

STERLING BANCORP  
Form 10-Q  
November 09, 2007

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 September 30, 2007

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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

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

As of October 31, 2007 there were 17,804,947 shares of common stock,  
\$1.00 par value, outstanding.

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## STERLING BANCORP

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STERLING BANCORP AND SUBSIDIARIES  
Consolidated Balance Sheets  
(Unaudited)

	September 30, 2007	December 31, 2006
<b>ASSETS</b>		
Cash and due from banks	\$ 49,547,009	\$ 50,058,593
Interest-bearing deposits with other banks	3,014,475	1,261,187
Federal funds sold	—	20,000,000
Securities available for sale (at estimated fair value; pledged: \$77,231,475 in 2007 and \$90,583,854 in 2006)	215,426,488	148,420,887
Securities held to maturity (pledged: \$188,776,122 in 2007 and \$199,997,912 in 2006) (estimated fair value: \$386,393,154 in 2007 and \$411,650,690 in 2006)	393,501,270	420,903,430
<b>Total investment securities</b>	<b>608,927,758</b>	<b>569,324,317</b>
<b>Loans held for sale</b>	<b>32,895,991</b>	<b>33,319,789</b>
Loans held in portfolio, net of unearned discounts	1,178,197,584	1,112,601,620
Less allowance for loan losses	15,038,912	16,287,974
<b>Loans, net</b>	<b>1,163,158,672</b>	<b>1,096,313,646</b>
Customers' liability under acceptances	128,851	98,399
Goodwill	22,900,912	22,862,051
Premises and equipment, net	11,434,937	11,323,649
Other real estate	1,826,035	2,242,419
Accrued interest receivable	6,974,825	5,844,868
Bank owned life insurance	28,766,799	27,949,160
Other assets	51,163,055	43,696,511
<b>Total assets from continuing operations</b>	<b>1,980,739,319</b>	<b>1,884,294,589</b>
Assets - discontinued operations	—	1,662,697
	<b>\$ 1,980,739,319</b>	<b>\$ 1,885,957,286</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Deposits</b>		
Demand deposits	\$ 490,194,816	\$ 546,442,704
Savings, NOW and money market deposits	542,466,423	447,600,898
Time deposits	534,176,014	527,986,821
<b>Total deposits</b>	<b>1,566,837,253</b>	<b>1,522,030,423</b>
Securities sold under agreements to repurchase - customers	62,563,685	52,802,796
Federal funds purchased	44,200,000	—
Commercial paper	28,571,010	27,561,567
Short-term borrowings - FHLB	25,000,000	—
Short-term borrowings - other	303,185	3,411,630
Long-term borrowings - FHLB	10,000,000	20,000,000
Long-term borrowings - subordinated debentures	25,774,000	25,774,000

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	September 30, 2007	December 31, 2006
Total borrowings	196,411,880	129,549,993
Acceptances outstanding	128,851	98,399
Accrued expenses and other liabilities	97,426,678	101,679,342
Liabilities - discontinued operations	—	336,358
Total liabilities	1,860,804,662	1,753,694,515
Shareholders' equity		
Common stock, \$1 par value. Authorized 50,000,000 shares; issued 21,262,170 and 21,177,084 shares, respectively	21,262,170	21,177,084
Capital surplus	168,682,564	167,960,063
Retained earnings	16,730,599	16,693,987
Accumulated other comprehensive loss, net of tax	(10,937,606)	(11,842,908)
	195,737,727	193,988,226
Less		
Common shares in treasury at cost, 3,459,302 and 2,572,368 shares, respectively	75,803,070	61,725,455
Total shareholders' equity	119,934,657	132,262,771
	\$ 1,980,739,319	\$ 1,885,957,286

See Notes to Consolidated Financial Statements.

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STERLING BANCORP AND SUBSIDIARIES  
Consolidated Statements of Operations  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
<b>INTEREST INCOME</b>				
Loans	\$ 24,148,041	\$ 22,600,005	\$ 68,996,158	\$ 63,569,045
Investment securities				
Available for sale	2,112,770	1,900,888	5,659,068	6,080,677
Held to maturity	4,730,546	5,231,002	14,298,397	16,526,116
Federal funds sold	227,637	12,865	1,230,283	87,736
Deposits with other banks	23,798	22,477	91,176	73,121
	<u>31,242,792</u>	<u>29,767,237</u>	<u>90,275,082</u>	<u>86,336,695</u>
<b>INTEREST EXPENSE</b>				
Deposits				
Savings, NOW and money market	3,829,336	2,406,401	9,968,301	5,861,780
Time	6,458,001	5,169,986	19,586,914	14,345,659
Securities sold under agreements to repurchase				
- customers	701,653	974,239	2,581,272	2,436,460
- dealers	—	1,113,743	—	3,441,885
Federal funds purchased	71,555	305,155	107,303	691,376
Commercial paper	367,650	610,623	1,072,908	1,553,147
Short-term borrowings - FHLB	53,071	725,385	53,071	1,560,750
Short-term borrowings - other	19,949	5,327	47,511	23,108
Long-term borrowings - FHLB	117,500	297,176	478,523	1,344,028
Long-term borrowings - subordinated debt	523,438	523,438	1,570,313	1,570,313
	<u>12,142,153</u>	<u>12,131,473</u>	<u>35,466,116</u>	<u>32,828,506</u>
Interest expense allocated to discontinued operations	—	(855,869)	—	(2,508,092)
	<u>19,100,639</u>	<u>18,491,633</u>	<u>54,808,966</u>	<u>56,016,281</u>
Provision for loan losses	2,125,000	1,510,367	4,453,332	3,252,596
	<u>16,975,639</u>	<u>16,981,266</u>	<u>50,355,634</u>	<u>52,763,685</u>
Net interest income after provision for loan losses				
Total noninterest income	7,812,024	9,250,994	26,092,831	24,041,554
	<u>19,421,788</u>	<u>19,455,237</u>	<u>59,333,569</u>	<u>56,783,171</u>
Total noninterest expenses				
Income from continuing operations before income taxes	5,365,875	6,777,023	17,114,896	20,022,068
Provision for income taxes	1,524,818	1,755,457	5,910,728	3,133,319
	<u>3,841,057</u>	<u>5,021,566</u>	<u>11,204,168</u>	<u>16,888,749</u>
Income from continuing operations				
Discontinued operations:				
(Loss)/Income, net of tax	(774,315)	150,752	(795,034)	(410,813)
Loss on sale, net of tax	—	(9,604,166)	—	(9,604,166)
	<u>(774,315)</u>	<u>150,752</u>	<u>(795,034)</u>	<u>(410,813)</u>

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	Three Months Ended September 30,		Nine Months Ended September 30,	
Net income/(loss)	\$ 3,066,742	\$ (4,431,848)	\$ 10,409,134	\$ 6,873,770

Average number of common  
shares outstanding

Basic	17,910,268	18,712,072	18,329,750	18,752,107
Diluted	18,221,555	19,230,823	18,749,866	19,274,858

Income from continuing operations,  
per average common share

Basic	\$ 0.21	\$ 0.27	\$ 0.61	\$ 0.90
Diluted	0.21	0.27	0.60	0.88

Net income/(loss), per average  
common share

Basic	0.17	(0.23)	0.57	0.37
Diluted	0.17	(0.23)(1)	0.56	0.36

Dividends per common share

	0.19	0.19	0.57	0.57
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(1) Due to a loss for the period, zero incremental shares are included because the effect would be antidilutive.

See Notes to Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net Income/(Loss)	\$ 3,066,742	\$ (4,431,848)	\$ 10,409,134	\$ 6,873,770
Other comprehensive income/(loss), net of tax:				
Unrealized holding gains/(losses) arising during the period	1,150,300	1,871,726	254,135	(347,805)
Reclassification adjustment for losses included in net income	—	—	12	243,702
Amortization of:				
Prior service cost	15,917	—	43,006	—
Net actuarial losses	243,256	—	608,149	—
Comprehensive income/(loss)	\$ 4,476,215	\$ (2,560,122)	\$ 11,314,436	\$ 6,769,667

See Notes to Consolidated Financial Statements.



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

	Nine Months Ended September 30,	
	2007	2006
<b>Common Stock</b>		
Balance at January 1	\$ 21,177,084	\$ 21,066,916
Common shares issued under stock incentive plan	85,086	110,168
Balance at September 30	\$ 21,262,170	\$ 21,177,084
<b>Capital Surplus</b>		
Balance at January 1	\$ 167,960,063	\$ 166,313,566
Common shares issued under stock incentive plan and related tax benefits	722,501	1,624,825
Balance at September 30	\$ 168,682,564	\$ 167,938,391
<b>Retained Earnings</b>		
Balance at January 1	\$ 16,693,987	\$ 20,739,352
Net Income	10,409,134	6,873,770
Cash dividends paid - common shares	(10,372,522)	(10,676,307)
Balance at September 30	\$ 16,730,599	\$ 16,936,815
<b>Accumulated Other Comprehensive Loss</b>		
Balance at January 1	\$ (11,842,908)	\$ (5,229,620)
<b>Unrealized holding gains/(losses) arising during the period:</b>		
Before tax	461,392	(422,066)
Tax effect	(207,257)	74,261
Net of tax	254,135	(347,805)
<b>Reclassification adjustment for losses included in net income:</b>		
Before tax	22	444,631
Tax effect	(10)	(200,929)
Net of tax	12	243,702
<b>Amortization of prior service cost and net actuarial losses:</b>		
Before tax	1,182,199	—
Tax effect	(531,044)	—
Net of tax	651,155	—
Balance at September 30	\$ (10,937,606)	\$ (5,333,723)

Treasury Stock

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	Nine Months Ended September 30,	
Balance at January 1	\$ (61,725,455)	\$ (55,280,647)
Purchase of common shares	(13,621,660)	(3,810,106)
Surrender of shares issued under stock incentive plan	(455,955)	(613,792)
	<u>                    </u>	<u>                    </u>
Balance at September 30	\$ (75,803,070)	\$ (59,704,545)
	<u>                    </u>	<u>                    </u>
<b>Unearned Compensation</b>		
Balance at January 1	\$ —	\$ (22,007)
Amortization of unearned compensation	—	22,007
	<u>                    </u>	<u>                    </u>
Balance at September 30	\$ —	\$ —
	<u>                    </u>	<u>                    </u>
<b>Total Shareholders' Equity</b>		
Balance at January 1	\$ 132,262,771	\$ 147,587,560
Net changes during the period	(12,328,114)	(6,573,538)
	<u>                    </u>	<u>                    </u>
Balance at September 30	\$ 119,934,657	\$ 141,014,022
	<u>                    </u>	<u>                    </u>

*See Notes to Consolidated Financial Statements.*

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

	Nine Months Ended September 30,	
	2007	2006
<b>Operating Activities</b>		
Net Income	\$ 10,409,134	\$ 6,873,770
Loss from discontinued operations included below in operating cash flows from discontinued operations	795,034	10,014,979
	<u>11,204,168</u>	<u>16,888,749</u>
Income from continuing operations	11,204,168	16,888,749
Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities:		
Provision for loan losses	4,453,332	3,252,596
Depreciation and amortization of premises and equipment	1,925,057	1,719,800
Securities losses	3,076	444,631
Income from bank owned life insurance	(817,640)	(712,876)
Deferred income tax provision	1,946,436	1,688,384
Proceeds from sale of loans	412,544,668	453,049,782
Gains on sales of loans, net	(5,463,453)	(7,115,048)
Originations of loans held for sale	(406,657,417)	(435,004,762)
Amortization of unearned compensation	—	22,007
Amortization of premiums on securities	320,227	451,606
Accretion of discounts on securities	(307,776)	(361,529)
(Increase) Decrease in accrued interest receivable	(1,129,957)	611,641
Decrease in accrued expenses and other liabilities	(4,252,664)	(2,212,370)
(Increase) Decrease in other assets	(9,623,043)	1,417,679
Other, net	233,974	(609,993)
	<u>4,378,988</u>	<u>33,530,297</u>
Net cash provided by operating activities	4,378,988	33,530,297
<b>Investing Activities</b>		
Purchase of premises and equipment	(2,036,345)	(1,287,069)
Net increase in interest-bearing deposits with other banks	(1,753,288)	(136,206)
Net decrease in federal funds sold	20,000,000	—
Net (increase) decrease in loans held in portfolio	(71,298,358)	(50,233,911)
Decrease (Increase) in other real estate	416,384	(1,193,651)
Proceeds from calls of securities - held to maturity	25,003,054	—
Proceeds from prepayments, redemptions or maturities of securities - held to maturity	51,478,298	63,676,853
Purchases of securities - held to maturity	(49,114,923)	(115,870)
Proceeds from sales of securities - available for sale	2,750	25,369,800
Proceeds from prepayments, redemptions or maturities of securities - available for sale	71,831,485	32,406,104
Purchases of securities - available for sale	(138,351,993)	(12,816,790)
Cash paid in acquisition	—	(44,901,402)
	<u>(93,822,936)</u>	<u>10,767,858</u>
Net cash (used in) provided by investing activities	(93,822,936)	10,767,858
<b>Financing Activities</b>		
Net increase (decrease) in deposits	44,806,830	(22,950,481)
Long-term borrowings called	(10,000,000)	—
Net increase (decrease) in Federal funds purchased	44,200,000	(35,000,000)
Net increase (decrease) in other borrowings	32,661,887	(73,884,881)

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Nine Months Ended  
September 30,

Purchase of treasury stock	(13,621,660)	(3,810,106)
Net proceeds from issuance of common stock including the exercise of stock options and related tax benefits	726,524	1,734,993
Cash dividends paid on common stock	(10,372,522)	(10,676,307)
	<hr/>	<hr/>
Net cash provided by (used in) financing activities	88,401,059	(144,586,782)
	<hr/>	<hr/>
Operating cash flows from discontinued operations	531,305	102,891,164
	<hr/>	<hr/>
Net (decrease) increase in cash and due from banks	(511,584)	2,602,537
Cash and due from banks - beginning of period	50,058,593	68,562,037
	<hr/>	<hr/>
Cash and due from banks - end of period	\$ 49,547,009	\$ 71,164,574
	<hr/>	<hr/>
Supplemental disclosures:		
Interest paid	\$ 35,724,085	\$ 32,745,564
Income taxes paid	953,887	7,467,452

See Notes to Consolidated Financial Statements.

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

- The consolidated financial statements include the accounts of Sterling Bancorp (the "parent company") and its subsidiaries, principally Sterling National Bank and its subsidiaries (the "bank"), after elimination of material intercompany transactions. The term the "Company" refers to Sterling Bancorp and its subsidiaries. The consolidated financial statements as of and for the interim periods ended September 30, 2007 and 2006 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 2006 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, 2006.
- The major components of domestic loans held for sale and loans held in portfolio are as follows:

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Loans held for sale, net of valuation reserve (\$880,648 at September 30, 2007 and \$-0- at December 31, 2006)		
Real estate-residential mortgage	\$ 32,895,991	\$ 33,319,789
Loans held in portfolio		
Commercial and industrial	\$ 537,378,204	\$ 522,009,835
Lease financing	278,643,030	239,225,533
Factored receivables	113,732,748	100,467,090
Real estate-residential mortgage	117,675,508	120,056,900
Real estate-commercial mortgage	97,574,507	93,214,668
Real estate-construction	33,522,340	30,030,684
Installment	9,978,748	12,380,848
Loans to depository institutions	27,000,000	27,000,000
Loans held in portfolio, gross	1,215,505,085	1,144,385,558
Less unearned discounts	37,307,501	31,783,938
Loans held in portfolio, net of unearned discounts	\$ 1,178,197,584	\$ 1,112,601,620

- The following information is provided in connection with the sales and/or calls of available for sale securities:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Proceeds	\$ —	\$ —	\$ 2,750	\$ 25,369,800
Gross Gains	—	—	—	14,866
Gross Losses	—	—	22	459,497

During the first quarter of 2006 the Company sold lower yielding available for sale securities at a loss to partially fund the acquisition of Sterling Resource Funding Corp.

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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Proceeds	\$ 6,875,000	\$ —	\$ 25,000,000	\$ —
Gross Gains	—	—	—	—
Gross Losses	1,075	—	3,054	—



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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
<b>NONINTEREST EXPENSES</b>				
Salaries	\$ 8,610,215	\$ 8,699,038	\$ 26,058,446	\$ 25,572,626
Employee benefits	2,615,019	2,393,846	7,839,413	8,066,118
Total personnel expense	11,225,234	11,092,884	33,897,859	33,638,744
Occupancy and equipment expenses, net	2,606,269	2,549,552	7,952,606	7,332,527
Advertising and marketing	888,460	973,882	2,974,340	2,779,480
Professional fees	1,543,628	1,620,677	4,834,331	4,136,283
Communications	484,929	486,003	1,455,040	1,331,718
Other expenses	2,673,268	2,732,239	8,219,393	7,564,419
Total noninterest expense	\$ 19,421,788	\$ 19,455,237	\$ 59,333,569	\$ 56,783,171

6. Statement of Financial Accounting Standards (“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 interest incurred on interest-bearing liabilities. The Company’s 2007 year-to-date average interest-earning assets were



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## STERLING BANCORP AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

(Unaudited)

64.5% loans (corporate lending was 68.2% and real estate lending was 27.2% of total loans, respectively) and 35.5% investment securities and money market investments. There are no industry concentrations exceeding 10% of loans, gross, in the corporate lending segment. Approximately 71% of loans are to borrowers located in the metropolitan New York area. In order to comply with the provisions of SFAS No. 131, the Company has determined that it has three reportable operating segments: corporate lending, real estate lending and company-wide treasury.

The following tables provide certain information regarding the Company's operating segments for the three and nine month periods ended September 30, 2007 and 2006 (all amounts are from continuing operations except where designated as discontinued):

	<b>Corporate Lending</b>	<b>Real Estate Lending</b>	<b>Company-wide Treasury</b>	<b>Totals</b>
<b><u>Three Months Ended September 30, 2007</u></b>				
Net interest income	\$ 6,998,194	\$ 5,498,701	\$ 6,339,623	\$ 18,836,518
Noninterest income	5,992,283	949,973	353,452	7,295,708
Depreciation and amortization	165,464	88,343	614	254,421
Segment income from continuing operations before income taxes	5,295,787	2,610,963	6,056,388	13,963,138
Segment loss from discontinued operations before income taxes	(1,269,143)	—	—	(1,269,143)
Segment assets from continuing operations	808,342,295	376,312,543	765,055,742	1,949,710,580
Segment assets from discontinued operations	—	—	—	—
<b><u>Three Months Ended September 30, 2006</u></b>				
Net interest income	\$ 9,667,017	\$ 5,420,192	\$ 3,150,192	\$ 18,237,401
Noninterest income	6,014,122	2,408,098	425,911	8,848,131
Depreciation and amortization	168,349	91,891	614	260,854
Segment income from continuing operations before income taxes	6,915,956	3,429,499	2,969,068	13,314,523
Segment income from discontinued operations before income taxes	327,967	—	—	327,967
Segment assets from continuing operations	775,097,961	371,995,560	755,315,897	1,902,409,418
Segment assets from discontinued operations	7,016,412	—	—	7,016,412
<b><u>Nine Months Ended September 30, 2007</u></b>				
Net interest income	\$ 19,815,718	\$ 15,867,406	\$ 18,361,453	\$ 54,044,577
Noninterest income	17,225,684	6,443,302	1,065,926	24,734,912
Depreciation and amortization	536,404	274,832	1,843	813,079
Segment income from continuing operations before income taxes	13,593,092	10,715,839	17,505,063	41,813,994
Segment loss from discontinued operations before income taxes	(1,306,865)	—	—	(1,306,865)
Segment assets from continuing operations	808,342,295	376,312,543	765,055,742	1,949,710,580
Segment assets from discontinued operations	—	—	—	—
<b><u>Nine Months Ended September 30, 2006</u></b>				
Net interest income	\$ 27,240,511	\$ 16,259,425	\$ 11,731,459	\$ 55,231,395
Noninterest income	14,632,797	7,345,291	612,353	22,590,441
Depreciation and amortization	446,642	293,893	1,843	742,378
Segment income from continuing operations before income taxes	19,863,386	9,621,155	10,650,366	40,134,907
Segment loss from discontinued operations before income taxes	(689,560)	—	—	(689,560)
Segment assets from continuing operations	775,097,961	371,995,560	755,315,897	1,902,409,418
Segment assets from discontinued operations	7,016,412	—	—	7,016,412



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Notes to Consolidated Financial Statements  
(Unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
<b>Net interest income:</b>				
Total for reportable operating segments	\$ 18,836,518	\$ 18,237,401	\$ 54,044,577	\$ 55,231,395
Other <sup>[1]</sup>	264,121	254,232	764,389	784,886
Consolidated net interest income	\$ 19,100,639	\$ 18,491,633	\$ 54,808,966	\$ 56,016,281
<b>Noninterest income:</b>				
Total for reportable operating segments	\$ 7,295,708	\$ 8,848,131	\$ 24,734,912	\$ 22,590,441
Other <sup>[1]</sup>	516,316	402,863	1,357,919	1,451,113
Consolidated noninterest income	\$ 7,812,024	\$ 9,250,994	\$ 26,092,831	\$ 24,041,554
<b>Income from continuing operations before income taxes:</b>				
Total for reportable operating segments	\$ 13,963,138	\$ 13,314,523	\$ 41,813,994	\$ 40,134,907
Other <sup>[1]</sup>	(8,597,263)	(6,537,500)	(24,699,098)	(20,112,839)
Consolidated income from continuing operations before income taxes	\$ 5,365,875	\$ 6,777,023	\$ 17,114,896	\$ 20,022,068
<b>Assets:</b>				
Total for reportable operating segments:				
- continuing operations	\$ 1,949,710,580	\$ 1,902,409,418	\$ 1,949,710,580	\$ 1,902,409,418
- discontinued operations	—	7,016,412	—	7,016,412
Other <sup>[1]</sup>	31,028,739	31,789,541	31,028,739	31,789,541
Consolidated assets	\$ 1,980,739,319	\$ 1,941,215,371	\$ 1,980,739,319	\$ 1,941,215,371

<sup>[1]</sup> 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)

7. The Company adopted Emerging Issues Task Force Issue No. 06-5, *Accounting for Purchases of Life Insurance-Determining the Amount that Could be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance*, and Statement of Financial Accounting Standards (“SFAS”) No. 156, *Accounting for Servicing of Financial Assets-An Amendment of FASB Statement No. 140*, as of January 1, 2007. There was no material impact on the Company’s results of operations or financial condition upon adoption.

The Company also adopted Financial Accounting Standards Board (“FASB”) Interpretation No. 48 (“FIN 48”) as of January 1, 2007. The implementation of FIN 48 did not have an impact on our financial position or results of operations. At the adoption date of January 1, 2007, we had approximately \$644,000 of unrecognized tax benefits, all of which would affect our effective tax rate if recognized. Approximately \$341,000 of the unrecognized tax benefits were recognized during the third quarter of 2007 due to the expiration of the statute of limitations related to the taxation of certain income items. The Company recognizes interest accrued related to unrecognized tax benefits and penalties in noninterest operating expenses. Such accrued interest payable was approximately \$235,000 at January 1, 2007 and \$117,000 at September 30, 2007. The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The Company’s federal income tax returns for 2002 through 2005 are currently either under examination or subject to examination. The Company’s New York State and New York City tax returns for years prior to 2003 are no longer subject to examination.

SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments – An Amendment of FASB Statements No. 133 and 140*, which became effective for certain hybrid financial instruments acquired or issued by the Company on or after January 1, 2007, has had no impact on the Company’s consolidated financial statements because the Company has not acquired or issued the type of instruments covered by SFAS No. 155.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including An Amendment of FASB Statement No. 115* (“SFAS No. 159”). SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at estimated fair value. Most of the provisions of SFAS No. 159 are elective; however, the amendment to SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, applies to all entities that own trading and available for sale securities. The fair value option created by SFAS No. 159 permits an entity to measure eligible items at fair value as of specified election dates. The fair value option (a) may generally be applied instrument by instrument, (b) is irrevocable unless a new election date occurs, and (c) must be applied to the entire instrument and not to only a portion of the instrument. SFAS No. 159 is effective for the Company as of January 1, 2008. The Company is currently analyzing the potential effects of SFAS No. 159 on its consolidated financial statements.

In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and requires expanded disclosures regarding fair value measurements. SFAS No. 157 is effective for the Company on January 1, 2008 and is not expected to have a significant impact on the Company’s consolidated financial statements.

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

The following commentary presents management's discussion and analysis of the financial condition and results of operations of Sterling Bancorp (the "parent company"), a financial holding company under the 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, 2006. 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, New Jersey and North Carolina and conducts business throughout the United States. The general state of the U.S. economy and, in particular, economic and market conditions in the metropolitan New York area have a significant impact on loan demand, the ability of borrowers to repay these loans and the value of any collateral securing these loans and may also affect deposit levels. Accordingly, future general economic conditions are a key uncertainty that management expects will materially affect the Company's results of operations.

For the three months ended September 30, 2007, the bank's average earning assets represented approximately 99.7% of the Company's average earning assets. Loans represented 65.5% and investment securities represented 33.4% of the bank's average earning assets for the third quarter of 2007.

For the nine months ended September 30, 2007, the bank's average earning assets represented approximately 99.7% of the Company's average earning assets. Loans represented 64.4% and investment securities represented 33.6% of the bank's average earning assets for the nine months ended September 30, 2007.

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 28 and 29. Information as to the components of interest income and interest expense and average rates is provided in the Average Balance Sheets shown on pages 26 and 27.

#### **Comparison of the Three Months Ended September 30, 2007 and 2006**

The Company reported income from continuing operations, after income taxes, for the three months ended September 30, 2007 of \$3.8 million, representing \$0.21 per share, calculated on a diluted basis, compared to \$5.0 million, or \$0.27 per share calculated on a diluted basis, for the third quarter of 2006. This decrease reflects higher interest expense, lower noninterest income and an increase in the provision for loan losses, which were only partially offset by an increase in interest income and a decrease in the provision for income taxes.

*Net Interest Income*

Net interest income, on a tax-equivalent basis, was \$19.2 million for the third quarter of 2007 compared to \$18.6 million for the 2006 period. Net interest income benefited from higher loan balances and lower balances from borrowed funds. Partially offsetting those benefits was the impact of lower balances for investment securities and higher interest-bearing deposit balances along with higher rates paid for those funds. The net interest margin, on a tax-equivalent basis, was 4.41% for the third quarter of 2007 compared to 4.49% for the 2006 period. The net interest margin was impacted by the higher interest rate environment in 2007, the higher level of noninterest-bearing demand deposits and the higher average loans outstanding. The more competitive pricing practices in the Company's markets have caused the costs of deposits to increase faster than the yield on earning assets.

Total interest income, on a tax-equivalent basis, aggregated \$31.4 million for the third quarter of 2007 compared to \$29.9 million for the 2006 period. The tax-equivalent yield on interest-earning assets was 7.31% for the third quarter of 2007 compared to 7.24% for the 2006 period.

Interest earned on loans amounted to \$24.1 million for the third quarter of 2007, up from \$22.6 million for the prior year period. Average loan balances amounted to \$1,133.0 million, an increase of \$81.5 million from an average of \$1,051.5 million in the prior year period. The increase in average loans (across many segments of the Company's loan portfolio), primarily due to the Company's business development activities, accounted for \$2.1 million of the \$1.5 million increase in interest earned on loans. The decrease in the yield on the loan portfolio to 8.68% for the third quarter of 2007 from 8.94% for the 2006 period was primarily attributable to the mix of average outstanding balances among the components of the loan portfolio and the competitive pricing practices in the Company's markets.

Interest earned on investment securities, on a tax-equivalent basis, decreased to \$7.0 million for the third quarter of 2007 from \$7.3 million in the prior year period. Average outstandings decreased to \$575.3 million (33.3% of average earning assets) for the third quarter of 2007 from \$629.3 million (37.4% of average earning assets) in the prior year period. The estimated average life of the securities portfolio was approximately 5.6 years at September 30, 2007 compared to 4.6 years at September 30, 2006.

Total interest expense increased by \$0.9 million for the third quarter of 2007 from \$11.3 million for the 2006 period, primarily due to the impact of higher balances and higher rates paid for interest-bearing deposits partially offset by the impact of lower borrowed funds balances.

Interest expense on deposits increased to \$10.3 million for the third quarter of 2007 from \$7.6 million for the 2006 period, due to an increase in deposit balances and the cost of those funds. Average interest-bearing deposits increased to \$1,093.3 million for the third quarter of 2007 from \$933.5 million for the 2006 period as a result of the Company's business development activities. The average rate paid on interest-bearing deposits was 3.73% which was 51 basis points higher than the prior year period. The increase in average cost of deposits reflects the higher interest rate environment during 2007.

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Interest expense on borrowings decreased to \$1.9 million for the third quarter of 2007 from \$4.6 million for the 2006 period, primarily due to a decrease in average balances. Average borrowings decreased to \$144.3 million for the third quarter of 2007 from \$348.7 million in the prior year period, reflecting less reliance by the Company on wholesale funding.

### *Provision for Loan Losses*

Based on management's continuing evaluation of the loan portfolio (discussed under "Asset Quality" below), the provision for loan losses for the third quarter of 2007 was \$2.1 million, compared to \$1.5 million for the prior year period. Factors affecting the level of the provision included the growth in and the changing mix of loans in the loan portfolio, changes in general economic conditions and the amount of nonaccrual loans.

### *Noninterest Income*

Noninterest income decreased to \$7.8 million for the third quarter of 2007 from \$9.3 million in the 2006 period, primarily due to a decrease in mortgage banking income as a result of a revaluation charge to reduce the carrying value of residential mortgage loans held for sale to the lower of cost or market and a charge for settlement of potential repurchase obligations as part of our loss mitigation efforts. Without those charges, mortgage banking income would have been \$2.6 million for the third quarter of 2007 compared to \$2.3 million for the 2006 period as a result of an increased emphasis by the Company's mortgage banking unit on originating FHA-insured loans and other high quality products.

### *Provision for Income Taxes*

The provision for income taxes for the third quarter of 2007 was \$1.5 million compared to \$1.8 million for the third quarter of 2006. The decrease was primarily due to the lower level of pre-tax income in the 2007 period. As a result of the closure of certain years for local tax purposes, \$0.3 million of reserves for local taxes, net of federal and state tax effect, were reversed in the third quarter of 2007 compared to \$0.7 million in the 2006 period.

### *Discontinued Operations*

In September 2006, the Company sold the business conducted by Sterling Financial Services. In accordance with U.S. generally accepted accounting principles, the after-tax loss from discontinued operations is reported in the Consolidated Statements of Operations after income from continuing operations.

Loss from discontinued operations, net of tax, was \$0.8 million for the third quarter of 2007, primarily related to the final disposition of assets associated with the discontinued operation. For the 2006 period, there was income of \$0.2 million.

Income taxes applicable to discontinued operations in the third quarter of 2007 and 2006 were calculated at the Company's overall marginal tax rates of 44.92% and 45.19%, respectively.



**Comparison of the Nine Months Ended September 30, 2007 and 2006**

The Company reported income from continuing operations, after income taxes, for the nine months ended September 30, 2007 of \$11.2 million, representing \$0.60 per share, calculated on a diluted basis, compared to \$16.9 million, or \$0.88 per share, calculated on a diluted basis, for the first nine months of 2006. This decrease reflects higher interest and noninterest expenses and increases in the provision for loan losses and the provision for income taxes, which were only partially offset by increases in both interest and noninterest income.

*Net Interest Income*

Net interest income, on a tax-equivalent basis, was \$55.2 million for the first nine months of 2007 compared to \$56.6 million for the 2006 period, as the positive impact of higher balances for loans and lower balances for borrowings in the first nine months of 2007 was more than offset by the effects of lower balances for investment securities and higher interest-bearing deposit balances along with higher rates paid for those funds compared to the 2006 period. The net interest margin, on a tax-equivalent basis, was 4.44% for the first nine months of 2007 compared to 4.60% for the 2006 period. The net interest margin was impacted by the higher interest rate environment in 2007, the higher level of noninterest-bearing demand deposits and the higher average loans outstanding. The more competitive pricing practices in the Company's markets have caused the costs of deposits and borrowings to increase faster than the yield on earning assets.

Total interest income, on a tax-equivalent basis, aggregated \$90.6 million for the first nine months of 2007, up \$3.8 million from the 2006 period. The tax-equivalent yield on interest-earning assets was 7.34% for the first nine months of 2007 compared to 7.10% for the 2006 period.

Interest earned on loans amounted to \$69.0 million for the first nine months of 2007, up from \$63.6 million for the prior year period. Average loan balances amounted to \$1,097.3 million, an increase of \$78.4 million from an average of \$1,018.9 million in the prior year period. The increase in average loans (across many segments of the Company's loan portfolio), primarily due to the acquisition of Sterling Resource Funding Corp. (completed April 1, 2006) coupled with the Company's other business development activities, accounted for \$5.5 million of the \$5.4 million increase in interest earned on loans.

Interest earned on investment securities, on a tax-equivalent basis, decreased to \$20.3 million for the first nine months of 2007 from \$23.2 million in the prior year period. Average outstandings decreased to \$569.9 million (33.5% of average earning assets) for the first nine months of 2007 from \$666.2 million (39.4% of average earning assets) in the prior year period. The estimated average life of the securities portfolio was approximately 5.6 years at September 30, 2007 compared to 4.6 years at September 30, 2006.

Total interest expense increased by \$5.1 million for the first nine months of 2007 from \$30.3 million for the 2006 period, primarily due to the impact of higher interest-bearing deposit balances coupled with higher rates paid for those deposits, partially offset by the impact of lower borrowed funds balances.

Interest expense on deposits increased to \$29.6 million for the first nine months of 2007 from \$20.2 million for the 2006 period, due to increases in interest-bearing deposit balances and in the cost of those funds. Average interest-bearing deposit balances increased to \$1,053.8 million for the first nine months of 2007 from \$940.5 million in the 2006 period primarily the result of the Company's branching initiatives and other business development activities. The average rate paid on interest-bearing deposits was 3.75% which was 88 basis points higher than the prior year period. The increase in average cost of deposits reflects the higher interest rate environment during 2007.

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Interest expense on borrowings decreased to \$5.9 million for the first nine months of 2007 from \$12.6 million for the 2006 period, primarily due to a decrease in average balances. Average borrowings decreased to \$153.0 million for the first nine months of 2007 from \$346.5 million in the prior year period, reflecting less reliance by the Company on wholesale funding.

### *Provision for Loan Losses*

Based on management's continuing evaluation of the loan portfolio (discussed under "Asset Quality" below), the provision for loan losses for the first nine months of 2007 was \$4.5 million, compared to \$3.3 million for the prior year period. Factors affecting the level of the provision included the growth in and the changing mix of loans in the loan portfolio, changes in general economic conditions and the amount of nonaccrual loans.

### *Noninterest Income*

Noninterest income increased to \$26.1 million for the first nine months of 2007 from \$24.0 million in the 2006 period. Higher accounts receivable management/ factoring commissions and other fees were primarily due to revenues attributable to the acquisition of Sterling Resource Funding Corp. Also contributing to the increase were higher revenue from service charges on deposit accounts and a \$0.4 million decrease in losses on sales of securities. Mortgage banking income decreased as a result of the revaluation charge to reduce the carrying value of residential mortgage loans held for sale to the lower of cost or market and a charge for settlement of potential repurchase obligations as part of our loss mitigation efforts. Without those charges mortgage banking income would have been \$8.0 million for the nine months of 2007 compared to \$7.1 million for the 2006 period as a result of a change in product mix towards more profitable market segments and away from the less profitable, higher risk wholesale business.

### *Noninterest Expenses*

Noninterest expenses for the first nine months of 2007 increased \$2.6 million when compared to the 2006 period. The increase was primarily due to higher salaries and occupancy costs related to investments in the Sterling franchise, including two new branches and the acquisition of Sterling Resource Funding Corp. Also contributing to the increase was higher professional fees; during the second quarter of 2006, professional fee expenses benefitted from a recovery of \$1.1 million. These increases were partially offset by expense reductions achieved from the reengineering of the mortgage banking activities and lower expenses for employee benefits.

### *Provision for Income Taxes*

The provision for income taxes increased by \$2.8 million to \$5.9 million for the first nine months of 2007. The increase was primarily due to a \$3.7 million reversal of state and local taxes, net of federal tax effect, in the first quarter of 2006 as a result of the closure of certain years for local tax purposes.

### *Discontinued Operations*

In September 2006, the Company sold the business conducted by Sterling Financial Services. In accordance with U.S. generally accepted accounting principles, the after-tax loss from discontinued operations is reported in the Consolidated Statements of Operations after income from continuing operations.

Loss from discontinued operations, net of tax, was \$0.8 million for the first nine months of 2007, which included a loss of \$0.8 million for the third quarter related to the final disposition of assets associated with the discontinued operation. For the 2006 period, there was a loss of \$0.4 million.

Income taxes applicable to discontinued operations in the first nine months of 2007 and 2006 were calculated at the Company's overall marginal tax rate of 44.92% and 45.19%, respectively.

**BALANCE SHEET ANALYSIS***Securities*

The Company's securities portfolios are comprised principally of mortgage-backed securities and agency notes of U.S. government corporations and government sponsored enterprises, and obligations of state and political institutions. At September 30, 2007, the Company's portfolio of securities totaled \$608.9 million, of which mortgage-backed securities and collateralized mortgage obligations of U.S. government corporations and government sponsored enterprises having an estimated average life of approximately 4.8 years amounted to \$473.1 million. The Company has the intent and ability to hold to maturity securities classified as "held to maturity." These securities are carried at cost, adjusted for amortization of premiums and accretion of discounts. The gross unrealized gains and gross unrealized losses on "held to maturity" securities were \$1.0 million and \$7.6 million, respectively. Securities classified as "available for sale" may be sold in the future, prior to maturity. These securities are carried at market value. Net aggregate unrealized gains or losses on these securities are included in a valuation allowance account and are shown net of taxes, as a component of shareholders' equity. Given the generally high credit quality of the portfolio, management expects to realize all of its investment upon market recovery or the maturity of such instruments and thus believes that any market value impairment is interest rate related and therefore temporary. "Available for sale" securities included gross unrealized gains of \$0.1 million and gross unrealized losses of \$4.0 million.

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

September 30, 2007	Estimated Weighted Average Life		Weighted Average Yield	
	AFS	HTM	AFS	HTM
Mortgage-backed securities	5.2 years	4.6 years	4.81%	4.63%
Agency notes	11.8 years	7.1 years	6.12%	4.69%
Obligations of state and political institutions	5.7 years	—	6.29% (1)	—

(1) tax equivalent

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The following table presents information regarding securities available for sale:

September 30, 2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Mortgage-backed securities				
CMOs (Federal National Mortgage Association)	\$ 8,872,358	\$ —	\$ 433,234	\$ 8,439,124
CMOs (Federal Home Loan Mortgage Corporation)	22,398,469	—	1,151,608	21,246,861
CMOs (Government National Mortgage Association)	9,691,802	—	38,706	9,653,096
Federal National Mortgage Association	44,655,878	77,559	1,100,287	43,633,150
Federal Home Loan Mortgage Corporation	38,399,216	8,640	1,019,310	37,388,546
Government National Mortgage Association	3,533,044	107,645	3,498	3,637,191
<b>Total mortgage-backed securities</b>	<b>127,550,767</b>	<b>193,844</b>	<b>3,746,643</b>	<b>123,997,968</b>
Agency Notes				
Federal Home Loan Bank	25,205,870	178,206	—	25,384,076
Federal Farm Credit Bank	19,990,010	59,375	2,510	20,046,875
<b>Total obligations of U.S. Government corporations and government sponsored enterprises</b>	<b>172,746,647</b>	<b>431,425</b>	<b>3,749,153</b>	<b>169,428,919</b>
Obligations of state and political institutions				
Corporate bonds	19,841,457	111,100	67,679	19,884,878
Commercial paper	8,701,878	119,680	31,238	8,790,320
Trust preferred securities	9,981,944	1,705	—	9,983,649
Federal Reserve Bank stock	2,916,057	7,036	146,934	2,776,159
Federal Home Loan Bank stock	1,130,700	—	—	1,130,700
Other securities	3,109,700	—	—	3,109,700
	304,442	17,721	—	322,163
<b>Total</b>	<b>\$ 218,732,825</b>	<b>\$ 688,667</b>	<b>\$ 3,995,004</b>	<b>\$ 215,426,488</b>

The following table presents information regarding securities held to maturity:

September 30, 2007	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Mortgage-backed securities				
CMOs (Federal National Mortgage Association)	\$ 12,380,857	\$ —	\$ 460,052	\$ 11,920,805
CMOs (Federal Home Loan Mortgage Corporation)	21,392,620	—	825,634	20,566,986
Federal National Mortgage Association	179,645,179	254,642	3,008,423	176,891,398
Federal Home Loan Mortgage Corporation	126,637,929	103,191	3,285,367	123,455,753
Government National Mortgage Association	9,086,869	219,305	732	9,305,442

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September 30, 2007	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Total mortgage-backed securities	349,143,454	577,138	7,580,208	342,140,384
Agency Notes				
Federal Home Loan Bank	24,996,414	396,875	4,226	25,389,063
Federal Farm Credit Bank	19,111,402	9,985	6,250	19,115,137
Total obligations of U.S. government corporations and government sponsored enterprises	393,251,270	983,998	7,590,684	386,644,584
Debt securities issued by foreign governments	250,000	—	1,430	248,570
<b>Total</b>	<b>\$ 393,501,270</b>	<b>\$ 983,998</b>	<b>\$ 7,592,114</b>	<b>\$ 386,893,154</b>

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The Company invests principally in obligations of U.S. government corporations and government sponsored enterprises and other securities that have an “A” or better rating. The unrealized losses were the result of changes in interest rates and other market related conditions. As of September 30, 2007, the Company has the ability and intent to hold these securities until maturity or for a period of time sufficient for a recovery of cost and therefore, does not consider them to be other-than-temporarily-impaired at that date.

### *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 portfolio represents approximately 44% of all loans. Loans in this category are typically made to small and medium-sized businesses and range between \$25,000 and \$10 million. The Company’s real estate mortgage portfolio, which represents approximately 23% of all loans, is secured by mortgages on 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 20% 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:

	September 30,			
	2007		2006	
	(\$ in thousands)			
	Balances	% of Total	Balances	% of Total
<b>Domestic</b>				
Commercial and industrial	\$ 537,358	44.4%	\$ 491,516	42.7%
Equipment lease financing	241,828	20.0	212,588	18.5
Factored receivables	113,261	9.4	123,808	10.7
Real estate - residential mortgage	150,571	12.3	158,393	13.8
Real estate - commercial mortgage	97,575	8.1	121,051	10.5
Real estate - construction	33,522	2.8	3,733	0.3
Installment - individuals	9,979	0.8	14,156	1.2
Loans to depository institutions	27,000	2.2	27,000	2.3
	\$ 1,211,094	100.0%	\$ 1,152,245	100.0%

### *Asset Quality*

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



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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
(\$ in thousands)				
Average loans held in portfolio, net of unearned discounts, during period	\$ 1,081,629	\$ 1,016,837	\$ 1,049,625	\$ 976,991
Allowance for loan losses:				
Balance at beginning of period	\$ 15,582	\$ 17,220	\$ 16,288	\$ 15,369
Charge-offs:				
Commercial and industrial	1,304	209	1,994	623
Lease financing	802	1,748	2,559	2,840
Factored receivables	27	7	204	123
Real estate - residential mortgage	115	5	215	24
Installment	—	—	67	—
Total charge-offs	2,248	1,969	5,039	3,610
Recoveries:				
Commercial and industrial	8	90	37	100
Lease financing	76	99	260	164
Factored receivables	3	2	17	32
Real estate - residential mtg	30	—	30	—
Installment	6	8	89	27
Total recoveries	123	199	433	323
Subtract:				
Net charge-offs	2,125	1,770	4,606	3,287
Provision for loan losses	2,125	1,511	4,453	3,253
Add allowance from acquisition	—	—	—	1,845
Less loss on transfers to other real estate owned	543	377	1,096	596
Balance at end of period	\$ 15,039	\$ 16,584	\$ 15,039	\$ 16,584
Ratio of annualized net charge-offs to average loans held in portfolio, net of unearned discounts	0.79%	0.70%	0.59%	0.45%





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 future 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 which will be greater than that indicated by the evaluation process previously described. The allowance reflects management's evaluation both of loans presenting identified loss potential and of the risk inherent in various components of the 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 September 30, 2007, the ratio of the allowance to loans held in portfolio, net of unearned discounts, was 1.28% and the allowance was \$15.0 million. At such date, the Company's nonaccrual loans amounted to \$6.2 million; \$0.5 million of such loans was judged to be impaired within the scope of SFAS No. 114. There were no loans 90 days past due and still accruing. Potential problem loans, which are loans that are currently performing under present loan repayment terms but where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of the borrowers to continue to comply with the present repayment terms, aggregated \$0.9 million at September 30, 2007.

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 reasonably anticipated losses on specifically known and other potential credit risks associated with the portfolio as of September 30, 2007. Net losses within loans held in portfolio are not statistically predictable and changes in conditions in the next twelve months could result in future provisions for loan losses varying from the level taken in the first nine months of 2007.

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### Deposits

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

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

	September 30,			
	2007		2006	
	(\$ in thousands)			
	Balances	% of Total	Balances	% of Total
<b>Domestic</b>				
Demand	\$ 490,195	31.3%	\$ 507,367	35.3%
NOW	233,616	14.9	189,952	13.3
Savings	19,150	1.2	20,711	1.4
Money market	289,700	18.5	194,291	13.6
Time deposits	533,601	34.0	520,091	36.2
<hr/>				
Total domestic deposits	1,566,262	99.9	1,432,412	99.8
<b>Foreign</b>				
Time deposits	575	0.1	3,031	0.2
<hr/>				
Total deposits	\$ 1,566,837	100.0%	\$ 1,435,443	100.0%

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 26 and 27.

### 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 30. 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 undercapitalized", which are used by regulatory agencies to determine a bank's deposit insurance premium, approval of applications authorizing institutions to increase their asset size or otherwise expand business activities or acquire other institutions. Under FDICIA, a "well capitalized" bank must maintain minimum leverage, Tier 1 and Total Capital ratios of 5%, 6% and 10%, respectively. The Federal Reserve Board applies comparable tests for holding companies such as the Company. At September 30, 2007, the Company and the bank exceeded the requirements for "well capitalized" institutions.

#### **RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

For information regarding recently issued accounting pronouncements and their impact or expected impact on the Company's consolidated financial statements, see Note 7 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 success of the Company at managing the risks involved in the foregoing, as well as the risks and uncertainties described in "Risk Factors" in the Company's annual report on Form 10-K for the year ended December 31, 2006, and other risks and uncertainties detailed from time to time in press releases and other public filings. The foregoing list of important factors is not exclusive, and we will not update any forward-looking statement, whether written or oral, that may be made from time to time.

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STERLING BANCORP AND SUBSIDIARIES

Average Balance Sheets [1]  
Three Months Ended September 30,  
(Unaudited)

(dollars in thousands)

	2007			2006		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
<b>ASSETS</b>						
Interest-bearing deposits with other banks	\$ 2,486	\$ 24	3.80%	\$ 2,346	\$ 23	3.80%
Securities available for sale	154,518	1,932	5.00	140,167	1,660	4.74
Securities held to maturity	401,664	4,731	4.71	464,408	5,231	4.51
Securities tax-exempt [2]	19,127	298	6.18	24,728	396	6.35
	<u>575,309</u>	<u>6,961</u>	<u>4.84</u>	<u>629,303</u>	<u>7,287</u>	<u>4.63</u>
Total investment securities	575,309	6,961	4.84	629,303	7,287	4.63
Federal funds sold	17,228	227	5.17	978	13	5.15
Loans, net of unearned discounts [3]	1,133,034	24,148	8.68	1,051,501	22,600	8.94
	<u>1,728,057</u>	<u>31,360</u>	<u>7.31%</u>	<u>1,684,128</u>	<u>29,923</u>	<u>7.24%</u>
<b>TOTAL INTEREST-EARNING ASSETS</b>	<b>1,728,057</b>	<b>31,360</b>	<b>7.31%</b>	<b>1,684,128</b>	<b>29,923</b>	<b>7.24%</b>
Cash and due from banks	72,253			57,430		
Allowance for loan losses	(16,146)			(17,503)		
Goodwill	22,901			22,958		
Other assets	94,296			92,396		
	<u>1,901,361</u>			<u>1,839,409</u>		
Total assets-continuing operations	1,901,361			1,839,409		
Assets-discontinued operations	1,203			109,391		
	<u>\$ 1,902,564</u>			<u>\$ 1,948,800</u>		
<b>TOTAL ASSETS</b>	<b>\$ 1,902,564</b>			<b>\$ 1,948,800</b>		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>EQUITY</b>						
Interest-bearing deposits						
Domestic						
Savings	\$ 18,705	26	0.55%	\$ 22,559	25	0.44%
NOW	241,789	1,519	2.49	210,116	1,097	2.07
Money market	282,436	2,284	3.21	201,523	1,285	2.53
Time	549,832	6,456	4.66	496,304	5,162	4.13
	<u>1,093,337</u>	<u>10,287</u>	<u>3.73</u>	<u>933,532</u>	<u>7,577</u>	<u>3.22</u>
Total interest-bearing deposits	1,093,337	10,287	3.73	933,532	7,577	3.22
Foreign						
Time	575	2	1.09	3,030	8	0.99
	<u>575</u>	<u>2</u>	<u>1.09</u>	<u>3,030</u>	<u>8</u>	<u>0.99</u>
<b>Borrowings</b>						
Securities sold under agreements to repurchase - customers	68,396	701	4.07	89,672	974	4.31
Securities sold under agreements to repurchase - dealers	—	—	—	81,701	1,114	5.41
Federal funds purchased	6,006	71	4.66	22,568	305	5.29
Commercial paper	28,397	368	5.14	50,076	610	4.84
Short-term borrowings - FHLB	4,185	53	5.03	52,953	726	5.43
Short-term borrowings - other	1,553	21	5.10	395	5	5.35
Long-term borrowings - FHLB	10,000	118	4.70	25,543	297	4.65
Long-term borrowings - sub debt	25,774	523	8.37	25,774	523	8.38
	<u>25,774</u>	<u>523</u>	<u>8.37</u>	<u>25,774</u>	<u>523</u>	<u>8.38</u>

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	<b>2007</b>			<b>2006</b>		
Total borrowings	144,311	1,855	5.14	348,682	4,554	5.20
Interest-bearing liabilities allocated to discontinued operations	—	—	—	(99,377)	(856)	3.74
<b>TOTAL INTEREST-BEARING LIABILITIES</b>	<b>1,237,648</b>	<b>12,142</b>	<b>3.90%</b>	<b>1,182,837</b>	<b>11,275</b>	<b>3.76%</b>
Noninterest-bearing deposits	455,093			424,834		
Other liabilities	91,267			96,085		
Liabilities-discontinued operations	129			99,784		
Total liabilities	1,784,137			1,803,540		
Shareholders' equity	118,427			145,260		
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 1,902,564</b>			<b>\$ 1,948,800</b>		
Net interest income/spread		19,218	3.41%		18,648	3.48%
Net yield on interest-earning assets (margin)			4.41%			4.49%
Less: Tax equivalent adjustment		117			155	
Net interest income		\$ 19,101			\$ 18,493	

- [1] The average balances of assets, liabilities and shareholders' equity are computed on the basis of daily averages. Average rates are presented on a tax-equivalent basis. Certain reclassifications have been made to amounts for prior periods to conform to the current presentation.
- [2] Interest on tax-exempt securities is presented on a tax-equivalent basis.
- [3] Includes loans held for sale and loans held in portfolio; all loans are domestic. Nonaccrual loans are included in amounts outstanding and income has been included to the extent earned.

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

(dollars in thousands)

	2007			2006		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
<b>ASSETS</b>						
Interest-bearing deposits						
with other banks	\$ 2,732	\$ 91	4.46%	\$ 2,390	\$ 73	4.09%
Securities available for sale	138,994	5,080	4.87	151,265	5,231	4.61
Securities held to maturity	410,729	14,299	4.64	486,263	16,526	4.53
Securities tax-exempt [2]	20,150	951	6.31	28,721	1,400	6.52
	<u>569,873</u>	<u>20,330</u>	<u>4.76</u>	<u>666,249</u>	<u>23,157</u>	<u>4.63</u>
Federal funds sold	30,861	1,230	5.26	2,454	88	4.71
Loans, net of unearned discounts [3]	1,097,307	68,996	8.83	1,018,876	63,569	8.84
	<u>1,700,773</u>	<u>90,647</u>	<u>7.34%</u>	<u>1,689,969</u>	<u>86,887</u>	<u>7.10%</u>
<b>TOTAL INTEREST-EARNING ASSETS</b>						
Cash and due from banks	67,770			60,594		
Allowance for loan losses	(16,445)			(16,589)		
Goodwill	22,879			22,671		
Other assets	90,950			90,320		
	<u>1,865,927</u>			<u>1,846,965</u>		
Assets-discontinued operations	1,211			112,521		
	<u>\$ 1,867,138</u>			<u>\$ 1,959,486</u>		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>Interest-bearing deposits</b>						
<b>Domestic</b>						
Savings	\$ 20,244	78	0.51%	\$ 23,956	76	0.42%
NOW	236,569	4,489	2.54	189,741	2,522	1.78
Money market	237,154	5,401	3.05	216,014	3,264	2.02
Time	559,224	19,582	4.68	507,732	14,323	3.77
<b>Foreign</b>						
Time	574	5	1.09	3,027	23	1.03
	<u>1,053,765</u>	<u>29,555</u>	<u>3.75</u>	<u>940,470</u>	<u>20,208</u>	<u>2.87</u>
<b>Borrowings</b>						
Securities sold under agreements						
to repurchase - customers	79,747	2,581	4.33	83,760	2,436	3.89
Securities sold under agreements						
to repurchase - dealers	—	—	—	91,634	3,442	5.02
Federal funds purchased	2,922	107	4.84	18,291	691	4.98
Commercial paper	28,070	1,073	5.11	47,225	1,553	4.40
Short-term borrowings - FHLB	1,410	53	5.03	40,264	1,561	5.18
Short-term borrowings - other	1,213	48	5.24	628	23	4.92
Long-term borrowings - FHLB	13,846	479	4.61	38,938	1,344	4.60
Long-term borrowings - sub debt	25,774	1,570	8.38	25,774	1,570	8.38

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	<b>2007</b>			<b>2006</b>		
Total borrowings	152,982	5,911	5.19	346,514	12,620	4.87
Interest-bearing liabilities allocated to discontinued operations	—	—	—	(101,790)	(2,508)	3.36
<b>TOTAL INTEREST-BEARING LIABILITIES</b>	<b>1,206,747</b>	<b>35,466</b>	<b>3.93%</b>	<b>1,185,194</b>	<b>30,320</b>	<b>3.42%</b>
Noninterest-bearing deposits	444,828			436,006		
Other liabilities	89,694			91,147		
Liabilities-discontinued operations	238			102,284		
Total liabilities	1,741,507			1,814,631		
Shareholders' equity	125,631			144,855		
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 1,867,138</b>			<b>\$ 1,959,486</b>		
Net interest income/spread		55,181	3.41%		56,567	3.68%
Net yield on interest-earning assets (margin)			4.44%			4.60%
Less: Tax equivalent adjustment		372			550	
Net interest income		\$ 54,809			\$ 56,017	

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

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

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



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STERLING BANCORP AND SUBSIDIARIES

Rate/Volume Analysis [1]

(Unaudited)

(in thousands)

**Increase/(Decrease)  
Three Months Ended  
September 30, 2007 to September 30, 2006**

	<u>Volume</u>	<u>Rate</u>	<u>Net [2]</u>
<b>INTEREST INCOME</b>			
Interest-bearing deposits with other banks	\$ 1	\$ —	\$ 1
Securities available for sale	177	95	272
Securities held to maturity	(729)	229	(500)
Securities tax-exempt	(87)	(11)	(98)
Total investment securities	(639)	313	(326)
Federal funds sold	214	—	214
Loans, net of unearned discounts [3]	2,128	(580)	1,548
<b>TOTAL INTEREST INCOME</b>	<b>\$ 1,704</b>	<b>\$ (267)</b>	<b>\$ 1,437</b>
<b>INTEREST EXPENSE</b>			
<b>Interest-bearing deposits</b>			
<b>Domestic</b>			
Savings	\$ (4)	\$ 5	\$ 1
NOW	180	242	422
Money market	599	400	999
Time	591	703	1,294
<b>Foreign</b>			
Time	(7)	1	(6)
Total interest-bearing deposits	1,359	1,351	2,710
<b>Borrowings</b>			
Securities sold under agreements			
to repurchase - customers	(221)	(52)	(273)
Securities sold under agreements			
to repurchase - dealers	(1,114)	—	(1,114)
Federal funds purchased	(201)	(33)	(234)
Commercial paper	(278)	36	(242)
Short-term borrowings - FHLB	(623)	(50)	(673)
Short-term borrowings - other	16	—	16
Long-term borrowings - FHLB	(182)	3	(179)
Long-term borrowings - sub debt	—	—	—
Total borrowings	(2,603)	(96)	(2,699)
Less: interest-bearing liabilities allocated to discontinued operations	856	—	856

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Increase/(Decrease)  
Three Months Ended  
September 30, 2007 to September 30, 2006

TOTAL INTEREST EXPENSE	\$ (388)	\$ 1,255	\$ 867
NET INTEREST INCOME	\$ 2,092	\$ (1,522)	\$ 570

- [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.

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STERLING BANCORP AND SUBSIDIARIES

Rate/Volume Analysis [1]

(Unaudited)

(in thousands)

**Increase/(Decrease)  
Nine Months Ended  
September 30, 2007 to September 30, 2006**

	<u>Volume</u>	<u>Rate</u>	<u>Net [2]</u>
<b>INTEREST INCOME</b>			
Interest-bearing deposits with other banks	\$ 11	\$ 7	\$ 18
Securities available for sale	(436)	285	(151)
Securities held to maturity	(2,618)	391	(2,227)
Securities tax-exempt	(406)	(43)	(449)
<b>Total investment securities</b>	<b>(3,460)</b>	<b>633</b>	<b>(2,827)</b>
Federal funds sold	1,131	11	1,142
Loans, net of unearned discounts [3]	5,498	(71)	5,427
<b>TOTAL INTEREST INCOME</b>	<b>\$ 3,180</b>	<b>\$ 580</b>	<b>\$ 3,760</b>

**INTEREST EXPENSE**

<b>Interest-bearing deposits</b>			
<b>Domestic</b>			
Savings	\$ (13)	\$ 15	\$ 2
NOW	720	1,247	1,967
Money market	344	1,793	2,137
Time	1,556	3,703	5,259
<b>Foreign</b>			
Time	(19)	1	(18)
<b>Total interest-bearing deposits</b>	<b>2,588</b>	<b>6,759</b>	<b>9,347</b>

**Borrowings**

Securities sold under agreements to repurchase - customers	(121)	266	145
Securities sold under agreements to repurchase - dealers	(3,442)	—	(3,442)
Federal funds purchased	(565)	(19)	(584)
Commercial paper	(702)	222	(480)
Short-term borrowings - FHLB	(1,464)	(44)	(1,508)
Short-term borrowings - other	23	2	25
Long-term borrowings - FHLB	(868)	3	(865)
Long-term borrowings - sub debt	—	—	—

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	Increase/(Decrease) Nine Months Ended September 30, 2007 to September 30, 2006		
	(7,139)	430	(6,709)
Total borrowings	<u>          </u>	<u>          </u>	<u>          </u>
Less: interest-bearing liabilities allocated to discontinued operations	<u>2,508</u>	<u>—</u>	<u>2,508</u>
<b>TOTAL INTEREST EXPENSE</b>	<u>\$ (2,043)</u>	<u>\$ 7,189</u>	<u>\$ 5,146</u>
<b>NET INTEREST INCOME</b>	<u>\$ 5,223</u>	<u>\$ (6,609)</u>	<u>\$ (1,386)</u>

- [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.

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STERLING BANCORP AND SUBSIDIARIES  
Regulatory Capital and Ratios

Ratios and Minimums  
(dollars in thousands)

As of September 30, 2007	Actual		For Capital Adequacy Minimum		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk Weighted Assets):						
The Company	\$ 148,228	10.77%	\$ 110,147	8.00%	\$ 137,684	10.00%
The bank	143,013	10.37	110,283	8.00	137,853	10.00
Tier 1 Capital (to Risk Weighted Assets):						
The Company	132,973	9.66	55,074	4.00	82,610	6.00
The bank	127,758	9.27	55,141	4.00	82,712	6.00
Tier 1 Leverage Capital (to Average Assets):						
The Company	132,973	7.07	75,187	4.00	93,983	5.00
The bank	127,758	6.81	75,091	4.00	93,864	5.00
As of December 31, 2006						
Total Capital (to Risk Weighted Assets):						
The Company	\$ 162,232	12.74%	\$ 102,299	8.00%	\$ 127,874	10.00%
The bank	138,651	11.00	101,288	8.00	126,610	10.00
Tier 1 Capital (to Risk Weighted Assets):						
The Company	146,244	11.49	51,150	4.00	76,725	6.00
The bank	122,819	9.75	50,644	4.00	75,966	6.00
Tier 1 Leverage Capital (to Average Assets):						
The Company	146,244	7.82	75,131	4.00	93,913	5.00
The bank	122,819	6.60	74,788	4.00	93,485	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 September 30, 2007, presented on page 36, indicates that net interest income would decrease during periods of rising interest rates and increase during periods of falling interest rates, but, as mentioned above, gap analysis may not be an accurate predictor of net interest income.

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

As of September 30, 2007, the Company was a party to one interest rate floor agreement with a notional amount of \$25,000,000 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 instrument to adjust its interest rate risk position without exposing itself to principal risk and funding requirements. This financial instrument is being used as part of the Company's interest rate risk management and not for trading purposes. At September 30, 2007, the counterparty has an investment grade credit rating from the major rating agencies. Each 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 September 30, 2007, there were no amounts receivable under this contract.

The interest rate floor agreement was not designated as a hedge for accounting purposes and therefore changes in the fair values of the instrument are required to be recognized as current income or expense in the Company's consolidated financial statements. At September 30, 2007 and 2006, the fair value of the interest rate floor was \$5,924 and \$6,091, respectively. For the three months ended September 30, 2007 and 2006, \$5,759 and \$4,158, respectively, were credited to interest income from loans. For the nine months ended September 30, 2007 and 2006, \$3,258 was credited to interest income from loans, and \$15,217 was charged against interest income from loans, 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 that 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 September 30, 2007, the model indicated the impact of a 200 basis point parallel and pro rata rise in rates over 12 months would approximate a 3.9% (\$3.4 million) increase in net interest income, while the impact of a 200 basis point decline in rates over the same period would approximate a 2.9% (\$2.6 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 customers' preferences or competitor influences might change.

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

The shape of the yield curve can cause downward pressure on net interest income. In general, if and to the extent that the yield curve is flatter (i.e., the differences between interest rates for different maturities are relatively smaller) than previously anticipated, then the yield on the Company's interest-earning assets and its cash flows will tend to be lower. Management believes that a relatively flat yield curve would continue to adversely affect the Company's results in 2007.



*Liquidity Risk*

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

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

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

At September 30, 2007, the parent company's short-term debt, consisting principally of commercial paper used to finance ongoing current business activities, was approximately \$28.6 million. The parent company had cash, interest-bearing deposits with banks and other current assets aggregating \$37.0 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.

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The following table sets forth information regarding the Company's obligations and commitments to make future payments under contract as of September 30, 2007:

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	\$ 35,774	\$ —	\$ —	\$ 10,000	\$ 25,774
Operating Leases	23,157	4,158	6,896	4,364	7,739
Total Contractual Cash Obligations	\$ 58,931	\$ 4,158	\$ 6,896	\$ 14,364	\$ 33,513

(1) Based on contractual maturity dates

The following table sets forth information regarding the Company's obligations under other commercial commitments as of September 30, 2007:

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	\$ 8,628	\$ 8,628	\$ —	\$ —	\$ —
Commercial Loans	53,012	36,760	16,089	163	—
Total Loans	61,640	45,388	16,089	163	—
Standby Letters of Credit	35,560	32,593	2,967	—	—
Other Commercial Commitments	14,668	14,383	—	—	285
Total Commercial Commitments	\$ 111,868	\$ 92,364	\$ 19,056	\$ 163	\$ 285

### INFORMATION AVAILABLE ON OUR WEB SITE

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

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

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

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STERLING BANCORP AND SUBSIDIARIES  
Interest Rate Sensitivity

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

	Repricing Date					Total
	3 Months or Less	More than 3 Months to 1 Year	More than 1 Year to 5 Years	Over 5 Years	Nonrate Sensitive	
<b>ASSETS</b>						
Interest-bearing deposits with other banks	\$ 3,014	\$ —	\$ —	\$ —	\$ —	\$ 3,014
Investment securities	20,871	9,945	89,806	483,744	4,562	608,928
Commercial and industrial loans	349,255	45,630	123,014	19,480	(21)	537,358
Equipment lease financing	1,307	9,162	256,556	11,618	(36,815)	241,828
Factored receivables	113,733	—	—	—	(472)	113,261
Real estate-residential mortgage	44,193	9,211	76,022	21,145	—	150,571
Real estate-commercial mortgage	35,677	5,037	43,938	12,923	—	97,575
Real estate-construction loans	—	—	33,522	—	—	33,522
Installment-individuals	9,979	—	—	—	—	9,979
Loans to depository institutions	27,000	—	—	—	—	27,000
Noninterest-earning assets & allowance for loan losses	—	—	—	—	157,703	157,703
<b>Total Assets</b>	<b>605,029</b>	<b>78,985</b>	<b>622,858</b>	<b>548,910</b>	<b>124,957</b>	<b>1,980,739</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
Interest-bearing deposits						
Savings [1]	—	—	19,150	—	—	19,150
NOW [1]	—	—	233,616	—	—	233,616
Money market [1]	233,839	—	55,861	—	—	289,700
Time - domestic	252,756	230,378	50,437	30	—	533,601
- foreign	180	395	—	—	—	575
Securities sold under agreement to repurchase - customer	50,064	12,500	—	—	—	62,564
Federal funds purchased	44,200	—	—	—	—	44,200
Commercial paper	28,571	—	—	—	—	28,571
Short-term borrowings - FHLB	25,000	—	—	—	—	25,000
Short-term borrowings - other	303	—	—	—	—	303
Long-term borrowings - FHLB	—	—	10,000	—	—	10,000
Long-term borrowings - subordinated debentures	—	—	—	25,774	—	25,774
Noninterest-bearing liabilities & shareholders' equity	—	—	—	—	707,685	707,685
<b>Total Liabilities and Shareholders' Equity</b>	<b>634,913</b>	<b>243,273</b>	<b>369,064</b>	<b>25,804</b>	<b>707,685</b>	<b>1,980,739</b>
<b>Net Interest Rate Sensitivity Gap</b>	<b>\$ (29,884)</b>	<b>\$ (164,288)</b>	<b>\$ 253,794</b>	<b>\$ 523,106</b>	<b>\$ (582,728)</b>	<b>\$ —</b>

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Repricing Date

Cumulative Gap							
September 30, 2007	\$ (29,884)	\$ (194,172)	\$ 59,622	\$ 582,728	\$ —	\$ —	—
Cumulative Gap							
September 30, 2006	\$ 110,912	\$ 23,548	\$ 122,975	\$ 626,343	\$ —	\$ —	—
Cumulative Gap							
December 31, 2006	\$ 130,609	\$ (31,621)	\$ 170,278	\$ 684,751	\$ —	\$ —	—

- [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.

**ITEM 4. CONTROLS AND PROCEDURES**

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

No change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the fiscal quarter ended September 30, 2007 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 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.

The following table discloses the Company's repurchase of the Company's common shares during the third quarter of 2007:

## ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1-31, 2007	—	\$ —	—	285,763
August 1-31, 2007	214,800	14.46	214,800	870,963
September 1-30, 2007	—	—	—	870,963
Total	<u>214,800</u>		<u>214,800</u>	

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

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### 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 August 5, 2004 (Filed as Exhibit 3(ii)(A) to the Registrant's Form 10-Q for the quarter ended June 30, 2004 and incorporated herein by reference).
- 11. Statement Re: Computation of Per Share Earnings.
- 31.1 Certification of the CEO pursuant to Exchange Act Rule 13a-14(a).
- 31.2 Certification of the CFO pursuant to Exchange Act Rule 13a-14(a).
- 32.1 Certification of the CEO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code.
- 32.2 Certification of the CFO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code.



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SIGNATURES

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

STERLING BANCORP

\_\_\_\_\_  
(Registrant)

Date: November 9, 2007

/s/ Louis J. Cappelli

\_\_\_\_\_  
Louis J. Cappelli  
Chairman and  
Chief Executive Officer

Date: November 9, 2007

/s/ John W. Tietjen

\_\_\_\_\_  
John W. Tietjen  
Executive Vice President  
and Chief Financial Officer

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STERLING BANCORP AND SUBSIDIARIES

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>	<u>Sequential Page No.</u>
11	<u>Statement re: Computation of Per Share Earnings.</u>	42
31.1	<u>Certification of the CEO pursuant to Exchange Act Rule 13a-14(a).</u>	43
31.2	<u>Certification of the CFO pursuant to Exchange Act Rule 13a-14(a).</u>	44
32.1	<u>Certification of the CEO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code.</u>	45
32.2	<u>Certification of the CFO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code.</u>	46