | 1.13   | 88                   | 1.60   |
| Unallocated                                     | 179                   | 0.00   | 37                   | 0.00   |
| <b>Total</b>                                    | <b>\$ 19,099</b>      | <b>100.00%</b>   | <b>\$ 16,010</b>     | <b>100.00%</b>   |

During 2009, the allowance for loan losses increased \$3.1 million from \$16.0 million at December 31, 2008 primarily due to an increase of \$3.8 million in the allowance allocated to lease financing receivables partially offset by a reduction of \$0.8 million in the allowance allocated to residential mortgage loans. The allowance allocated to lease financing receivables increased primarily as a result of increased losses and nonaccrual levels experienced in that category in 2009. The reduction in the allowance allocated to residential mortgage loans was primarily the result of lower anticipated losses in the portfolio based on the improved quality of loans in the portfolio.



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### Deposits

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

The following table provides certain information with respect to the Company's deposits:

|                                | September 30,          |                |                     |                |
|--------------------------------|------------------------|----------------|---------------------|----------------|
|                                | 2009                   |                | 2008                |                |
|                                | (dollars in thousands) |                |                     |                |
|                                | Balances               | % of<br>Total  | Balances            | % of<br>Total  |
| <b>Domestic</b>                |                        |                |                     |                |
| Demand                         | \$ 470,404             | 33.40%         | \$ 452,044          | 31.94%         |
| NOW                            | 195,372                | 13.87          | 248,557             | 17.56          |
| Savings                        | 18,195                 | 1.29           | 17,597              | 1.24           |
| Money market                   | 332,262                | 23.59          | 333,583             | 23.57          |
| Time deposits                  | 391,713                | 27.81          | 362,776             | 25.65          |
| <b>Total domestic deposits</b> | <b>1,407,946</b>       | <b>99.96</b>   | <b>1,414,557</b>    | <b>99.96</b>   |
| <b>Foreign</b>                 |                        |                |                     |                |
| Time deposits                  | 579                    | 0.04           | 577                 | 0.04           |
| <b>Total deposits</b>          | <b>\$ 1,408,525</b>    | <b>100.00%</b> | <b>\$ 1,415,134</b> | <b>100.00%</b> |

Fluctuations of balances in total or among categories at any date may occur based on the Company's mix of assets and liabilities as well as on customers' balance sheet strategies. Historically, however, average balances for deposits have been relatively stable. Information regarding these average balances is presented on pages 45 and 46.

### 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 49. In addition, the bank is subject to the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") which imposes a number of mandatory supervisory measures. Among other matters, FDICIA established five capital categories, ranging from "well capitalized" to "critically under capitalized", which are used by regulatory agencies to determine a bank's deposit insurance premium, approval of applications authorizing institutions to increase their asset size or otherwise expand business activities or acquire other institutions. Under FDICIA, a "well capitalized" bank must maintain minimum leverage, Tier 1 and Total Capital ratios of 5%, 6% and 10%, respectively. The Federal Reserve Board applies comparable tests for holding companies such as the Company. At September 30, 2009, the Company and the bank exceeded the requirements for "well capitalized" institutions.

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENT**

For information regarding recently issued accounting pronouncement and its expected impact on the Company's consolidated financial statements, see Note 10 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 and other statements contained herein regarding matters that are not historical facts, are "forward-looking statements" as defined in the Securities Exchange Act of 1934. These statements are not historical facts but instead are subject to numerous assumptions, risks and uncertainties, and represent only our belief regarding future events, many of which, by their nature, are inherently uncertain and outside our control. Any forward-looking statements we may make speak only as of the date on which such statements are made. Our actual results and financial position may differ materially from the anticipated results and financial condition indicated in or implied by these forward-looking statements.

Factors that could cause our actual results to differ materially from those in the forward-looking statements include, but are not limited to, the following: inflation, interest rates, market and monetary fluctuations; geopolitical developments, including acts of war and terrorism and their impact on economic conditions; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board; changes, particularly declines, in general economic conditions and in the local economies in which the Company operates; the financial condition of the Company's borrowers; competitive pressures on loan and deposit pricing and demand; changes in technology and their impact on the marketing of new products and services and the acceptance of these products and services by new and existing customers; the willingness of customers to substitute competitors' products and services for the Company's products and services; the impact of changes in financial services laws and regulations (including laws concerning taxes, banking, securities and insurance); changes in accounting principles, policies and guidelines; the risks and uncertainties described in "Risk Factors" in the Company's annual report on Form 10-K for the year ended December 31, 2008; and 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.

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STERLING BANCORP AND SUBSIDIARIES  
Average Balance Sheets [1]  
Three Months Ended September 30,  
(Unaudited)

(dollars in thousands)

|   | 2009                |               |                 | 2008                |               |                 |
|---|---------------------|---------------|-----------------|---------------------|---------------|-----------------|
|   | Average<br>Balance  | Interest      | Average<br>Rate | Average<br>Balance  | Interest      | Average<br>Rate |
| <b>ASSETS</b>   |                     |               |                 |                     |               |                 |
| Interest-bearing deposits with other banks                    | \$ 50,385           | \$ 27         | 0.21%           | \$ 2,920            | \$ 11         | 1.51%           |
| Securities available for sale                                 | 320,494             | 3,903         | 4.87            | 409,132             | 5,308         | 5.19            |
| Securities held to maturity                                   | 345,186             | 3,975         | 4.61            | 323,145             | 3,795         | 4.70            |
| Securities tax-exempt [2]                                     | 61,254              | 969           | 6.33            | 23,078              | 351           | 6.08            |
| Total investment securities                                   | 726,934             | 8,847         | 4.87            | 755,355             | 9,454         | 5.01            |
| FRB and FHLB stock [2]  | 9,769               | 192           | 7.87            | 13,640              | 258           | 7.58            |
| Federal funds sold  | 0                   | 0             | 0.00            | 1,413               | 7             | 1.81            |
| Loans, net of unearned discounts [3]                          | 1,189,030           | 18,024        | 6.25            | 1,172,713           | 20,387        | 6.99            |
| <b>TOTAL INTEREST-EARNING ASSETS</b>                          | <b>1,976,118</b>    | <b>27,090</b> | <b>5.53%</b>    | <b>1,946,041</b>    | <b>30,117</b> | <b>6.19%</b>    |
| Cash and due from banks                                       | 28,342              |               |                 | 50,264              |               |                 |
| Allowance for loan losses                                     | (20,307)            |               |                 | (16,367)            |               |                 |
| Goodwill  | 22,901              |               |                 | 22,901              |               |                 |
| Other assets  | 118,990             |               |                 | 105,424             |               |                 |
| <b>TOTAL ASSETS</b>   | <b>\$ 2,126,044</b> |               |                 | <b>\$ 2,108,263</b> |               |                 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                   |                     |               |                 |                     |               |                 |
| <b>Interest-bearing deposits</b>                              |                     |               |                 |                     |               |                 |
| <b>Domestic</b>   |                     |               |                 |                     |               |                 |
| Savings   | \$ 18,022           | 3             | 0.07%           | \$ 17,527           | 14            | 0.33%           |
| NOW   | 180,753             | 106           | 0.23            | 251,271             | 633           | 1.00            |
| Money market  | 329,485             | 763           | 0.92            | 307,879             | 1,364         | 1.76            |
| Time  | 375,087             | 1,931         | 2.04            | 399,417             | 3,060         | 3.05            |
| <b>Foreign</b>  |                     |               |                 |                     |               |                 |
| Time  | 579                 | 2             | 1.09            | 577                 | 2             | 1.09            |
| <b>Total interest-bearing deposits</b>                        | <b>903,926</b>      | <b>2,805</b>  | <b>1.23</b>     | <b>976,671</b>      | <b>5,073</b>  | <b>2.07</b>     |
| <b>Borrowings</b>   |                     |               |                 |                     |               |                 |
| Securities sold under agreements to repurchase -<br>customers | 76,495              | 79            | 0.41            | 89,900              | 419           | 1.85            |
| Securities sold under agreements to repurchase -<br>dealers   | 0                   | 0             | 0.00            | 62,977              | 382           | 2.41            |

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|   |                     |              |              |                     |              |              |
|---|---------------------|--------------|--------------|---------------------|--------------|--------------|
| Federal funds purchased                           | 6,911               | 2            | 0.16         | 37,717              | 197          | 2.04         |
| Commercial paper                                  | 13,448              | 15           | 0.43         | 18,331              | 99           | 2.15         |
| Short-term borrowings - FHLB                      | 0                   | 0            | 0.00         | 90,295              | 470          | 2.07         |
| Short-term borrowings - FRB                       | 207,554             | 131          | 0.25         | 326                 | 1            | 1.11         |
| Short-term borrowings - other                     | 1,989               | 0            | 0.00         | 1,162               | 9            | 2.88         |
| Long-term borrowings - FHLB                       | 158,592             | 1,197        | 2.99         | 155,870             | 1,107        | 2.84         |
| Long-term borrowings - sub debt                   | 25,774              | 523          | 8.38         | 25,774              | 523          | 8.37         |
| <br>  |                     |              |              |                     |              |              |
| Total borrowings                                  | 490,763             | 1,947        | 1.58         | 482,352             | 3,207        | 2.65         |
| <br>  |                     |              |              |                     |              |              |
| <b>TOTAL INTEREST-BEARING LIABILITIES</b>         | <b>1,394,689</b>    | <b>4,752</b> | <b>1.35%</b> | <b>1,459,023</b>    | <b>8,280</b> | <b>2.26%</b> |
| <br>  |                     |              |              |                     |              |              |
| Noninterest-bearing deposits                      | 437,551             |              |              | 432,045             |              |              |
| Other liabilities                                 | 136,814             |              |              | 101,593             |              |              |
| <br>  |                     |              |              |                     |              |              |
| Total liabilities                                 | 1,969,054           |              |              | 1,992,661           |              |              |
| Shareholders' equity                              | 156,990             |              |              | 115,602             |              |              |
| <br>  |                     |              |              |                     |              |              |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> | <b>\$ 2,126,044</b> |              |              | <b>\$ 2,108,263</b> |              |              |
| <br>  |                     |              |              |                     |              |              |
| Net interest income/spread                        |                     | 22,338       | 4.18%        |                     | 21,837       | 3.93%        |
| <br>  |                     |              |              |                     |              |              |
| Net yield on interest-earning assets (margin)     |                     |              | 4.53%        |                     |              | 4.46%        |
| <br>  |                     |              |              |                     |              |              |
| Less: Tax equivalent adjustment                   |                     | 368          |              |                     | 137          |              |
| <br>  |                     |              |              |                     |              |              |
| Net interest income                               |                     | \$ 21,970    |              |                     | \$ 21,700    |              |

- [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.

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STERLING BANCORP AND SUBSIDIARIES  
Average Balance Sheets [1]  
Nine Months Ended September 30,  
(Unaudited)

(dollars in thousands)

|  | 2009                |               |              | 2008                |               |              |
|--|---------------------|---------------|--------------|---------------------|---------------|--------------|
|  | Average Balance     | Interest      | Average Rate | Average Balance     | Interest      | Average Rate |
| <b>ASSETS</b>                              |                     |               |              |                     |               |              |
| Interest-bearing deposits with other banks | \$ 29,761           | \$ 46         | 0.21%        | \$ 2,952            | \$ 30         | 1.34%        |
| Securities available for sale              | 359,882             | 13,103        | 4.85         | 383,934             | 15,065        | 5.23         |
| Securities held to maturity                | 312,075             | 10,974        | 4.69         | 340,313             | 12,054        | 4.72         |
| Securities tax-exempt [2]                  | 40,198              | 1,865         | 6.19         | 21,394              | 979           | 6.10         |
| Total investment securities                | 712,155             | 25,942        | 4.86         | 745,641             | 28,098        | 5.02         |
| FRB and FHLB stock [2]                     | 9,700               | 390           | 5.37         | 11,139              | 503           | 6.02         |
| Federal funds sold                         | 0                   | 0             | 0.00         | 593                 | 8             | 1.81         |
| Loans, net of unearned discounts [3]       | 1,185,025           | 53,840        | 6.32         | 1,130,268           | 61,208        | 7.46         |
| <b>TOTAL INTEREST-EARNING ASSETS</b>       | <b>1,936,641</b>    | <b>80,218</b> | <b>5.64%</b> | <b>1,890,593</b>    | <b>89,847</b> | <b>6.45%</b> |
| Cash and due from banks                    | 30,115              |               |              | 55,133              |               |              |
| Allowance for loan losses                  | (18,409)            |               |              | (15,963)            |               |              |
| Goodwill                                   | 22,901              |               |              | 22,901              |               |              |
| Other assets                               | 115,237             |               |              | 104,696             |               |              |
| <b>TOTAL ASSETS</b>                        | <b>\$ 2,086,485</b> |               |              | <b>\$ 2,057,360</b> |               |              |

**LIABILITIES AND SHAREHOLDERS' EQUITY**

|  |                |              |             |                |               |             |
|--|----------------|--------------|-------------|----------------|---------------|-------------|
| <b>Interest-bearing deposits</b>       |                |              |             |                |               |             |
| <b>Domestic</b>                        |                |              |             |                |               |             |
| Savings                                | \$ 18,105      | 15           | 0.11%       | \$ 18,633      | 48            | 0.34%       |
| NOW                                    | 201,238        | 400          | 0.27        | 248,112        | 2,001         | 1.08        |
| Money market                           | 336,470        | 2,525        | 1.00        | 237,763        | 2,661         | 1.50        |
| Time                                   | 346,034        | 6,143        | 2.37        | 485,709        | 12,429        | 3.42        |
| <b>Foreign</b>                         |                |              |             |                |               |             |
| Time                                   | 578            | 5            | 1.09        | 576            | 5             | 1.09        |
| <b>Total interest-bearing deposits</b> | <b>902,425</b> | <b>9,088</b> | <b>1.35</b> | <b>990,793</b> | <b>17,144</b> | <b>2.31</b> |

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|  |                     |               |              |                     |               |              |
|--|---------------------|---------------|--------------|---------------------|---------------|--------------|
| Borrowings   |                     |               |              |                     |               |              |
| Securities sold under agreements to repurchase - customers | 76,159              | 282           | 0.49         | 87,192              | 1,507         | 2.31         |
| Securities sold under agreements to repurchase - dealers   | 0                   | 0             | 0.00         | 55,205              | 1,115         | 2.70         |
| Federal funds purchased                                    | 25,390              | 43            | 0.23         | 41,976              | 776           | 2.43         |
| Commercial paper   | 12,148              | 55            | 0.60         | 19,672              | 412           | 2.79         |
| Short-term borrowings - FHLB                               | 4,560               | 11            | 0.31         | 56,763              | 995           | 2.34         |
| Short-term borrowings - FRB                                | 184,249             | 356           | 0.26         | 197                 | 2             | 1.63         |
| Short-term borrowings - other                              | 1,733               | 1             | 0.05         | 1,489               | 28            | 2.45         |
| Long-term borrowings - FHLB                                | 152,896             | 3,453         | 3.02         | 133,577             | 2,906         | 2.90         |
| Long-term borrowings - sub debt                            | 25,774              | 1,570         | 8.38         | 25,774              | 1,570         | 8.38         |
| Total borrowings   | 482,909             | 5,771         | 1.60         | 421,845             | 9,311         | 2.95         |
| <b>TOTAL INTEREST-BEARING LIABILITIES</b>                  | <b>1,385,334</b>    | <b>14,859</b> | <b>1.43%</b> | <b>1,412,638</b>    | <b>26,455</b> | <b>2.50%</b> |
| Noninterest-bearing deposits                               | 423,825             |               |              | 425,912             |               |              |
| Other liabilities  | 119,518             |               |              | 99,947              |               |              |
| Total liabilities  | 1,928,677           |               |              | 1,938,497           |               |              |
| Shareholders' equity                                       | 157,808             |               |              | 118,863             |               |              |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>          | <b>\$ 2,086,485</b> |               |              | <b>\$ 2,057,360</b> |               |              |
| Net interest income/spread                                 |                     | 65,359        | 4.21%        |                     | 63,392        | 3.95%        |
| Net yield on interest-earning assets (margin)              |                     |               | 4.58%        |                     |               | 4.53%        |
| Less: Tax equivalent adjustment                            |                     | 709           |              |                     | 385           |              |
| Net interest income  |                     | \$ 64,650     |              |                     | \$ 63,007     |              |

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

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

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

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

(in thousands)

Increase/(Decrease)  
Three Months Ended  
September 30, 2009 to September 30, 2008

|  | Volume  | Rate       | Net [2]    |
|--|---------|------------|------------|
| <b>INTEREST INCOME</b>                     |         |            |            |
| Interest-bearing deposits with other banks | \$ 34   | \$ (18)    | \$ 16      |
| Securities available for sale              | (1,094) | (311)      | (1,405)    |
| Securities held to maturity                | 255     | (75)       | 180        |
| Securities tax-exempt                      | 603     | 15         | 618        |
| Total investment securities                | (236)   | (371)      | (607)      |
| FRB and FHLB stock                         | (76)    | 10         | (66)       |
| Federal funds sold                         | (8)     | 0          | (8)        |
| Loans, net of unearned discounts [3]       | 233     | (2,596)    | (2,363)    |
| <b>TOTAL INTEREST INCOME</b>               | \$ (53) | \$ (2,975) | \$ (3,028) |
| <b>INTEREST EXPENSE</b>                    |         |            |            |
| Interest-bearing deposits                  |         |            |            |
| Domestic                                   |         |            |            |
| Savings                                    | \$ 0    | \$ (11)    | \$ (11)    |
| NOW  | (141)   | (386)      | (527)      |
| Money market                               | 90      | (691)      | (601)      |
| Time                                       | (175)   | (954)      | (1,129)    |
| Foreign                                    |         |            |            |
| Time                                       | 0       | 0          | 0          |
| Total interest-bearing deposits            | (226)   | (2,042)    | (2,268)    |

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|  |                   |                   |                   |
|--|-------------------|-------------------|-------------------|
| <b>Borrowings</b>  |                   |                   |                   |
| Securities sold under agreements to repurchase - customers | (55)              | (285)             | (340)             |
| Securities sold under agreements to repurchase - dealers   | (382)             | 0                 | (382)             |
| Federal funds purchased                                    | (91)              | (104)             | (195)             |
| Commercial paper   | (21)              | (63)              | (84)              |
| Short-term borrowings - FHLB                               | (469)             | 0                 | (469)             |
| Short-term borrowings - FRB                                | 132               | (2)               | 130               |
| Short-term borrowings - other                              | 3                 | (12)              | (9)               |
| Long-term borrowings - FHLB                                | 22                | 68                | 90                |
| Long-term borrowings - sub debt                            | 0                 | 0                 | 0                 |
| <b>Total borrowings</b>                                    | <b>(861)</b>      | <b>(398)</b>      | <b>(1,259)</b>    |
| <br>   |                   |                   |                   |
| <b>TOTAL INTEREST EXPENSE</b>                              | <b>\$ (1,087)</b> | <b>\$ (2,440)</b> | <b>\$ (3,527)</b> |
| <br>   |                   |                   |                   |
| <b>NET INTEREST INCOME</b>                                 | <b>\$ 1,034</b>   | <b>\$ (535)</b>   | <b>\$ 499</b>     |

- [1] This table is presented on a tax-equivalent basis.
- [2] Changes in interest income and interest expense due to a combination of both volume and rate have been allocated to the change due to volume and the change due to rate in proportion to the relationship of the change due solely to each. The change in interest income for Federal funds sold and in interest expense for securities sold under agreements to repurchase-dealers, short-term borrowings-FRB and short-term borrowings-FHLB 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  
Rate/Volume Analysis [1]  
(Unaudited)

(in thousands)

Increase/(Decrease)  
Nine Months Ended  
September 30, 2009 to September 30, 2008

|  | Volume   | Rate        | Net [2]    |
|--|----------|-------------|------------|
| <b>INTEREST INCOME</b>                     |          |             |            |
| Interest-bearing deposits with other banks | \$ 60    | \$ (44)     | \$ 16      |
| Securities available for sale              | (937)    | (1,026)     | (1,963)    |
| Securities held to maturity                | (1,007)  | (73)        | (1,080)    |
| Securities tax-exempt                      | 873      | 14          | 887        |
| Total investment securities                | (1,071)  | (1,085)     | (2,156)    |
| FRB and FHLB stock                         | (63)     | (50)        | (113)      |
| Federal funds sold                         | (8)      | 0           | (8)        |
| Loans, net of unearned discounts [3]       | 2,689    | (10,057)    | (7,368)    |
| <b>TOTAL INTEREST INCOME</b>               | \$ 1,607 | \$ (11,236) | \$ (9,629) |
| <b>INTEREST EXPENSE</b>                    |          |             |            |
| Interest-bearing deposits                  |          |             |            |
| Domestic                                   |          |             |            |
| Savings                                    | \$ (1)   | \$ (32)     | \$ (33)    |
| NOW  | (327)    | (1,274)     | (1,601)    |
| Money market                               | 905      | (1,041)     | (136)      |
| Time                                       | (3,060)  | (3,226)     | (6,286)    |
| Foreign                                    |          |             |            |
| Time                                       | 0        | 0           | 0          |
| Total interest-bearing deposits            | (2,483)  | (5,573)     | (8,056)    |

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|  |                   |                   |                    |
|--|-------------------|-------------------|--------------------|
| <b>Borrowings</b>  |                   |                   |                    |
| Securities sold under agreements to repurchase - customers | (174)             | (1,051)           | (1,225)            |
| Securities sold under agreements to repurchase - dealers   | (1,115)           | 0                 | (1,115)            |
| Federal funds purchased                                    | (224)             | (509)             | (733)              |
| Commercial paper   | (118)             | (239)             | (357)              |
| Short-term borrowings - FHLB                               | (508)             | (476)             | (984)              |
| Short-term borrowings - FRB                                | 358               | (4)               | 354                |
| Short-term borrowings - other                              | 0                 | (27)              | (27)               |
| Long-term borrowings - FHLB                                | 423               | 124               | 547                |
| Long-term borrowings - sub debt                            | 0                 | 0                 | 0                  |
| <b>Total borrowings</b>                                    | <b>(1,358)</b>    | <b>(2,182)</b>    | <b>(3,540)</b>     |
| <br>   |                   |                   |                    |
| <b>TOTAL INTEREST EXPENSE</b>                              | <b>\$ (3,841)</b> | <b>\$ (7,755)</b> | <b>\$ (11,596)</b> |
| <br>   |                   |                   |                    |
| <b>NET INTEREST INCOME</b>                                 | <b>\$ 5,448</b>   | <b>\$ (3,481)</b> | <b>\$ 1,967</b>    |

- [1] This table is presented on a tax-equivalent basis.
- [2] Changes in interest income and interest expense due to a combination of both volume and rate have been allocated to the change due to volume and the change due to rate in proportion to the relationship of the change due solely to each. The change in interest income for Federal funds sold and in interest expense for securities sold under agreements to repurchase-dealers and short-term borrowings-FRB has been allocated entirely to the volume variance. The effect of the extra day in 2008 has also 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.

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STERLING BANCORP AND SUBSIDIARIES  
Regulatory Capital and Ratios

Ratios and Minimums  
(dollars in thousands)

|   | Actual     |        | For Capital Adequacy Minimum |       | To Be Well Capitalized |        |
|---|------------|--------|------------------------------|-------|------------------------|--------|
|   | Amount     | Ratio  | Amount                       | Ratio | Amount                 | Ratio  |
| As of September 30, 2009                            |            |        |                              |       |                        |        |
| <b>Total Capital (to Risk-Weighted Assets):</b>     |            |        |                              |       |                        |        |
| The Company   | \$ 193,343 | 12.52% | \$ 123,552                   | 8.00% | \$ 154,440             | 10.00% |
| The bank  | 166,184    | 10.77  | 123,409                      | 8.00  | 154,261                | 10.00  |
| <b>Tier 1 Capital (to Risk-Weighted Assets):</b>    |            |        |                              |       |                        |        |
| The Company   | 174,092    | 11.27  | 61,776                       | 4.00  | 92,664                 | 6.00   |
| The bank  | 146,933    | 9.53   | 61,704                       | 4.00  | 92,557                 | 6.00   |
| <b>Tier 1 Leverage Capital (to Average Assets):</b> |            |        |                              |       |                        |        |
| The Company   | 174,092    | 8.28   | 84,093                       | 4.00  | 105,116                | 5.00   |
| The bank  | 146,933    | 7.00   | 83,910                       | 4.00  | 104,888                | 5.00   |
| As of December 31, 2008                             |            |        |                              |       |                        |        |
| <b>Total Capital (to Risk-Weighted Assets):</b>     |            |        |                              |       |                        |        |
| The Company   | \$ 193,991 | 13.90% | \$ 111,614                   | 8.00% | \$ 139,518             | 10.00% |
| The bank  | 154,619    | 11.05  | 111,924                      | 8.00  | 139,905                | 10.00  |
| <b>Tier 1 Capital (to Risk-Weighted Assets):</b>    |            |        |                              |       |                        |        |
| The Company   | 177,825    | 12.75  | 55,807                       | 4.00  | 83,711                 | 6.00   |
| The bank  | 138,453    | 9.90   | 55,962                       | 4.00  | 83,943                 | 6.00   |
| <b>Tier 1 Leverage Capital (to Average Assets):</b> |            |        |                              |       |                        |        |
| The Company   | 177,825    | 8.60   | 82,663                       | 4.00  | 103,328                | 5.00   |
| The bank  | 138,453    | 6.69   | 82,779                       | 4.00  | 103,474                | 5.00   |

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK  
ASSET/LIABILITY MANAGEMENT**

The Company's primary earnings source is its net interest income; therefore, the Company devotes significant time and has invested in resources to assist in the management of interest rate risk and asset quality. The Company's net interest income is affected by changes in market interest rates, and by the level and composition of interest-earning assets and interest-bearing liabilities. The Company's objectives in its asset/liability management are to utilize its capital effectively, to provide adequate liquidity and to enhance net interest income, without taking undue risks or subjecting the Company unduly to interest rate fluctuations.

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

***Market Risk***

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

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

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

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The Company's balance sheet structure is primarily short-term in nature with a substantial portion of assets and liabilities repricing or maturing within one year. The Company's gap analysis at September 30, 2009, presented on page 54, indicates that net interest income would increase during periods of rising interest rates and decrease during periods of falling interest rates, but, as mentioned above, gap analysis may not be an accurate predictor of net interest income.

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

As of September 30, 2009, the Company was not a party to any financial instrument derivative agreement.

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

The Company's interest rate sensitivity is determined by identifying the probable impact of changes in market interest rates on the yields on the Company's assets and the rates that would be paid on its liabilities. This modeling technique involves a degree of estimation based on certain assumptions that management believes to be reasonable. Utilizing this process, management projects the impact of changes in interest rates on net interest margin. The Company has established certain policy limits for the potential volatility of its net interest margin assuming certain levels of changes in market interest rates with the objective of maintaining a stable net interest margin under various probable rate scenarios. Management generally has maintained a risk position well within the policy limits. As of December 31, 2008, the model indicated the impact of 100 and 200 basis point parallel and pro rata rise in rates over 12 months would approximate a 1.2% (\$1.2 million) and a 2.1% (\$2.0 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 0.4% (\$0.4 million) decline from an unchanged rate environment. The likelihood of a decrease in interest rates beyond 25 basis points as of December 31, 2008 was considered to be remote given then-current interest rate levels. As of September 30, 2009, 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 1.8% (\$1.9 million) and a 3.3% (\$3.5 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 1.0% (\$1.2 million) decline from an unchanged rate environment. The likelihood of a decrease in interest rates beyond 25 basis points as of September 30, 2009 was considered to be remote given then-current interest rate levels.

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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 also impact the bank's interest rate sensitivity. In general, a steeper yield curve (i.e., the differences between interest rates for different maturities are relatively greater) is better for the bank than a flatter curve. Accordingly, the bank's exposure to declining interest rates would be lessened if the yield curve steepened more than anticipated as rates declined. Conversely, the expected benefit to net interest income in a rising rate environment would likely be dampened to the extent that the yield curve flattened more than anticipated as rates increased. To the extent that further Federal Reserve interest rate cuts do not materialize, and to the extent that the current relatively steep yield curve prevails, the bank's margin will benefit in 2009.

### ***Liquidity Risk***

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

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

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

At September 30, 2009, the parent company's short-term debt, consisting principally of commercial paper used to finance ongoing current business activities, was approximately \$14.7 million. The parent company had cash, interest-bearing deposits with banks and other current assets aggregating \$53.1 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.

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The following table sets forth information regarding the Company's obligations and commitments to make future payments under contract as of September 30, 2009:

| Contractual Obligations (1)               | Total             | Payments Due by Period |                   |                 |                  |
|---|-------------------|------------------------|-------------------|-----------------|------------------|
|   |                   | Less than 1 Year       | 1-3 Years         | 4-5 Years       | After 5 Years    |
| (in thousands)                            |                   |                        |                   |                 |                  |
| Long-Term Debt                            | \$ 185,774        | \$ 40,000              | \$ 100,000        | \$ -            | \$ 45,774        |
| Operating Leases                          | 51,373            | 7,803                  | 8,915             | 8,786           | 25,869           |
| <b>Total Contractual Cash Obligations</b> | <b>\$ 237,147</b> | <b>\$ 47,803</b>       | <b>\$ 108,915</b> | <b>\$ 8,786</b> | <b>\$ 71,643</b> |

(1) Based on contractual maturity dates

The following table sets forth information regarding the Company's obligations under other commercial commitments as of September 30, 2009:

| Other Commercial Commitments        | Total Amount Committed | Amount of Commitment Expiration Per Period |                 |             |                 |
|-------------------------------------|------------------------|--|-----------------|-------------|-----------------|
|                                     |                        | Less than 1 Year                           | 1-3 Years       | 4-5 Years   | After 5 Years   |
| (in thousands)                      |                        |  |                 |             |                 |
| Residential Loans                   | \$ 24,640              | \$ 24,640                                  | \$ -            | \$ -        | \$ -            |
| Commercial Loans                    | 12,051                 | 457  | 4,660           | -           | 6,934           |
| <b>Total Loans</b>                  | <b>36,691</b>          | <b>25,097</b>                              | <b>4,660</b>    | <b>-</b>    | <b>6,934</b>    |
| Standby Letters of Credit           | 25,585                 | 23,426                                     | 2,159           | -           | -               |
| Other Commercial Commitments        | 45,313                 | 44,472                                     | -               | -           | 841             |
| <b>Total Commercial Commitments</b> | <b>\$ 107,589</b>      | <b>\$ 92,995</b>                           | <b>\$ 6,819</b> | <b>\$ -</b> | <b>\$ 7,775</b> |

### INFORMATION AVAILABLE ON OUR WEB SITE

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

Also posted on our web site, and available in print upon request of any shareholder to our Investor Relations Department, are the charters for our Board of Directors' Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee, our Corporate Governance Guidelines, our Method for Interested Persons to Communicate with Non-Management Directors, 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.

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



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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 decrease during periods of rising interest rates and increase during periods of falling interest rates. Amounts are presented in thousands.

|  | Repricing Date   |                              |                             |                               |                |                   | Total            |
|--|------------------|------------------------------|-----------------------------|-------------------------------|----------------|-------------------|------------------|
|  | 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 |                  |
| <b>ASSETS</b>  |                  |                              |                             |                               |                |                   |                  |
| Interest-bearing deposits with other banks               | \$ 21,119        | \$ 0                         | \$ 0                        | \$ 0                          | \$ 0           | \$ 0              | \$ 21,119        |
| Investment securities                                    | 101,171          | 81,482                       | 70,732                      | 91,287                        | 377,945        | 0                 | 722,617          |
| Commercial and industrial loans                          | 500,443          | 20,336                       | 18,692                      | 5,401                         | 0              | (1,429)           | 543,443          |
| Lease financing receivables                              | 2,076            | 11,163                       | 220,652                     | 4,534                         | 0              | (26,728)          | 211,697          |
| Factored receivables                                     | 152,279          | 0                            | 0                           | 0                             | 0              | (211)             | 152,068          |
| Real estate-residential mortgage                         | 34,232           | 62,280                       | 14,733                      | 23,407                        | 25,153         | 0                 | 159,805          |
| Real estate-commercial mortgage                          | 53,536           | 37,267                       | 1,183                       | 11,424                        | 375            | 0                 | 103,785          |
| Real estate-construction and land development            | 0                | 0                            | 24,112                      | 0                             | 0              | 0                 | 24,112           |
| Loans to individuals                                     | 13,660           | 0                            | 0                           | 0                             | 0              | 0                 | 13,660           |
| Loans to depository institutions                         | 25,000           | 0                            | 0                           | 0                             | 0              | 0                 | 25,000           |
| Noninterest-earning assets & allowance for loan losses   | 0                | 0                            | 0                           | 0                             | 0              | 159,499           | 159,499          |
| <b>Total Assets</b>                                      | <b>903,516</b>   | <b>212,528</b>               | <b>350,104</b>              | <b>136,053</b>                | <b>403,473</b> | <b>131,131</b>    | <b>2,136,805</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>              |                  |                              |                             |                               |                |                   |                  |
| <b>Interest-bearing deposits</b>                         |                  |                              |                             |                               |                |                   |                  |
| Savings [1]  | 0                | 0                            | 18,195                      | 0                             | 0              | 0                 | 18,195           |
| NOW [1]  | 0                | 0                            | 195,372                     | 0                             | 0              | 0                 | 195,372          |
| Money market [1]   | 283,308          | 0                            | 48,954                      | 0                             | 0              | 0                 | 332,262          |
| Time - domestic  | 173,401          | 177,821                      | 40,491                      | 0                             | 0              | 0                 | 391,713          |
| - foreign  | 184              | 395                          | 0                           | 0                             | 0              | 0                 | 579              |
| Securities sold under agreement to repurchase - customer | 55,628           | 0                            | 0                           | 0                             | 0              | 0                 | 55,628           |
| Federal funds purchased                                  | 25,675           | 0                            | 0                           | 0                             | 0              | 0                 | 25,675           |
| Commercial paper   | 14,692           | 0                            | 0                           | 0                             | 0              | 0                 | 14,692           |
| Short-term borrowings - FHLB                             | 0                | 0                            | 0                           | 0                             | 0              | 0                 | 0                |
| Short-term borrowings - FRB                              | 135,000          | 0                            | 0                           | 0                             | 0              | 0                 | 135,000          |
| Short-term borrowings - other                            | 3,787            | 0                            | 0                           | 0                             | 0              | 0                 | 3,787            |
| Long-term borrowings - FHLB                              | 0                | 40,000                       | 100,000                     | 20,000                        | 0              | 0                 | 160,000          |
| Long-term borrowings - subordinated debentures           | 0                | 0                            | 0                           | 0                             | 25,774         | 0                 | 25,774           |
| Noninterest-bearing liabilities & shareholders' equity   | 0                | 0                            | 0                           | 0                             | 0              | 778,128           | 778,128          |

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|  |             |              |             |            |                |              |           |
|--|-------------|--------------|-------------|------------|----------------|--------------|-----------|
| Total Liabilities and Shareholders' Equity | 691,675     | 218,216      | 403,012     | 20,000     | 25,774         | 778,128      | 2,136,805 |
| Net Interest Rate Sensitivity Gap          | \$ 211,841  | \$ (5,688)   | \$ (52,908) | \$ 116,053 | \$ 377,699     | \$ (646,997) | \$ 0      |
| Cumulative Gap September 30, 2009          | \$ 211,841  | \$ 206,153   | \$ 153,245  | \$ 269,298 | \$ 646,997     | \$ 0         | \$ 0      |
| Cumulative Gap September 30, 2008 [3]      | \$ (85,214) | \$ (142,695) | \$ (96,586) | \$ N/A     | \$ 541,729 [2] | \$ 0         | \$ 0      |
| Cumulative Gap December 31, 2008 [3]       | \$ (1,506)  | \$ (119,864) | \$ (67,838) | \$ 121,095 | \$ 620,719     | \$ 0         | \$ 0      |

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

[2] Represents amounts due after 5 years.

[3] Certain reclassifications have been made to conform to the current presentation.

**ITEM 4. CONTROLS AND PROCEDURES**

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

No change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the fiscal quarter ended September 30, 2009 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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### PART II - OTHER INFORMATION

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Under its share repurchase program, the Company buys back common shares from time to time. The Company did not repurchase any of its common shares during the third quarter of 2009. At September 30, 2009, the maximum number of shares that may yet be purchased under the share repurchase program was 870,963.

The Board of Directors initially authorized the repurchase of common shares in 1997 and since then has approved increases in the number of common shares that the Company is authorized to repurchase. The latest increase was announced on August 16, 2007, when the Board of Directors increased the Company's authority to repurchase common shares by an additional 800,000 shares.

#### Item 6. Exhibits

The following exhibits are filed as part of this report:

- 3. (i) Restated Certificate of Incorporation filed with the State of New York Department of State, October 28, 2004 (Filed as Exhibit 3 (i) to the Registrant's Form 10-K for the year ended December 31, 2008 and incorporated herein by reference).
- (ii) Certificate of Amendment of Certificate of Incorporation filed with the State of New York Department of State on December 18, 2008 (Filed as Exhibit 3 (ii) to the Registrant's Form 10-K for the year ended December 31, 2008 and incorporated herein by reference).
- (iii) By-Laws as in effect on November 15, 2007 (Filed as Exhibit 3 (ii) (A) to the Registrant's Form 8-K dated November 15, 2007 and filed on November 19, 2007 and incorporated herein by reference).
- 11. Statement Re: Computation of Per Share Earnings.
- 31.1 Certification of the CEO pursuant to Exchange Act Rule 13a-14 (a).
- 31.2 Certification of the CFO pursuant to Exchange Act Rule 13a-14 (a).
- 32.1 Certification of the CEO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code.
- 32.2 Certification of the CFO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STERLING BANCORP

(Registrant)

Date: November 5, 2009

/s/ Louis J. Cappelli

Louis J. Cappelli  
Chairman and Chief Executive Officer

Date: November 5, 2009

/s/ John W. Tietjen

John W. Tietjen  
Executive Vice President and Chief Financial Officer  
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STERLING BANCORP AND SUBSIDIARIES

EXHIBIT INDEX

| <u>Exhibit<br/>Number</u> | <u>Description</u>  | <u>Sequential<br/>Page No.</u> |
|---------------------------|---|--------------------------------|
| 11                        | Statement re: Computation of Per Share Earnings.  | 59                             |
| 31.1                      | Certification of the CEO pursuant to Exchange Act Rule 13a-14 (a).                            | 60                             |
| 31.2                      | Certification of the CFO pursuant to Exchange Act Rule 13a-14 (a).                            | 61                             |
| 32.1                      | Certification of the CEO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code. | 62                             |
| 32.2                      | Certification of the CFO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code. | 63                             |