STERLING BANCORP
Form 10-Q
August 07, 2009

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2009
or

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

For the transition period from to

Commission File Number: 1-5273-1

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

| New York | 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. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T(17 CFR ' 232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). o Yes o No

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

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

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

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

STERLING BANCORP


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

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

| ASSETS | June 30, 2009 | December 31, 2008 |
|---|---|---|
| Cash and due from banks | $34,816 | $ 31,832 |
| Interest-bearing deposits with other banks | 5,611 | 13,949 |
| | | |
| Securities available for sale (at estimated fair value; pledged: $194,004 in 2009 and $334,048 in 2008) | 353,736 | 505,762 |
| Securities held to maturity (pledged: $201,720 in 2009 and $206,726 in 2008) (estimated fair value: $370,844 in 2009 and $305,628 in 2008) | 363,995 | 301,127 |
| Total investment securities | 717,731 | 806,889 |
| | | |
| Loans held for sale | 57,385 | 23,403 |
| Loans held in portfolio, net of unearned discounts | 1,160,429 | 1,184,585 |
| Less allowance for loan losses | 18,134 | 16,010 |
| Loans, net | 1,142,295 | 1,168,575 |
| Customers' liability under acceptances | 180 | 95 |
| Goodwill | 22,901 | 22,901 |
| Premises and equipment, net | 10,041 | 10,668 |
| Other real estate | 1,105 | 1,544 |
| Accrued interest receivable | 7,772 | 8,917 |
| Cash surrender value of life insurance policies | 47,805 | 45,845 |
| Other assets | 78,064 | 43,122 |
| | $2,125,706 | $ 2,177,740 |
| | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Deposits | | |
| Demand deposits | $440,626 | $ 464,585 |
| Savings, NOW and money market deposits | 532,275 | 564,205 |
| Time deposits | 331,766 | 329,034 |
| Total deposits | 1,304,667 | 1,357,824 |
| Securities sold under agreements to repurchase - customers | 55,129 | 44,334 |
| Federal funds purchased | 87,000 | 131,000 |
| Commercial paper | 11,739 | 11,732 |
| Short-term borrowings - FHLB | - | 75,000 |
| Short-term borrowings - FRB | 160,000 | 100,000 |
| Short-term borrowings - other | 4,262 | 1,338 |
| Long-term borrowings - FHLB | 150,000 | 150,000 |
| Long-term borrowings - subordinated debentures | 25,774 | 25,774 |
| Total borrowings | 493,904 | 539,178 |
| Acceptances outstanding | 180 | 95 |
| Accrued interest payable | 1,874 | 2,046 |
| Accrued expenses and other liabilities | 167,360 | 118,117 |
| Total liabilities | 1,967,985 | 2,017,260 |

| | | |
|---|---|---|
| Shareholders' equity | | |
| Preferred stock, Series A, $5 par value; $1,000 liquidation value. Authorized 644,389 shares; issued 42,000 shares, respectively | 39,869 | 39,440 |
| Common stock, $1 par value. Authorized 50,000,000 shares; issued 22,226,425 and 22,202,419 shares, respectively | 22,227 | 22,203 |
| Warrants to purchase common stock | 2,615 | 2,615 |
| Capital surplus | 178,668 | 178,417 |
| Retained earnings | 15,343 | 19,088 |
| Accumulated other comprehensive loss | (15,833) | (16,259) |
| Common shares in treasury at cost, 4,119,934 and 4,107,191 shares, respectively | (85,168) | (85,024) |
| Total shareholders' equity | 157,721 | 160,480 |
| | $2,125,706 | $ 2,177,740 |

See Notes to Consolidated Financial Statements.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| INTEREST INCOME | | | | |
| Loans | $18,264 | $20,001 | $35,816 | $40,821 |
| Investment securities | | | | |
| Available for sale | 4,335 | 5,670 | 9,830 | 10,382 |
| Held to maturity | 3,594 | 4,034 | 7,128 | 8,259 |
| Federal funds sold | - | 1 | - | 1 |
| Deposits with other banks | 9 | 7 | 19 | 19 |
| Total interest income | 26,202 | 29,713 | 52,793 | 59,482 |
| | | | | |
| INTEREST EXPENSE | | | | |
| Deposits | | | | |
| Savings, NOW and money market | 943 | 1,089 | 2,068 | 2,699 |
| Time | 2,049 | 4,034 | 4,215 | 9,372 |
| Securities sold under agreements to repurchase | | | | |
| - customers | 88 | 442 | 203 | 1,088 |
| - dealers | - | 416 | - | 733 |
| Federal funds purchased | 7 | 217 | 41 | 579 |
| Commercial paper | 17 | 117 | 40 | 312 |
| Short-term borrowings - FHLB | - | 311 | 11 | 526 |
| Short-term borrowings - FRB | 126 | 1 | 225 | 1 |
| Short-term borrowings - other | - | 5 | 1 | 19 |
| Long-term borrowings - FHLB | 1,134 | 1,085 | 2,256 | 1,799 |
| Long-term borrowings - subordinated debentures | 524 | 524 | 1,047 | 1,047 |
| Total interest expense | 4,888 | 8,241 | 10,107 | 18,175 |
| | | | | |
| Net interest income | 21,314 | 21,472 | 42,686 | 41,307 |
| | | | | |
| Provision for loan losses | 6,800 | 2,200 | 13,000 | 4,150 |
| | | | | |
| Net interest income after provision for loan losses | 14,514 | 19,272 | 29,686 | 37,157 |
| | | | | |
| Total noninterest income | 10,798 | 8,572 | 21,596 | 17,244 |
| | | | | |
| Total noninterest expenses | 24,143 | 21,130 | 44,195 | 41,296 |
| | | | | |
| Income before income taxes | 1,169 | 6,714 | 7,087 | 13,105 |
| | | | | |
| Provision for income taxes | 394 | 2,544 | 2,700 | 4,933 |

| | | | | |
|---|---|---|---|---|
| Net income | 775 | 4,170 | 4,387 | 8,172 |
| Dividends on preferred shares and accretion | 637 | - | 1,479 | - |
| Net income available to common shareholders | $138 | $4,170 | $2,908 | $8,172 |
| | | | | |
| Average number of common shares outstanding | | | | |
| Basic | 18,100,860 | 17,904,100 | 18,099,523 | 17,884,662 |
| Diluted | 18,125,860 | 17,929,100 | 18,124,523 | 17,909,662 |
| Net income, per average common share | | | | |
| Basic | $0.04 | $0.23 | $0.24 | $0.46 |
| Diluted | 0.04 | 0.23 | 0.24 | 0.45 |
| Net income available to common shareholders, per average common share | | | | |
| Basic | 0.01 | 0.23 | 0.16 | 0.46 |
| Diluted | 0.01 | 0.23 | 0.16 | 0.45 |
| Dividends per common share | 0.19 | 0.19 | 0.38 | 0.38 |

See Notes to Consolidated Financial Statements.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Net Income | $775 | $4,170 | $4,387 | $8,172 |
| Other comprehensive income (loss), net of tax: | | | | |
| Unrealized gains on securities: | | | | |
| Unrealized holding gains (losses) on available for sale securities and other investments arising during the year | 1,667 | (5,159) | 1,688 | (3,804) |
| Reclassification adjustment for (gains) losses included in net income | (478) | 278 | (2,152) | 278 |
| Reclassification adjustment for amortization of: | | | | |
| Prior service cost | 9 | 9 | 18 | 18 |
| Net actuarial losses | 518 | 230 | 872 | 461 |
| Other comprehensive income (loss) | 1,716 | (4,642) | 426 | (3,047) |
| Comprehensive income (loss) | $2,491 | $(472) | $4,813 | $5,125 |

See Notes to Consolidated Financial Statements.

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

| | Six Months Ended June 30, | |
|---|---|---|
| | 2009 | 2008 |
| Preferred Stock | | |
| Balance at January 1, | $39,440 | $- |
| Discount accretion | 429 | - |
| Balance at June 30, | $39,869 | $- |
| | | |
| Common Stock | | |
| Balance at January 1, | $22,203 | $21,278 |
| Common shares issued under stock incentive plan | 24 | 535 |
| Balance at June 30, | $22,227 | $21,813 |
| | | |
| Warrants to Purchase Common Stock | | |
| Balance at January 1, and June 30, | $2,615 | $- |
| | | |
| Capital Surplus | | |
| Balance at January 1, | $178,417 | $168,869 |
| Common shares issued under stock incentive plan and related tax benefits | 185 | 5,764 |
| Stock option compensation expense | 66 | - |
| Balance at June 30, | $178,668 | $174,633 |
| | | |
| Retained Earnings | | |
| Balance at January 1, | $19,088 | $17,538 |
| Adjustment upon adoption of EITF 06-4 effective January 1, 2008 | - | (726) |
| Balance at January 1, as adjusted | 19,088 | 16,812 |
| Net income | 4,387 | 8,172 |
| Cash dividends paid - preferred shares | (828) | - |
| Cash dividends paid - common shares | (6,875) | (6,824) |
| Discount accretion on series A preferred stock | (429) | - |
| Balance at June 30, | $15,343 | $18,160 |
| | | |
| Accumulated Other Comprehensive Loss | | |
| Balance at January 1, | $(16,259) | $(10,812) |
| Other comprehensive income (loss), net of tax | 426 | (3,047) |
| Balance at June 30, | $(15,833) | $(13,859) |
| | | |
| Treasury Stock | | |
| Balance at January 1, | $(85,024) | $(75,803) |
| Surrender of shares issued under stock incentive plan | (144) | (5,218) |
| Balance at June 30, | $(85,168) | $(81,021) |
| | | |
| Total Shareholders' Equity | | |

| | | |
|---|---|---|
| Balance at January 1, | $160,480 | $121,070 |
| Net changes during the period | (2,759) | (1,344) |
| Balance at June 30, | $157,721 | $119,726 |

See Notes to Consolidated Financial Statements.

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

| | Six Months Ended June 30, 2009 | Six Months Ended June 30, 2008 |
|---|---|---|
| Operating Activities | | |
| Net Income | $4,387 | $8,172 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Provision for loan losses | 13,000 | 4,150 |
| Depreciation and amortization of premises and equipment | 1,178 | 1,302 |
| Securities (gains) losses | (3,939) | 507 |
| Income from life insurance policies, net | (682) | (563) |
| Deferred income tax benefit | (2,062) | (1,522) |
| Proceeds from sale of loans | 305,687 | 237,014 |
| Gains on sales of loans, net | (4,644) | (5,201) |
| Originations of loans held for sale | (335,026) | (235,762) |
| Amortization of premiums on securities | 772 | 192 |
| Accretion of discounts on securities | (648) | (405) |
| Decrease (Increase) in accrued interest receivable | 1,408 | (2,796) |
| Decrease in accrued interest payable | (165) | (810) |
| Increase (Decrease) in accrued expenses and other liabilities | 10,658 | (408) |
| Increase in other assets | (2,408) | (5,876) |
| (Gain) Loss on other real estate owned | (20) | 303 |
| Other, net | - | 284 |
| Net cash used in operating activities | (16,891) | (9,591) |
| | | |
| Investing Activities | | |
| Purchase of premises and equipment | (515) | (991) |
| Net decrease in interest-bearing deposits with other banks | 8,337 | 99 |
| Net increase in Federal funds sold | - | (2,500) |
| Net decease (increase) in loans held in portfolio | 58,256 | (12,606) |
| Net (increase) decrease in short-term factored receivables | (25,252) | 2,839 |
| Decrease in other real estate | 721 | 885 |
| Proceeds from prepayments, redemptions or maturities of securities - held to maturity | 38,272 | 28,741 |
| Purchases of securities - held to maturity | (64,878) | - |
| Proceeds from calls/sale of securities - available for sale | 223,019 | - |
| Proceeds from prepayments, redemptions or maturities of securities - available for sale | 70,017 | 164,818 |
| Purchases of securities - available for sale | (165,154) | (342,332) |
| Cash paid in acquisition | (21,333) | - |
| Net cash provided by (used in) investing activities | 121,490 | (161,047) |
| | | |
| Financing Activities | | |
| Net decrease in noninterest-bearing demand deposits | (23,959) | (41,743) |
| Net (decrease) increase in savings, NOW and money market deposits | (31,930) | 19,069 |
| Net increase (decrease) in time deposits | 2,732 | (65,150) |
| (Decrease) Increase in Federal funds purchased | (44,000) | 5,000 |

| | | |
|---|---|---|
| Net increase in securities sold under agreement to repurchase | 10,795 | 67,337 |
| Net (decrease) increase in commercial paper and other short-term borrowings | (12,068) | 48,093 |
| Increase in long-term borrowings | - | 120,000 |
| Proceeds from exercise of stock options | 131 | 267 |
| Cash dividends paid on preferred stock | (828) | - |
| Cash dividends paid on common stock | (6,875) | (6,824) |
| Net cash (used in) provided by financing activities | (106,002) | 146,049 |
| | | |
| Net increase (decrease) in cash and due from banks | 2,984 | (16,417) |
| Cash and due from banks - beginning of period | 31,832 | 66,412 |
| | | |
| Cash and due from banks - end of period | $34,816 | $49,995 |
| | | |
| Supplemental disclosures: | | |
| Interest paid | $10,272 | $18,985 |
| Income taxes paid | 5,746 | 7,969 |
| | | |
| Loans held for sale transferred to portfolio | - | 2,531 |
| Loans transferred to other real estate | 262 | 1,770 |
| Due from brokers on sale of securities - AFS | 29,825 | - |
| Due to brokers on purchases of securities - AFS | 3,918 | - |
| Due to brokers on purchases of securities - HTM | 36,286 | - |

See Notes to Consolidated Financial Statements.

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

Note 1. Significant Accounting Policies
Nature of Operations. Sterling Bancorp (the "parent company") is a financial holding company, pursuant to an election made under the Gramm-Leach-Bliley Act of 1999. Throughout the notes, the term the "Company" refers to Sterling Bancorp and its subsidiaries. The Company provides a full range of financial products and services, including business and consumer loans, commercial and residential mortgage lending and brokerage, asset-based financing, factoring/accounts receivable management services, trade financing, leasing, deposit services, trust and estate administration and investment management services. The Company has operations principally in New York and conducts business throughout the United States.

Basis of Presentation. The consolidated financial statements include the accounts of Sterling Bancorp and its subsidiaries, principally Sterling National Bank and its subsidiaries (the "bank"), after elimination of intercompany transactions. The consolidated financial statements as of and for the interim periods ended June 30, 2009 and 2008 are unaudited; however, in the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of such periods have been made. Certain reclassifications have been made to the prior year's consolidated financial statements to conform to the current presentation. The interim consolidated financial statements should be read in conjunction with the Company's annual report on Form 10-K for the year ended December 31, 2008.

Use of Estimates. The preparation of financial statements in accordance with U.S. generally accepted accounting principles ("GAAP") requires management to make assumptions and estimates which impact the amounts reported in those statements and are, by their nature, subject to change in the future as additional information becomes available or as circumstances vary.

Fair Value Measurements. On January 1, 2008, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 157, Fair Value Measurements ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value under U.S. GAAP, and expands disclosures about fair value measurements (See Note 8 - Fair Value Measurements). The Company also adopted SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115 ("SFAS No. 159") on January 1, 2008 but did not elect the fair value option for any of its financial assets or financial liabilities.

Note 2. Loans
The major components of domestic loans held for sale and loans held in portfolio are as follows:

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| | (in thousands) | |
| Loans held for sale, net of valuation reserve ($-0- at June 30, 2009 and at December 31, 2008) | | |
| Real estate-residential mortgage | $57,385 | $ 23,403 |
| Loans held in portfolio | | |
| Commercial and industrial | $509,327 | $ 533,613 |
| Lease financing | 258,713 | 290,656 |
| Factored receivables | 134,728 | 89,365 |

| | | |
|---|---|---|
| Real estate-residential mortgage | 141,131 | 142,135 |
| Real estate-commercial mortgage | 101,282 | 96,883 |
| Real estate-construction and land development | 27,235 | 25,249 |
| Loan to individuals | 19,672 | 18,959 |
| Loans to depository institutions | - | 25,000 |
| | | |
| Loans held in portfolio, gross | 1,192,088 | 1,221,860 |
| Less unearned discounts | 31,659 | 37,275 |
| Loans held in portfolio, net of unearned discounts | $1,160,429 | $ 1,184,585 |

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

Note 3. Investment Securities

The following tables present information regarding securities available for sale:

| June 30, 2009 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| | | (in thousands) | | |
| Obligations of U.S. government corporations and government sponsored enterprises | | | | |
| Mortgage-backed securities | | | | |
| CMO's (Federal National Mortgage Association) | $2,962 | $58 | $- | $3,020 |
| CMO's (Federal Home Loan Mortgage Corporation) | 15,993 | 267 | - | 16,260 |
| CMO's (Government National Mortgage Association) | 5,313 | - | 88 | 5,225 |
| Federal National Mortgage Association | 39,566 | 1,214 | 1 | 40,779 |
| Federal Home Loan Mortgage Corporation | 18,234 | 362 | - | 18,596 |
| Government National Mortgage Association | 8,943 | 384 | 1 | 9,326 |
| Total mortgage-backed securities | 91,011 | 2,285 | 90 | 93,206 |
| | | | | |
| Agency Notes | | | | |
| Federal National Mortgage Association | 20,000 | 116 | - | 20,116 |
| Federal Home Loan Bank | 89,963 | 324 | 318 | 89,969 |
| Federal Farm Credit Bank | 30,000 | - | 475 | 29,525 |
| Total obligations of U.S. government corporations and government sponsored enterprises | 230,974 | 2,725 | 883 | 232,816 |
| | | | | |
| Obligations of state and political institutions | 22,954 | 689 | 97 | 23,546 |
| Single-issuer, trust preferred securities | 5,602 | - | 1,102 | 4,500 |
| Corporate debt securities | 83,414 | 418 | 654 | 83,178 |
| Other securities | 54 | 9 | - | 63 |
| Total marketable securities | 342,998 | 3,841 | 2,736 | 344,103 |
| Federal Reserve Bank stock | 1,131 | - | - | 1,131 |
| Federal Home Loan Bank stock | 8,252 | - | - | 8,252 |
| Other securities | 250 | - | - | 250 |
| Total | $352,631 | $3,841 | $2,736 | $353,736 |

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

| December 31, 2008 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| | | (in thousands) | | |
| Obligations of U.S. government corporations and government sponsored enterprises | | | | |
| Mortgage-backed securities | | | | |
| CMO's (Federal National Mortgage Association) | $8,771 | $1 | $72 | $8,700 |
| CMO's (Federal Home Loan Mortgage Corporation) | 22,276 | 60 | 223 | 22,113 |
| CMO's (Government National Mortgage Association) | 6,610 | - | 45 | 6,565 |
| Federal National Mortgage Association | 100,712 | 2,116 | 40 | 102,788 |
| Federal Home Loan Mortgage Corporation | 37,719 | 832 | 15 | 38,536 |
| Government National Mortgage Association | 31,463 | 723 | 6 | 32,180 |
| Total mortgage-backed securities | 207,551 | 3,732 | 401 | 210,882 |
| | | | | |
| Agency Notes | | | | |
| Federal Home Loan Bank | 153,977 | 1,224 | 526 | 154,675 |
| Federal Farm Credit Bank | 89,918 | 232 | 306 | 89,844 |
| Total obligations of U.S. government corporations and government sponsored enterprises | 451,446 | 5,188 | 1,233 | 455,401 |
| | | | | |
| Obligations of state and political institutions | 23,058 | 567 | 219 | 23,406 |
| Single-issuer, trust preferred securities | 5,369 | 224 | 1,384 | 4,209 |
| Corporate debt securities | 9,962 | - | 238 | 9,724 |
| Other securities | 54 | 13 | - | 67 |
| Total marketable securities | 489,889 | 5,992 | 3,074 | 492,807 |
| Federal Reserve Bank stock | 1,131 | - | - | 1,131 |
| Federal Home Loan Bank stock | 11,574 | - | - | 11,574 |
| Other securities | 250 | - | - | 250 |
| Total | $502,844 | $5,992 | $3,074 | $505,762 |

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

The following tables present information regarding securities held to maturity:

| June 30, 2009 | Carrying Value | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| | | (in thousands) | | |
| Obligations of U.S. government corporations and government sponsored enterprises | | | | |
| Mortgage-backed securities | | | | |
| CMO's (Federal National Mortgage Association) | $11,696 | $194 | $2 | $11,888 |
| CMO's (Federal Home Loan Mortgage Corporation) | 18,736 | 349 | 22 | 19,063 |
| Federal National Mortgage Association | 123,187 | 3,851 | 4 | 127,034 |
| Federal Home Loan Mortgage Corporation | 82,230 | 1,975 | 79 | 84,126 |
| Government National Mortgage Association | 6,759 | 429 | - | 7,188 |
| Total mortgage-backed securities | 242,608 | 6,798 | 107 | 249,299 |
| | | | | |
| Agency Notes | | | | |
| Federal National Mortgage Association | 39,873 | 455 | - | 40,328 |
| Federal Home Loan Bank | 30,000 | 47 | - | 30,047 |
| Federal Home Loan Mortgage Corporation | 15,000 | - | 117 | 14,883 |
| Total obligations of U.S. government corporations and government sponsored enterprises | 327,481 | 7,300 | 224 | 334,557 |
| Obligations of state and political institutions | 36,264 | 123 | 350 | 36,037 |
| Debt securities issued by foreign governments | 250 | - | - | 250 |
| Total | $363,995 | $7,423 | $574 | $370,844 |

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

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
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The following tables present information regarding securities available for sale with temporary unrealized losses for the periods indicated:

| | Less Than 12 Months | | 12 Months or Longer | | Total | |
|---|---|---|---|---|---|---|
| June 30, 2009 | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | | | (in thousands) | | | |
| Obligations of U.S. government corporations and government sponsored enterprises | | | | | | |
| Mortgage-backed securities | | | | | | |
| CMO's (Government National Mortgage Association) | $ - | $ - | $ 5,225 | $ 88 | $ 5,225 | $ 88 |
| Federal National Mortgage Association | 842 | 1 | - | - | 842 | 1 |
| Government National Mortgage Association | - | - | 131 | 1 | 131 | 1 |
| Total mortgage-backed securities | 842 | 1 | 5,356 | 89 | 6,198 | 90 |
| | | | | | | |
| Agency Notes | | | | | | |
| Federal Home Loan Bank | 24,908 | 92 | 29,766 | 226 | 54,674 | 318 |
| Federal Farm Credit Bank | 29,525 | 475 | - | - | 29,525 | 475 |
| Total obligations of U.S. government corporations and government sponsored enterprises | 55,275 | 568 | 35,122 | 315 | 90,397 | 883 |
| | | | | | | |
| Obligations of state and political institutions | - | - | 5,517 | 97 | 5,517 | 97 |
| Single-issuer, trust preferred securities | - | - | 3,775 | 1,102 | 3,775 | 1,102 |
| Corporate debt securities | 43,740 | 438 | 4,784 | 216 | 48,524 | 654 |
| Total | $ 99,015 | $ 1,006 | $ 49,198 | $ 1,730 | $ 148,213 | $ 2,736 |
| | | | | | | |
| December 31, 2008 | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Obligations of U.S. government corporations and government sponsored enterprises | | | | | | |
| Mortgage-backed securities | | | | | | |
| CMO's (Federal National Mortgage Association) | $ - | $ - | $ 2,890 | $ 72 | $ 2,890 | $ 72 |
| CMO's (Federal Home Loan Mortgage Corporation) | 5,378 | 40 | 9,125 | 183 | 14,503 | 223 |
| CMO's (Government National Mortgage Association) | - | - | 6,565 | 45 | 6,565 | 45 |
| Federal National Mortgage Association | 3,161 | 7 | 3,906 | 33 | 7,067 | 40 |
| Federal Home Loan Mortgage Corporation | 1,676 | 15 | - | - | 1,676 | 15 |
| Government National Mortgage Association | - | - | 133 | 6 | 133 | 6 |
| Total mortgage-backed securities | 10,215 | 62 | 22,619 | 339 | 32,834 | 401 |
| | | | | | | |
| Agency Notes | | | | | | |
| Federal Home Loan Bank | 49,466 | 526 | - | - | 49,466 | 526 |
| Federal Farm Credit Bank | 9,694 | 306 | - | - | 9,694 | 306 |
| Total obligations of U.S. government corporations and government sponsored enterprises | 69,375 | 894 | 22,619 | 339 | 91,994 | 1,233 |
| | | | | | | |
| Obligations of state and political institutions | 6,490 | 181 | 414 | 38 | 6,904 | 219 |
| Single-issuer, trust preferred securities | 2,784 | 1,115 | 709 | 269 | 3,493 | 1,384 |
| Corporate debt securities | 9,724 | 238 | - | - | 9,724 | 238 |
| Total | $ 88,373 | $ 2,428 | $ 23,742 | $ 646 | $ 112,115 | $ 3,074 |

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
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The following tables present information regarding securities held to maturity with temporary unrealized losses for the periods indicated:

| | Less Than 12 Months | | 12 Months or Longer | | Total | |
|---|---|---|---|---|---|---|
| June 30, 2009 | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | | | (in thousands) | | | |
| Obligations of U.S. government corporations and government sponsored enterprises | | | | | | |
| Mortgage-backed securities | | | | | | |
| CMO's (Federal National Mortgage Association) | $703 | $2 | $- | $- | $703 | $2 |
| CMO's (Federal Home Loan Mortgage Corporation) | 6,060 | 22 | - | - | 6,060 | 22 |
| Federal National Mortgage Association | 6 | - | 607 | 4 | 613 | 4 |
| Federal Home Loan Mortgage Corporation | - | - | 7,756 | 79 | 7,756 | 79 |
| Total mortgage-backed securities | 6,769 | 24 | 8,363 | 83 | 15,132 | 107 |
| | | | | | | |
| Agency Notes | | | | | | |
| Federal Home Loan Mortgage Corporation | 15,000 | 117 | - | - | 15,000 | 117 |
| Total obligations of U.S. government corporations and government sponsored enterprises | 21,769 | 141 | 8,363 | 83 | 30,132 | 224 |
| Obligations of state and political institutions | 21,223 | 350 | - | - | 21,223 | 350 |
| Total | $42,992 | $491 | $8,363 | $83 | $51,355 | $574 |
| | | | | | | |
| December 31, 2008 | | | | | | |
| | | | | | | |
| Obligations of U.S. government corporations and government sponsored enterprises | | | | | | |
| Mortgage-backed securities | | | | | | |
| CMO's (Federal National Mortgage Association) | $- | $- | $8,059 | $65 | $8,059 | $65 |
| CMO's (Federal Home Loan Mortgage Corporation) | 937 | 5 | 14,563 | 184 | 15,500 | 189 |
| | 20,942 | 88 | 781 | 6 | 21,723 | 94 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Federal National Mortgage Association | | | | | | |
| Federal Home Loan Mortgage Corporation | 15,381 | 101 | 19,895 | 195 | 35,276 | 296 |
| Total | $37,260 | $194 | $43,298 | $450 | $80,558 | $644 |

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
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The Company invests principally in obligations of U.S. government corporations and government sponsored enterprises and other investment-grade securities. The fair value of these investments fluctuates based on several factors, including credit quality and general interest rate changes. The Company determined that it has the ability to hold its investments until maturity and, it is not more likely than not that the Company would be required to sell before anticipated recovery.

At June 30, 2009, approximately $72.4 million, representing approximately 10.1%, of the Company's held to maturity and available for sale securities are comprised of securities issued by financial service companies/banks including trust preferred securities (7 issuers), corporate debt (11 issuers) and equity securities (8 issuers) and FRB and FHLB stock. These investments may pose a higher risk of future impairment charges as result of a continued deterioration of the U.S. economy. The Company would be required to recognize impairment charges on these securities if they suffer a decline in value that is considered other-than-temporary. Numerous factors, including lack of liquidity for re-sales of certain investment securities, absence of reliable pricing information for investment securities, adverse changes in business climate, adverse actions by regulators or unanticipated changes in the competitive environment could have a negative effect on the Company’s investment portfolio and may result in other-than-temporary impairment on certain investment securities in future periods.

At June 30, 2009, the Company held 2 mortgage-backed and 3 agency debt securities, in the available for sale portfolio, that were in an unrealized loss position for more than 12 months. Both of these securities were obligations of U.S. government corporations or government sponsored enterprises which guarantee principal and interest payment. Management has concluded that the unrealized losses are due to changes in market interest rates and/or changes in securities markets which resulted from temporary illiquidity and/or uncertainty in those markets. As a result, the unrealized losses are deemed to be temporary.

At June 30, 2009, the Company held 5 security positions of issuers of obligations of state and political institutions, in the available for sale portfolio, that were in an unrealized loss position for more than 12 months. All of these securities had investment grade ratings on acquisition and many had credit enhancement. Management has concluded that the unrealized losses are due to changes in market interest rates. As a result, the unrealized losses are deemed to be temporary.

At June 30, 2009, the Company held 7 debt securities positions issued by commercial and industrial enterprises, in the available for sale portfolio, all of which are paying in accordance with their terms and have no deferrals of interest or principal. All of these debt securities mature within the next 14 months. Management performs an initial credit review prior to purchasing these securities and monitors their performance on a quarterly basis. Based upon management’s review of the issuers, their performance record for paying all principal and interest when due and the relatively short-term maturity of each issue, the unrealized losses are deemed to be temporary.

At June 30, 2009, the Company held 7 securities positions of single-issuer, trust preferred securities and 17 security positions of corporate debt securities issued by financial institutions, in the available for sale portfolio, all which are paying in accordance with their terms and have no deferrals of interest or other deferrals. In addition, management analyzes the performance of the issuers on a quarterly basis, including a review of the issuers most recent bank regulatory report to assess credit risk and the probability of impairment of the contractual cash flows of the applicable securities. Based upon management’s second quarter review, all of the issuers have maintained performance levels adequate to support the contractual cash flows of the securities.

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

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

| Issuer | TARP Recipient | Credit Rating | Amortized Cost | Fair Value | Unrealized Loss |
|---|---|---|---|---|---|
| | | | | (in thousands) | |
| Sovereign Capital Trust V, 7.75%, due 5/15/2036, | No | BBB+ | $ 1,000 | $ 850 | $ (150) |
| owned by Banco Santander Central Hispano | No | | | | |
| Sterling Bancorp Trust I, 8.375%, due 3/31/2032 | Yes | NA | 978 | 839 | (139) |
| NPB Capital Trust II, 7.85%, due 9/30/2032 | Yes | NA | 127 | 100 | (27) |
| VNB Capital Trust I, 7.75%, due 12/15/2031 | Yes | BBB- | 22 | 21 | (1) |
| HSBC Finance, 6.875%, due 1/30/33, | No | A | 740 | 642 | (98) |
| owned by HSBC Group, plc | No | | | | |
| Citigroup Capital VII, 7.125%, due 7/31/31 | Yes | CC | 1,508 | 957 | (551) |
| Fleet Capital Trust VIII, 7.20%, due 3/15/32, | No | B | 1,227 | 1,091 | (136) |
| owned by Bank of America Corporation | Yes | | | | |
| | | | $ 5,602 | $ 4,500 | $ (1,102) |

At June 30, 2009, the Company held 5 mortgage-backed debt securities, in the held to maturity portfolio, that were in an unrealized loss position for more than 12 months. All of these securities were obligations of U.S. government corporations or government sponsored enterprises which guarantee principal and interest payments. Management has concluded that the unrealized losses are due to changes in market interest rates and/or changes in securities markets which resulted from temporary illiquidity and/or uncertainty in those markets. Further, management has made an evaluation that the Company has the ability to hold these investments until maturity and, it is not more likely than not that the Company would be required to sell before anticipated recovery. As a result, the unrealized losses are deemed to be temporary.

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

The following tables present information regarding securities available for sale and securities held to maturity at June 30, 2009, based on contractual maturity. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalities.

| Available for sale | Amortized Cost | Fair Value |
|---|---|---|
| | (in thousands) | |
| Obligations of U.S. government corporations and government sponsored enterprises | | |
| Mortgage-backed securities | | |
| CMO's (Federal National Mortgage Association) | $2,962 | $3,020 |
| CMO's (Federal Home Loan Mortgage Corporation) | 15,993 | 16,260 |
| CMO's (Government National Mortgage Association) | 5,313 | 5,225 |
| Federal National Mortgage Association | 39,566 | 40,779 |
| Federal Home Loan Mortgage Corporation | 18,234 | 18,596 |
| Government National Mortgage Association | 8,943 | 9,326 |
| Total mortgage-backed securities | 91,011 | 93,206 |
| | | |
| Agency Notes | | |
| Federal National Mortgage Association | 20,000 | 20,116 |
| Federal Home Loan Bank | | |
| Due within 1 year | 5,000 | 5,021 |
| Due after 5 years | 84,963 | 84,948 |
| Federal Farm Credit Bank | | |
| Due after 5 years | 30,000 | 29,525 |
| Total obligations of U.S. government corporations and government sponsored enterprises | 230,974 | 232,816 |
| | | |
| Obligations of state and political institutions | | |
| Due within 1 year | 115 | 116 |
| Due after 1 year but within 5 years | 9,896 | 10,300 |
| Due after 5 years | 12,943 | 13,130 |
| Total obligations of state and political institutions | 22,954 | 23,546 |
| | | |
| Single-issuer, trust preferred securities | | |
| Due after 5 years | 5,602 | 4,500 |
| | | |
| Corporate debt securities | | |
| Due within 1 year | 4,237 | 4,242 |
| Due after 1 year but within 5 years | 74,177 | 74,152 |
| Due after 5 years | 5,000 | 4,784 |
| Total corporate debt securities | 83,414 | 83,178 |
| | | |
| Other securities | 54 | 63 |
| Total marketable securities | 342,998 | 344,103 |

| | | |
|---|---|---|
| Federal Reserve Bank stock | 1,131 | 1,131 |
| Federal Home Loan Bank stock | 8,252 | 8,252 |
| Other securities | 250 | 250 |
| Total | $352,631 | $353,736 |

STERLING BANCORP AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

| Held to maturity | Carrying Value | Fair Value |
|---|---|---|
| | (in thousands) | |
| Obligations of U.S. government corporations and government sponsored enterprises | | |
| Mortgage-backed securities | | |
| CMO's (Federal National Mortgage Association) | $11,696 | $11,888 |
| CMO's (Federal Home Loan Mortgage Corporation) | 18,736 | 19,063 |
| Federal National Mortgage Association | 123,187 | 127,034 |
| Federal Home Loan Mortgage Corporation | 82,230 | 84,126 |
| Government National Mortgage Association | 6,759 | 7,188 |
| Total mortgage-backed securities | 242,608 | 249,299 |
| | | |
| Agency Notes | | |
| Federal National Mortgage Association | 39,873 | 40,328 |
| Due after 5 years | | |
| Federal Home Loan Bank | | |
| Due after 5 years | 30,000 | 30,047 |
| Federal Home Loan Mortgage Corporation | | |
| Due after 5 years | 15,000 | 14,883 |
| Total obligations of U.S. government corporations and government sponsored enterprises | 327,481 | 334,557 |
| Obligations of state and political institutions | | |
| Due after 5 years | 36,264 | 36,037 |
| Total obligations of state and political institutions | 36,264 | 36,037 |
| Debt securities issued by foreign governments | | |
| Due after 1 year but within 5 years | 250 | 250 |
| Total | $363,995 | $370,844 |

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
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Information regarding sales and/or calls of the available for sale securities is as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (in thousands) | | | |
| Proceeds | $48,871 | $- | $252,844 | $- |
| Gross gains | 874 | - | 3,939 | - |
| Gross losses | - | - | - | - |

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

During the three and six months ended June 30, 2008, the Company incurred an other-than-temporary charge of approximately $507 thousand against a single-issuer, investment grade trust preferred security that was recorded in securities losses. The charge resulted from management's regular review of the valuation of the investment portfolio and reduced the carrying amount of the security to approximately $493 thousand.

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

Note 4. Noninterest income and expenses
The following tables set forth the significant components of noninterest income and noninterest expenses:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (in thousands) | | | |
| NONINTEREST INCOME | | | | |
| Accounts receivable management/factoring commissions and other fees | $4,858 | $3,799 | $8,101 | $7,364 |
| Service charges on deposit accounts | 1,360 | 1,331 | 2,743 | 2,683 |
| Other customer related service charges and fees | 639 | 737 | 1,319 | 1,412 |
| Mortgage banking income | 2,541 | 2,702 | 4,647 | 5,201 |
| Trust fees | 117 | 124 | 256 | 259 |
| Income from life insurance policies | 290 | 294 | 548 | 563 |
| Securities gains (losses) | 874 | (507) | 3,939 | (507) |
| Gain (Loss) on other real estate owned | 22 | (75) | 20 | (303) |
| Other income | 97 | 167 | 23 | 572 |
| Total noninterest income | $10,798 | $8,572 | $21,596 | $17,244 |

| NONINTEREST EXPENSES | | | | |
|---|---|---|---|---|
| Salaries | $9,985 | $9,491 | $19,974 | $18,839 |
| Employee benefits | 3,268 | 2,252 | 5,945 | 5,088 |
| Total personnel expense | 13,253 | 11,743 | 25,919 | 23,927 |
| Occupancy and equipment expenses, net | 2,903 | 2,774 | 5,575 | 5,783 |
| Advertising and marketing | 1,026 | 1,353 | 1,680 | 1,988 |
| Professional fees | 1,900 | 1,874 | 3,023 | 3,238 |
| Communications | 435 | 405 | 866 | 861 |
| Deposit insurance | 1,513 | 185 | 1,864 | 269 |
| Other expenses | 3,113 | 2,796 | 5,268 | 5,230 |
| Total noninterest expenses | $24,143 | $21,130 | $44,195 | $41,296 |

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
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Note 5. Employee Benefit Plans

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (in thousands) | | | |
| Service cost | $615 | $497 | $1,006 | $993 |
| Interest cost | 928 | 752 | 1,508 | 1,504 |
| Expected return on plan assets | (700) | (648) | (1,146) | (1,295) |
| Amortization of prior service cost | 16 | 16 | 33 | 33 |
| Recognized actuarial loss | 948 | 420 | 1,596 | 840 |
| Net periodic benefit cost | $$ 1,807 | $1,037 | $2,997 | $2,075 |

The Company previously disclosed in its financial statements for the year ended December 31, 2008, that it expected to contribute approximately $2.0 million to the defined benefit pension plan in 2009. No contribution has been made as of June 30, 2009.

Note 6. Income Taxes

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

Note 7. Segment Reporting

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

The Company provides a broad range of financial products and services, including commercial loans, asset-based financing, factoring and accounts receivable management services, trade financing, equipment leasing, corporate and consumer deposit services, commercial and residential mortgage lending and brokerage, trust and estate administration and investment management services. The Company's primary source of earnings is net interest income, which represents the difference between interest earned on interest-earning assets and the interest incurred on interest-bearing liabilities. The Company's 2009 year-to-date average interest-earning assets were 61.7% loans (corporate lending was 67.3% and real estate lending was 27.8% of total loans, respectively) and 38.3% investment securities and money market investments. There are no industry concentrations exceeding 10% of loans, gross, in the corporate lending segment. Approximately 78% of loans are to borrowers located in the metropolitan New York area. In order to comply with the provisions of SFAS No. 131, the Company has determined that it has three

reportable operating segments: corporate lending, real estate lending and company-wide treasury.

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
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The following tables provide certain information regarding the Company's operating segments:

| | Corporate Lending | Real Estate Lending | Company-wide Treasury | Totals |
|---|---|---|---|---|
| | | (in thousands) | | |
| Three Months Ended June 30,2009 | | | | |
| Net interest income | $9,685 | $5,070 | $ 6,366 | $21,121 |
| Noninterest income | 6,587 | 2,614 | 1,189 | 10,390 |
| Depreciation and amortization | 178 | 38 | 1 | 217 |
| Segment income before income taxes | 6,564 | 4,612 | 7,256 | 18,432 |
| Segment assets | 806,080 | 430,784 | 857,307 | 2,094,171 |
| | | | | |
| Three Months Ended June 30,2008 | | | | |
| Net interest income | $9,299 | $5,183 | $ 6,781 | $21,263 |
| Noninterest income | 5,532 | 2,786 | (137) | 8,181 |
| Depreciation and amortization | 213 | 91 | 1 | 305 |
| Segment income before income taxes | 6,355 | 3,798 | 6,500 | 16,653 |
| Segment assets | 788,593 | 402,638 | 906,626 | 2,097,857 |
| | | | | |
| Six Months Ended June 30,2009 | | | | |
| Net interest income | $18,678 | $9,918 | $ 13,723 | $42,319 |
| Noninterest income | 11,681 | 4,738 | 4,369 | 20,788 |
| Depreciation and amortization | 354 | 77 | 1 | 432 |
| Segment income before income taxes | 12,108 | 8,766 | 17,502 | 38,376 |
| Segment assets | 806,080 | 430,784 | 857,307 | 2,094,171 |
| | | | | |
| Six Months Ended June 30,2008 | | | | |
| Net interest income | $17,363 | $10,529 | $ 12,954 | $40,846 |
| Noninterest income | 10,779 | 5,141 | 424 | 16,344 |
| Depreciation and amortization | 405 | 181 | 2 | 588 |
| Segment income before income taxes | 14,535 | 6,507 | 12,855 | 33,897 |
| Segment assets | 788,593 | 402,638 | 906,626 | 2,097,857 |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | | (in thousands) | | |
| Net interest income: | | | | |
| Total for reportable operating segments | $21,121 | $21,263 | $42,319 | $40,846 |
| Other [1] | 193 | 209 | 367 | 461 |
| Consolidated net interest income | $21,314 | $21,472 | $42,686 | $41,307 |

| | | | | |
|---|---|---|---|---|
| Noninterest income: | | | | |
| Total for reportable operating segments | $10,390 | $8,181 | $20,788 | $16,344 |
| Other [1] | 408 | 391 | 808 | 900 |
| Consolidated noninterest income | $10,798 | $8,572 | $21,596 | $17,244 |
| | | | | |
| Income before taxes: | | | | |
| Total for reportable operating segments | $18,432 | $16,653 | $38,376 | $33,897 |
| Other [1] | (17,263) | (9,939) | (31,289) | (20,792) |
| Consolidated income before income taxes | $1,169 | $6,714 | $7,087 | $13,105 |
| | | | | |
| Assets: | | | | |
| Total for reportable operating segments | $2,094,171 | $2,097,857 | $2,094,171 | $2,097,857 |
| Other [1] | 31,535 | 30,633 | 31,535 | 30,633 |
| Consolidated assets | $2,125,706 | $2,128,490 | $2,125,706 | $2,128,490 |

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

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
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Note 8. Accumlated Other Comprehensive Income (Loss)

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (in thousands) | | | |
| Other Comprehensive Income (Loss) | | | | |
| Unrealized holding gains (losses) on securities, arising during the period: | | | | |
| Before tax | $3,051 | $(9,410) | $3,090 | $(6,939) |
| Tax effect | (1,384) | 4,251 | (1,402) | 3,135 |
| Net of tax | 1,667 | (5,159) | 1,688 | (3,804) |
| Reclassification adjustment for securities (gains) losses included in net income: | | | | |
| Before tax | (874) | 507 | (3,939) | 507 |
| Tax effect | 396 | (229) | 1,787 | (229) |
| Net of tax | (478) | 278 | (2,152) | 278 |
| Reclassification adjustment for amortization of prior service cost: | | | | |
| Before tax | 16 | 16 | 33 | 33 |
| Tax effect | (7) | (7) | (15) | (15) |
| Net of tax | 9 | 9 | 18 | 18 |
| Reclassification adjustment for amortization of net actuarial losses: | | | | |
| Before tax | 948 | 420 | 1,596 | 840 |
| Tax effect | (430) | (190) | (724) | (379) |
| Net of tax | 518 | 230 | 872 | 461 |
| Other comprehensive income (loss) | $1,716 | $(4,642) | $426 | $(3,047) |

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(Unaudited)

Note 9. Fair Value Measurements

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

SFAS No. 157, "Fair Value Measurements", establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair values hierarchy is as follows:

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

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

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

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

market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.  A more detailed description of the valuation methodologies used for assets and liabilities measured at fair value is set forth in the 2008 Form 10-K.

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Financial Assets and Financial Liabilities: The following tables summarize financial assets and financial liabilities measured at fair value on a recurring basis, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

| June 30, 2009 (in thousands) | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
|---|---|---|---|---|
| Securities available for sale: | | | | |
| Obligations of U.S. government corporations and government sponsored enterprises Mortgage-backed securities | $ - | $ 93,206 | $ - | $93,206 |
| Agency Notes | - | 139,610 | | 139,610 |
| Total obligations of U.S. government corporations and government sponsored enterprises | - | 232,816 | - | 232,816 |
| Obligations of state and political institutions | - | 23,546 | - | 23,546 |
| Single-issuer, trust preferred securities | 4,500 | - | - | 4,500 |
| Corporate debt securities | - | 83,178 | - | 83,178 |
| Equity and other securities | 53 | 10 | - | 63 |
| Total marketable securities | $ 4,553 | $ 339,550 | - | $344,103 |
| | | | | |
| Other investments | $ 7,907 | $ 3,267 | $ - | $11,174 |

| December 31, 2009 (in thousands) | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
|---|---|---|---|---|
| Securities available for sale: | | | | |
| Obligations of U.S. government corporations and government sponsored enterprises Mortgage-backed securities | $ - | $ 210,882 | $ - | $210,882 |
| Agency Notes | - | 244,519 | - | $244,519 |
| Total obligations of U.S. government corporations and government sponsored enterprises | - | 455,401 | - | 455,401 |
| Obligations of state and political institutions | - | 23,406 | - | 23,406 |
| Single-issuer, trust preferred securities | 4,209 | - | - | 4,209 |
| Corporate debt securities | - | 9,724 | - | 9,724 |
| Equity and other securities | 57 | 10 | - | 67 |
| Total marketable securities | $ 4,266 | $ 488,541 | $ - | $492,807 |
| | | | | |
| Other investments | $ 7,266 | $ 3,116 | $ - | $10,382 |

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

June 30,

| | 2009 | December 31, 2008 |
|---|---|---|
| | (in thousands) | |
| Impaired loans | $ 1,657 | $ 4,203 |

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

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During the second quarter of 2009, certain foreclosed assets, upon initial recognition, were remeasured and reported at fair value through a charge-off to the allowance for loan losses based upon the fair value of the foreclosed asset. The fair value of a foreclosed asset, upon initial recognition, is estimated using level 2 inputs based on observable market data or level 3 inputs based on customized discount criteria. Foreclosed assets measured at fair value upon initial recognition totaled $1.1 million (utilizing level 2 valuation inputs) during the three months ended June 30, 2009. In connection with the measurement and initial recognition of the foregoing foreclosed assets, the Company recognized charge-offs in the allowance for loan losses totaling $189 thousand. Other than foreclosed assets measured at fair value upon initial recognition, one foreclosed property was remeasured at fair value during the three months ended June 30, 2009 resulting in a $56 thousand charge to noninterest expense.

Financial Accounting Standards Board ("FASB") Staff Position No. 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, amends Statement of Financial Accounting Standards ("SFAS") No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value financial instruments for interim reporting periods as well as in annual financial statements. For those financial instruments that are not recorded at fair value in the Consolidated Balance Sheets, but are measured at fair value for disclosure purposes, management follows the same fair value measurement principles and guidance as for instruments recorded at fair value.

Much of the information used to arrive at "fair value" is highly subjective and judgmental in nature and therefore the results may not be precise. The subjective factors include, among other things, estimated cash flows, risk characteristics, credit quality and interest rates, all of which are subject to change. With the exception of investment securities and long-term debt, the Company's financial instruments are not readily marketable and market prices do not exist. Since negotiated prices for the instruments that are not readily marketable depend greatly on the motivation of the buyer and seller, the amounts that will actually be realized or paid per settlement or maturity of the instruments could be significantly different.

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

| | June 30, 2009 | |
|---|---|---|
| | Carrying Amount | Fair Value |
| | (in thousands) | |
| FINANCIAL ASSETS | | |
| Cash and due from banks | $ 34,816 | $ 34,816 |
| Interest-bearing deposits with other banks | 5,611 | 5,609 |
| Investment securities | 717,731 | 724,580 |
| Loans held for sale | 57,385 | 57,385 |
| Loans held in portfolio, net | 1,142,295 | 1,138,254 |
| Customers' liability under acceptances | 180 | 180 |
| Accrued interest receivable | 7,772 | 7,772 |
| FINANCIAL LIABILITIES | | |
| Demand, NOW, savings and money market deposits | 972,901 | 972,901 |

| | | |
|---|---|---|
| Time deposits | 331,766 | 333,809 |
| Securities sold under agreements to repurchase | 55,129 | 55,129 |
| Federal funds purchased | 87,000 | 87,000 |
| Commercial paper | 11,739 | 11,739 |
| Short-term borrowings-FRB | 160,000 | 160,000 |
| Other short-term borrowings | 4,262 | 4,262 |
| Acceptances outstanding | 180 | 180 |
| Accrued interest payable | 1,874 | 1,874 |
| Long-term borrowings | 175,774 | 180,999 |

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Note 10. New Accounting Standards

SFAS No. 161. Disclosures About Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133, amends and expands the disclosure requirements of SFAS No. 133 to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for under SFAS No. 133 and its related interpretations and (iii) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. To meet those objectives, SFAS No. 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. SFAS No.161 was adopted by the Company on January 1, 2009 and did not have a significant impact on the Company's financial statements.

SFAS No. 165, Subsequent Events, establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. SFAS No. 165 establishes (i) the period after the balance sheet date during which a reporting entity's management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and (iii)disclosures an entity should make about events or transactions that occurred after the balance sheet date. The Company evaluates subsequent events through the date that the financial statements are issued. SFAS No. 165 became effective for the Company's financial statements for periods ending after June 15, 2009 and did not have a significant impact on the Company's financial statements.

SFAS No. 166, Accounting for Transfers of Financial Assets, an Amendment of FASB Statement No. 140, amends SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, to improve the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. SFAS No. 166 also eliminates the concept of a "qualifying special-purpose entity", changes the requirements for derecognizing financial assets and requires additional disclosures about all continuing involvements with transferred financial information about gains and losses (resulting from transfers) during the period. SFAS No. 166 will be effective January 1, 2010 and is not expected to have a significant impact on the Company's financial statements.

SFAS No. 167, Amendments to FASB Interpretation No. 46(R), amends FIN 46 (Revised December 2003), Consolidation of Variable Interest Entities, to change how a company determines when a entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. SFAS No. 167 requires additional disclosures about the reporting entity's involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its effect on the entity's financial statements. SFAS No. 167 will be effective January 1, 2010 and is not expected to have a significant impact on the Company's financial statements.

SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a Replacement of FASB Statement No. 162, replaces SFAS No. 162, The Hierarchy of Generally Accepted

Accounting Principles, and establishes the FASB Accounting Standards Codification (the "Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative guidance for SEC registrants. All guidance contained in the Codification carries an equal level of authority. All nongrandfathered, non-SEC accounting literature not included in the Codification is superceded and deemed nonauthoritative. SFAS No. 168 will be effective for the Company's financial statements for periods ending after September 15, 2009. SFAS No. 168 is not expected to have a significant impact on the Company's financial statements.

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In April 2009, FASB issued the following Staff Positions:

FSP SFAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, provides additional guidance for estimating fair value in accordance with SFAS No. 157 when the volume and level of activity for the asset or liability have decreased significantly. FSP SFAS 157-4 also provides guidance on identifying circumstances that indicate a transaction is not orderly. The provisions of this FSP are effective for the Company=s interim period ending on June 30, 2009. The adoption of FSP SFAS 157-4 did not have a material impact on the Company's financial statements.

FSP SFAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, requires disclosures about fair value of financial instruments in interim reporting periods of publicly traded companies that were previously only required to be disclosed in annual financial statements. The provisions of this FSP are effective for the Company's interim period ending on June 30, 2009. As this FSP amends only the disclosure requirements about fair value of financial instruments in interim periods, the adoption of this FSP did not have a material impact on the Company's financial statements.

FSP SFAS 115-2 and SFAS 124-2, Recognition and Presentation of Other-than-Temporary Impairments, amends current other-than-temporary impairment guidance in GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The provisions of this FSP are effective for the Company's interim period ending on June 30, 2009. The adoption of FSP SFAS 115-2 and SFAS 124-2 did not have a material impact on the Company's financial statements,

FSP SFAS 141R-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies, amends the guidance in SFAS No. 141R to require that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if fair value can be reasonably estimated. If fair value of such an asset or liability cannot be reasonably estimated, the asset or liability would generally be recognized in accordance with SFAS No. 5, Accounting for Contingencies, and FASB Interpretation (FIN) No. 14, Reasonable Estimation of the Amount of Loss. FSP SFAS 141R-1 removes subsequent accounting guidance for assets and liabilities arising from contingencies from SFAS No. 141R and requires entities to develop a systematic and rational basis for subsequently measuring and accounting for assets and liabilities arising from contingencies. FSP SFAS 141R-1 eliminates the requirement to disclose and estimate the range of outcomes of recognized contingencies at the acquisition date. For unrecognized contingencies, entities are required to include only the disclosures required by SFAS No. 5. FSP SFAS 141R-1 also requires that contingent consideration arrangements of an acquiree assumed by the acquirer in a business combination be treated as contingent consideration of the acquirer and should be initially and subsequently measured at fair value in accordance with SFAS No. 141R. FSP SFAS 141R-1 is effective for assets or liabilities arising from contingencies the Company acquires in business combinations occurring after January 1, 2009.

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

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

OVERVIEW

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

For the six months ended June 30, 2009, the bank's average earning assets represented approximately 99.8% of the Company's average earning assets. Loans represented 61.7% and investment securities represented 37.3% of the bank's average earning assets for the first six months of 2009.

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

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

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

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 46 and 47. Information as to the components of interest income and interest expense and average rates is provided in the Average Balance Sheets shown on pages 44 and 45.

Comparison of the Three Months Ended June 30, 2009 and 2008

The Company reported net income for the three months ended June 30, 2009 of $775 thousand, representing $0.04 per share calculated on a diluted basis, compared to $4.2 million, or $0.23 per share calculated on a diluted basis, for the second quarter of 2008. This decrease reflects increases in the provision for loan losses and noninterest expenses and lower net interest income partially offset by an increase in noninterest income and lower provision for income taxes. After dividends on preferred shares and accretion, net income available to common shareholders for the second quarter of 2009 was $138 thousand, representing $0.01 per share calculated on a diluted basis.

Net Interest Income

Net interest income, on a tax-equivalent basis, was $21.5 million for the second quarter of 2009 compared to $21.6 million for the 2008 period. Net interest income benefitted from higher average loan balances, lower interest-bearing deposit balances and lower cost of funding. Partially offsetting those benefits was the impact of lower yield on loans and investment securities, lower investment securities outstanding and higher borrowed funds balances. The net interest margin, on a tax-equivalent basis, was 4.53% for the second quarter of 2009 compared to 4.49% for the 2008 period. The net interest margin was impacted by the lower interest rate environment in 2009, the lower level of noninterest-bearing demand deposits and the effect of higher average loans outstanding.

Total interest income, on a tax-equivalent basis, aggregated $26.4 million for the second quarter of 2009, down $3.4 million from the 2008 period. The tax-equivalent yield on interest-earning assets was 5.59% for the second quarter of 2009 compared to 6.26% for the 2008 period.

Interest earned on the loan portfolio decreased to $18.3 million for the second quarter of 2009 from $20.0 million the prior year period. Average loan balances amounted to $1,204.6 million, an increase of $71.6 million from an average of $1,133.0 million in the prior year period. The increase in average loans, primarily due to the Company's business development activities, accounted for a $1.2 million increase in interest earned on loans. The decrease in the yield on the loan portfolio to 6.19% for the second quarter of 2009 from 7.16% for the 2008 period was primarily attributable to the lower interest rate environment in 2009 and the mix of average outstanding balances among the components of the loan portfolio.

Interest earned on the securities portfolio, on a tax-equivalent basis, decreased to $8.1 million for the second quarter of 2009 from $9.8 million in the prior year period. Average outstandings decreased to $679.2 million (35.6% of average earning assets) for the second quarter of 2009 from $781.2 million (40.8% of average earning assets) in the prior year period. The decrease reflects the impact of the Company's asset/liability management strategy designed to shorten the average life of the portfolio. The average life of the securities portfolio was approximately 4.4 years at June 30, 2009 compared to 7.2 years at June 30, 2008. The average yield in the investment securities portfolio decreased to 4.79% from 5.04% reflecting the impact of the above referenced asset/liability management strategy coupled with calls of higher yielding securities.

Total interest expense decreased by $3.4 million for the second quarter of 2009 from $8.2 million for the 2008 period, primarily due to the impact of lower rates paid for interest-bearing deposits and borrowings and lower interest-bearing deposits.

Interest expense on deposits decreased to $3.0 million for the second quarter of 2009 from $5.1 million for the 2008 period, due to decreases in the cost of those funds and lower balances. The average rate paid on interest-bearing deposits was 1.35%, which was 75 basis points lower than the prior year period. The decrease in average cost of deposits reflects the lower interest rate environment during 2009. Average interest-bearing deposits were $891.7 million for the second quarter of 2009 compared to $979.6 million for the prior year period, reflecting the Company's strategy to reduce reliance on higher-priced certificates of deposit.

Interest expense on borrowings decreased to $1.9 million for the second quarter of 2009 from $3.1 million for the 2008 period, primarily due to lower rates paid for borrowed funds coupled with the benefit (reflected in the volume change) derived from the elimination of funding through dealer repurchase agreements and short-term Federal Home Loan Bank borrowings partially offset by short-term borrowings from the Federal Reserve Bank (reflected in the volume change). The average rate paid for borrowed funds was 1.58%, which was 119 basis points lower than the prior year period. The decrease in the average cost of borrowings reflects the lower interest rate environment in 2009. Average borrowings increased to $481.1 million for the second quarter of 2009 from $452.0 million in the prior year period, reflecting greater reliance by the Company on wholesale funding.

Provision for Loan Losses

Based on management's continuing evaluation of the loan portfolio (discussed under "Asset Quality" on page 37), the provision for loan losses for the second quarter of 2009 was $6.8 million, compared to $2.2 million for the prior year period. Factors affecting the larger provision for the second quarter of 2009 included further deterioration of economic conditions during the quarter, a $4.0 million increase in net charge-offs, a $13.6 million increase in nonaccrual loans and growth in the loan portfolio.

Noninterest Income

Noninterest income increased to $10.8 million for the second quarter of 2009 from $8.6 million in the 2008 period. The increase principally resulted from higher income related to accounts receivable management and factoring services and an increase in securities gains. Commissions and other fees earned from accounts receivable management and factoring services were higher primarily due to the impact of the acquisition of the business of DCD Finance Inc. on April 6, 2009. Partially offsetting that benefit was the impact of reduced volume of billing by clients providing temporary staffing. In connection with an asset liability management program designed to reduce the average life of the investment securities portfolio, the Company sold approximately $31 million of securities with a weighted average life of approximately 2.6 years. The Company expects to reinvest a significant portion of the proceeds in securities with an average life of less than two years. In the second quarter of 2008, the Company recorded an other-than-temporary impairment charge for a single-issuer, investment grade trust preferred security. The charge, which resulted from management's regular review of the valuation of the investment portfolio, amounted to approximately $507,000 and reduced the carrying amount of the security to $493,000.

Noninterest Expenses

Noninterest expenses for the second quarter of 2009 increased $3.0 million when compared to the 2008 period. The increase was primarily due the impact of the acquisition of the business of DCD Finance Inc. on April 6, 2009 and higher deposit insurance and pension costs. The increase in deposit insurance cost was primarily due to a special assessment levied by the Federal Deposit Insurance Corporation ("FDIC") on all insured depository institutions totaling 5 basis points of each institution's total assets less Tier 1 capital as of June 30, 2009, not to exceed 10 basis points of domestic deposits. The special assessment is part of the FDIC's effort to rebuild the Deposit Insurance Fund ("DIF"). Deposit insurance expense during the three and six months ended June 30, 2009 included a $1.0 million accrual related to the special assessment. The final rule also allows the FDIC to impose additional special assessments of 5 basis points for the third and fourth quarters of 2009, if the FDIC estimates that the DIF reserve ratio will fall to a level that would adversely affect public confidence in federal deposit insurance or to a level that would be close to or below zero. Any additional special assessment would also be capped at 10 basis points of domestic deposits. The Company cannot provide any assurance as to the ultimate amount or timing of any such special assessments, should such special assessments occur, as such special assessments depend upon a variety of factors

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

Provision for Income Taxes
The provision for income taxes for the second quarter of 2009 decreased to $0.4 million from $2.5 million for the first quarter of 2008. The decrease was primarily due to the lower level of pre-tax income in the 2009 period.

Comparison of the Six Months Ended June 30, 2009 and 2008

The Company reported net income for the six months ended June 30, 2009 of $4.4 million, representing $0.24 per share calculated on a diluted basis, compared to $8.2 million, or $0.45 per share calculated on a diluted basis, for the first six months of 2008. This decrease reflects a higher provision for loan losses and noninterest expenses partially offset by increases in net interest income and noninterest income and lower provision for income taxes. After dividends on preferred shares and accretion, net income available to common shareholders for the first six months of 2009 was $2.9 million, representing $.16 per share calculated on a diluted basis.

Net Interest Income
Net interest income, on a tax-equivalent basis, was $43.0 million for the first six months of 2009 compared to $41.6 million for the 2008 period. Net interest income benefitted from higher average loan balances, lower interest-bearing deposit balances and lower cost of funding. Partially offsetting those benefits was the impact of lower yield on loans and investment securities, lower investment securities balances and higher borrowed funds balances. The net interest margin, on a tax-equivalent basis, was 4.55% for the first six months of 2009 compared to 4.49% for the 2008 period. The net interest margin was impacted by the lower interest rate environment in 2009, the lower level of noninterest-bearing demand deposits and the effect of higher average loans outstanding.

Total interest income, on a tax-equivalent basis, aggregated $53.1 million for the first six months of 2009, down $6.6 million from the 2008 period. The tax-equivalent yield on interest-earning assets was 5.64% for the first six months of 2009 compared to 6.50% for the 2008 period.

Interest earned on the loan portfolio decreased to $35.8 million for the first six months of 2009 from $40.8 million for the prior year period. Average loan balances amounted to $1,183.0 million, an increase of $74.2 million from an average of $1,108.8 million in the prior year period. The increase in average loans, primarily due to the Company's business development activities, accounted for a $2.4 million increase in interest earned on loans. The yield on the loan portfolio decreased to 6.24% for the first six months of 2009 from 7.55% for the 2008 period, which was primarily attributable to the lower interest rate environment in 2009 and the mix of average outstanding balances among the components of the loan portfolio.

Interest earned on the securities portfolio, on a tax-equivalent basis, decreased to $17.3 million for the first six months of 2009 from $18.9 million in the prior year period. Average outstandings decreased to $714.6 million (37.3% of average earning assets) for the first six months of 2009 from $750.9 million (40.3% of average earning assets) in the prior year period. The decrease reflects the impact of the Company's asset/liability management strategy designed to shorten the average life of the portfolio. The average life of the securities portfolio was approximately 4.4 years at June 30, 2009 compared to 7.2 years at June 30, 2008. The average yield on the investment securities portfolio decreased to 4.84% from 5.03%, reflecting the impact of the above referenced asset/liability management strategy coupled with calls of higher yielding securities.

Total interest expense decreased by $8.1 million for the first six months of 2009 from $18.2 million for the 2008 period, primarily due to the impact of lower rates paid for interest-bearing deposits and borrowings and lower interest-bearing deposit balances.

Interest expense on deposits decreased to $6.3 million for the first six months of 2009 from $12.1 million for the 2008 period, primarily due to a decrease in the cost of those funds. The average rate paid on interest-bearing deposits was 1.41%, which was 102 basis points lower than the prior year period. The decrease in average cost of deposits reflects the lower interest rate environment during 2009. Average interest-bearing deposits were $901.7 million for the first six months of 2009 compared to $997.9 million for the prior year period, reflecting the Company's strategy to reduce reliance on higher-priced certificates of deposit.

Interest expense on borrowings decreased to $3.8 million for the first six months of 2009 from $6.1 million for the 2008 period, primarily due to lower rates paid for borrowed funds coupled with the benefit (reflected in the volume change) derived from the elimination of funding through dealer repurchase agreements partially offset by short-term borrowings from the Federal Reserve Bank (reflected in the volume change). The average rate paid for borrowed funds was 1.61%, which was 152 basis points lower than the prior year period. The decrease in the average cost of borrowings reflects the lower interest rate environment in 2009. Average borrowings increased to $478.9 million for the first six months of 2009 from $391.3 million in the prior year period, reflecting greater reliance by the Company on wholesale funding.

Provision for Loan Losses

Based on management's continuing evaluation of the loan portfolio (discussed under "Asset Quality" on page 37), the provision for loan losses for the first six months of 2009 was $13.0 million, compared to $4.2 million for the prior year period. Factors affecting the larger provision for the first six months of 2009 included further deterioration of economic conditions during that period, a $7.5 million increase in net charge-offs, a $13.6 million increase in nonaccrual loans and growth in the loan portfolio.

Noninterest Income

Noninterest income increased to $21.6 million for the first six months of 2009 from $17.2 million in the 2008 period. The increase principally resulted from higher income related to accounts receivable management and factoring services, and an increase in securities gains. Commissions and other fees earned from accounts receivable management and factoring services were higher primarily due to the impact of the acquisition of the business of DCD Finance Inc. on April 6, 2009. Partially offsetting that benefit was the impact of reduced volume of billing by clients providing temporary staffing. In connection with an asset liability management program designed to reduce the average life of the investment securities portfolio, the Company sold approximately $123 million of securities with a weighted average life of approximately 4 years. The Company expects to reinvest a significant portion of the proceeds in securities with an average life of less than two years. In the second quarter of 2008, the Company recorded an other-than-temporary impairment charge for a single-issuer, investment grade trust preferred security. The charge, which resulted from management's regular review of the valuation of the investment portfolio, amounted to approximately $507,000 and reduced the carrying amount of the security to $493,000.

Noninterest Expenses

Noninterest expenses for the first six months of 2009 increased $2.9 million when compared to the 2008 period. The increase was primarily due to the impact of the acquisition of the business of DCD Finance Inc. on April 6, 2009 and higher deposit insurance and pension costs. The increase in deposit insurance cost was primarily due to a special assessment levied by the FDIC on all insured depository institutions totaling 5 basis points of each institution's total assets less Tier 1 capital as of June 30, 2009, not to exceed 10 basis points of domestic deposits. The special assessment is part of the FDIC's effort to rebuild the DIF. Deposit insurance expense during the three and six months ended June 30, 2009 included a $1.0 million accrual related to the special assessment. The final rule also allows the FDIC to impose additional special assessments of 5 basis points for the third and fourth quarters of 2009, if the FDIC estimates that the DIF reserve ratio will fall to a level that would adversely affect public confidence in federal deposit insurance or to a level that would be close to or below zero. Any additional special assessment would also be capped at 10 basis points of domestic deposits. The Company cannot provide any assurance as to the ultimate amount or timing of any such special assessments, should such special assessments occur, as such special assessments depend upon a variety of factors which are beyond the Company's control. The increase in pension expense was primarily the result of weaker return on plan assets during 2008. The Company's defined benefit retirement plan was closed to new members effective as of January 3, 2007. There have been no new participants in the Company's SERP. The defined benefit plan was replaced by an enhanced 401(k) contribution for new employees. The Company still has funding obligations related to the defined benefit retirement and SERP plans and will recognize retirement expense related to these plans in future years, which will be dependent on the return earned on plan assets, the level of interest rates, salary increases, employee turnover and other factors.

Provision for Income Taxes

The provision for income taxes for the first six months of 2009 decreased to $2.7 million from $4.9 million for the first six months of 2008. The decrease was primarily due to the lower level of pre-tax income in the 2009 period.

BALANCE SHEET ANALYSIS

Securities

At June 30, 2009, the Company's portfolio of securities totaled $717.7 million, of which obligations of U.S. government corporations and government-sponsored enterprises amounted to $560.3 million, which is approximately 78.1% of the total. The Company has the intent and ability to hold to maturity securities classified as "held to maturity". These securities are carried at cost, adjusted for amortization of premiums and accretion of discounts. The gross unrealized gains and losses on "held to maturity" securities were $7.4 million and $0.6 million, respectively. Securities classified as "available for sale" may be sold in the future, prior to maturity. These securities are carried at estimated fair value. Net aggregate unrealized gains or losses on these securities are included in a valuation allowance account and are shown net of taxes, as a component of shareholders' equity. Given the generally high credit quality of the portfolio, management expects to realize all of its investment upon market recovery or the maturity of such instruments and thus believes that any impairment in value is interest rate related and therefore temporary. "Available for sale" securities included gross unrealized gains of $3.8 million and gross unrealized losses of $2.7 million. After reviewing all investment securities the Company holds in order to determine if the decline in the fair value of any security appears to be other-than-temporary, management expects to realize all of its investment upon the maturity of such instruments and, thus, believes that any fair value impairment is temporary. Management has made an evaluation that the Company has the ability to hold securities with unrealized losses until maturity and, given its current intention to do so, anticipates that it will realize the full carrying value of its investment.

In connection with an asset liability management program designed to reduce the average life of the investment securities portfolio, the Company sold approximately $123 million of securities with a weighted average life of approximately 4 years during the first six months of 2009. The Company expects to reinvest a significant portion of the proceeds in securities with an average life of less than two years.

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

| | Weighted Average Life | | Weighted Average Yield | | | |
|---|---|---|---|---|---|---|
| June 30, 2009 | AFS | HTM | AFS | | HTM | |
| Mortgage-backed securities | 2.8 Years | 2.7 Years | 4.40% | | 4.32% | |
| Agency notes (with original call dates ranging between 3 and 36 months) | 8.9 Years | 1.9 Years | 4.79% | | 5.16% | |
| Obligations of state and political subdivisions | 6.3 Years | 12.9 Years | 5.98% | [1] | 6.43% | [1] |

[1] tax equivalent

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

| | June 30, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | Balances | % of Total | Balances | % of Total |
| | (in thousands) | | | |
| Obligations of U.S. government corporations and government sponsored enterprises | | | | |
| Mortgage-backed securities | | | | |
| CMO's (Federal National Mortgage Association) | $14,716 | 2.05 % | $20,799 | 2.58 % |
| CMO's (Federal Home Loan Mortgage Corporation) | 34,996 | 4.88 | 42,294 | 5.24 |
| CMO's (Government National Mortgage Association) | 5,225 | 0.73 | 6,565 | 0.81 |
| Federal National Mortgage Association | 163,966 | 22.84 | 245,100 | 30.38 |
| Federal Home Loan Mortgage Corporation | 100,826 | 14.05 | 137,437 | 17.04 |
| Government National Mortgage Association | 16,085 | 2.24 | 39,564 | 4.90 |
| Total mortgage-backed securities | 335,814 | 46.79 | 491,759 | 60.95 |
| | | | | |
| Agency Notes | | | | |
| Federal National Mortgage Association | 59,989 | 8.36 | - | - |
| Federal Home Loan Bank | 119,969 | 16.72 | 174,675 | 21.65 |
| Federal Home Loan Mortgage Corporation | 15,000 | 2.09 | - | - |
| Federal Farm Credit Bank | 29,525 | 4.11 | 89,844 | 11.13 |
| Total obligations of U.S. government corporations and government sponsored enterprises | 560,297 | 78.07 | 756,278 | 93.73 |
| | | | | |
| Obligations of state and political institutions | 59,810 | 8.33 | 23,406 | 2.90 |
| Single-issuer, trust preferred securities | 4,500 | 0.63 | 4,209 | 0.52 |
| Corporate debt securities | 83,178 | 11.59 | 9,724 | 1.21 |
| Other securities | 63 | 0.01 | 67 | 0.01 |
| Total marketable securities | 707,848 | 98.63 | 793,684 | 98.37 |
| Federal Reserve Bank stock | 1,131 | 0.16 | 1,131 | 0.14 |
| Federal Home Loan Bank stock | 8,252 | 1.15 | 11,574 | 1.43 |
| Other securities | 250 | 0.03 | 250 | 0.03 |
| Debt securities issued by foreign governments | 250 | 0.03 | 250 | 0.03 |
| Total | $717,731 | 100.00 % | $806,889 | 100.00 % |

Loan Portfolio

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

The Company’s commercial and industrial loan and factored receivables portfolios represent approximately 53% 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 25% of all loans, is comprised of mortgages secured by real property located principally in the states of New York, New Jersey, Virginia and North Carolina. The Company’s leasing portfolio, which consists of finance leases for various types of business equipment, represents approximately 19% of all loans. Sources of repayment are the borrower’s operating profits, cash flows and liquidation of pledged collateral. Based on underwriting standards, loans may be secured in whole or in part by collateral such as liquid assets, accounts receivable, equipment, inventory and real property. The collateral securing any loan or lease may depend on the type of loan or lease and may vary in value based on market conditions.

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

| | June 30, | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | (dollars in thousands) | | | |
| | Balances | % of Total | Balances | % of Total |
| Domestic | | | | |
| Commercial and industrial | $507,635 | 41.68 % | $513,363 | 43.33 % |
| Lease financing receivables | 229,024 | 18.81 | 261,628 | 22.08 |
| Factored receivables | 134,450 | 11.04 | 77,169 | 6.52 |
| Real estate - residential mortgage | 198,516 | 16.30 | 169,774 | 14.33 |
| Real estate - commercial mortgage | 101,282 | 8.32 | 95,155 | 8.03 |
| Real estate - construction and land development | 27,235 | 2.24 | 30,212 | 2.55 |
| Loans to individuals | 19,672 | 1.61 | 17,443 | 1.47 |
| Loans to depository institutions | - | - | 20,000 | 1.69 |
| Loans, net of unearned discounts | $1,217,814 | 100.00 % | $1,184,744 | 100.00 % |

Asset Quality

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

During the first six months of 2009, conditions across many segments of the economy continued to deteriorate, adversely affecting the financial condition of our small business borrowers as well as the value of our collateral. The Company also experienced a disruption in our collection efforts due to resignations, during the first quarter of 2009, of our collection manager and other members of the collection staff which resulted in increases in charge-offs and nonaccruals during the quarter. We have since upgraded our collection staff, intensified our collection activities, tightened our credit standards and enhanced other credit evaluation criteria. A continuation and/or worsening of existing economic conditions will likely result in a level of charge-offs and nonaccrual loans that will be higher than those in prior periods.

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

| | June 30, | |
|---|---|---|
| | 2009 | 2008 |
| | (in thousands) | |
| Gross Loans | $1,249,473 | $1,222,866 |
| Nonaccrual loans | | |
| Commercial and industrial | $2,835 | $836 |
| Lease financing | 14,256 | 2,600 |
| Factored receivables | - | - |
| Real estate-residential mortgage | 3,380 | 3,487 |
| Real estate-commercial mortgage | - | - |
| Real estate-construction and land development | - | - |
| Loans to individuals | 136 | 47 |
| Total nonaccrual loans | 20,607 | 6,970 |
| Other real estate owned | 1,105 | 2,252 |
| Total non-performing assets | $21,712 | $9,222 |
| Loans past due 90 days or more and still accruing | $1,683 | $224 |

At June 30, 2009, commercial and industrial nonaccruals represented 0.56% of commercial and industrial loans. There were 32 loans made to small business borrowers located in 4 states with balances ranging between approximately $7,200 and $151,500.

At June 30, 2009, lease financing nonaccruals represent 6.22% of lease financing receivables. The lessees of the equipment are located in 35 states. There were 281 leases ranging between approximately $300 and $238,000, 253 of which were under $100,000. The value of the underlying collateral related to lease financing nonaccruals varies depending on the type and condition of equipment. While most leases are written on a recourse basis, with personal guarantees of the principals, the current value of the collateral is often less than the lease financing balance.

At June 30, 2009, residential real estate nonaccruals represent 1.7% of residential real estate loans held in portfolio. There were 20 loans ranging between approximately $10,000 and $620,000 secured by properties located in 8 states.

At June 30, 2009, other real estate owned consisted of 10 properties with values between approximately $22,000 and $585,000 located in 7 states.

Management views the allowance for loan losses as a critical accounting policy due to its subjectivity. The allowance for loan losses is maintained through the provision for loan losses, which is a charge to operating earnings. The adequacy of the provision and the resulting allowance for loan losses is determined by a management evaluation process of the loan portfolio, including identification and review of individual problem situations that may affect the borrower's ability to repay, review of overall portfolio quality through an analysis of current charge-offs, delinquency and nonperforming loan data, estimates of the value of any underlying collateral, an assessment of current and expected economic conditions and changes in the size and character of the loan portfolio. Other data utilized by management in determining the adequacy of the allowance for loan losses include, but are not limited to, the results of regulatory reviews; the amount of, trend of and/or borrower characteristics on loans that are identified as requiring special attention as part of the credit review process and peer group comparisons. The impact of this other data might result in an allowance greater than that indicated by the evaluation process previously described. The allowance reflects management's evaluation both of loans presenting identified loss potential and of the risk inherent in various components of the loan portfolio, including loans identified as impaired as required by SFAS No. 114. Thus, an increase in the size of the portfolio or in any of its components could necessitate an increase in the allowance even though there may not be a decline in credit quality or an increase in potential problem loans. A significant change in any of the evaluation factors described above could result in future additions to the allowance. At June 30, 2009, the ratio of the allowance to loans held in portfolio, net of unearned discounts, was 1.56% and the allowance was $18.1 million. At such date, the Company's nonaccrual loans amounted to $20.6 million. Loans 90 days past due and still accruing amounted to $1.7 million. At June 30, 2009, loans judged to be impaired within the scope of SFAS No. 114, amounted to $1.7 million and had a valuation allowance totaling $270 thousand, which is included within the overall allowance for loan losses. Included in the impaired loans are $1.4 million in accruing impaired restructured loans as defined by SFAS No. 114, with allowances for loan impairment of $184 thousand. Based on the foregoing, as well as management's judgment as to the current risk in loans held in portfolio, the Company's allowance for loan losses was deemed adequate to absorb all probable losses on specifically known and other credit risks associated with the portfolio as of June 30, 2009. Net losses within loans held in portfolio are not statistically predictable and changes in conditions in the next twelve months could result in future provisions for loan losses varying from the provision recognized in the first six months of 2009. Potential problem loans, which are loans that are currently performing under present loan repayment terms but where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of the borrowers to continue to comply with the present repayment terms, aggregated $2.4 million and $-0- million at June 30, 2009 and June 30, 2008, respectively.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (dollars in thousands) | | | |
| Average loans held in portfolio, net of unearned discounts, during period | $ 1,910,289 | $ 1,917,116 | $ 1,916,836 | $ 1,862,826 |
| Allowance for loan losses: | | | | |
| Balance at beginning of period | $ 17,158 | $ 15,162 | $ 16,010 | $ 15,085 |
| Charge-offs: | | | | |
| Commercial and industrial | 518 | 454 | 877 | 1,288 |
| Lease financing | 5,083 | 1,216 | 9,627 | 1,967 |
| Factored receivables | 142 | 110 | 309 | 195 |
| Real estate - residential mortgage | - | 15 | - | 15 |
| Real estate - commercial mortgage | - | - | - | - |
| Real estate - construction and land development | - | - | - | - |
| Loans to individuals | - | - | - | - |
| Total charge-offs | 5,743 | 1,795 | 10,813 | 3,465 |
| Recoveries: | | | | |
| Commercial and industrial | 5 | 108 | 16 | 111 |
| Lease financing | 98 | 64 | 142 | 161 |
| Factored receivables | 5 | 10 | 23 | 15 |
| Real estate - residential mortgage | - | - | - | - |
| Real estate - commercial mortgage | - | - | - | - |
| Real estate - construction and land development | - | - | - | - |
| Loans to individuals | - | 2 | - | 69 |
| Total recoveries | 108 | 184 | 181 | 356 |
| Subtract: | | | | |
| Net charge-offs | 5,635 | 1,611 | 10,632 | 3,109 |
| Provision for loan losses | 6,800 | 2,200 | 13,000 | 4,150 |
| Less losses on transfers to other real estate owned | 189 | 271 | 244 | 646 |
| Balance at end of period | $ 18,134 | $ 15,480 | $ 18,134 | $ 15,480 |
| Ratio of annualized net charge-offs to average loans held in portfolio, net of unearned discounts | 1.18 % | 0.34 % | 1.11 % | 0.33 % |

The following table presents the Company's allocation of the allowance for loan losses. This allocation is based on estimates by management and may vary from period to period based on management's evaluation of the risk characteristics of the loan portfolio. The amount allocated to a particular loan category of the Company's loans held in portfolio may not necessarily be indicative of actual future charge-offs in that loan category.

| June 30, | 2009 | | 2008 | |
|---|---|---|---|---|
| | Amount | % of Loans in each category to total loans held in portfolio | Amount | % of Loans in each category to total loans held in portfolio |
| | (dollars in thousands) | | | |
| Domestic | | | | |
| Commercial and industrial | $ 4,554 | 43.74 % | $ 5,495 | 44.25 % |
| Loans to depository institutions | - | - | 40 | 1.72 |
| Lease financing | 10,014 | 19.74 | 5,674 | 22.56 |
| Factored receivables | 1,007 | 11.59 | 916 | 6.64 |
| Real estate - residential mortgage | 1,419 | 12.16 | 2,380 | 12.53 |
| Real estate - commercial mortgage | 699 | 8.73 | 607 | 8.20 |
| Real estate - construction and land development | 191 | 2.35 | 196 | 2.60 |
| Loans to individuals | 138 | 1.69 | 113 | 1.50 |
| Unallocated | 112 | - | 59 | - |
| Total | $ 18,134 | 100.00 % | $ 15,480 | 100.00 % |

During 2009, the allowance for loan losses increased $2.1 million from $16.0 million at December 31, 2008 primarily due to an increase of $4.0 million in the allowance allocated to lease financing partially offset by a reduction of $1.0 million and $0.9 million in the allowance allocated to commercial and industrial and residential mortgage components respectively. The allowance allocated to lease financing increased primarily as a result of increased losses and nonaccrued levels experienced in that category in 2009. The reduction in the allowance allocated to commercial and industrial losses was primarily the result of lower losses experienced in that component of the portfolio in 2009. The reduction in the allowance allocated to residential mortgage loans was primarily the result of lower anticipated losses in the portfolio based on the improved quality of loans in the portfolio.

Deposits

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

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

| | June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | | 2008 | | |
| | (dollars in thousands) | | | | | |
| | Balances | % of Total | | Balances | % of Total | |
| Domestic | | | | | | |
| Demand | $440,626 | 33.77 | % | $459,279 | 32.69 | % |
| NOW | 186,958 | 14.33 | | 254,418 | 18.11 | |
| Savings | 17,991 | 1.38 | | 18,364 | 1.31 | |
| Money market | 327,326 | 25.10 | | 213,734 | 15.21 | |
| Time deposits | 331,187 | 25.38 | | 458,462 | 32.64 | |
| Total domestic deposits | 1,304,088 | 99.96 | | 1,404,257 | 99.96 | |
| Foreign | | | | | | |
| Time deposits | 579 | 0.04 | | 577 | 0.04 | |
| Total deposits | $1,304,667 | 100.00 | % | $ 1,404,834 | 100.00 | % |

Fluctuations of balances in total or among categories at any date may occur based on the Company's mix of assets and liabilities as well as on customers' balance sheet strategies. Historically, however, average balances for deposits have been relatively stable. Information regarding these average balances is presented on pages 44 and 45.

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENT

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained or incorporated by reference in this quarterly report on Form 10-Q, including but not limited to, statements concerning future results of operations or financial position, borrowing capacity and future liquidity, future investment results, future credit exposure, future loan losses and plans and objectives for future operations and other statements contained herein regarding matters that are not historical facts, are "forward-looking statements" as defined in the Securities Exchange Act of 1934. These statements are not historical facts but instead are subject to numerous assumptions, risks and uncertainties, and represent only our belief regarding future events, many of which, by their nature, are inherently uncertain and outside our control. Any forward-looking statements we may make speak only as of the date on which such statements are made. Our actual results and financial position may differ materially from the anticipated results and financial condition indicated in or implied by these forward-looking statements.

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

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

(dollars in thousands)

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| ASSETS | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| Interest-bearing deposits with other banks | $ 26,498 | $ 9 | 0.14 % | $ 2,474 | $ 7 | 1.14 % |
| Securities available for sale | 351,378 | 4,119 | 4.69 | 417,409 | 5,462 | 5.23 |
| Securities held to maturity | 292,956 | 3,477 | 4.75 | 341,662 | 4,034 | 4.72 |
| Securities tax-exempt [2] | 34,889 | 536 | 6.15 | 22,178 | 340 | 6.13 |
| Total investment securities | 679,223 | 8,132 | 4.79 | 781,249 | 9,836 | 5.04 |
| Federal funds sold | - | - | - | 357 | 1 | 1.79 |
| Loans, net of unearned discounts [3] | 1,204,568 | 18,264 | 6.19 | 1,133,036 | 20,001 | 7.16 |
| TOTAL INTEREST-EARNING ASSETS | 1,910,289 | 26,405 | 5.59 % | 1,917,116 | 29,845 | 6.26 % |
| Cash and due from banks | 29,623 | | | 47,695 | | |
| Allowance for loan losses | (17,994 ) | | | (15,948 ) | | |
| Goodwill | 22,901 | | | 22,901 | | |
| Other assets | 114,112 | | | 105,348 | | |
| TOTAL ASSETS | $ 2,058,931 | | | $ 2,077,112 | | |
| | | | | | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | |
| Interest-bearing deposits | | | | | | |
| Domestic | | | | | | |
| Savings | $ 18,080 | 6 | 0.13 % | $ 19,735 | 17 | 0.36 % |
| NOW | 196,441 | 126 | 0.26 | 256,316 | 542 | 0.85 |
| Money market | 341,886 | 811 | 0.95 | 195,131 | 530 | 1.09 |
| Time | 334,680 | 2,047 | 2.45 | 507,839 | 4,032 | 3.19 |
| Foreign | | | | | | |
| Time | 578 | 2 | 1.09 | 576 | 2 | 1.09 |
| Total interest-bearing deposits | 891,665 | 2,992 | 1.35 | 979,597 | 5,123 | 2.10 |
| Borrowings | | | | | | |
| Securities sold under agreements to repurchase - customers | 77,261 | 88 | 0.45 | 89,187 | 442 | 1.99 |
| | - | - | - | 66,527 | 416 | 2.52 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Securities sold under agreements to repurchase - dealers | | | | | | | | | | |
| Federal funds purchased | | 12,309 | 7 | 0.22 | | | 39,302 | 217 | 2.19 | |
| Commercial paper | | 11,101 | 17 | 0.62 | | | 19,547 | 117 | 2.42 | |
| Short-term borrowings - FHLB | | - | - | - | | | 53,758 | 311 | 2.32 | |
| Short-term borrowings - FRB | | 202,857 | 126 | 0.25 | | | 264 | 1 | 1.29 | |
| Short-term borrowings - other | | 1,752 | - | - | | | 1,472 | 5 | 2.27 | |
| Long-term borrowings - FHLB | | 150,000 | 1,134 | 3.03 | | | 156,154 | 1,085 | 2.78 | |
| Long-term borrowings - sub debt | | 25,774 | 524 | 8.37 | | | 25,774 | 524 | 8.37 | |
| Total borrowings | | 481,054 | 1,896 | 1.58 | | | 451,985 | 3,118 | 2.77 | |
| TOTAL INTEREST-BEARING LIABILITIES | | 1,372,719 | 4,888 | 1.43 | % | | 1,431,582 | 8,241 | 2.31 | % |
| Noninterest-bearing deposits | | 417,509 | | | | | 424,658 | | | |
| Other liabilities | | 109,796 | | | | | 100,128 | | | |
| Total liabilities | | 1,900,024 | | | | | 1,956,368 | | | |
| Shareholders' equity | | 158,907 | | | | | 120,744 | | | |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $ | 2,058,931 | | | | $ | 2,077,112 | | | |
| Net interest income/spread | | | 21,517 | 4.16 | % | | | 21,604 | 3.95 | % |
| Net yield on interest-earning assets (margin) | | | | 4.53 | % | | | | 4.49 | % |
| Less: Tax equivalent adjustment | | | 203 | | | | | 132 | | |
| Net interest income | | | $ 21,314 | | | | | $ 21,472 | | |

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

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

(dollars in thousands)

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| ASSETS | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| Interest-bearing deposits with other banks | $ 19,278 | $ 19 | 0.21 % | $ 2,968 | $ 19 | 1.26 % |
| Securities available for sale | 389,715 | 9,398 | 4.82 | 381,222 | 9,996 | 5.24 |
| Securities held to maturity | 295,245 | 6,999 | 4.74 | 348,991 | 8,259 | 4.73 |
| Securities tax-exempt [2] | 29,610 | 902 | 6.09 | 20,655 | 633 | 6.13 |
| Total investment securities | 714,570 | 17,299 | 4.84 | 750,868 | 18,888 | 5.03 |
| Federal funds sold | - | - | - | 179 | 1 | 1.78 |
| Loans, net of unearned discounts [3] | 1,182,988 | 35,816 | 6.24 | 1,108,811 | 40,821 | 7.55 |
| TOTAL INTEREST-EARNING ASSETS | 1,916,836 | 53,134 | 5.64 % | 1,862,826 | 59,729 | 6.50 % |
| Cash and due from banks | 31,017 | | | 57,594 | | |
| Allowance for loan losses | (17,445 ) | | | (15,759 ) | | |
| Goodwill | 22,901 | | | 22,901 | | |
| Other assets | 113,069 | | | 104,070 | | |
| TOTAL ASSETS | $ 2,066,378 | | | $ 2,031,632 | | |
| | | | | | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | |
| Interest-bearing deposits | | | | | | |
| Domestic | | | | | | |
| Savings | $ 18,148 | 12 | 0.14 % | $ 19,192 | 33 | 0.35 % |
| NOW | 211,650 | 294 | 0.28 | 246,514 | 1,368 | 1.12 |
| Money market | 340,020 | 1,762 | 1.04 | 202,321 | 1,298 | 1.29 |
| Time | 331,266 | 4,212 | 2.56 | 529,327 | 9,369 | 3.56 |
| Foreign | | | | | | |
| Time | 578 | 3 | 1.09 | 576 | 3 | 1.09 |
| Total interest-bearing deposits | 901,662 | 6,283 | 1.41 | 997,930 | 12,071 | 2.43 |
| Borrowings | | | | | | |
| Securities sold under agreements to repurchase - customers | 75,987 | 203 | 0.54 | 85,824 | 1,088 | 2.55 |
| | - | - | - | 51,277 | 733 | 2.88 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Securities sold under agreements to repurchase - dealers | | | | | | | | | | |
| Federal funds purchased | | 34,783 | 41 | 0.23 | | | 44,129 | 579 | 2.60 | |
| Commercial paper | | 11,487 | 40 | 0.70 | | | 20,349 | 312 | 3.09 | |
| Short-term borrowings - FHLB | | 6,878 | 11 | 0.31 | | | 39,813 | 526 | 2.65 | |
| Short-term borrowings - FRB | | 172,405 | 225 | 0.26 | | | 132 | 1 | 2.27 | |
| Short-term borrowings - other | | 1,603 | 1 | 0.07 | | | 1,655 | 19 | 2.29 | |
| Long-term borrowings - FHLB | | 150,000 | 2,256 | 3.03 | | | 122,308 | 1,799 | 2.94 | |
| Long-term borrowings - sub debt | | 25,774 | 1,047 | 8.38 | | | 25,774 | 1,047 | 8.38 | |
| Total borrowings | | 478,917 | 3,824 | 1.61 | | | 391,261 | 6,104 | 3.13 | |
| TOTAL INTEREST-BEARING LIABILITIES | | 1,380,579 | 10,107 | 1.48 | % | | 1,389,191 | 18,175 | 2.63 | % |
| Noninterest-bearing deposits | | 416,847 | | | | | 422,814 | | | |
| Other liabilities | | 110,728 | | | | | 99,115 | | | |
| Total liabilities | | 1,908,154 | | | | | 1,911,120 | | | |
| Shareholders' equity | | 158,224 | | | | | 120,512 | | | |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $ | 2,066,378 | | | | $ | 2,031,632 | | | |
| Net interest income/spread | | | 43,027 | 4.16 | % | | | 41,554 | 3.87 | % |
| Net yield on interest-earning assets (margin) | | | | 4.55 | % | | | | 4.49 | % |
| Less: Tax equivalent adjustment | | | 341 | | | | | 247 | | |
| Net interest income | | | $ 42,686 | | | | | $ 41,307 | | |

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

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

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

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

(in thousands)

| | Increase/(Decrease) Three Months Ended June 30, 2009 to June 30, 2008 | | |
|---|---|---|---|
| | Volume | Rate | Net [2] |
| INTEREST INCOME | | | |
| Interest-bearing deposits with other banks | $13 | $(11) | $2 |
| | | | |
| Securities available for sale | (813) | (530) | (1,343) |
| Securities held to maturity | (583) | 26 | (557) |
| Securities tax-exempt | 195 | 1 | 196 |
| Total investment securities | (1,201) | (503) | (1,704) |
| | | | |
| Federal funds sold | (1) | - | (1) |
| | | | |
| Loans, net of unearned discounts [3] | 1,190 | (2,927) | (1,737) |
| | | | |
| TOTAL INTEREST INCOME | $1 | $(3,441) | $(3,440) |
| | | | |
| INTEREST EXPENSE | | | |
| Interest-bearing deposits | | | |
| Domestic | | | |
| Savings | $(1) | $(10) | $(11) |
| NOW | (105) | (311) | (416) |
| Money market | 356 | (75) | 281 |
| Time | (1,181) | (804) | (1,985) |
| Foreign | | | |
| Time | - | - | - |
| Total interest-bearing deposits | (931) | (1,200) | (2,131) |
| | | | |
| Borrowings | | | |
| Securities sold under agreements to repurchase - customers | (52) | (302) | (354) |
| Securities sold under agreements to repurchase - dealers | (416) | - | (416) |
| Federal funds purchased | (91) | (119) | (210) |
| Commercial paper | (37) | (63) | (100) |
| Short-term borrowings - FHLB | (311) | - | (311) |
| Short-term borrowings - FRB | 127 | (2) | 125 |
| Short-term borrowings - other | 2 | (7) | (5) |
| Long-term borrowings - FHLB | (45) | 94 | 49 |
| Long-term borrowings - sub debt | - | - | - |
| Total borrowings | (823) | (399) | (1,222) |

| | | | |
|---|---|---|---|
| TOTAL INTEREST EXPENSE | $(1,754) | $(1,599) | $(3,353) |
| | | | |
| NET INTEREST INCOME | $1,755 | $(1,842) | $(87) |

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

[2] Changes in interest income and interest expense due to a combination of both volume and rate have been allocated to the change due to volume and the change due to rate in proportion to the relationship of the change due solely to each. The change in interest income for Federal funds sold and in interest expense for securities sold under agreements to repurchase-dealers, short-term borrowings-FRB and short-term borrowings-FHLB has been allocated entirely to the volume variance.

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

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

(in thousands)

| | Increase/(Decrease) Six Months Ended June 30, 2009 to June 30, 2008 | | |
|---|---|---|---|
| | Volume | Rate | Net [2] |
| INTEREST INCOME | | | |
| Interest-bearing deposits with other banks | $26 | $(26) | $- |
| | | | |
| Securities available for sale | 174 | (772) | (598) |
| Securities held to maturity | (1,277) | 17 | (1,260) |
| Securities tax-exempt | 273 | (4) | 269 |
| Total investment securities | (830) | (759) | (1,589) |
| | | | |
| Federal funds sold | (1) | - | (1) |
| | | | |
| Loans, net of unearned discounts [3] | 2,449 | (7,454) | (5,005) |
| | | | |
| TOTAL INTEREST INCOME | $1,644 | $(8,239) | $(6,595) |
| | | | |
| INTEREST EXPENSE | | | |
| Interest-bearing deposits | | | |
| Domestic | | | |
| Savings | $(2) | $(19) | $(21) |
| NOW | (177) | (897) | (1,074) |
| Money market | 750 | (286) | 464 |
| Time | (2,964) | (2,193) | (5,157) |
| Foreign | | | |
| Time | - | - | - |
| Total interest-bearing deposits | (2,393) | (3,395) | (5,788) |
| | | | |
| Borrowings | | | |
| Securities sold under agreements to repurchase - customers | (117) | (768) | (885) |
| Securities sold under agreements to repurchase - dealers | (733) | - | (733) |
| Federal funds purchased | (103) | (435) | (538) |
| Commercial paper | (99) | (173) | (272) |
| Short-term borrowings - FHLB | (250) | (265) | (515) |
| Short-term borrowings - FRB | 226 | (2) | 224 |
| Short-term borrowings - other | 1 | (19) | (18) |
| Long-term borrowings - FHLB | 401 | 56 | 457 |
| Long-term borrowings - sub debt | - | - | - |
| Total borrowings | (674) | (1,606) | (2,280) |

| | | | |
|---|---|---|---|
| TOTAL INTEREST EXPENSE | $(3,067) | $(5,001) | $(8,068) |
| | | | |
| NET INTEREST INCOME | $4,711 | $(3,238) | $1,473 |

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

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

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

STERLING BANCORP AND SUBSIDIARIES
Regulatory Capital and Ratios

Ratios and Minimums
(dollars in thousands)

| | Actual | | For Capital Adequacy Minimum | | To Be Well Capitalized | |
|---|---|---|---|---|---|---|
| As of June 30, 2009 | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Total Capital(to Risk-Weighted Assets): | | | | | | |
| The Company | $191,905 | 12.89 % | $119,098 | 8.00 % | $148,872 | 10.00 % |
| The bank | 161,579 | 10.88 | 118,784 | 8.00 | 148,480 | 10.00 |
| Tier 1 Capital(to Risk-Weighted Assets): | | | | | | |
| The Company | 173,677 | 11.67 | 59,549 | 4.00 | 89,323 | 6.00 |
| The bank | 143,351 | 9.65 | 59,392 | 4.00 | 89,088 | 6.00 |
| Tier 1 Leverage Capital(to Average Assets): | | | | | | |
| The Company | 173,677 | 8.53 | 81,403 | 4.00 | 101,753 | 5.00 |
| The bank | 143,351 | 7.06 | 81,227 | 4.00 | 101,534 | 5.00 |
| As of December 31, 2008 | | | | | | |
| Total Capital(to Risk-Weighted Assets): | | | | | | |
| The Company | $193,991 | 13.90 % | $111,614 | 8.00 % | $139,518 | 10.00 % |
| The bank | 154,619 | 11.05 | 111,924 | 8.00 | 139,905 | 10.00 |
| Tier 1 Capital(to Risk-Weighted Assets): | | | | | | |
| The Company | 177,825 | 12.75 | 55,807 | 4.00 | 83,711 | 6.00 |
| The bank | 138,453 | 9.90 | 55,962 | 4.00 | 83,943 | 6.00 |
| Tier 1 Leverage Capital(to Average Assets): | | | | | | |
| The Company | 177,825 | 8.60 | 82,663 | 4.00 | 103,328 | 5.00 |
| The bank | 138,453 | 6.69 | 82,779 | 4.00 | 103,474 | 5.00 |

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ASSET/LIABILITY MANAGEMENT

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

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

Market Risk

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

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

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

The Company's balance sheet structure is primarily short-term in nature with a substantial portion of assets and liabilities repricing or maturing within one year. The Company's gap analysis at June 30, 2009, presented on page 53, indicates that net interest income would increase during periods of rising interest rates and decrease during periods of falling interest rates, but, as mentioned above, gap analysis may not be an accurate predictor of net interest income.

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

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

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

The Company's interest rate sensitivity is determined by identifying the probable impact of changes in market interest rates on the yields on the Company's assets and the rates that would be paid on its liabilities. This modeling technique involves a degree of estimation based on certain assumptions that management believes to be reasonable. Utilizing this process, management projects the impact of changes in interest rates on net interest margin. The Company has established certain policy limits for the potential volatility of its net interest margin assuming certain levels of changes in market interest rates with the objective of maintaining a stable net interest margin under various probable rate scenarios. Management generally has maintained a risk position well within the policy limits. As of December 31, 2008, the model indicated the impact of 100 and 200 basis point parallel and pro rata rise in rates over 12 months would approximate a 1.2% ($1.2 million) and a 2.1% ($2.0 million) increase in net interest income, respectively, while the impact of a 25 basis point decline in rates over the same period would approximate a 0.4% ($0.4 million) decline from an unchanged rate environment. The likelihood of a decrease in interest rates beyond 25 basis points as of December 31, 2008 was considered to be remote given then-current interest rate levels. As of June 30, 2009, the model indicated the impact of a 100 and 200 basis point parallel and pro rata rise in rates over 12 months would approximate a 1.1% ($1.0 million ) and a 2.0% ($1.9 million) increase in net interest income, respectively, while the impact of a 25 basis point decline in rates over the same period would approximate a 0.7% ($0.7 million) decline from an unchanged rate environment. The likelihood of a decrease in interest rates beyond 25 basis points as of June 30, 2009 was considered to be remote given then-current interest rate levels.

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

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

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

Liquidity Risk

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

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

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

At June 30, 2009, the parent company's short-term debt, consisting principally of commercial paper used to finance ongoing current business activities, was approximately $11.7 million. The parent company had cash, interest-bearing deposits with banks and other current assets aggregating $50.4 million. The parent company also has back-up credit lines with banks of $19.0 million. Since 1979, the parent company has had no need to use the available back-up lines of credit.

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

| Contractual Obligations (1) | Total | Less than 1 Year | 1-3 Years | 4-5 Years | After 5 Years |
|---|---|---|---|---|---|
| | | | Payments Due by Period (in thousands) | | |
| Long-Term Debt | $ 175,774 | $ 40,000 | $ 70,000 | $ 20,000 | $ 45,774 |
| Operating Leases | 19,253 | 5,599 | 4,832 | 4,368 | 4,454 |
| Total Contractual Cash Obligations | $ 195,027 | $ 45,599 | $ 74,832 | $ 24,368 | $ 50,228 |

(1) Based on contractual maturity dates

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

| Other Commercial Commitments | Total Amount Committed (in thousands) | Less than 1 Year | 1-3 Years | 4-5 Years | After 5 Years |
|---|---|---|---|---|---|
| | | Amount of Commitment Expiration Per Period | | | |
| Residential Loans | $29,450 | $29,450 | $- | $- | $- |
| Commercial Loans | 11,190 | 984 | 3,272 | - | 6,934 |
| Total Loans | 40,640 | 30,434 | 3,272 | - | 6,934 |
| Standby Letters of Credit | 24,606 | 23,473 | 1,133 | - | - |
| Other Commercial Commitments | 39,665 | 39,292 | - | - | 373 |
| Total Commercial Commitments | $104,911 | $93,199 | $4,405 | $- | $7,307 |

INFORMATION AVAILABLE ON OUR WEB SITE

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

Also posted on our web site, and available in print upon request of any shareholder to our Investor Relations Department, are the charters for our Board of Directors' Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee, our Corporate Governance Guidelines, our Method for Interested Persons to Communicate with Non-Management Directors and a Code of Business Conduct and Ethics governing our directors, officers and employees. Within the time period required by the Securities and Exchange Commission and the New York Stock Exchange, we will post on our web site any amendment to the Code of Business Conduct and Ethics and

any waiver applicable to our senior financial officers, as defined in the Code, or our executive officers or directors. In addition, information concerning purchases and sales of our equity securities by our executive officers and directors is posted on our web site.

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

STERLING BANCORP AND SUBSIDIARIES
Interest Rate Sensitivity

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

| | Repricing Date | | | | | | |
|---|---|---|---|---|---|---|---|
| | 3 Months or Less | More than 3 Months to 1 Year | More than 1 Year to 5 Years | More than 5 Years to 10 Years | Over 10 Years | Nonrate Sensitive | Total |
| ASSETS | | | | | | | |
| Interest-bearing deposits with other banks | $ 5,611 | $ - | $ - | $ - | $ - | $ - | $ 5,611 |
| Investment securities | 76,101 | 58,944 | 107,080 | 113,312 | 352,652 | 9,642 | 717,731 |
| Commercial and industrial loans | 438,565 | 14,568 | 56,194 | - | - | (1,692) | 507,635 |
| Equipment lease financing | 1,295 | 12,608 | 238,883 | 5,927 | - | (29,689) | 229,024 |
| Factored receivables | 134,728 | - | - | - | - | (278) | 134,450 |
| Real estate-residential mortgage | 51,570 | 26,640 | 24,537 | 7,800 | 87,969 | - | 198,516 |
| Real estate-commercial mortgage | 36,166 | 36,817 | 8,825 | 18,935 | 539 | - | 101,282 |
| Real estate-construction and land development | - | - | 27,235 | - | - | - | 27,235 |
| Loans to individuals | 19,672 | - | - | - | - | - | 19,672 |
| Loans to depository institutions | - | - | - | - | - | - | - |
| Noninterest-earning assets & allowance for loan losses | - | - | - | - | - | 184,550 | 184,550 |
| Total Assets | 763,708 | 149,577 | 462,754 | 145,974 | 441,160 | 162,533 | 2,125,706 |
| | | | | | | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Interest-bearing deposits | | | | | | | |
| Savings [1] | - | - | 17,991 | - | - | - | 17,991 |
| NOW [1] | - | - | 186,958 | - | - | - | 186,958 |
| Money market [1] | 283,307 | - | 44,019 | - | - | - | 327,326 |
| Time - domestic | 147,457 | 165,026 | 18,704 | - | - | - | 331,187 |
| - foreign | 184 | 395 | - | - | - | - | 579 |
| Securities sold under agreement to repurchase - customer | 55,129 | - | - | - | - | - | 55,129 |
| Federal funds purchased | 87,000 | - | - | - | - | - | 87,000 |
| Commercial paper | 11,739 | - | - | - | - | - | 11,739 |
| Short-term borrowings - FHLB | - | - | - | - | - | - | - |
| Short-term borrowings - FRB | 160,000 | - | - | - | - | - | 160,000 |
| Short-term borrowings - other | 4,262 | - | - | - | - | - | 4,262 |
| Long-term borrowings - FHLB | - | 40,000 | 90,000 | 20,000 | - | - | 150,000 |
| Long-term borrowings -subordinated debentures | - | - | - | - | 25,774 | - | 25,774 |
| Noninterest-bearing liabilities & shareholders' equity | - | - | - | - | - | 767,761 | 767,761 |
| Total Liabilities and Shareholders' Equity | 749,078 | 205,421 | 357,672 | 20,000 | 25,774 | 767,761 | 2,125,706 |
| Net Interest Rate Sensitivity Gap | $ 14,630 | $ (55,844 ) | $ 105,082 | $ 125,974 | $ 415,386 | $ (605,228 ) | $ - |
| Cumulative Gap June 30, 2009 | $ 14,630 | $ (41,214 ) | $ 63,868 | $ 189,842 | $ 605,228 | $ - | $ - |
| Cumulative Gap June 30, 2008[3] | $ (79,768 ) | $ (211,902 ) | $ (139,736 ) | $ N/A | $ 523,371 [2] | $ - | $ - |
| Cumulative Gap December 31, 2008[3] | $ (1,506 ) | $ (119,864 ) | $ (67,838 ) | $ 121,095 | $ 620,719 | $ - | $ - |

[1] Historically, balances in non-maturity deposit accounts have remained relatively stable despite changes in levels of interest rates. Balances are shown in repricing periods based on management's historical repricing practices and run-off experience.
[2] Represents amounts due after 5 years.
[3] Certain reclassifications have been made to conform to the current presentation.

ITEM 4. CONTROLS AND PROCEDURES

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

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

## PART II - OTHER INFORMATION

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

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

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

### Item 4. Submission of Matters to a Vote of Security Holders

(a) The following sets forth the voting results as to each matter voted upon at the Annual Meeting of shareholders of the Company held on May 7, 2009:

(1) Election of Directors

| Nominee | Total Votes for | Total Votes Withheld |
|---|---|---|
| Robert Abrams | 15,874,580 | 398,150 |
| Joseph Adamko | 15,665,678 | 607,052 |
| Louis J. Cappelli | 15,658,186 | 614,544 |
| Fernando Ferrer | 15,495,673 | 777,057 |
| Allan F. Hershfield | 15,348,412 | 924,318 |
| Henry J. Humphreys | 15,290,938 | 981,792 |
| Robert Lazar | 15,807,957 | 464,773 |
| John C. Millman | 15,721,508 | 551,222 |
| Eugene T. Rossides | 15,465,551 | 816,179 |

There were no abstentions or broker nonvotes.

(2) Advisory approval of the compensation of the Company's named executive officers.

| | |
|---|---|
| Total Votes for | 14,866,277 |
| Total Votes Against | 1,204,391 |
| Total Absentions | 202,061 |

(3) Ratification of the appointment by the Audit Committee of the Board of Directors of Crowe Horwath LLP as the Company's independent public accounts for fiscal year 2009.

| | |
|---|---|
| Total Votes For | 15,580,801 |
| Total Votes Against | 612,049 |
| Total Absentions | 79,880 |

Item 6. Exhibits

The following exhibits are filed as part of this report:

3. (i) Restated Certificate of Incorporation filed with the State of New York Department of State, October 28, 2004 (Filed as Exhibit 3(i)to the Registrant's Form 10-K for the year ended December 31, 2008 and incorporated here in by reference).

(ii) Certificate of Amendment of Certificate of Incorporation filed with the State of New York Department of State on December 18, 2008 (Filed as Exhibit 3(ii) to the Registrant's Form 10-K for the year ended December 31, 2008 and incorporated herein by reference).

(iii) By-Laws as in effect on November 15, 2007 (Filed as Exhibit 3(ii)(A) to the Registrant's Form 8-K dated November 15, 2007 and filed on November 19, 2007 and incorporated herein by reference).

11. Statement Re: Computation of Per Share Earnings.

31.1 Certification of the CEO pursuant to Exchange Act Rule 13a-14(a).

31.2 Certification of the CFO pursuant to Exchange Act Rule 13a-14(a).

32.1 Certification of the CEO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code.

32.2 Certification of the CFO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code.

SIGNATURES

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

STERLING BANCORP

(Registrant)

| | | |
|---|---|---|
| Date: August 7, 2009 | /s/ | Louis J. Cappelli<br>Louis J. Cappelli<br>Chairman and Chief Executive Officer |
| Date: August 7, 2009 | /s/ | John W. Tietjen<br>John W. Tietjen<br>Executive Vice President and Chief Financial Officer |

STERLING BANCORP AND SUBSIDIARIES

EXHIBIT INDEX

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| --- | --- | --- |
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| 31.1 | Certification of the CEO pursuant to Exchange Act Rule 13a-14(a). | 60 |
| 31.2 | Certification of the CFO pursuant to Exchange Act Rule 13a-14(a). | 61 |
| 32.1 | Certification of the CEO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code. | 62 |
| 32.2 | Certification of the CFO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code. | 63 |