

STERLING BANCORP
Form 10-Q
August 11, 2008

UNITED STATES
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 **June 30, 2008**

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

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):

Edgar Filing: STERLING BANCORP - Form 10-Q

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 July 31, 2008 there were 17,988,970 shares of common stock,
\$1.00 par value, outstanding.

STERLING BANCORP

| | <u>Page</u> |
|---|---|
| PART I FINANCIAL INFORMATION | |
| Item 1. | Financial Statements |
| | <u>Consolidated Financial Statements (Unaudited)</u> 3 |
| | <u>Notes to Consolidated Financial Statements</u> 8 |
| Item 2. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> |
| | <u>Overview</u> 17 |
| | <u>Income Statement Analysis</u> 18 |
| | <u>Balance Sheet Analysis</u> 23 |
| | <u>Capital</u> 28 |
| | <u>Recently Issued Accounting Pronouncements</u> 29 |
| | <u>Cautionary Statement Regarding Forward-Looking Statements</u> 29 |
| | <u>Average Balance Sheets</u> 30 |
| | <u>Rate/Volume Analysis</u> 32 |
| | <u>Regulatory Capital and Ratios</u> 34 |
| Item 3. | <u>Quantitative and Qualitative Disclosures About Market Risk</u> |
| | <u>Asset/Liability Management</u> 35 |
| | <u>Interest Rate Sensitivity</u> 40 |
| Item 4. | <u>Controls and Procedures</u> 41 |
| <u>PART II OTHER INFORMATION</u> | |
| Item 2. | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 42 |
| Item 6. | <u>Exhibits</u> 43 |
| <u>SIGNATURES</u> | 44 |
| <u>EXHIBIT INDEX</u> | |
| Exhibit 11 | Statement Re: Computation of Per Share Earnings 46 |
| Exhibit 31.1 | Certification of the CEO pursuant to Exchange Act Rule 13a-14(a) 47 |
| Exhibit 31.2 | Certification of the CFO pursuant to Exchange Act Rule 13a-14(a) 48 |

Edgar Filing: STERLING BANCORP - Form 10-Q

| | | |
|--------------|--|----|
| Exhibit 32.1 | Certification of the CEO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code | 49 |
| Exhibit 32.2 | Certification of the CFO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code | 50 |

STERLING BANCORP AND SUBSIDIARIES
Consolidated Balance Sheets
(Unaudited)

| | June 30, 2008 | December 31, 2007 |
|--|-------------------------|-------------------------|
| ASSETS | | |
| Cash and due from banks | \$ 49,995,333 | \$ 66,412,612 |
| Interest-bearing deposits with other banks | 880,586 | 979,984 |
| Federal funds sold | 2,500,000 | — |
| Securities available for sale (at estimated fair value; pledged: \$354,714,456 in 2008 and \$102,326,258 in 2007) | 434,700,315 | 263,380,570 |
| Securities held to maturity (pledged: \$189,255,930 in 2008 and \$191,549,044 in 2007) (estimated fair value: \$331,036,664 in 2008 and \$359,725,008 in 2007) | 333,105,325 | 361,860,847 |
| Total investment securities | 767,805,640 | 625,241,417 |
| Loans held for sale | 24,409,918 | 23,755,906 |
| Loans held in portfolio, net of unearned discounts | 1,193,983,072 | 1,187,123,984 |
| Less allowance for loan losses | 15,480,483 | 15,084,775 |
| Loans, net | 1,178,502,589 | 1,172,039,209 |
| Customers' liability under acceptances | 327,653 | 200,942 |
| Goodwill | 22,900,912 | 22,900,912 |
| Premises and equipment, net | 10,868,661 | 11,178,883 |
| Other real estate | 2,251,834 | 1,669,993 |
| Accrued interest receivable | 9,877,401 | 7,081,304 |
| Bank owned life insurance | 29,603,613 | 29,041,115 |
| Other assets | 62,215,485 | 52,146,506 |
| | \$ 2,162,139,625 | \$ 2,012,648,783 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Deposits | | |
| Demand deposits | \$ 492,928,765 | \$ 535,350,808 |
| Savings, NOW and money market deposits | 486,515,818 | 467,446,622 |
| Time deposits | 459,038,839 | 524,188,749 |
| Total deposits | 1,438,483,422 | 1,526,986,179 |
| Securities sold under agreements to repurchase - customers | 64,757,726 | 60,053,947 |
| Securities sold under agreements to repurchase - dealers | 72,832,845 | 10,200,000 |
| Federal funds purchased | 70,000,000 | 65,000,000 |
| Commercial paper | 20,543,819 | 20,878,494 |

Edgar Filing: STERLING BANCORP - Form 10-Q

| | | |
|--|------------------|------------------|
| Short-term borrowings - FHLB | 77,000,000 | 45,000,000 |
| Short-term borrowings - other | 20,713,415 | 4,285,198 |
| Long-term borrowings - FHLB | 160,000,000 | 40,000,000 |
| Long-term borrowings - subordinated debentures | 25,774,000 | 25,774,000 |
| | <hr/> | <hr/> |
| Total borrowings | 511,621,805 | 271,191,639 |
| | <hr/> | <hr/> |
| Acceptances outstanding | 327,653 | 200,942 |
| Accrued expenses and other liabilities | 91,981,800 | 93,199,746 |
| | <hr/> | <hr/> |
| Total liabilities | 2,042,414,680 | 1,891,578,506 |
| | <hr/> | <hr/> |
| Shareholders' equity | | |
| Common stock, \$1 par value. Authorized 50,000,000 shares; issued 21,813,131 and 21,278,531 shares, respectively | 21,813,131 | 21,278,531 |
| Capital surplus | 174,632,887 | 168,868,895 |
| Retained earnings | 18,159,357 | 17,537,732 |
| Accumulated other comprehensive loss, net of tax | (13,859,228) | (10,811,811) |
| | <hr/> | <hr/> |
| | 200,746,147 | 196,873,347 |
| Less | | |
| Common shares in treasury at cost, 3,824,161 and 3,459,302 shares, respectively | 81,021,202 | 75,803,070 |
| | <hr/> | <hr/> |
| Total shareholders' equity | 119,724,945 | 121,070,277 |
| | <hr/> | <hr/> |
| | \$ 2,162,139,625 | \$ 2,012,648,783 |
| | <hr/> | <hr/> |

See Notes to Consolidated Financial Statements.

STERLING BANCORP AND SUBSIDIARIES
Consolidated Statements of Income
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-------------------|------------------------------|-------------------|
| | 2008 | 2007 | 2008 | 2007 |
| INTEREST INCOME | | | | |
| Loans | \$ 20,000,524 | \$ 23,123,622 | \$ 40,821,067 | \$ 44,850,620 |
| Investment securities | | | | |
| Available for sale | 5,669,751 | 1,701,584 | 10,381,636 | 3,546,298 |
| Held to maturity | 4,033,645 | 4,698,726 | 8,258,967 | 9,567,851 |
| Federal funds sold | 1,615 | 367,338 | 1,615 | 1,002,646 |
| Deposits with other banks | 7,004 | 36,694 | 18,640 | 67,378 |
| Total interest income | 29,712,539 | 29,927,964 | 59,481,925 | 59,034,793 |
| INTEREST EXPENSE | | | | |
| Deposits | | | | |
| Savings, NOW and money market | 1,089,413 | 3,279,559 | 2,699,220 | 6,138,965 |
| Time | 4,033,361 | 6,581,415 | 9,371,592 | 13,128,913 |
| Securities sold under agreements to repurchase | | | | |
| - customers | 442,140 | 804,625 | 1,088,187 | 1,879,619 |
| - dealers | 416,200 | — | 733,091 | — |
| Federal funds purchased | 217,346 | 23,369 | 578,968 | 35,748 |
| Commercial paper | 117,837 | 355,519 | 312,388 | 705,258 |
| Short-term borrowings - FHLB | 310,635 | — | 525,559 | — |
| Short-term borrowings - other | 6,246 | 15,694 | 20,388 | 27,562 |
| Long-term borrowings - FHLB | 1,084,831 | 136,522 | 1,799,146 | 361,023 |
| Long-term borrowings - subordinated debentures | 523,437 | 523,437 | 1,046,875 | 1,046,875 |
| Total interest expense | 8,241,446 | 11,720,140 | 18,175,414 | 23,323,963 |
| Net interest income | 21,471,093 | 18,207,824 | 41,306,511 | 35,710,830 |
| Provision for loan losses | 2,200,000 | 1,078,332 | 4,150,000 | 2,328,332 |
| Net interest income after provision for loan losses | 19,271,093 | 17,129,492 | 37,156,511 | 33,382,498 |
| Total noninterest income | 8,572,293 | 8,914,913 | 17,244,177 | 18,097,754 |
| Total noninterest expenses | 21,129,655 | 20,093,555 | 41,296,201 | 39,731,231 |
| Income from continuing operations before income taxes | 6,713,731 | 5,950,850 | 13,104,487 | 11,749,021 |

Edgar Filing: STERLING BANCORP - Form 10-Q

| | | | | |
|--|---------------------|---------------------|---------------------|---------------------|
| Provision for income taxes | 2,543,664 | 2,159,412 | 4,932,529 | 4,385,910 |
| Income from continuing operations | 4,170,067 | 3,791,438 | 8,171,958 | 7,363,111 |
| Discontinued operations: | | | | |
| Income/(Loss), net of income tax | — | 71,252 | — | (20,719) |
| Net income | \$ 4,170,067 | \$ 3,862,690 | \$ 8,171,958 | \$ 7,342,392 |
| Average number of common shares outstanding | | | | |
| Basic | 17,988,970 | 18,439,318 | 17,950,095 | 18,524,871 |
| Diluted | 18,122,247 | 18,856,903 | 18,238,860 | 18,994,625 |
| Income from continuing operations, per average common share | | | | |
| Basic | \$ 0.23 | \$ 0.21 | \$ 0.46 | \$ 0.40 |
| Diluted | 0.23 | 0.20 | 0.45 | 0.39 |
| Net income, per average common share | | | | |
| Basic | 0.23 | 0.21 | 0.46 | 0.40 |
| Diluted | 0.23 | 0.20 | 0.45 | 0.39 |
| Dividends per common share | 0.19 | 0.19 | 0.38 | 0.38 |

See Notes to Consolidated Financial Statements.

STERLING BANCORP AND SUBSIDIARIES
Consolidated Statements of Comprehensive (Loss)/Income
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|---------------------|------------------------------|---------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Net Income | \$ 4,170,067 | \$ 3,862,690 | \$ 8,171,958 | \$ 7,342,392 |
| Other comprehensive income, net of tax: | | | | |
| Unrealized holding losses arising during the period | (5,159,388) | (1,233,699) | (3,804,316) | (897,251) |
| Reclassification adjustment for losses included in net income | 277,899 | 1,098 | 277,899 | 1,098 |
| Amortization of: | | | | |
| Prior service cost | 9,126 | 13,544 | 18,252 | 27,089 |
| Net actuarial losses | 230,374 | 182,447 | 460,748 | 364,893 |
| Comprehensive (loss)/income | <u>\$ (471,922)</u> | <u>\$ 2,826,080</u> | <u>\$ 5,124,541</u> | <u>\$ 6,838,221</u> |

See Notes to Consolidated Financial Statements.

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

| | Six Months Ended June 30, | |
|--|------------------------------|-----------------|
| | 2008 | 2007 |
| Common Stock | | |
| Balance at January 1 | \$ 21,278,531 | \$ 21,177,084 |
| Common shares issued under stock incentive plan | 534,600 | 85,086 |
| Balance at June 30 | \$ 21,813,131 | \$ 21,262,170 |
| Capital Surplus | | |
| Balance at January 1 | \$ 168,868,895 | \$ 167,960,063 |
| Common shares issued under stock incentive plan and related tax benefits | 5,763,992 | 691,183 |
| Balance at June 30 | \$ 174,632,887 | \$ 168,651,246 |
| Retained Earnings | | |
| Balance at January 1 | \$ 17,537,732 | \$ 16,693,987 |
| Adjustment upon adoption of EITF 06-4 effective January 1, 2008 | (726,008) | — |
| Balance at January 1 as adjusted | 16,811,724 | 16,693,987 |
| Net income | 8,171,958 | 7,342,392 |
| Cash dividends paid - common shares | (6,824,325) | (6,993,026) |
| Balance at June 30 | \$ 18,159,357 | \$ 17,043,353 |
| Accumulated Other Comprehensive Loss | | |
| Balance at January 1 | \$ (10,811,811) | \$ (11,842,908) |
| Unrealized holding losses arising during the period: | | |
| Before tax | (6,938,628) | (1,635,526) |
| Tax effect | 3,134,312 | 738,275 |
| Net of tax | (3,804,316) | (897,251) |
| Reclassification adjustment for losses included in net income: | | |
| Before tax | 506,800 | 2,001 |
| Tax effect | (228,901) | (903) |
| Net of tax | 277,899 | 1,098 |

Reclassification adjustment for amortization of:

| | | |
|----------------------------------|---------|---------|
| Prior service cost, net of tax | 18,252 | 27,089 |
| Net actuarial losses, net of tax | 460,748 | 364,893 |

| | | |
|--------------|----------------|----------------|
| Total | 479,000 | 391,982 |
|--------------|----------------|----------------|

| | | |
|---------------------------|------------------------|------------------------|
| Balance at June 30 | \$ (13,859,228) | \$ (12,347,079) |
|---------------------------|------------------------|------------------------|

Treasury Stock

| | | |
|---|-----------------|-----------------|
| Balance at January 1 | \$ (75,803,070) | \$ (61,725,455) |
| Purchase of common shares | — | (10,515,732) |
| Surrender of shares issued under stock incentive plan | (5,218,132) | (455,955) |

| | | |
|---------------------------|------------------------|------------------------|
| Balance at June 30 | \$ (81,021,202) | \$ (72,697,142) |
|---------------------------|------------------------|------------------------|

Total Shareholders' Equity

| | | |
|-------------------------------|----------------|----------------|
| Balance at January 1 | \$ 121,070,277 | \$ 132,262,771 |
| Net changes during the period | (1,345,332) | (10,350,223) |

| | | |
|---------------------------|-----------------------|-----------------------|
| Balance at June 30 | \$ 119,724,945 | \$ 121,912,548 |
|---------------------------|-----------------------|-----------------------|

See Notes to Consolidated Financial Statements.

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

| | Six Months Ended June 30, | |
|--|------------------------------|---------------------|
| | 2008 | 2007 |
| Operating Activities | | |
| Net Income | \$ 8,171,958 | \$ 7,342,392 |
| Loss from discontinued operations included below in operating cash flows from discontinued operations | — | 20,719 |
| | <u>8,171,958</u> | <u>7,363,111</u> |
| Income from continuing operations | 8,171,958 | 7,363,111 |
| Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities: | | |
| Provision for loan losses | 4,150,000 | 2,328,332 |
| Depreciation and amortization of premises and equipment | 1,301,681 | 1,297,663 |
| Securities losses | 506,800 | 2,001 |
| Income from bank owned life insurance | (562,498) | (538,681) |
| Deferred income tax (benefit)/provision | (1,521,655) | 207,295 |
| Proceeds from sale of loans | 237,013,728 | 271,851,297 |
| Gains on sales of loans, net | (5,200,984) | (5,376,076) |
| Originations of loans held for sale | (235,762,482) | (280,335,148) |
| Amortization of premiums on securities | 192,186 | 231,135 |
| Accretion of discounts on securities | (405,264) | (180,222) |
| (Increase) Decrease in accrued interest receivable | (2,796,097) | 950,958 |
| Decrease in accrued expenses and other liabilities | (1,217,946) | (12,071,201) |
| Increase in other assets | (5,875,538) | (5,338,491) |
| Other, net | 284,156 | (17,854) |
| | <u>(1,721,955)</u> | <u>(19,625,881)</u> |
| Net cash used in operating activities | (1,721,955) | (19,625,881) |
| Investing Activities | | |
| Purchase of premises and equipment | (991,459) | (1,484,112) |
| Net decrease in interest-bearing deposits with other banks | 99,398 | 83,725 |
| Net (increase) decrease in Federal funds sold | (2,500,000) | 10,000,000 |
| Net increase in loans held in portfolio | (9,087,748) | (12,619,362) |
| Decrease in other real estate | 1,188,253 | 1,250,632 |
| Proceeds from calls of securities - held to maturity | — | 18,125,000 |
| Proceeds from prepayments, redemptions or maturities of securities - held to maturity | 28,740,877 | 41,344,375 |
| Purchases of securities - held to maturity | — | (25,003,500) |
| Proceeds from sales of securities - available for sale | — | 2,750 |
| Proceeds from prepayments, redemptions or maturities of securities - available for sale | 164,817,687 | 31,703,892 |
| Purchases of securities - available for sale | (342,331,989) | (30,996,171) |
| | <u>(160,064,981)</u> | <u>32,407,229</u> |
| Net cash (used in) provided by investing activities | (160,064,981) | 32,407,229 |
| Financing Activities | | |

Edgar Filing: STERLING BANCORP - Form 10-Q

| | | |
|---|-----------------------------|-----------------------------|
| Net decrease in noninterest-bearing deposits | (42,422,043) | (26,009,965) |
| Net (decrease) increase in interest-bearing deposits | (46,080,714) | 37,807,205 |
| Net increase in Federal funds purchased | 5,000,000 | — |
| Net increase in securities sold under agreement to repurchase | 67,336,624 | 23,727,446 |
| Net increase (decrease) in commercial paper and other short-term borrowings | 48,093,542 | (1,810,731) |
| Increase (Decrease) in long-term borrowings | 120,000,000 | (10,000,000) |
| Purchase of treasury stock | — | (10,515,732) |
| Net proceeds from exercise of stock options | 266,573 | 776,269 |
| Cash dividends paid on common stock | (6,824,325) | (6,993,026) |
| | <u> </u> | <u> </u> |
| Net cash provided by financing activities | 145,369,657 | 6,981,466 |
| | <u> </u> | <u> </u> |
| Cash flows from discontinued operations | | |
| Operating cash flows | — | 208,813 |
| | <u> </u> | <u> </u> |
| Total | — | 208,813 |
| | <u> </u> | <u> </u> |
| Net (decrease) increase in cash and due from banks | (16,417,279) | 19,971,627 |
| Cash and due from banks - beginning of period | 66,412,612 | 50,058,593 |
| | <u> </u> | <u> </u> |
| Cash and due from banks - end of period | \$ 49,995,333 | \$ 70,030,220 |
| | <u> </u> | <u> </u> |
| Supplemental disclosures: | | |
| Interest paid | \$ 18,985,459 | \$ 23,508,403 |
| Income taxes paid | 7,968,572 | 949,459 |
| | <u> </u> | <u> </u> |
| Loans held for sale transferred to portfolio | 2,530,727 | — |
| Loans transferred to other real estate | 1,770,094 | 1,065,578 |
| <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.

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 June 30, 2008 and 2007 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 period’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, 2007.

Use of Estimates . The preparation of financial statements in accordance with U.S. generally accepted accounting principles (“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.

Fair Value Measurements. On January 1, 2008, the Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 157, *Fair Value Measurements* (“SFAS No. 157”). SFAS No. 157 defines fair value, establishes a framework for measuring fair value under U.S. GAAP, and expands disclosures about fair value measurements (see Note 7 - Fair Value Measurements). The Company also adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115* (“SFAS No. 159”) on January 1, 2008 but did not elect the fair value option for any of its financial assets or financial liabilities.

Endorsement Split-Dollar Life Insurance Arrangements. On January 1, 2008, the Company recognized a cumulative-effect adjustment to retained earnings totaling \$726 thousand related to accounting for certain endorsement split-dollar life insurance arrangements in connection with the adoption of Emerging Issues Task Force (“EITF”) Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements* (“EITF 06-4”) (see Note 4-Employee Benefit Plans).

Note 2. Loans

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

| | June 30, 2008 | December 31, 2007 |
|--|------------------|----------------------|
| Loans held for sale, net of valuation reserve (\$-0- at June 30, 2008 and \$64,958 at December 31, 2007) | | |
| Real estate-residential mortgage | \$ 24,409,918 | \$ 23,755,906 |
| Loans held in portfolio | | |
| Commercial and industrial | \$ 534,778,988 | \$ 539,969,407 |
| Lease financing | 299,412,183 | 287,563,583 |
| Factored receivables | 89,739,700 | 93,016,702 |
| Real estate-residential mortgage | 145,363,629 | 129,464,803 |
| Real estate-commercial mortgage | 95,155,430 | 99,093,560 |
| Real estate-construction and land development | 30,212,165 | 37,161,197 |

Edgar Filing: STERLING BANCORP - Form 10-Q

| | | |
|--|-----------------------------|-----------------------------|
| Installment | 17,442,850 | 12,103,045 |
| Loans to depository institutions | 20,000,000 | 27,000,000 |
| | <u> </u> | <u> </u> |
| Loans held in portfolio, gross | 1,232,104,945 | 1,225,372,297 |
| Less unearned discounts | 38,121,873 | 38,248,313 |
| | <u> </u> | <u> </u> |
| Loans held in portfolio, net of unearned discounts | \$ 1,193,983,072 | \$ 1,187,123,984 |
| | <u> </u> | <u> </u> |

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

Note 3. Investment Securities

The following information is provided in connection with the calls of available for sale securities:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--------------|-----------------------------|----------|---------------------------|----------|
| | 2008 | 2007 | 2008 | 2007 |
| Proceeds | \$ — | \$ 2,750 | \$ — | \$ 2,750 |
| Gross Gains | — | — | — | — |
| Gross Losses | — | 22 | — | 22 |

The following information is provided in connection with the calls of held to maturity securities:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--------------|-----------------------------|---------------|---------------------------|---------------|
| | 2008 | 2007 | 2008 | 2007 |
| Proceeds | \$ — | \$ 18,125,000 | \$ — | \$ 18,125,000 |
| Gross Gains | — | — | — | — |
| Gross Losses | — | 1,979 | — | 1,979 |

During the three and six months ended June 30, 2008, the Company incurred an other-than-temporary charge of \$506,800 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 \$493,200.

Note 4. Employee Benefit Plans

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|------------------------------------|-----------------------------|------------|---------------------------|--------------|
| | 2008 | 2007 | 2008 | 2007 |
| Service cost | \$ 496,234 | \$ 409,271 | \$ 992,468 | \$ 818,542 |
| Interest cost | 752,180 | 567,201 | 1,504,360 | 1,134,402 |
| Expected return on plan assets | (647,686) | (475,457) | (1,295,372) | (950,914) |
| Amortization of prior service cost | 16,643 | 24,689 | 33,286 | 49,378 |
| Recognized actuarial loss | 420,129 | 332,567 | 840,258 | 665,134 |
| Net periodic benefit cost | \$ 1,037,500 | \$ 858,271 | \$ 2,075,000 | \$ 1,176,542 |

The Company previously disclosed in its financial statements for the year ended December 31, 2007, that it expected to contribute approximately \$2,000,000 to the defined benefit pension plan in 2008. No contribution has been made as of June 30, 2008.

Edgar Filing: STERLING BANCORP - Form 10-Q

EITF 06-4 requires the recognition of a liability and related compensation expense for endorsement split-dollar life insurance arrangements that provide a benefit to an employee that extends to post-retirement periods. Under EITF 06-4, life insurance policies purchased for the purpose of providing such benefits are considered not to have effectively settled an entity's obligation to the employee. Accordingly, the entity must recognize a liability and related compensation expense during the employee's active service period based on the future cost of insurance to be incurred during the employee's retirement. If the entity has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in SFAS No. 106, *Employer's Accounting for Postretirement Benefits Other Than Pensions*. The Company adopted EITF 06-4 on January 1, 2008 as a change in accounting principle through a cumulative-effect adjustment to retained earnings totaling \$726 thousand.

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

Note 5. Noninterest income and expenses

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|---------------------|---------------------------|----------------------|
| | 2008 | 2007 | 2008 | 2007 |
| NONINTEREST INCOME | | | | |
| Accounts receivable management/ factoring commissions and other fees | \$ 3,799,429 | \$ 3,820,957 | \$ 7,364,133 | \$ 7,488,576 |
| Service charges on deposit accounts | 1,331,671 | 1,424,778 | 2,683,269 | 2,906,390 |
| Other customer related service charges and fees | 736,858 | 743,002 | 1,411,984 | 1,433,110 |
| Mortgage banking income | 2,702,386 | 2,543,656 | 5,200,974 | 5,376,076 |
| Trust fees | 124,039 | 125,180 | 259,319 | 266,383 |
| Bank owned life insurance income | 293,251 | 286,130 | 562,498 | 538,681 |
| Securities losses | (506,800) | (2,001) | (506,800) | (2,001) |
| Losses on sales of other real estate owned, net | (75,690) | (134,476) | (303,358) | (180,550) |
| Other income | 167,149 | 107,687 | 572,158 | 271,089 |
| Total noninterest income | \$ 8,572,293 | \$ 8,914,913 | \$ 17,244,177 | \$ 18,097,754 |

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---------------------------------------|-----------------------------|----------------------|---------------------------|----------------------|
| | 2008 | 2007 | 2008 | 2007 |
| NONINTEREST EXPENSES | | | | |
| Salaries | \$ 9,489,731 | \$ 8,710,499 | \$ 18,838,393 | \$ 17,919,665 |
| Employee benefits | 2,252,592 | 2,475,051 | 5,088,314 | 4,752,960 |
| Total personnel expense | 11,742,323 | 11,185,550 | 23,926,707 | 22,672,625 |
| Occupancy and equipment expenses, net | 2,773,548 | 2,638,634 | 5,783,190 | 5,346,337 |
| Advertising and marketing | 1,352,757 | 1,121,979 | 1,987,711 | 2,085,880 |
| Professional fees | 1,874,893 | 1,950,928 | 3,238,596 | 3,290,703 |
| Communications | 405,708 | 453,841 | 861,584 | 970,111 |
| Other expenses | 2,980,426 | 2,742,623 | 5,498,413 | 5,365,575 |
| Total noninterest income | \$ 21,129,655 | \$ 20,093,555 | \$ 41,296,201 | \$ 39,731,231 |

Note 6. Segment Reporting

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, established standards for the way that public business enterprises report and disclose selected information about operating segments in interim financial statements provided to stockholders.

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 2008 year-to-date average interest-earning assets were 60.0% loans (corporate lending was 67.9% and real estate lending was 27.0% of total loans, respectively) and 40.0% investment securities and money market investments. There are no industry concentrations exceeding 10% of loans, gross, in the corporate lending segment. Approximately 79% of loans are to borrowers located in the metropolitan New York area. In order to comply with the provisions of SFAS No. 131, the Company has determined that it has three reportable operating segments: corporate lending, real estate lending and company-wide treasury.

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

The following tables provide certain information regarding the Company's operating segments (all amounts are from continuing operations except where designated as discontinued):

| | Corporate Lending | Real Estate Lending | Company-wide Treasury | Totals |
|---|----------------------|------------------------|--------------------------|---------------|
| <u>Three Months Ended June 30, 2008</u> | | | | |
| Net interest income | \$ 9,298,442 | \$ 4,762,893 | 7,201,327 | \$ 21,262,662 |
| Noninterest income | 5,532,319 | 2,785,670 | (136,635) | 8,181,354 |
| Depreciation and amortization | 213,130 | 91,014 | 793 | 304,937 |
| Segment income before income taxes | 6,355,505 | 3,797,624 | 6,500,029 | 16,653,158 |
| Segment assets | 822,241,586 | 402,638,290 | 906,626,274 | 2,131,506,150 |
| <u>Three Months Ended June 30, 2007</u> | | | | |
| Net interest income | \$ 6,591,874 | \$ 5,394,533 | 5,967,782 | \$ 17,954,189 |
| Noninterest income | 5,651,376 | 2,437,854 | 376,751 | 8,465,981 |
| Depreciation and amortization | 190,536 | 94,181 | 615 | 285,332 |
| Segment income from continuing operations before income taxes | 4,175,336 | 3,856,976 | 5,702,458 | 13,734,770 |
| Segment income from discontinued operations before income taxes | 129,732 | — | — | 129,732 |
| Segment assets from continuing operations | 744,023,452 | 399,817,522 | 715,189,386 | 1,859,030,360 |
| Segment assets from discontinued operations | 1,226,062 | — | — | 1,226,062 |
| <u>Six Months Ended June 30, 2008</u> | | | | |
| Net interest income | \$ 17,362,735 | \$ 9,618,334 | 13,865,207 | \$ 40,846,276 |
| Noninterest income | 10,778,995 | 5,141,528 | 423,698 | 16,344,221 |
| Depreciation and amortization | 405,524 | 181,102 | 1,586 | 588,212 |
| Segment income before income taxes | 14,535,190 | 6,506,873 | 12,854,566 | 33,896,629 |
| Segment assets | 822,241,586 | 402,638,290 | 906,626,274 | 2,131,506,150 |
| <u>Six Months Ended June 30, 2007</u> | | | | |
| Net interest income | \$ 12,817,524 | \$ 10,368,705 | 12,021,830 | \$ 35,208,059 |
| Noninterest income | 11,233,401 | 5,312,779 | 712,474 | 17,258,654 |
| Depreciation and amortization | 370,940 | 186,489 | 1,229 | 558,658 |
| Segment income from continuing operations before income taxes | 8,297,305 | 8,104,876 | 11,448,675 | 27,850,856 |
| Segment income from discontinued operations before income taxes | (37,722) | — | — | (37,722) |
| Segment assets from continuing operations | 744,023,452 | 399,817,522 | 715,189,386 | 1,859,030,360 |
| Segment assets from discontinued operations | 1,226,062 | — | — | 1,226,062 |

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-------------------------|------------------------------|-------------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Net interest income: | | | | |
| Total for reportable operating segments | \$ 21,262,662 | \$ 17,954,189 | \$ 40,846,276 | \$ 35,208,059 |
| Other [1] | 208,431 | 253,635 | 460,235 | 502,771 |
| Consolidated net interest income | <u>\$ 21,471,093</u> | <u>\$ 18,207,824</u> | <u>\$ 41,306,511</u> | <u>\$ 35,710,830</u> |
| Noninterest income: | | | | |
| Total for reportable operating segments | \$ 8,181,354 | \$ 8,465,981 | \$ 16,344,221 | \$ 17,258,654 |
| Other [1] | 390,939 | 448,932 | 899,956 | 839,100 |
| Consolidated noninterest income | <u>\$ 8,572,293</u> | <u>\$ 8,914,913</u> | <u>\$ 17,244,177</u> | <u>\$ 18,097,754</u> |
| Income before taxes: | | | | |
| Total for reportable operating segments | \$ 16,653,158 | \$ 13,734,770 | \$ 33,896,629 | \$ 27,850,856 |
| Other [1] | (9,939,427) | (7,783,920) | (20,792,142) | (16,101,835) |
| Consolidated income from continuing operations before income taxes | <u>\$ 6,713,731</u> | <u>\$ 5,950,850</u> | <u>\$ 13,104,487</u> | <u>\$ 11,749,021</u> |
| Assets: | | | | |
| Total for reportable operating segments: | | | | |
| - continuing operations | \$ 2,131,506,150 | \$ 1,859,030,360 | \$ 2,131,506,150 | \$ 1,859,030,360 |
| - discontinued operations | — | 1,226,062 | — | 1,226,062 |
| Other [1] | 30,633,475 | 26,721,680 | 30,633,475 | 26,721,680 |
| Consolidated assets | <u>\$ 2,162,139,625</u> | <u>\$ 1,886,978,102</u> | <u>\$ 2,162,139,625</u> | <u>\$ 1,886,978,102</u> |

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

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

Note 7. Fair Value Measurements

The Company adopted SFAS No. 157 as of January 1, 2008. In accordance with Financial Accounting Standards Board Staff Position (“FSP”) No. 157-2, *Effective Date of FASB Statement No. 157*, the Company will delay application of SFAS No. 157 for certain non-financial assets and non-financial liabilities, until January 1, 2009. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and requires expanded disclosures regarding fair value measurements. The expanded disclosures include a requirement to disclose fair value measurements according to a hierarchy, segregating measurements using (1) quoted prices in active markets for identical assets or liabilities (2) significant other observable inputs and (3) significant unobservable inputs.

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a 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.

SFAS No. 157 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, SFAS No. 157 establishes a fair value 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 value 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 I 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 (including Federal Home Loan Bank and Federal Reserve Bank common stock) that trade in inactive (or 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.

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

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's financial assets and financial liabilities carried at fair value effective January 1, 2008.

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 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's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

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

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

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

Interest rate floor contract. The value of the interest rate floor derivative contract is determined by reference to quotes from an independent broker.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2008, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
|-------------------------------|-------------------|-------------------|-------------------|---------------------|
| Securities available for sale | \$ 4,470,603 | \$ 430,229,712 | \$ — | \$ 434,700,315 |
| Other investments | \$ 7,430,253 | \$ 3,674,517 | \$ — | \$ 11,104,770 |
| Interest rate floor contract | \$ — | \$ 53,824 | \$ — | \$ 53,824 |

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

Certain financial assets and financial liabilities, such as loans held for sale, impaired loans (if any) and other real estate owned, 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). There were no financial assets or financial liabilities measured at fair value on a non-recurring basis as of June 30, 2008.

In accordance with SFAS No.65, *Accounting for Certain Mortgage Banking Activities*, mortgage loans held for sale with a carrying amount of \$1,037,494 were written down to their fair value of \$774,693 during the three month period ended March 31, 2008 resulting in a loss of \$262,801, which was included in earnings for the six month period ended June 30, 2008. No mortgage loans held for sale were written down to their fair value during the three month period ended June 30, 2008.

Reporting units measured at fair value in the first step of a goodwill impairment test and certain non-financial assets measured at fair value on a non-recurring basis (such as those 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, including other real estate owned, will be measured at fair value under SFAS No. 157 beginning January 1, 2009.

Effective January 1, 2008, the Company adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115*. SFAS No. 159 permits the Company to choose to report eligible items at fair value in the financial statements and on an ongoing basis, after making an election to do so at specified election dates. Unrealized gains and losses on items for which the fair value measurement option has been elected are reported in earnings at each subsequent reporting date. The fair value option (i) may be applied instrument by instrument, with certain exceptions, thus the Company may record identical financial assets and liabilities at fair value or by another measurement basis permitted under generally accepted accounting principles, (ii) is irrevocable (unless a new election date occurs) and (iii) is applied only to entire instruments and not to portions of instruments. The Company adopted SFAS No. 159 on January 1, 2008 but did not elect a fair value option for any of its financial assets or financial liabilities.

Note 8. New Accounting Standards

On January 1, 2008, the Company adopted the guidance contained in the Securities and Exchange Commission Staff Accounting Bulletin ("SAB") No. 109, *Written Loan Commitments Recorded at Fair Value Through Earnings* ("SAB No. 109"). SAB No. 109 supersedes SAB No. 105, *Application of Accounting Principles to Loan Commitments*, and indicates that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The adoption of SAB No. 109 did not have a material impact on the Company's financial statements.

SFAS No.161, *Disclosures About Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133*, amends and expands the disclosure requirements of SFAS No. 133 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 under SFAS No. 133 and its related interpretations, 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, SFAS No. 161 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. SFAS No.161 is effective for the Company on January 1, 2009 and is not expected to have a significant impact on the Company's financial statements.

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

SFAS No.162, *The Hierarchy of Generally Accepted Accounting Principles*, identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (“GAAP”) in the United States “the GAAP hierarchy”. SFAS No. 162 will be effective 60 days following the approval by the SEC of the Public Company Accounting Oversight Board amendments to AU Section 411, “The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles.” The guidance provided by SFAS No. 162 is not expected to have a significant impact on the Company’s financial statements.s

FASB Staff Position (“FSP”) EITF No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. This FSP will be effective on January 1, 2009. All previously reported earnings per share data will be retrospectively adjusted to conform with the provisions of FSP EITF 03-6-1. FSP EITF 03-6-1 is not expected to have a significant impact on the Company’s computations of earnings per share.

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 (the "bank"). Throughout this discussion and analysis, the term the "Company" refers to Sterling Bancorp and its subsidiaries. This discussion and analysis should be read in conjunction with the consolidated financial statements and supplemental data contained elsewhere in this quarterly report and the Company's annual report on Form 10-K for the year ended December 31, 2007. 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 metropolitan New York 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 six months ended June 30, 2008, the bank's average earning assets represented approximately 99.7% of the Company's average earning assets. Loans represented 59.9% and investment securities represented 40.0% of the bank's average earning assets for the first six months of 2008.

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

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

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

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

INCOME STATEMENT ANALYSIS

Net interest income, which represents the difference between interest earned on interest-earning assets and interest incurred on interest-bearing liabilities, is the Company's primary source of earnings. Net interest income can be affected by changes in market interest rates as well as the level and composition of assets, liabilities and shareholders' equity. Net interest spread is the difference between the average rate earned, on a tax-equivalent basis, on interest-earning assets and the average rate paid on interest-bearing liabilities. The net yield on interest-earning assets ("net interest margin") is calculated by dividing tax-equivalent net interest income by average interest-earning assets. Generally, the net interest margin will exceed the net interest spread because a portion of interest-earning assets are funded by various noninterest-bearing sources, principally noninterest-bearing deposits and shareholders' equity. The increases (decreases) in the components of interest income and interest expense, expressed in terms of fluctuation in average volume and rate, are provided in the Rate/Volume Analysis shown on pages 32 and 33. Information as to the components of interest income and interest expense and average rates is provided in the Average Balance Sheets shown on pages 30 and 31.

Comparison of the Three Months Ended June 30, 2008 and 2007

The Company reported net income for the three months ended June 30, 2008 of \$4.2 million, representing \$0.23 per share calculated on a diluted basis, compared to \$3.9 million, or \$0.20 per share calculated on a diluted basis, for the second quarter of 2007. This increase reflects higher net interest income which was partially offset by increases in the provision for loan losses, noninterest expenses and the provision for income taxes and a decrease in noninterest income.

Net Interest Income

Net interest income, on a tax-equivalent basis, was \$21.6 million for the second quarter of 2008 compared to \$18.3 million for the 2007 period. Net interest income benefitted from higher average investment securities and loan balances, higher yields on investment securities and lower cost of funding. Partially offsetting those benefits was the impact of lower yield on loans and higher borrowed funds balances. The net interest margin, on a tax-equivalent basis, was 4.49% for the second quarter of 2008 compared to 4.35% for the 2007 period. The net interest margin was impacted by the lower interest rate environment in 2008, and the effect of higher average investment securities and loans outstanding.

Total interest income, on a tax-equivalent basis, decreased to \$29.8 million for the second quarter of 2008, from \$30.1 million in the prior year period. The tax-equivalent yield on interest-earning assets was 6.26% for the second quarter of 2008 compared to 7.24% for the 2007 period.

Interest earned on the loan portfolio decreased to \$20.0 million for the second quarter of 2008 from \$23.1 million in the prior year period. Average loan balances amounted to \$1,153.1 million, an increase of \$48.4 million from an average of \$1,104.7 million in the prior year period. The increase in average loans, primarily due to the Company's business development activities, accounted for a \$1.0 million increase in interest earned on loans, which was more than offset by the impact of a decrease in yield. The decrease in the yield on the loan portfolio to 7.16% for the second quarter of 2008 from 8.66% for the 2007 period was primarily attributable to the lower interest rate environment in 2008 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, increased to \$9.8 million for the second quarter of 2008 from \$6.5 million in the prior year period. Average outstandings increased to \$781.2 million (40.3% of average earning assets) for the second quarter of 2008 from \$554.6 million (32.8% of average earning assets) in the prior year period. The average life of the securities portfolio was approximately 7.2 years at June 30, 2008 compared to 4.4 years at June 30, 2007.

Interest earned on federal funds sold and deposits with other banks decreased by \$0.4 million for the second quarter of 2008 from \$0.4 million for the 2007 period, primarily due to lower funds employed in these assets. Average outstandings for these assets decreased to \$2.8 million for the second quarter of 2008 from \$30.8 million in the prior year period.

Total interest expense decreased by \$3.5 million for the second quarter of 2008 from \$11.7 million for the 2007 period, primarily due to the impact of lower rates paid for interest-bearing deposits and borrowings. Partially offsetting the benefit of the lower cost of funds was the impact of higher borrowed funds balances which was the result of the Company's strategy to employ cost effective wholesale funding in lieu of higher priced certificates of deposit.

Interest expense on deposits decreased to \$5.1 million for the second quarter of 2008 from \$9.9 million for the 2007 period, primarily due to a decrease in the cost of those funds. The average rate paid on interest-bearing deposits was 2.10% which was 167 basis points lower than the prior year period. The decrease in average cost of deposits reflects the lower interest rate environment during 2008.

Interest expense on borrowings increased to \$3.1 million for the second quarter of 2008 from \$1.9 million for the 2007 period, primarily due to an increase in average balances which was partially offset by lower rates paid for these funds. Average borrowings increased to \$452.0 million for the second quarter of 2008 from \$144.4 million in the prior year period, reflecting greater reliance by the Company on wholesale funding. The average rate paid for borrowed funds was 2.77% which was 242 basis points lower than the prior year period. The decrease in the average cost of borrowings reflects the lower interest rate environment in 2008.

Provision for Loan Losses

Based on management's continuing evaluation of the loan portfolio (discussed under "Asset Quality" beginning on page 25), the provision for loan losses for the second quarter of 2008 was \$2.2 million, compared to \$1.1 million for the prior year period. Factors affecting the level of provision included the growth in the loan portfolio, changes in general economic conditions and the amount and trend of nonaccrual loans.

Noninterest Income

Noninterest income decreased to \$8.6 million for the second quarter of 2008 from \$8.9 million in the 2007 period. The decrease was principally due to an other-than-temporary impairment charge for a single-issuer, investment grade trust preferred security. The charge, which resulted from management's regular review of the valuation of the investment portfolio, amounted to approximately \$507,000 and reduced the carrying amount of the security to \$493,000.

Noninterest Expenses

Noninterest expenses for the second quarter of 2008 increased \$1.0 million when compared to the 2007 period. The increase was primarily due to initiatives to support the growth of the Company's business, particularly in the area of marketing, and advertising along with higher personnel and occupancy costs.

Provision for Income Taxes

The provision for income taxes for the second quarter of 2008 increased to \$2.5 million from \$2.2 million for the second quarter of 2007. The increase was primarily due to the higher level of pre-tax income in the 2008 period.

Comparison of the Six Months Ended June 30, 2008 and 2007

The Company reported net income for the six months ended June 30, 2008 of \$8.2 million, representing \$0.45 per share calculated on a diluted basis, compared to \$7.3 million, or \$0.39 per share calculated on a diluted basis, for the first six months of 2007. This increase reflects higher net interest income which was partially offset by increases in the provision for loan losses, noninterest expenses and the provision for income taxes coupled with lower noninterest income.

Net Interest Income

Net interest income, on a tax-equivalent basis, was \$41.6 million for the first six months of 2008 compared to \$36.0 million for the 2007 period. Net interest income benefitted from higher average investment securities and loan balances, higher yields on investment securities and lower cost of funding. Partially offsetting those benefits was the impact of lower yield on loans and higher borrowed funds balances. The net interest margin, on a tax-equivalent basis, was 4.49% for the first six months of 2008 compared to 4.34% for the 2007 period. The net interest margin was impacted by the lower interest rate environment in 2008, and the effect of higher average investment securities, borrowed funds, loans outstanding and noninterest-bearing demand deposits and lower average interest-bearing deposits.

Total interest income, on a tax-equivalent basis, increased to \$59.7 million for the first six months of 2008 from \$59.3 million in the prior year period. The tax-equivalent yield on interest-earning assets was 6.50% for the first six months of 2008 compared to 7.24% for the 2007 period.

Interest earned on the loan portfolio decreased to \$40.8 million for the first six months of 2008 from \$44.9 million for the prior year period. Average loan balances amounted to \$1,128.8 million, an increase of \$49.7 million from an average of \$1,079.1 million in the prior year period. The increase in average loans, primarily due to the Company's business development activities, accounted for a \$2.4 million increase in interest earned on loans, which was more than offset by the impact of a decrease in yield. The decrease in the yield on the loan portfolio to 7.55% for the first six months of 2008 from 8.74% for the 2007 period was primarily attributable to the lower interest rate environment in 2008 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, increased to \$18.9 million for the first six months of 2008 from \$13.4 million in the prior year period. Average outstandings increased to \$750.9 million (39.9% of average earning assets) for the first six months of 2008 from \$566.8 million (33.6% of average earning assets) in the prior year period. The average life of the securities portfolio was approximately 7.2 years at June 30, 2008 compared to 4.4 years at June 30, 2007.

Interest earned on federal funds sold and deposits with other banks decreased by \$1.1 million for the first six months of 2008 from \$1.1 million for the 2007 period, primarily due to lower funds employed in these assets. Average outstandings for these assets decreased to \$3.1 million for the first six months of 2008 from \$40.6 million in the prior year period.

Total interest expense decreased by \$5.1 million for the first six months of 2008 from \$23.3 million for the 2007 period, primarily due to the impact of lower rates paid for interest-bearing deposits and borrowings. Partially offsetting the benefit of the lower cost of funds was the impact of higher borrowed funds balances which was the result of the Company's strategy to employ cost effective wholesale funding in lieu of higher priced certificates of deposit.

Interest expense on deposits decreased to \$12.1 million for the first six months of 2008 from \$19.3 million for the 2007 period, primarily due to a decrease in the cost of those funds. The average rate paid on interest-bearing deposits was 2.43% which was 133 basis points lower than the prior year period. The decrease in average cost of deposits reflects the lower interest rate environment during 2008.

Interest expense on borrowings increased to \$6.1 million for the first six months of 2008 from \$4.1 million for the 2007 period, primarily due to an increase in average balances which was partially offset by lower rates paid for these funds. Average borrowings increased to \$391.3 million for the first six months of 2008 from \$157.4 million in the prior year period, reflecting greater reliance by the Company on wholesale funding. The average rate paid for borrowed funds was 3.13% which was 208 basis points lower than the prior year period. The decrease in the average cost of borrowings reflects the lower interest rate environment in 2008.

Provision for Loan Losses

Based on management's continuing evaluation of the loan portfolio (discussed under "Asset Quality" beginning on page 25), the provision for loan losses for the first six months of 2008 was \$4.2 million, compared to \$2.3 million for the prior year period. Factors affecting the level of provision included the growth in the loan portfolio, changes in general economic conditions and the amount and trend of nonaccrual loans.

Noninterest Income

Noninterest income decreased to \$17.2 million for the first six months of 2008 from \$18.1 million in the 2007 period. The decrease was principally due to an other-than-temporary impairment charge, taken in the second quarter of 2008, for a single-issuer, investment grade trust preferred security. The charge, which resulted from management's regular review of the investment portfolio, amounted to approximately \$507,000 and reduced the carrying amount of the security to \$493,000.

Noninterest Expenses

Noninterest expenses for the first six months of 2008 increased \$1.6 million when compared to the 2007 period. The increase was primarily due to higher salaries, related to normal salary adjustments, employee benefits primarily related to increased healthcare insurance and pension costs and occupancy and equipment costs related to greater rent expense.

Provision for Income Taxes

The provision for income taxes for the first six months of 2008 increased to \$4.9 million from \$4.4 million in the 2007 period. The increase was primarily due to the higher level of pre-tax income in the 2008 period.

BALANCE SHEET ANALYSIS*Securities*

At June 30, 2008, the Company's portfolio of securities totaled \$767.8 million, of which obligations of U.S. government corporations and government sponsored enterprises amounted to \$714.2 million which is approximately 93.0% of total. 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 \$2.3 million and \$4.3 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 the impairment in value is primarily interest rate related and therefore temporary. "Available for sale" securities included gross unrealized gains of \$0.9 million and gross unrealized losses of \$9.4 million. Management has the intent and ability to hold available for sale and held to maturity securities with unrealized losses until there is a market recovery, which may be maturity.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

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

| June 30, 2008 | Weighted Average Life | | Weighted Average Yield | |
|---|-----------------------|-----------|------------------------|-------|
| | AFS | HTM | AFS | HTM |
| Mortgage-backed securities | 4.2 years | 4.1 years | 4.81% | 4.64% |
| Agency notes (with original call dates ranging between 3 and 36 months) | 12.9 years | 9.2 years | 5.57% | 6.20% |
| Agency notes (noncallable) | — | 0.1 years | — | 4.50% |
| Obligations of state and political subdivisions (1) tax equivalent | 6.4 years | — | 6.11% (1) | — |

The following table presents information regarding securities available for sale:

| June 30, 2008 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|-----------------------|------------------------|-------------------------|-----------------------|
| Mortgage-backed securities | | | | |
| CMO's (Federal National Mortgage Association) | \$ 8,805,117 | \$ — | \$ 359,270 | \$ 8,445,847 |
| CMO's (Federal Home Loan Mortgage Corporation) | 22,378,095 | — | 963,529 | 21,414,566 |
| CMO's (Government National Mortgage Association) | 7,517,660 | — | 176,084 | 7,341,576 |
| Federal National Mortgage Association | 62,162,598 | 185,529 | 1,320,428 | 61,027,699 |
| Federal Home Loan Mortgage Corporation | 33,993,163 | 29,100 | 649,062 | 33,373,201 |
| Government National Mortgage Association | 3,099,248 | 144,099 | 2,781 | 3,240,566 |
| Total mortgage-backed securities | 137,955,881 | 358,728 | 3,471,154 | 134,843,455 |
| Agency Notes | | | | |
| Federal Home Loan Bank | 149,949,930 | 260,938 | 2,501,492 | 147,709,376 |
| Federal Farm Credit Bank | 99,914,182 | 136,398 | 1,250,580 | 98,800,000 |
| Total obligations of U.S. Government corporations and government sponsored enterprises | 387,819,993 | 756,064 | 7,223,226 | 381,352,831 |
| Obligations of state and political institutions | 23,080,718 | 122,566 | 266,047 | 22,937,237 |
| Trust preferred securities | 5,078,078 | 22,831 | 630,306 | 4,470,603 |
| Corporate securities | 13,642,645 | — | 1,263,510 | 12,379,135 |
| Federal Reserve Bank stock | 1,130,700 | — | — | 1,130,700 |
| Federal Home Loan Bank stock | 12,114,000 | — | — | 12,114,000 |
| Other securities | 304,442 | 11,367 | — | 315,809 |
| Total | \$ 443,170,576 | \$ 912,828 | \$ 9,383,089 | \$ 434,700,315 |

The following table presents information regarding securities held to maturity:

| June 30, 2008 | Carrying Value | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|--|----------------|------------------------|-------------------------|----------------------|
| Mortgage-backed securities | | | | |
| CMO's (Federal National Mortgage Association) | \$ 12,217,797 | \$ — | \$ 479,200 | \$ 11,738,597 |
| CMO's (Federal Home Loan Mortgage Corporation) | 20,673,350 | 14,202 | 742,290 | 19,945,262 |
| Federal National Mortgage Association | 156,647,161 | 981,245 | 1,302,660 | 156,325,746 |
| Federal Home Loan Mortgage Corporation | 110,290,269 | 401,746 | 1,795,347 | 108,896,668 |
| Government National Mortgage Association | 8,027,180 | 304,234 | — | 8,331,414 |

Edgar Filing: STERLING BANCORP - Form 10-Q

| | | | | |
|---|-----------------------|---------------------|---------------------|-----------------------|
| Total mortgage-backed securities | 307,855,757 | 1,701,427 | 4,319,497 | 305,237,687 |
| Federal Home Loan Bank agency notes | 24,999,568 | 550,432 | — | 25,550,000 |
| Total obligations of U.S. Government corporations and government sponsored enterprises | 332,855,325 | 2,251,859 | 4,319,497 | 330,787,687 |
| Debt securities issued by foreign governments | 250,000 | — | 1,023 | 248,977 |
| Total | \$ 333,105,325 | \$ 2,251,859 | \$ 4,320,520 | \$ 331,036,664 |

Edgar Filing: STERLING BANCORP - Form 10-Q

The Company invests principally in obligations of U.S. government corporations and government sponsored enterprises and A- rated or better investments. The fair value of these investments fluctuates based on several factors, including credit quality and general interest rate changes. The Company determined that it has the ability to hold its investments until maturity and, given its current intention to do so, anticipates that it will realize the full carrying value of its investment.

Loan Portfolio

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

The Company's commercial and industrial loan and factored receivables portfolios represents approximately 51% 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 22% 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 21% of all loans. Sources of repayment are from 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:

| | June 30, | | | |
|--|--------------|------------------------------------|--------------|---------------|
| | 2008 | | 2007 | |
| | Balances | (\$ in thousands) % of Total | Balances | % of Total |
| Domestic | | | | |
| Commercial and industrial | \$ 534,569 | 43.88% | \$ 509,747 | 43.63% |
| Equipment lease financing | 261,628 | 21.47 | 227,660 | 19.49 |
| Factored receivables | 89,612 | 7.36 | 86,877 | 7.44 |
| Real estate - residential mortgage | 169,774 | 13.93 | 177,819 | 15.22 |
| Real estate- commercial mortgage | 95,155 | 7.81 | 92,718 | 7.94 |
| Real estate -construction and land development | 30,212 | 2.48 | 38,147 | 3.26 |
| Installment - individuals | 17,443 | 1.43 | 10,333 | 0.88 |
| Loans to depository institutions | 20,000 | 1.64 | 25,000 | 2.14 |
| | \$ 1,218,393 | 100.00% | \$ 1,168,301 | 100.00% |
| Loans, net of unearned discounts | | | | |

Asset Quality

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|--------------|------------------------------|--------------|
| | 2008 | 2007 | 2008 | 2007 |
| (\$ in thousands) | | | | |
| Average loans held in portfolio, net of unearned discounts, during period | \$ 1,121,929 | \$ 1,052,427 | \$ 1,101,506 | \$ 1,033,359 |
| Allowance for loan losses: | | | | |
| Balance at beginning of period | \$ 15,162 | \$ 15,806 | \$ 15,085 | \$ 16,288 |
| Charge-offs: | | | | |
| Commercial and industrial | 262 | 251 | 1,096 | 690 |
| Lease financing | 1,408 | 756 | 2,159 | 1,757 |
| Factored receivables | 110 | 120 | 195 | 177 |
| Real estate - residential mortgage | 15 | 100 | 15 | 100 |
| Installment | — | — | — | 67 |
| Total charge-offs | 1,795 | 1,227 | 3,465 | 2,791 |
| Recoveries: | | | | |
| Commercial and industrial | 108 | 22 | 111 | 29 |
| Lease financing | 64 | 143 | 161 | 184 |
| Factored receivables | 10 | 10 | 15 | 14 |
| Real estate - residential mortgage | — | — | — | — |
| Installment | 2 | 62 | 69 | 83 |
| Total recoveries | 184 | 237 | 356 | 310 |
| Subtract: | | | | |
| Net charge-offs | 1,611 | 990 | 3,109 | 2,481 |
| Provision for loan losses | 2,200 | 1,078 | 4,150 | 2,328 |
| Less losses on transfers to other real estate owned | 271 | 312 | 646 | 553 |
| Balance at end of period | \$ 15,480 | \$ 15,582 | \$ 15,480 | \$ 15,582 |

| | | | | |
|--|--------------|--------------|--------------|--------------|
| Ratio of annualized net charge-offs to average loans held in portfolio, net of unearned discounts | 0.57% | 0.38% | 0.56% | 0.48% |
|--|--------------|--------------|--------------|--------------|

26

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 evaluation both of loans presenting identified loss potential and of the risk inherent in various components of the loan portfolio, including loans identified as impaired as required by SFAS No. 114. Thus, an increase in the size of the portfolio or in any of its components could necessitate an increase in the allowance even though there may not be a decline in credit quality or an increase in potential problem loans. A significant change in any of the evaluation factors described above could result in future additions to the allowance. At June 30, 2008, the ratio of the allowance to loans held in portfolio, net of unearned discounts, was 1.30% and the allowance was \$15.5 million. At such date, the Company's nonaccrual loans amounted to \$7.1 million, none of which was judged to be impaired within the scope of SFAS No. 114. At June 30, 2008 loans 90 days past due and still accruing and restructured loans amounted to \$0.2 million and \$0.1 million, respectively. Based on the foregoing, as well as management's judgment as to the current risks inherent in loans held in portfolio, the Company's allowance for loan losses was deemed adequate to absorb all probable losses on specifically known and other credit risks associated with the portfolio as of June 30, 2008. 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 six months of 2008. At June 30, 2008, there were no 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.

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:

| | June 30, | | | |
|-------------------------|-------------------|------------|--------------|------------|
| | 2008 | | 2007 | |
| | (\$ in thousands) | | | |
| | Balances | % of Total | Balances | % of Total |
| Domestic | | | | |
| Demand | \$ 492,928 | 34.26% | \$ 520,433 | 33.93% |
| NOW | 254,418 | 17.69 | 231,391 | 15.09 |
| Savings | 18,364 | 1.28 | 19,679 | 1.28 |
| Money market | 213,734 | 14.86 | 225,809 | 14.72 |
| Time deposits | 458,462 | 31.87 | 535,941 | 34.94 |
| Total domestic deposits | 1,437,906 | 99.96 | 1,533,253 | 99.96 |
| Foreign | | | | |
| Time deposits | 577 | 0.04 | 575 | 0.04 |
| Total deposits | \$ 1,438,483 | 100.00% | \$ 1,533,828 | 100.00% |

Fluctuations of balances in total or among categories at any date may occur based on the Company's mix of assets and liabilities as well as on customers' balance sheet strategies. Historically, however, average balances for deposits have been relatively stable. Information regarding these average balances is presented on pages 30 and 31.

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 34. 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 June 30, 2008, the Company and the bank exceeded the requirements for "well capitalized" institutions. For additional information, see page 34.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENT

For information regarding recently issued accounting pronouncement and its expected impact on the Company's consolidated financial statements, see Note 8 of the Company's unaudited consolidated financial statements in this quarterly report.

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, 2007; other risks and uncertainties detailed from time to time in press releases and other public filings; and the Company's performance in managing the risks involved in any of the foregoing. The foregoing list of important factors is not exclusive, and we will not update any forward-looking statement, whether written or oral, that may be made from time to time.

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

(dollars in thousands)

| | 2008 | | | 2007 | | |
|---|---------------------|---------------|-----------------|---------------------|---------------|-----------------|
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| ASSETS | | | | | | |
| Interest-bearing deposits with other banks | \$ 2,474 | \$ 7 | 1.14% | \$ 2,881 | \$ 36 | 5.11% |
| Securities available for sale | 417,409 | 5,462 | 5.23 | 127,616 | 1,510 | 4.73 |
| Securities held to maturity | 341,662 | 4,034 | 4.72 | 407,034 | 4,699 | 4.62 |
| Securities tax-exempt [2] | 22,178 | 340 | 6.13 | 19,993 | 314 | 6.30 |
| Total investment securities | 781,249 | 9,836 | 5.04 | 554,643 | 6,523 | 4.71 |
| Federal funds sold | 357 | 1 | 1.79 | 27,967 | 368 | 5.20 |
| Loans, net of unearned discounts [3] | 1,153,122 | 20,001 | 7.16 | 1,104,708 | 23,124 | 8.66 |
| TOTAL INTEREST-EARNING ASSETS | 1,937,202 | 29,845 | 6.26% | 1,690,199 | 30,051 | 7.24% |
| Cash and due from banks | 47,695 | | | 63,451 | | |
| Allowance for loan losses | (15,948) | | | (16,320) | | |
| Goodwill | 22,901 | | | 22,875 | | |
| Other assets | 105,348 | | | 92,000 | | |
| Total assets-continuing operations | 2,097,198 | | | 1,852,205 | | |
| Assets-discontinued operations | — | | | 1,328 | | |
| TOTAL ASSETS | \$ 2,097,198 | | | \$ 1,853,533 | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | |
| Interest-bearing deposits | | | | | | |
| Domestic | | | | | | |
| Savings | \$ 19,735 | 17 | 0.36% | \$ 21,149 | 27 | 0.51% |
| NOW | 256,316 | 542 | 0.85 | 245,682 | 1,572 | 2.57 |
| Money market | 195,131 | 530 | 1.09 | 221,135 | 1,681 | 3.05 |
| Time | 507,839 | 4,032 | 3.19 | 561,843 | 6,579 | 4.70 |
| Foreign | | | | | | |
| Time | 576 | 2 | 1.09 | 574 | 2 | 1.09 |
| Total interest-bearing deposits | 979,597 | 5,123 | 2.10 | 1,050,383 | 9,861 | 3.77 |

Edgar Filing: STERLING BANCORP - Form 10-Q

| | | | | | | |
|--|---------------------|------------------|--------------|---------------------|------------------|--------------|
| Borrowings | | | | | | |
| Securities sold under agreements to repurchase - customers | 89,187 | 442 | 1.99 | 76,091 | 805 | 4.24 |
| Securities sold under agreements to repurchase - dealers | 66,527 | 416 | 2.52 | — | — | — |
| Federal funds purchased | 39,302 | 217 | 2.19 | 1,758 | 24 | 5.26 |
| Commercial paper | 19,547 | 117 | 2.42 | 27,906 | 355 | 5.11 |
| Short-term borrowings - FHLB | 53,758 | 311 | 2.32 | — | — | — |
| Short-term borrowings - other | 1,736 | 6 | 3.56 | 1,179 | 15 | 5.34 |
| Long-term borrowings - FHLB | 156,154 | 1,085 | 2.78 | 11,648 | 136 | 4.69 |
| Long-term borrowings - sub debt | 25,774 | 524 | 8.37 | 25,774 | 524 | 8.38 |
| Total borrowings | 451,985 | 3,118 | 2.77 | 144,356 | 1,859 | 5.19 |
| TOTAL INTEREST-BEARING LIABILITIES | | | | | | |
| | 1,431,582 | 8,241 | 2.31% | 1,194,739 | 11,720 | 3.94% |
| Noninterest-bearing deposits | 444,744 | | | 444,369 | | |
| Other liabilities | 100,128 | | | 86,095 | | |
| Liabilities-discontinued operations | — | | | 180 | | |
| Total liabilities | 1,976,454 | | | 1,725,383 | | |
| Shareholders' equity | 120,744 | | | 128,150 | | |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | |
| | \$ 2,097,198 | | | \$ 1,853,533 | | |
| Net interest income/spread | | 21,604 | 3.95% | | 18,331 | 3.30% |
| Net yield on interest-earning assets (margin) | | | 4.49% | | | 4.35% |
| Less: Tax equivalent adjustment | | 132 | | | 123 | |
| Net interest income | | \$ 21,472 | | | \$ 18,208 | |

[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
Average Balance Sheets [1]
Six Months Ended June 30,
(Unaudited)

(dollars in thousands)

| | 2008 | | | 2007 | | |
|---|---------------------|---------------|-----------------|---------------------|---------------|-----------------|
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| ASSETS | | | | | | |
| Interest-bearing deposits with other banks | \$ 2,968 | \$ 19 | 1.26% | \$ 2,856 | \$ 67 | 4.76% |
| Securities available for sale | 381,222 | 9,996 | 5.24 | 131,105 | 3,149 | 4.80 |
| Securities held to maturity | 348,991 | 8,259 | 4.73 | 415,032 | 9,568 | 4.61 |
| Securities tax-exempt [2] | 20,655 | 633 | 6.13 | 20,669 | 653 | 6.37 |
| Total investment securities | 750,868 | 18,888 | 5.03 | 566,806 | 13,370 | 4.72 |
| Federal funds sold | 179 | 1 | 1.78 | 37,790 | 1,003 | 5.28 |
| Loans, net of unearned discounts [3] | 1,128,797 | 40,821 | 7.55 | 1,079,149 | 44,851 | 8.74 |
| TOTAL INTEREST-EARNING ASSETS | 1,882,812 | 59,729 | 6.50% | 1,686,601 | 59,291 | 7.24% |
| Cash and due from banks | 57,594 | | | 65,493 | | |
| Allowance for loan losses | (15,759) | | | (16,596) | | |
| Goodwill | 22,901 | | | 22,868 | | |
| Other assets | 104,070 | | | 89,551 | | |
| Total assets-continuing operations | 2,051,618 | | | 1,847,917 | | |
| Assets-discontinued operations | — | | | 1,215 | | |
| TOTAL ASSETS | \$ 2,051,618 | | | \$ 1,849,132 | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | |
| Interest-bearing deposits | | | | | | |
| Domestic | | | | | | |
| Savings | \$ 19,192 | 33 | 0.35% | \$ 21,026 | 52 | 0.50% |
| NOW | 246,514 | 1,368 | 1.12 | 233,916 | 2,970 | 2.56 |
| Money market | 202,321 | 1,298 | 1.29 | 214,138 | 3,117 | 2.94 |
| Time | 529,327 | 9,369 | 3.56 | 563,998 | 13,126 | 4.69 |
| Foreign | | | | | | |
| Time | 576 | 3 | 1.09 | 574 | 3 | 1.09 |
| Total interest-bearing deposits | 997,930 | 12,071 | 2.43 | 1,033,652 | 19,268 | 3.76 |

Edgar Filing: STERLING BANCORP - Form 10-Q

| | | | | | | |
|--|---------------------|------------------|--------------|---------------------|------------------|--------------|
| Borrowings | | | | | | |
| Securities sold under agreements to repurchase - customers | 85,824 | 1,088 | 2.55 | 85,517 | 1,880 | 4.43 |
| Securities sold under agreements to repurchase - dealers | 51,277 | 733 | 2.88 | — | — | — |
| Federal funds purchased | 44,129 | 579 | 2.60 | 1,354 | 36 | 5.25 |
| Commercial paper | 20,349 | 312 | 3.09 | 27,904 | 705 | 5.10 |
| Short-term borrowings - FHLB | 39,813 | 526 | 2.65 | — | — | — |
| Short-term borrowings - other | 1,787 | 20 | 4.56 | 1,040 | 27 | 5.34 |
| Long-term borrowings - FHLB | 122,308 | 1,799 | 2.94 | 15,801 | 361 | 4.57 |
| Long-term borrowings - sub debt | 25,774 | 1,047 | 8.38 | 25,774 | 1,047 | 8.38 |
| Total borrowings | 391,261 | 6,104 | 3.13 | 157,390 | 4,056 | 5.21 |
| TOTAL INTEREST-BEARING LIABILITIES | | | | | | |
| | 1,389,191 | 18,175 | 2.63% | 1,191,042 | 23,324 | 3.95% |
| Noninterest-bearing deposits | 442,800 | | | 439,609 | | |
| Other liabilities | 99,115 | | | 88,880 | | |
| Liabilities-discontinued operations | — | | | 308 | | |
| Total liabilities | 1,931,106 | | | 1,719,839 | | |
| Shareholders' equity | 120,512 | | | 129,293 | | |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | |
| | \$ 2,051,618 | | | \$ 1,849,132 | | |
| Net interest income/spread | | 41,554 | 3.87% | | 35,967 | 3.29% |
| Net yield on interest-earning assets (margin) | | | 4.49% | | | 4.34% |
| Less: Tax equivalent adjustment | | 247 | | | 256 | |
| Net interest income | | \$ 41,307 | | | \$ 35,711 | |

[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 June 30, 2008 to June 30, 2007 | | |
|--|---|-------------------|-----------------|
| | Volume | Rate | Net [2] |
| INTEREST INCOME | | | |
| Interest-bearing deposits with other banks | \$ (4) | \$ (25) | \$ (29) |
| Securities available for sale | 3,776 | 176 | 3,952 |
| Securities held to maturity | (764) | 99 | (665) |
| Securities tax-exempt | 34 | (8) | 26 |
| Total investment securities | 3,046 | 267 | 3,313 |
| Federal funds sold | (220) | (147) | (367) |
| Loans, net of unearned discounts [3] | 1,038 | (4,161) | (3,123) |
| TOTAL INTEREST INCOME | \$ 3,860 | \$ (4,066) | \$ (206) |
| INTEREST EXPENSE | | | |
| Interest-bearing deposits | | | |
| Domestic | | | |
| Savings | \$ (2) | \$ (8) | \$ (10) |
| NOW | 65 | (1,095) | (1,030) |
| Money market | (178) | (973) | (1,151) |
| Time | (587) | (1,960) | (2,547) |
| Foreign | | | |
| Time | — | — | — |
| Total interest-bearing deposits | (702) | (4,036) | (4,738) |
| Borrowings | | | |
| Securities sold under agreements to repurchase - customers | 120 | (483) | (363) |
| Securities sold under agreements to repurchase - dealers | 416 | — | 416 |
| Federal funds purchased | 213 | (20) | 193 |
| Commercial paper | (86) | (152) | (238) |
| Short-term borrowings - FHLB | 311 | — | 311 |
| Short-term borrowings - other | 1 | (10) | (9) |
| Long-term borrowings - FHLB | 1,026 | (77) | 949 |

| | | | |
|---------------------------------|-----------------|-------------------|-------------------|
| Long-term borrowings - sub debt | — | — | — |
| Total borrowings | 2,001 | (742) | 1,259 |
| TOTAL INTEREST EXPENSE | \$ 1,299 | \$ (4,778) | \$ (3,479) |
| NET INTEREST INCOME | \$ 2,561 | \$ 712 | \$ 3,273 |

- [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.
- [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) Six Months Ended June 30, 2008 to June 30, 2007 | | |
|--|---|-------------------|----------------|
| | Volume | Rate | Net [2] |
| INTEREST INCOME | | | |
| Interest-bearing deposits with other banks | \$ 3 | \$ (51) | \$ (48) |
| Securities available for sale | 6,534 | 313 | 6,847 |
| Securities held to maturity | (1,544) | 235 | (1,309) |
| Securities tax-exempt | 1 | (21) | (20) |
| Total investment securities | 4,991 | 527 | 5,518 |
| Federal funds sold | (598) | (404) | (1,002) |
| Loans, net of unearned discounts [3] | 2,401 | (6,431) | (4,030) |
| TOTAL INTEREST INCOME | \$ 6,797 | \$ (6,359) | \$ 438 |
| INTEREST EXPENSE | | | |
| Interest-bearing deposits | | | |
| Domestic | | | |
| Savings | \$ (5) | \$ (14) | \$ (19) |
| NOW | 168 | (1,770) | (1,602) |
| Money market | (146) | (1,673) | (1,819) |
| Time | (703) | (3,054) | (3,757) |
| Foreign | | | |
| Time | — | — | — |
| Total interest-bearing deposits | (686) | (6,511) | (7,197) |
| Borrowings | | | |
| Securities sold under agreements to repurchase - customers | 17 | (809) | (792) |
| Securities sold under agreements to repurchase - dealers | 733 | — | 733 |
| Federal funds purchased | 570 | (27) | 543 |
| Commercial paper | (157) | (236) | (393) |
| Short-term borrowings - FHLB | 526 | — | 526 |
| Short-term borrowings - other | 1 | (8) | (7) |

Edgar Filing: STERLING BANCORP - Form 10-Q

| | | | |
|---------------------------------|-----------------|-------------------|-------------------|
| Long-term borrowings - FHLB | 1,609 | (171) | 1,438 |
| Long-term borrowings - sub debt | — | — | — |
| Total borrowings | 3,299 | (1,251) | 2,048 |
| | | | |
| TOTAL INTEREST EXPENSE | \$ 2,613 | \$ (7,762) | \$ (5,149) |
| | | | |
| NET INTEREST INCOME | \$ 4,184 | \$ 1,403 | \$ 5,587 |

- [1] This table is presented on a tax-equivalent basis.
- [2] Changes in interest income and interest expense due to a combination of both volume and rate have been allocated to the change due to volume and the change due to rate in proportion to the relationship of the change due solely to each. The effect of the extra day in 2008 has been included in the change in volume.
- [3] Includes loans held for sale and loans held in portfolio; all loans are domestic. Nonaccrual loans are included in amounts outstanding and income has been included to the extent earned.

STERLING BANCORP AND SUBSIDIARIES
Regulatory Capital and Ratios

Ratios and Minimums
(dollars in thousands)

| As of June 30, 2008 | Actual | | For Capital Adequacy Minimum | | To Be Well Capitalized | |
|---|------------|--------|------------------------------|-------|------------------------|--------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Total Capital (to Risk-Weighted Assets): | | | | | | |
| The Company | \$ 150,647 | 10.57% | \$ 114,004 | 8.00% | \$ 142,506 | 10.00% |
| The bank | 156,851 | 11.04 | 113,696 | 8.00 | 142,120 | 10.00 |
| Tier 1 Capital (to Risk-Weighted Assets): | | | | | | |
| The Company | 134,993 | 9.47 | 57,002 | 4.00 | 85,503 | 6.00 |
| The bank | 141,197 | 9.94 | 56,848 | 4.00 | 85,272 | 6.00 |
| Tier 1 Leverage Capital (to Average Assets): | | | | | | |
| The Company | 134,993 | 6.51 | 82,972 | 4.00 | 103,715 | 5.00 |
| The bank | 141,197 | 6.83 | 82,735 | 4.00 | 103,418 | 5.00 |
| As of December 31, 2007 | | | | | | |
| Total Capital (to Risk-Weighted Assets): | | | | | | |
| The Company | \$ 149,014 | 10.87% | \$ 109,706 | 8.00% | \$ 137,133 | 10.00% |
| The bank | 147,442 | 10.77 | 109,507 | 8.00 | 136,884 | 10.00 |
| Tier 1 Capital (to Risk-Weighted Assets): | | | | | | |
| The Company | 133,785 | 9.76 | 54,853 | 4.00 | 82,280 | 6.00 |
| The bank | 132,213 | 9.66 | 54,753 | 4.00 | 82,130 | 6.00 |
| Tier 1 Leverage Capital (to Average Assets): | | | | | | |
| The Company | 133,785 | 6.88 | 77,835 | 4.00 | 97,294 | 5.00 |
| The bank | 132,213 | 6.79 | 77,943 | 4.00 | 97,429 | 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.

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 June 30, 2008, presented on page 40, 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 June 30, 2008, the Company was a party to an interest rate floor agreement with a notional amount of \$50,000,000 and a maturity of September 14, 2008. The interest rate floor contract requires the counterparty to pay the Company at specified future dates the amount, if any, by which the specified interest (prime rate) falls below the fixed floor rates, applied to the notional amounts. The Company utilizes the financial instruments to adjust its interest rate risk position without exposing itself to principal risk and funding requirements. The financial instrument is being used as part of the Company's interest rate risk management and not for trading purposes. At June 30, 2008, the counterparty had an investment grade credit rating from the major rating agencies. The counterparty is specifically approved for applicable credit exposure.

The interest rate floor contract requires the Company to pay a fee for the right to receive a fixed interest payment. The Company paid an up-front premium of \$80,000. At June 30, 2008, there were no amounts receivable under these contracts.

The interest rate floor agreement was not designated as a hedge for accounting purposes and therefore changes in the fair value of this instrument are required to be recognized as income or expenses in the Company's financial statements. At June 30, 2008 and 2007, the aggregate fair value of the interest rate floor was \$53,824 and \$165, respectively. For the three months ended June 30, 2008 and 2007, \$57,150 and \$2,122 were charged against "Other income", respectively. For the six months ended June 30, 2008 and 2007, \$43,215 was credited to "Other income" and \$2,501 was charged against "Other income", respectively.

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 June 30, 2008, the model indicated the impact of a 200 basis point parallel and pro rata rise in rates over 12 months would approximate a 0.51% (\$0.5 million) increase in net interest income, while the impact of a 200 basis point decline in rates over the same period would approximate a 0.73% (\$0.7 million) decline from an unchanged rate environment.

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

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

The shape of the yield curve can 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 2008.

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 June 30, 2008, the parent company's short-term debt, consisting principally of commercial paper used to finance ongoing current business activities, was approximately \$20.5 million. The parent company had cash, interest-bearing deposits with banks and other current assets aggregating \$11.0 million. The parent company also has back-up credit lines with banks of \$24.0 million. Since 1979, the parent company has had no need to use the available back-up lines of credit.

Edgar Filing: STERLING BANCORP - Form 10-Q

The following table sets forth information regarding the Company's obligations and commitments to make future payments under contract as of June 30, 2008:

| Contractual Obligations (1) | Payments Due by Period | | | | |
|---|------------------------|------------------|------------------|------------------|------------------|
| | Total | Less than 1 Year | 1-3 Years | 4-5 Years | After 5 Years |
| (in thousands) | | | | | |
| Long-Term Debt | \$ 185,774 | \$ 20,000 (1) | \$ 50,000 | \$ 90,000 | \$ 25,774 |
| Operating Leases | 21,175 | 4,049 | 6,054 | 4,417 | 6,655 |
| Total Contractual Cash Obligations | \$ 206,949 | \$ 24,049 | \$ 56,054 | \$ 94,417 | \$ 32,429 |

(1) \$20,000 of long-term debt has been called for redemption in August 2008.

The following table sets forth information regarding the Company's obligations under other commercial commitments as of June 30, 2008:

| Other Commercial Commitments | Amount of Commitment Expiration Per Period | | | | |
|-------------------------------------|--|------------------|-----------------|-------------|---------------|
| | Total Amount Committed | Less than 1 Year | 1-3 Years | 4-5 Years | After 5 Years |
| (in thousands) | | | | | |
| Residential Loans | \$ 8,931 | \$ 8,931 | \$ — | \$ — | \$ — |
| Commercial Loans | 34,166 | 29,442 | 4,724 | — | — |
| Total Loans | 43,097 | 38,373 | 4,724 | — | — |
| Standby Letters of Credit | 42,638 | 40,345 | 2,293 | — | — |
| Other Commercial Commitments | 21,472 | 20,956 | — | — | 516 |
| Total Commercial Commitments | \$ 107,207 | \$ 99,674 | \$ 7,017 | \$ — | 516 |

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.

| | 3 Months or Less | More than 3 Months to 1 Year | Repricing Date More than 1 Year to 5 Years | Over 5 Years | Nonrate Sensitive | Total |
|--|---------------------|------------------------------------|---|-----------------|----------------------|------------------|
| ASSETS | | | | | | |
| Interest-bearing deposits with other banks | \$ 881 | \$ — | \$ — | \$ — | \$ — | 881 |
| Federal funds sold | 2,500 | — | — | — | — | 2,500 |
| Investment securities | 25,429 | 5,447 | 126,654 | 596,771 | 13,505 | 767,806 |
| Commercial and industrial loans | 424,389 | 22,726 | 77,962 | 9,702 | (210) | 534,569 |
| Equipment lease financing | 1,803 | 9,932 | 273,667 | 14,010 | (37,784) | 261,628 |
| Factored receivables | 89,740 | — | — | — | (128) | 89,612 |
| Real estate-residential mortgage | 64,372 | 19,597 | 49,759 | 36,046 | — | 169,774 |
| Real estate-commercial mortgage | 29,199 | 16,441 | 17,163 | 32,352 | — | 95,155 |
| Real estate-construction and land development | — | — | 30,212 | — | — | 30,212 |
| Installment-individuals | 17,443 | — | — | — | — | 17,443 |
| Loans to depository institutions | 20,000 | — | — | — | — | 20,000 |
| Noninterest-earning assets & allowance for loan losses | — | — | — | — | 172,560 | 172,560 |
| Total Assets | 675,756 | 74,143 | 575,417 | 688,881 | 147,943 | 2,162,140 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | |
| Interest-bearing deposits Savings [1] | — | — | 18,364 | — | — | 18,364 |
| NOW [1] | — | — | 254,418 | — | — | 254,418 |
| Money market [1] | 175,262 | — | 38,472 | — | — | 213,734 |
| Time - domestic | 220,370 | 206,095 | 31,997 | — | — | 458,462 |
| - foreign | 395 | 182 | — | — | — | 577 |
| Securities sold under agreement to repurchase - customer | 64,758 | — | — | — | — | 64,758 |
| Securities sold under agreement to repurchase - dealer | 72,833 | — | — | — | — | 72,833 |
| Federal funds purchased | 70,000 | — | — | — | — | 70,000 |
| Commercial paper | 20,544 | — | — | — | — | 20,544 |
| Short-term borrowings - FHLB | 77,000 | — | — | — | — | 77,000 |
| Short-term borrowings - other | 20,713 | — | — | — | — | 20,713 |
| Long-term borrowings - FHLB | — | — | 160,000 | — | — | 160,000 |
| Long-term borrowings - subordinated debentures | — | — | — | 25,774 | — | 25,774 |

| | | | | | | |
|---|--------------------|---------------------|---------------------|-------------------|---------------------|------------------|
| Noninterest-bearing liabilities & shareholders' equity | — | — | — | — | 704,963 | 704,963 |
| Total Liabilities and Shareholders' Equity | 721,875 | 206,277 | 503,251 | 25,774 | 704,963 | 2,162,140 |
| Net Interest Rate Sensitivity Gap | \$ (46,119) | \$ (132,134) | \$ 72,166 | \$ 663,107 | \$ (557,020) | \$ — |
| Cumulative Gap June 30, 2008 | \$ (46,119) | \$ (178,253) | \$ (106,087) | \$ 557,020 | \$ — | \$ — |
| Cumulative Gap June 30, 2007 | \$ 30,305 | \$ (132,188) | \$ 147,972 | \$ 588,614 | \$ — | \$ — |
| Cumulative Gap December 31, 2007 | \$ 46,483 | \$ (143,365) | \$ 27,278 | \$ 605,524 | \$ — | \$ — |

[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.

INFORMATION AVAILABLE ON OUR WEB SITE

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

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

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

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 June 30, 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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 second quarter of 2008. At June 30, 2008, 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.

Edgar Filing: STERLING BANCORP - Form 10-Q

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-Q for the quarter ended September 30, 2004 and incorporated herein by reference).
- (ii) 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.

Edgar Filing: STERLING BANCORP - Form 10-Q

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: August 11, 2008

/s/ Louis J. Cappelli

Louis J. Cappelli
Chairman and
Chief Executive Officer

Date: August 11, 2008

/s/ John W. Tietjen

John W. Tietjen
Executive Vice President
and Chief Financial Officer

STERLING BANCORP AND SUBSIDIARIES

EXHIBIT INDEX

| <u>Exhibit Number</u> | <u>Description</u> | <u>Sequential Page No.</u> |
|---------------------------|--|--------------------------------|
| <u>11</u> | <u>Statement re: Computation of Per Share Earnings.</u> | 46 |
| <u>31.1</u> | <u>Certification of the CEO pursuant to Exchange Act Rule 13a-14(a).</u> | 47 |
| <u>31.2</u> | <u>Certification of the CFO pursuant to Exchange Act Rule 13a-14(a).</u> | 48 |
| <u>32.1</u> | <u>Certification of the CEO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code.</u> | 49 |
| <u>32.2</u> | <u>Certification of the CFO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code.</u> | 50 |