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STERLING BANCORP
Form 10-Q
November 14, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended September 30, 2003

or

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

For the transition period from _____ to _____

Commission File Number: 1-5273-1

Sterling Bancorp

(Exact name of registrant as specified in its charter)

New York

13-2565216

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification)

650 Fifth Avenue, New York, N.Y.

10019-6108

(Address of principal executive offices)

(Zip Code)

212-757-3300

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is an accelerated filer as defined in Rule 12b-2 of the Exchange Act,

Yes No

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As of October 31, 2003 there were 14,934,922 shares of common stock,
\$1.00 par value, outstanding.

STERLING BANCORP

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Consolidated Balance Sheets (Unaudited)

| | September 30, 2003 | December 31, 2002 |
|--|-----------------------|----------------------|
| | ----- | ----- |
| ASSETS | | |
| Cash and due from banks | \$ 46,207,355 | \$ 58,173,569 |
| Interest-bearing deposits with other banks | 2,446,910 | 2,872,710 |
| Federal funds sold | -- | 5,000,000 |
| Securities available for sale | 161,499,825 | 128,465,512 |
| Securities available for sale - pledged | 113,101,504 | 90,969,577 |
| Securities held to maturity | 119,506,411 | 147,109,430 |
| Securities held to maturity - pledged | 189,318,858 | 222,229,901 |
| | ----- | ----- |
| Total investment securities | 583,426,598 | 588,774,420 |
| | ----- | ----- |
| Loans held for sale | 79,347,587 | 54,684,987 |
| | ----- | ----- |
| Loans held in portfolio, net of unearned discounts | 876,779,095 | 791,315,047 |
| Less allowance for loan losses | 14,436,151 | 13,549,297 |
| | ----- | ----- |
| Loans, net | 862,342,944 | 777,765,750 |
| | ----- | ----- |
| Customers' liability under acceptances | 2,991,766 | 1,545,335 |
| Excess cost over equity in net assets of the banking subsidiary | 21,158,440 | 21,158,440 |
| Premises and equipment, net | 9,110,747 | 9,263,172 |
| Other real estate | 1,023,737 | 822,820 |
| Accrued interest receivable | 5,582,938 | 4,881,937 |
| Bank owned life insurance | 21,620,909 | 20,830,688 |
| Other assets | 20,785,217 | 15,347,734 |
| | ----- | ----- |
| | \$1,656,045,148 | \$1,561,121,562 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Deposits | | |
| Noninterest-bearing deposits | \$ 399,934,027 | \$ 401,553,363 |
| Interest-bearing deposits | 695,330,792 | 645,539,745 |
| | ----- | ----- |
| Total deposits | 1,095,264,819 | 1,047,093,108 |
| Securities sold under agreements to repurchase - customers | 79,563,532 | 60,925,635 |
| Securities sold under agreements to repurchase - dealers | 64,063,000 | 40,000,000 |
| Commercial paper | 22,758,875 | 29,318,920 |
| Other short-term borrowings | 33,142,159 | 37,030,404 |
| Acceptances outstanding | 2,991,766 | 1,545,335 |
| Accrued expenses and other liabilities | 77,315,678 | 75,427,836 |
| Long-term debt - FHLB | 115,000,000 | 115,000,000 |
| | ----- | ----- |
| Total liabilities | 1,490,099,829 | 1,406,341,238 |
| | ----- | ----- |
| Corporation obligated mandatorily redeemable capital securities | 25,000,000 | 25,000,000 |
| | ----- | ----- |
| Shareholders' equity | | |

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| | | |
|---|-----------------|-----------------|
| Preferred stock, \$5 par value. Authorized 644,389 shares; Series D issued 226,026 and 232,206 shares, respectively | 2,260,260 | 2,322,060 |
| Common stock, \$1 par value. Authorized 20,000,000 shares; issued 16,241,509 and 16,107,005 shares, respectively | 16,241,509 | 16,107,005 |
| Capital surplus | 142,381,059 | 140,512,359 |
| Retained earnings | 14,218,650 | 3,783,539 |
| Accumulated other comprehensive income, net of tax | 738,604 | 1,330,239 |
| | ----- | ----- |
| | 175,840,082 | 164,055,202 |
| Less | | |
| Common shares in treasury at cost, 1,306,587 and 1,261,061 shares, respectively | 33,577,847 | 32,400,952 |
| Unearned compensation | 1,316,916 | 1,873,926 |
| | ----- | ----- |
| Total shareholders' equity | 140,945,319 | 129,780,324 |
| | ----- | ----- |
| | \$1,656,045,148 | \$1,561,121,562 |
| | ===== | ===== |

See Notes to Consolidated Financial Statements.

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STERLING BANCORP AND SUBSIDIARIES
Consolidated Statements of Income
(Unaudited)

| | Three Months Ended September 30, | | Nine Se |
|---|-------------------------------------|---------------|------------|
| | 2003 | 2002 | 2003 |
| | ---- | ---- | ---- |
| INTEREST INCOME | | | |
| Loans | \$ 15,877,296 | \$ 14,547,213 | \$ 46,018, |
| Investment securities | | | |
| Available for sale | 2,260,320 | 4,174,794 | 7,166, |
| Held to maturity | 4,201,130 | 4,942,536 | 14,830, |
| Federal funds sold | 5,282 | 44,352 | 45, |
| Deposits with other banks | 8,516 | 6,708 | 21, |
| | ----- | ----- | ----- |
| Total interest income | 22,352,544 | 23,715,603 | 68,081, |
| | ----- | ----- | ----- |
| INTEREST EXPENSE | | | |
| Deposits | 2,168,483 | 3,110,679 | 6,679, |
| Securities sold under agreements to repurchase | 339,686 | 285,533 | 1,022, |
| Federal funds purchased | 20,687 | 10,844 | 56, |
| Commercial paper | 65,653 | 156,643 | 191, |
| Other short-term borrowings | 85,754 | 135,132 | 416, |
| Long-term debt | 1,081,871 | 1,148,669 | 3,244, |
| | ----- | ----- | ----- |
| Total interest expense | 3,762,134 | 4,847,500 | 11,610, |
| | ----- | ----- | ----- |
| Net interest income | 18,590,410 | 18,868,103 | 56,470, |
| Provision for loan losses | 2,172,500 | 2,153,100 | 6,136, |

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| | | | |
|--|--------------|--------------|------------|
| Net interest income after provision for loan losses | 16,417,910 | 16,715,003 | 50,334, |
| NONINTEREST INCOME | | | |
| Factoring income | 1,630,993 | 1,807,632 | 4,394, |
| Mortgage banking income | 3,974,329 | 2,381,723 | 10,907, |
| Service charges on deposit accounts | 1,192,668 | 1,300,524 | 3,694, |
| Trade finance income | 631,816 | 797,794 | 1,793, |
| Trust fees | 138,891 | 124,334 | 469, |
| Other service charges and fees | 512,484 | 416,389 | 1,479, |
| Bank owned life insurance income | 252,241 | 298,185 | 790, |
| Securities gains | 101,225 | 24,947 | 297, |
| Other income | 300,626 | 141,854 | 478, |
| Total noninterest income | 8,735,273 | 7,293,382 | 24,304, |
| NONINTEREST EXPENSES | | | |
| Salaries and employee benefits | 8,870,906 | 8,253,632 | 25,917, |
| Occupancy expenses, net | 1,100,625 | 1,294,747 | 3,630, |
| Equipment expenses | 680,052 | 602,868 | 2,046, |
| Advertising and marketing | 864,385 | 895,641 | 2,514, |
| Professional fees | 837,434 | 848,642 | 2,463, |
| Data processing fees | 255,157 | 259,246 | 780, |
| Stationery and printing | 230,368 | 296,386 | 675, |
| Communications | 381,503 | 403,992 | 1,230, |
| Mortgage tax expense | 321,407 | 157,017 | 755, |
| Capital securities costs | 538,116 | 534,449 | 1,609, |
| Other expenses | 1,263,951 | 1,360,460 | 4,179, |
| Total noninterest expenses | 15,343,904 | 14,907,080 | 45,803, |
| Income before income taxes | 9,809,279 | 9,101,305 | 28,835, |
| Provision for income taxes | 3,694,566 | 3,556,613 | 11,014, |
| Net income | \$ 6,114,713 | \$ 5,544,692 | \$ 17,821, |
| Average number of common shares outstanding | | | |
| Basic | 14,908,734 | 14,878,820 | 14,867, |
| Diluted | 15,786,843 | 15,668,297 | 15,731, |
| Earnings per average common share | | | |
| Basic | \$ 0.41 | \$ 0.38 | \$ 1 |
| Diluted | 0.39 | 0.36 | 1 |
| Dividends per common share | 0.19 | 0.18 | 0 |

See Notes to Consolidated Financial Statements.

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

Three Months Ended
September 30,
2003 2002 2003

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| | | | |
|---|--------------|--------------|---------------|
| Net Income | \$ 6,114,713 | \$ 5,544,692 | \$ 17,821,138 |
| Other comprehensive income, net of tax: | | | |
| Unrealized holding (losses) gains arising during the period | (19,418) | 1,664,427 | (430,648) |
| Reclassification adjustment for gains included in net income | (54,762) | (13,496) | (160,998) |
| Comprehensive income | \$ 6,040,533 | \$ 7,195,623 | \$ 17,229,500 |

See Notes to Consolidated Financial Statements.

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

| | Nine Months Ended September 30, | |
|--|------------------------------------|---------------|
| | 2003 | 2002 |
| Preferred Stock | | |
| Balance at January 1 | \$ 2,322,060 | \$ 2,346,060 |
| Conversions of Series D shares | (61,800) | (23,010) |
| Balance at September 30 | \$ 2,260,260 | \$ 2,323,050 |
| Common Stock | | |
| Balance at January 1 | \$ 16,107,005 | \$ 13,817,856 |
| Conversions of preferred shares into common shares | 9,759 | 2,919 |
| Options exercised | 124,745 | 310,920 |
| Balance at September 30 | \$ 16,241,509 | \$ 14,131,695 |
| Capital Surplus | | |
| Balance at January 1 | \$140,512,359 | \$ 95,504,762 |
| Conversions of preferred shares into common shares | 52,041 | 20,091 |
| Issuance of shares under incentive compensation plan | - | 386,400 |
| Options exercised | 1,849,017 | 3,851,051 |
| Stock split paid - cash in lieu | (32,358) | - |
| Balance at September 30 | \$142,381,059 | \$ 99,762,304 |
| Retained Earnings | | |
| Balance at January 1 | \$ 3,783,539 | \$ 32,419,767 |
| Net Income | 17,821,138 | 16,041,602 |
| Cash dividends paid - common shares | (7,291,756) | (5,342,879) |

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| | | |
|--|-----------------|-----------------|
| - preferred shares | (94,271) | (84,627) |
| | ----- | ----- |
| Balance at September 30 | \$ 14,218,650 | \$ 43,033,863 |
| | ===== | ===== |
| Accumulated Other Comprehensive Income | | |
| Balance at January 1 | \$ 1,330,239 | \$ 1,119,223 |
| | ----- | ----- |
| Unrealized holding (losses) gains arising during the period: | | |
| Before tax | (796,012) | 6,165,148 |
| Tax effect | 365,369 | (2,829,802) |
| | ----- | ----- |
| Net of tax | (430,643) | 3,335,346 |
| | ----- | ----- |
| Reclassification adjustment for gains included in net income: | | |
| Before tax | (297,583) | (869,290) |
| Tax effect | 136,591 | 399,004 |
| | ----- | ----- |
| Net of tax | (160,992) | (470,286) |
| | ----- | ----- |
| Balance at September 30 | \$ 738,604 | \$ 3,984,283 |
| | ===== | ===== |
| Treasury Stock | | |
| Balance at January 1 | \$ (32,400,952) | \$ (15,542,454) |
| Issuance of shares under incentive compensation plan | - | 1,267,200 |
| Surrender of shares issued under incentive compensation plan | (920,888) | (3,034,547) |
| Purchase of common shares | (256,007) | (15,125,672) |
| | ----- | ----- |
| Balance at September 30 | \$ (33,577,847) | \$ (32,435,473) |
| | ===== | ===== |
| Unearned Compensation | | |
| Balance at January 1 | \$ (1,873,926) | \$ (1,187,798) |
| Issuance of shares under incentive compensation plan | - | (1,653,600) |
| Amortization of unearned compensation | 557,010 | 528,362 |
| | ----- | ----- |
| Balance at September 30 | \$ (1,316,916) | \$ (2,313,036) |
| | ===== | ===== |
| Total Shareholders' Equity | | |
| Balance at January 1 | \$129,780,324 | \$128,477,416 |
| Net changes during the period | 11,164,995 | 9,270 |
| | ----- | ----- |
| Balance at September 30 | \$140,945,319 | \$128,486,686 |
| | ===== | ===== |

See Notes to Consolidated Financial Statements.

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| | Nine Months Ended September 30, | |
|--|------------------------------------|---------------|
| | 2003 | 2002 |
| | ----- | ----- |
| Operating Activities | | |
| Net Income | \$ 17,821,138 | \$ 16,041,602 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Provision for loan losses | 6,136,300 | 8,432,400 |
| Depreciation and amortization of premises and equipment | 1,272,483 | 1,263,032 |
| Securities gains | (297,583) | (869,290) |
| Income from bank owned life insurance | (790,221) | (814,366) |
| Deferred income tax (benefit) provision | (262,891) | 435,151 |
| Net change in loans held for sale | (24,662,600) | 15,509,693 |
| Amortization of unearned compensation | 557,010 | 528,362 |
| Amortization of premiums on securities | 1,905,331 | 1,042,469 |
| Accretion of discounts on securities | (968,109) | (666,212) |
| (Increase) Decrease in accrued interest receivable | (701,001) | 120,319 |
| Increase in accrued expenses and other liabilities | 1,887,842 | 7,413,628 |
| Increase in other assets | (4,708,668) | (20,289,623) |
| Issuance cost for preferred securities, net of amortization | - | (916,667) |
| Other, net | (884,852) | (3,355,789) |
| | ----- | ----- |
| Net cash (used in) provided by operating activities | (3,695,821) | 23,874,709 |
| | ----- | ----- |
| Investing Activities | | |
| Purchase of premises and equipment | (1,120,058) | (1,972,995) |
| Decrease in interest-bearing deposits with other banks | 425,800 | 581,423 |
| Decrease in Federal funds sold | 5,000,000 | 10,000,000 |
| Increase in other real estate | (200,917) | (189,484) |
| Net increase in loans held in portfolio | (90,713,494) | (44,761,376) |
| Proceeds from prepayments, redemptions or maturities of securities - held to maturity | 214,664,362 | 69,589,504 |
| Purchases of securities - held to maturity | (155,024,448) | (83,926,203) |
| Purchases of securities - available for sale | (373,835,784) | (163,152,563) |
| Proceeds from sales of securities - available for sale | 9,767,421 | 39,923,354 |
| Proceeds from prepayments, redemptions or maturities of securities - available for sale | 308,043,037 | 127,859,277 |
| | ----- | ----- |
| Net cash used in investing activities | (82,994,081) | (46,049,063) |
| | ----- | ----- |
| Financing Activities | | |
| Decrease in noninterest-bearing deposits | (1,619,336) | (30,060,270) |
| Increase in interest-bearing deposits | 49,791,047 | 79,161,126 |
| Net proceeds from issuance of Corporation Obligated Mandatorily Redeemable Preferred Securities | - | 24,062,500 |
| Increase (Decrease) in securities sold under agreements to repurchase | 42,700,897 | (69,021,841) |
| (Decrease) Increase in commercial paper and other short-term borrowings | (10,448,290) | 3,839,031 |
| Purchase of treasury stock | (256,007) | (15,125,672) |
| Increase in other long-term debt | - | 29,650,000 |
| Proceeds from exercise of stock options | 1,973,762 | 4,161,971 |
| Cash dividends paid on common and preferred stock | (7,386,027) | (5,427,506) |
| Cash paid in lieu of fractional shares in connection with stock, split | (32,358) | -- |

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| | | |
|---|---------------|---------------|
| Net cash provided by financing activities | 74,723,688 | 21,239,339 |
| Net decrease in cash and due from banks | (11,966,214) | (935,015) |
| Cash and due from banks - beginning of period | 58,173,569 | 50,362,016 |
| Cash and due from banks - end of period | \$ 46,207,355 | \$ 49,427,001 |
| Supplemental disclosures : | | |
| Interest paid | \$ 12,080,996 | \$ 15,707,793 |
| Income taxes paid | 9,886,194 | 9,678,303 |

See Notes to Consolidated Financial Statements.

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

1. The consolidated financial statements include the accounts of Sterling Bancorp ("the parent company") and its subsidiaries, principally Sterling National Bank and its subsidiaries ("the bank"), after elimination of material intercompany transactions. The term "the Company" refers to Sterling Bancorp and its subsidiaries. The consolidated financial statements as of and for the interim periods ended September 30, 2003 and 2002 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 2002 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, 2002. The Company effected a stock split and paid stock dividends as follows: a five-for-four stock split on September 10, 2003; a 20% stock dividend on December 9, 2002; a 10% stock dividend on December 10, 2001; a 10% stock dividend on December 11, 2000; and a 5% stock dividend on December 14, 1999. Fractional shares were cashed-out and payments were made to shareholders in lieu of fractional shares. All capital and share amounts as well as basic and diluted average number of shares outstanding and earnings per average common share information for all prior reporting periods have been restated to reflect the effect of the stock split and stock dividends.

2. At September 30, 2003, the Company has a stock-based employee compensation plan, which is described more fully in Note 15 of the Company's annual report on Form 10-K for the year ended December 31, 2002. The Company accounts for this plan under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 148, the following table illustrates the effect on net income and earnings per average common share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," to the stock-based employee compensation plans.

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| Three Months Ended September 30, ----- | 2003 ----- | 2002 ----- |
|--|-----------------------|-----------------------|
| Net income available for common shareholders | \$ 6,083,586 | \$ 5,516,619 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (311,675) ----- | (228,216) ----- |
| Pro forma, net income | \$ 5,771,911 ===== | \$ 5,288,403 ===== |
| Earnings per average common share: | | |
| Basic- as reported | \$ 0.41 | \$ 0.38 |
| Basic- pro forma | 0.39 | 0.36 |
| Diluted- as reported | 0.39 | 0.36 |
| Diluted- pro forma | 0.37 | 0.34 |

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

| Nine Months Ended September 30, ----- | 2003 ----- | 2002 ----- |
|--|------------------------|------------------------|
| Net income available for common shareholders | \$ 17,726,867 | \$ 15,956,975 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (898,330) ----- | (646,906) ----- |
| Pro forma, net income | \$ 16,828,537 ===== | \$ 15,310,069 ===== |
| Earnings per average common share: | | |
| Basic- as reported | \$ 1.19 | \$ 1.07 |
| Basic- pro forma | 1.13 | 1.02 |
| Diluted- as reported | 1.13 | 1.01 |
| Diluted- pro forma | 1.07 | 0.97 |

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

| September 30, ----- | |
|------------------------|------|
| 2003 | 2002 |

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| | | |
|----------------------------------|---------------|---------------|
| | ----- | ----- |
| Loans held for sale | | |
| Real estate-mortgage | \$ 79,347,587 | \$ 33,093,148 |
| | ===== | ===== |
| Loans held in portfolio | | |
| Commercial and industrial | \$545,054,019 | \$512,010,007 |
| Lease financing | 161,508,913 | 138,260,101 |
| Real estate-mortgage | 153,802,839 | 124,678,125 |
| Real estate-construction | 2,380,603 | - |
| Installment | 13,977,231 | 9,016,972 |
| Loans to depository institutions | 20,000,000 | 27,000,000 |
| | ----- | ----- |
| Loans, gross | 896,723,605 | 810,965,205 |
| Less unearned discounts | 19,944,510 | 15,768,137 |
| | ----- | ----- |
| Loans, net of unearned discounts | \$876,779,095 | \$795,197,068 |
| | ===== | ===== |

4. The Company's outstanding Preferred Shares comprise 226,026 Series D shares (of 300,000 Series D shares authorized). Each Series D share (all of such shares are owned by the Company's Employee Stock Ownership Trust) is entitled to dividends at the rate of \$0.6125 per year, is convertible into 1.9084 Common Shares, and is entitled to a liquidation preference of \$10 (together with accrued dividends). All preferred shares are entitled to one vote per share (voting with the Common Shares except as otherwise required by law).

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

5. The Financial Accounting Standards Board 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 issued to stockholders. The Company provides a wide range of financial products and services, including commercial loans, asset-based financing, 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 2003 year-to-date average interest-earning assets were 59.2% loans (corporate lending was 71.1% and real estate lending was 26.2% of total loans, respectively) and 40.8% investment securities and money market investments. There are no industry concentrations exceeding 10% of loans, gross, in the corporate loan portfolio. Approximately 76% of loans are to borrowers located in the metropolitan New York area. In order to comply with the provisions of SFAS No. 131, the Company has determined that it has three reportable operating segments: corporate lending, real estate lending and company-wide treasury.

The following tables provide certain information regarding the

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Company's operating segments for the three and nine month periods ended
September 30, 2003 and 2002:

| | Corporate Lending | Real Estate Lending | Company-wide Treasury |
|--|----------------------|------------------------|--------------------------|
| | ----- | ----- | ----- |
| <u>Three Months Ended September 30, 2003</u> | | | |
| Net interest income | \$ 8,678,941 | \$ 4,574,622 | \$ 4,905,056 |
| Noninterest income | 3,285,616 | 4,038,713 | 428,095 |
| Depreciation and amortization | 65,875 | 81,167 | - |
| Segment profit | 4,440,415 | 3,446,438 | 5,446,923 |
| Segment assets | 703,324,770 | 240,461,682 | 680,766,352 |
| <u>Three Months Ended September 30, 2002</u> | | | |
| Net interest income | \$ 7,530,877 | \$ 3,436,493 | \$ 7,487,737 |
| Noninterest income | 3,720,570 | 2,403,740 | 349,942 |
| Depreciation and amortization | 48,060 | 52,189 | - |
| Segment profit | 4,625,923 | 2,571,043 | 7,873,208 |
| Segment assets | 642,150,423 | 165,103,648 | 696,465,329 |
| <u>Nine Months Ended September 30, 2003</u> | | | |
| Net interest income | \$ 25,443,875 | \$ 12,502,274 | \$ 17,272,610 |
| Noninterest income | 9,313,652 | 11,105,877 | 1,207,765 |
| Depreciation and amortization | 154,512 | 235,559 | - |
| Segment profit | 13,086,427 | 10,762,855 | 18,396,491 |
| Segment assets | 703,324,770 | 240,461,682 | 680,766,352 |
| <u>Nine Months Ended September 30, 2002</u> | | | |
| Net interest income | \$ 21,805,357 | \$ 10,068,686 | \$ 22,594,118 |
| Noninterest income | 9,729,831 | 7,578,130 | 1,750,153 |
| Depreciation and amortization | 141,559 | 146,332 | - |
| Segment profit | 12,439,592 | 8,342,383 | 24,618,085 |
| Segment assets | 642,150,423 | 165,103,648 | 696,465,329 |

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

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

| | Three Months Ended September 30, | | Nine Mon |
|----------------------|----------------------------------|-------|----------|
| | ----- | ----- | ----- |
| | 2003 | 2002 | 2003 |
| | ----- | ----- | ----- |
| Net interest income: | | | |

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| | | | |
|---|------------------|------------------|------------------|
| Total for reportable operating segments | \$ 18,158,619 | \$ 18,455,107 | \$ 55,211,250 |
| Other (1) | 431,791 | 412,996 | 1,250,000 |
| | ----- | ----- | ----- |
| Consolidated net interest income | \$ 18,590,410 | \$ 18,868,103 | \$ 56,470,000 |
| | ===== | ===== | ===== |
| Noninterest income: | | | |
| Total for reportable operating segments | \$ 7,752,424 | \$ 6,474,252 | \$ 21,620,000 |
| Other (1) | 982,849 | 819,130 | 2,670,000 |
| | ----- | ----- | ----- |
| Consolidated noninterest income | \$ 8,735,273 | \$ 7,293,382 | \$ 24,300,000 |
| | ===== | ===== | ===== |
| Profit: | | | |
| Total for reportable operating segments | \$ 13,333,776 | \$ 15,070,174 | \$ 42,240,000 |
| Other (1) | (3,524,497) | (5,968,869) | (13,410,000) |
| | ----- | ----- | ----- |
| Consolidated income before income taxes | \$ 9,809,279 | \$ 9,101,305 | \$ 28,830,000 |
| | ===== | ===== | ===== |
| Assets: | | | |
| Total for reportable operating segments | \$ 1,624,552,804 | \$ 1,503,719,400 | \$ 1,624,550,000 |
| Other (1) | 31,492,344 | 26,058,056 | 31,490,000 |
| | ----- | ----- | ----- |
| Consolidated assets | \$ 1,656,045,148 | \$ 1,529,777,456 | \$ 1,656,040,000 |
| | ===== | ===== | ===== |

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

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

6. The following information is provided in connection with the sales of available for sale securities:

| Three Months Ended September 30, | 2003 | 2002 |
|----------------------------------|--------------|------------|
| ----- | ----- | ----- |
| Proceeds | \$ 1,297,334 | \$ 354,838 |
| Gross Gains | 101,225 | 24,947 |
| Gross Losses | - | - |
| | ----- | ----- |
| Nine Months Ended September 30, | 2003 | 2002 |
| ----- | ----- | ----- |

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| | | |
|--------------|--------------|---------------|
| Proceeds | \$ 9,767,421 | \$ 39,923,354 |
| Gross Gains | 297,583 | 869,290 |
| Gross Losses | - | - |

7. FASB Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51", establishes accounting guidance for consolidation of variable interest entities ("VIE") that function to support the activities of the primary beneficiary. The primary beneficiary of the VIE entity is the entity that absorbs a majority of the VIE's expected losses, receives a majority of the VIE's expected residual returns, or both, as a result of ownership, controlling interest, contractual relationship or other business relationships with a VIE. Prior to the implementation of FIN No.46, VIE's were generally consolidated by an enterprise when the enterprise had a controlling financial interest through ownership of a majority of voting interest in the entity. The provisions of FIN No.46 were effective immediately for all arrangements entered into after January 31, 2003, and are otherwise effective at the beginning of the first interim period beginning after June 15, 2003. In October 2003, the FASB issued a staff position which delayed the effective date of FIN No. 46 for a public entity until the end of the first interim or annual period ending after December 15, 2003 (as of December 31, 2003, for an entity with a calendar year-end or quarter-end of December 31) provided that the VIE was created before February 1, 2003 and the public entity has not issued financial statements reporting that VIE in accordance with FIN No.46 other than certain disclosures required by paragraph 26 of FIN No.46.

In its current form, FIN No.46 may require the Company to deconsolidate its investment in Sterling Bancorp Trust I in future financial statements. The potential de-consolidation of subsidiary trusts, like Sterling Bancorp Trust I, which the Company formed in connection with the issuance of corporation obligated mandatorily redeemable capital securities ("trust preferred securities") appears to be an unintended consequence of FIN No. 46. It is currently unknown if, or when, the Financial Accounting Standards Board will address this issue. In July 2003, the Board of Governors of the Federal Reserve System issued a supervisory letter instructing bank holding companies to continue to include the trust preferred securities in their Tier I capital for regulatory capital purposes until notice is given to the contrary.

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

The Federal Reserve intends to review the regulatory implications of any accounting treatment changes and, if necessary or warranted, provide further appropriate guidance. There can be no assurance that the Federal Reserve will continue to allow institutions to include trust preferred securities in Tier I capital for regulatory capital purposes. As of September 30, 2003, assuming the Company was not allowed to include the \$25 million in trust preferred securities issued by Sterling Bancorp Trust I in Tier I capital, the Company would still exceed the regulatory required minimums for capital adequacy purposes (See Regulatory Capital and Ratios on page 28). If the trust preferred securities

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were no longer allowed to be included in Tier 1 capital, the Company would also be permitted to redeem the capital securities, which bear interest at 8.375 percent, without penalty.

SFAS No.150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", establishes standards for how an issuer clarifies, measures and discloses in its financial statements certain financial instruments with characteristics of both liabilities and equity. SFAS No.150 requires that an issuer classify financial instruments that are within its scope as liabilities, in most circumstances. Such financial instruments include shares that are mandatorily redeemable. On November 5, 2003 the implementation of SFAS No.150 with respect to the \$25,000,000 of corporation obligated mandatorily redeemable capital securities was postponed by FASB for an indefinite period.

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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 consolidated results of operations and financial condition of Sterling Bancorp ("the parent company"), a financial holding company pursuant to an election made under the Gramm-Leach-Bliley Act of 1999, and its wholly-owned subsidiaries Sterling Banking Corporation, Sterling Financial Services Company, Inc., Sterling Bancorp Trust I, Sterling Real Estate Abstract Holding Company, Inc., and Sterling National Bank ("the bank"). The bank, which is the principal subsidiary, owns all of the outstanding shares of Sterling Factors Corporation, Sterling National Mortgage Company, Inc., Sterling National Servicing, Inc., Sterling Trade Services, Inc., and Sterling Holding Company of Virginia, Inc. Sterling Real Estate Abstract Holding Company, Inc. owns 51% of the outstanding common shares of SBC Abstract Company LLC. Sterling Trade Services, Inc. owns all of the outstanding common shares of Sterling National Asia Limited, Hong Kong. Sterling Holding Company of Virginia, Inc. owns all of the outstanding common shares of Sterling Real Estate Holding Company, Inc. 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 as well as the Company's annual report on Form 10-K for the year ended December 31, 2002. The Company effected a five - for - four stock split on September 10, 2003; all capital and share amounts as well as basic and diluted average number of shares outstanding and earnings per share information for prior periods have been restated to reflect the effect of the stock split.

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.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained herein, 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

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facts, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. 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. It is possible that our actual results and financial position may differ, possibly 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, possibly 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 Board of Governors of the Federal Reserve; changes, particularly declines, in general

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economic conditions and in the local economies in which the Company operates; the financial condition of the Company's borrowers; competitive pressures on loan and deposit pricing and demand; changes in technology and their impact on the marketing of new products and services and the acceptance of these products and services by new and existing customers; the willingness of customers to substitute competitors' products and services for the Company's products and services; the impact of changes in financial services laws and regulations (including laws concerning taxes, banking, securities and insurance); changes in accounting principles, policies and guidelines; the success of the Company at managing the risks involved in the foregoing as well as other risks and uncertainties detailed from time to time in press releases and other public filings. The foregoing list of important factors is not exclusive, and we will not update any forward-looking statement, whether written or oral, that may be made from time to time.

BUSINESS

Sterling 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, equipment leasing, deposit services, trust and estate administration and investment management services. The Company has operations in the metropolitan New York area, North Carolina and other mid-Atlantic states, and conducts business throughout the United States.

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. 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. At September 30, 2003, the bank's year-to-date average earning assets represented approximately 97% of the Company's year-to-date average earning assets. Loans represented 58% and investment securities represented 41% of the bank's year-to-date average earning assets at September 30, 2003.

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.

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Results for the Three Months Ended September 30, 2003 and 2002

OVERVIEW

The Company reported net income for the three months ended September 30, 2003 of \$6.1 million, representing \$0.39 per share, calculated on a diluted basis, compared to \$5.5 million, or \$0.36 per share, calculated on a diluted basis, for the corresponding period in 2002. This increase reflects higher noninterest income and lower noninterest expenses, which more than offset lower net interest income.

Net interest income, on a tax equivalent basis, decreased to \$18.8 million for the third quarter of 2003 compared to \$19.1 million for the same period

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in 2002, primarily due to lower average yield on earning assets partially offset by higher average earning assets outstanding. The net interest margin, on a tax equivalent basis, was 5.16% for the third quarter of 2003 compared to 5.79% for the corresponding 2002 period. The net interest margin was impacted by a decrease of 107 basis points in the average yield on earning assets partially offset by a decrease of 54 basis points in the average cost of funds.

Noninterest income increased to \$8.7 million for the three months ended September 30, 2003 compared to \$7.3 million for the corresponding 2002 period principally due to higher income from mortgage banking activities partially offset by lower income generated for various other services.

INCOME STATEMENT ANALYSIS

Net Interest Income

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 and liabilities. The increases (decreases) in the components of interest income and interest expense, expressed in terms of fluctuation in average volume and rate are shown on page 26. Information as to the components of interest income and interest expense and average rates is provided in the Average Balance Sheets shown on page 24.

Net interest income, on a tax equivalent basis, for the three months ended September 30, 2003 decreased to \$18,831,000 from \$19,117,000 for the corresponding period in 2002.

Total interest income, on a tax equivalent basis, aggregated \$22,592,000 for the third quarter of 2003 down from \$23,964,000 for the same period of 2002. The tax equivalent yield on interest earning assets was 6.22% for the three months ended September 30, 2003 compared to 7.29% for the corresponding period in 2002. The decrease in interest income was due to a decrease in income earned on the securities portfolio partially offset by increased income on the loan portfolio. The decrease in yield on earning assets was due to lower yields on both the loan and securities portfolios.

Interest earned on the loan portfolio amounted to \$15,877,000 which was up \$1,330,000 when compared to a year ago. Average loan balances amounted to \$895,036,000 which were up \$149,215,000 from an average of \$745,821,000 in the prior year period. The increase in the average loans, the result of the continued implementation of business plans to increase funds employed in this asset category, was primarily in the real estate and the lease finance segments of the Company's loan portfolio. The decrease in the yield on the domestic loan portfolio to 7.18% for the three months ended September 30, 2003 from 8.25% for

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the corresponding 2002 period was primarily attributable to a lower rate environment on average in the 2003 period and the mix of outstanding balances on average among the components of the loan portfolio.

Interest earned on the securities portfolio, on a tax equivalent basis, decreased to \$6,701,000 for the three months ended September 30, 2003 from \$9,367,000 in the prior year period. Average outstandings decreased to \$558,579,000 from \$593,295,000 in the prior year period. The yield on the securities portfolio decreased to 4.83% for the three months ended September 30, 2003 from 6.31% for the corresponding 2002 period principally as the result of higher prepayments from mortgage-backed securities and the reinvestment of a portion of those funds into lower yielding securities at positive spreads over funding costs.

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Interest expense on deposits decreased \$943,000 for the three months ended September 30, 2003 to \$2,168,000 from \$3,111,000 for the corresponding 2002 period principally due to lower rates paid. Average rate paid on interest-bearing deposits was 1.26% which was 53 basis points lower than the prior year period. The decrease in average cost of deposits reflects the lower interest rate environment during the 2003 period.

Noninterest Income

Noninterest income increased \$1,442,000 for the third quarter of 2003 when compared to the corresponding 2002 period primarily as a result of increased income from mortgage banking activities partially offset by decreased income from factoring, trade finance, and deposit services.

Noninterest Expenses

Noninterest expenses increased \$437,000 for the third quarter of 2003 when compared to the corresponding 2002 period due to increased salary expenses, incurred to support growing levels of business activity and continued investment in the business franchise and higher pension costs. Partially offsetting those increases were lower expenses for occupancy.

Results for the Nine Months Ended September 30, 2003 and 2002

OVERVIEW

The Company reported net income for the nine months ended September 30, 2003 of \$17.8 million, representing \$1.13 per share, calculated on a diluted basis, compared to \$16.0 million, or \$1.01 per share calculated on a diluted basis, for the corresponding period in 2002. This increase reflects continued growth in both net interest income and noninterest income, which, together with a lower provision for loan losses, more than offset increases in noninterest expenses and the provision for income taxes.

Net interest income, on a tax equivalent basis, increased to \$57.2 million for the first nine months of 2003 compared to \$56.4 million for the corresponding period in 2002, due to higher average earning assets outstanding coupled with lower average cost of funding. The net interest margin, on a tax equivalent basis, was 5.51% for the first nine months of 2003 compared to 5.81% for the corresponding 2002 period. The net interest margin was impacted by a decrease of 74 basis points in the average yield on earning assets partially offset by a 56 basis point decrease in the average cost of funds.

Noninterest income rose to \$24.3 million for the nine months ended September 30, 2003 compared to \$21.9 million for the corresponding 2002 period principally due to continued growth in fees from mortgage banking activities

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partially offset by reductions in fees for various other services and in gains on sales of available for sale securities.

The provision for loan losses was \$6.1 million for the nine months ended September 30, 2003 compared to \$8.4 million for the corresponding 2002 period while the provision for income taxes increased to \$11.0 million in the 2003 nine month period from \$8.7 million in the corresponding 2002 period.

INCOME STATEMENT ANALYSIS

Net Interest Income

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

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assets and liabilities. The increases (decreases) in the components of interest income and interest expense, expressed in terms of fluctuation in average volume and rate are shown on page 27. Information as to the components of interest income and interest expense and average rates is provided in the Average Balance Sheets shown on page 25.

Net interest income, on a tax equivalent basis, for the nine months ended September 30, 2003 increased \$783,000 to \$57,208,000 from \$56,425,000 for the corresponding period in 2002.

Total interest income, on a tax equivalent basis, aggregated \$68,818,000 down \$2,673,000 for the first nine months of 2003 as compared to \$71,491,000 for the same period of 2002. The tax equivalent yield on interest-earning assets was 6.64% for the first nine months of 2003 compared to 7.38% for the corresponding period in 2002. The decrease in interest income was due to a decrease in income earned on the securities portfolio partially offset by increased income on the loan portfolio. The decrease in yield on earning assets was due to lower yields on both the loan and securities portfolios.

Interest earned on the loan portfolio amounted to \$46,018,000 which was up \$3,059,000 compared to a year ago. Average loan balances amounted to \$844,335,000 which were up \$115,930,000 from an average of \$728,405,000 in the prior year period. The increase in the average loans, the result of the continued implementation of business plans to increase funds employed in this asset category, was primarily in the real estate and the lease finance segments of the Company's loan portfolio. The decrease in the yield on the domestic loan portfolio to 7.68% for the nine months ended September 30, 2003 from 8.51% for the corresponding 2002 period was primarily attributable to a lower rate environment on average in the 2002 period and the mix of outstanding balance on average among the components of the loan portfolio.

Interest earned on the securities portfolio, on a tax equivalent basis, decreased to \$22,734,000 for the nine months ended September 30, 2003 from \$28,281,000 in the prior year period. Average outstandings decreased to \$573,390,000 from \$596,204,000 in the prior year period. The yield on the securities portfolio decreased to 5.29% for the nine months ended September 30, 2003 from 6.33% for the corresponding 2002 period principally as the result of higher prepayments from mortgage-backed securities and the reinvestment of a portion of those funds into lower yielding securities at positive spreads over funding costs.

Interest expense on deposits decreased \$3,064,000 for the nine months ended September 30, 2003 to \$6,679,000 from \$9,743,000 for the corresponding 2002 period principally due to lower rates paid. Average rate paid on interest-bearing deposits was 1.33% which was 60 basis points lower than the prior year period. The decrease in average cost of deposits reflects the lower interest rate environment during the 2003 period.

Interest expense associated with borrowed funds decreased to \$4,931,000

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for the first nine months of 2003 from \$5,323,000 in the comparable 2002 period as the result of lower rates paid for borrowings partially offset by higher average borrowed funds. The average amounts of borrowed funds was \$284,126,000 for the first nine months of 2003 compared to \$249,126,000 for the same 2002 period. Average rate paid for borrowings decreased to 2.32% for the first nine months of 2003 from 2.85% for the corresponding year ago period. The decrease in average costs of borrowings reflects the lower rate environment during the 2003 period.

Provision for Loan Losses

Based on management's continuing evaluation of the loan portfolio (discussed under "BALANCE SHEET ANALYSIS - Asset Quality" below) and growth in the loan portfolios, the provision for loan losses for the first nine months of 2003 was \$6,136,000. The provision for the corresponding prior year period was \$8,432,000. During the prior year second quarter a \$5.4 million loan to a corporate borrower which had become the subject of an involuntary bankruptcy was charged-off.

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Noninterest Income

Noninterest income increased \$2,364,000 for the first nine months of 2003 when compared to the corresponding 2002 period primarily as a result of increased income from mortgage banking activities. Partially offsetting those increases, were reductions in income from various other services and from gains on sales of available for sale securities.

Noninterest Expenses

Noninterest expenses increased \$1,429,000 for the first nine months of 2003 when compared to the corresponding 2002 period primarily due to increased salary expenses, pension costs, and professional fees, incurred to support growing levels of business activity and continued investment in the business franchise coupled with higher capital securities costs. Partially offsetting those increases were reductions in costs for occupancy, for data processing, for stationery and printing, for capital securities and for various other operating expenses.

Provision for Income Taxes

The provision for income taxes was \$11,014,000 for the first nine months of 2003 compared to \$8,743,000 for the corresponding 2002 period reflecting the increase in pretax income in the current year period. A further contributing factor to the variance in the provision was that New York State completed an examination of Sterling's tax returns through 1998 and issued a no charge finding during the second quarter of 2002. As a result, based on management's review of required tax reserves with outside professionals, approximately \$1.0 million in excess reserves was adjusted through the provision in the 2002 quarter.

BALANCE SHEET ANALYSIS

Securities

The Company's securities portfolios are comprised of principally U.S. Government corporation and agency guaranteed mortgage-backed securities and collateralized mortgage obligations along with other debt and equity securities. At September 30, 2003, the Company's portfolio of securities totaled \$583,427,000 of which U.S. Government corporation and agency guaranteed mortgage-backed and

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collateralized mortgage obligations securities having an average life of approximately 2.6 years amounted to \$514,168,000.

Securities classified as "available for sale" may be sold in the future, prior to maturity. These securities are carried at market value. Net aggregate unrealized gains or losses on these securities are included in a valuation allowance account and are shown net of taxes, as a component of shareholders' equity. The following table presents information regarding securities available for sale:

| September 30, 2003 ----- | Gross Amortized Cost ----- | Gross Unrealized Gains ----- | Gross Unrealized Losses ----- | Market Value ----- |
|--|-------------------------------------|---------------------------------------|--|--------------------------|
| U.S. Treasury securities | \$ 2,499,686 | \$ 24 | \$ 179 | \$ 2,499,531 |
| Obligations of U.S. govern- ment corporations and agencies--mortgage-backed securities | 175,710,076 | 3,606,585 | 168,578 | 179,148,083 |
| Obligations of U.S. govern- ment corporations and agencies--collateralized mortgage obligations | 28,019,116 | 58,933 | 633,025 | 27,445,024 |
| Obligations of state and political institutions | 30,901,496 | 2,245,445 | - | 33,146,941 |
| Trust preferred securities | 3,221,680 | 435,869 | - | 3,657,549 |
| Other debt securities | 20,000,000 | - | - | 20,000,000 |
| Federal Reserve Bank and other equity securities | 8,686,142 | 18,408 | 349 | 8,704,201 |
| | ----- | ----- | ----- | ----- |
| Total | \$269,038,196 | \$ 6,365,264 | \$ 802,131 | \$274,601,329 |
| | ===== | ===== | ===== | ===== |

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Given the generally high credit quality of the portfolio, management expects to realize all of its investment upon the maturity of such instruments, and thus believes that any market value impairment is temporary in nature.

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 following table presents information regarding securities held to maturity:

| September 30, 2003 ----- | Carrying Value ----- | Gross Unrealized Gains ----- | Gross Unrealized Losses ----- | Estimated Market Value ----- |
|---|----------------------------|---------------------------------------|--|---------------------------------------|
| Obligations of U.S. govern- ment corporations and agencies -- mortgage-backed securities | \$217,425,062 | \$ 6,779,332 | \$ 204,874 | \$223,999,520 |
| Obligations of U.S. govern- ment corporations and agencies--collateralized | | | | |

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| | | | | |
|--|---------------|--------------|--------------|---------------|
| mortgage obligations | 90,150,207 | 292,783 | 1,160,834 | 89,282,156 |
| Debt securities issued by Foreign governments | 1,250,000 | - | - | 1,250,000 |
| | ----- | ----- | ----- | ----- |
| Total | \$308,825,269 | \$ 7,072,115 | \$ 1,365,708 | \$314,531,676 |
| | ===== | ===== | ===== | ===== |

Loan Portfolio

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

The Company's commercial and industrial loan portfolio represents approximately 57% of loans, net of unearned discounts. Loans in this category are typically made to small and medium sized businesses and range between \$250,000 and \$10 million. The primary source of repayment is from the borrower's operating profits and cash flows. Based on underwriting standards, loans may be secured in whole or in part by collateral such as accounts receivable, inventory, marketable securities, other liquid collateral, equipment and/or other assets. The Company's real estate loan portfolio, which represents approximately 25% of loans, net of unearned discounts, is secured by mortgages on real property located principally in the States of New York and Virginia. The Company's leasing portfolio, which consists of finance leases for various types of business equipment, represents approximately 15% of loans, net of unearned discounts. The collateral securing any loan may vary in value based on market conditions.

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

| | September 30, | | | |
|----------------------------------|-------------------|---------------|-----------|---------------|
| | 2003 | | 2002 | |
| | (\$ in thousands) | | | |
| | Balances | % of Gross | Balances | % of Gross |
| | ----- | ----- | ----- | ----- |
| Domestic | | | | |
| Commercial and industrial | \$544,409 | 56.9% | \$511,286 | 61.7% |
| Equipment lease financing | 142,223 | 14.9 | 123,256 | 14.9 |
| Real estate | 235,526 | 24.6 | 157,753 | 19.0 |
| Installment - individuals | 13,969 | 1.5 | 8,995 | 1.1 |
| Loans to depository institutions | 20,000 | 2.1 | 27,000 | 3.3 |
| | ----- | ----- | ----- | ----- |
| Loans, net of unearned discounts | \$956,127 | 100.0% | \$828,290 | 100.0% |
| | ===== | ===== | ===== | ===== |

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Asset Quality

Intrinsic to the lending process is the possibility of loss. In times of economic slowdown, the risk inherent in the Company's portfolio of loans may be increased. 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 depends on current and expected economic conditions, the financial condition of borrowers and the credit management process.

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 management's continuing review 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, review of regulatory examinations, an assessment of current and expected economic conditions and changes in the size and character of the loan portfolio. The allowance reflects management's evaluation of both loans presenting identified loss potential and of the risk inherent in various components of the portfolio, including loans identified as impaired as required by SFAS No. 114. Thus, an increase in the size of the portfolio or in any of its components could necessitate an increase in the allowance even though there may not be a decline in credit quality or an increase in potential problem loans. A significant change in any of the evaluation factors described above could result in future additions to the allowance. At September 30, 2003, the ratio of the allowance to loans held in portfolio, net of unearned discounts, was 1.65% and the allowance was \$14,436,000. At such date, the Company's non-accrual loans amounted to \$2,617,000; \$802,000 of such loans were judged to be impaired within the scope of SFAS No. 114 and required valuation allowances of \$375,000. Based on the foregoing, as well as management's judgment as to the current risks inherent in the loan portfolio, the Company's allowance for loan losses was deemed adequate to absorb all estimable losses on specifically known and other possible credit risks associated with the portfolio as of September 30, 2003. 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 cause management to have serious doubts as to the ability of the borrowers to continue to comply with the present repayment terms, aggregated \$941,000 at September 30, 2003.

21

Deposits

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

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

| September 30, | | | |
|-------------------|---------------|----------|---------------|
| 2003 | | 2002 | |
| (\$ in thousands) | | | |
| Balances | % of Total | Balances | % of Total |
| | | | |

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| | | | | |
|-------------------------|-------------|--------|-------------|--------|
| Domestic | | | | |
| Demand | \$ 399,934 | 36.5% | \$ 326,243 | 31.6% |
| NOW | 116,601 | 10.6 | 114,107 | 11.0 |
| Savings | 27,264 | 2.5 | 24,997 | 2.4 |
| Money market | 175,345 | 16.0 | 175,990 | 17.0 |
| Time deposits | 373,121 | 34.1 | 389,688 | 37.7 |
| | ----- | ----- | ----- | ----- |
| Total domestic deposits | 1,092,265 | 99.7 | 1,031,025 | 99.7 |
| Foreign | | | | |
| Time deposits | 3,000 | 0.3 | 3,000 | 0.3 |
| | ----- | ----- | ----- | ----- |
| Total deposits | \$1,095,265 | 100.0% | \$1,034,025 | 100.0% |
| | ===== | ===== | ===== | ===== |

Fluctuations of balances in total or among categories at any date may occur based on the Company's mix of assets and liabilities as well as on customers' balance sheet strategies. Historically, however, average balances for deposits have been relatively stable. Information regarding these average balances is presented on pages 24 and 25.

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CAPITAL

The Company and the bank are subject to risk-based capital regulations. The purpose of these regulations is to quantitatively measure capital against risk-weighted assets, including off-balance sheet items. These regulations define the elements of total capital into Tier 1 and Tier 2 components 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% to 5%) 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 28. In addition, the Company and the bank are subject to the Federal Deposit Insurance Corporation Improvement Act of 1981 ("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." Such classifications 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" institution must maintain minimum leverage, Tier 1 and Total Capital ratios of 5%, 6% and 10%, respectively. At September 30, 2003, the Company and the bank exceeded the requirements for "well capitalized" institutions. Under the Gramm-Leach-Bliley Act of 1999, in order for the parent company to maintain its status as a financial holding company, the bank must remain "well capitalized."

23

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

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(dollars in thousands)

| | 2003 | | | |
|---|---------------------|---------------|-----------------|--------------------|
| | Average Balance | Interest | Average Rate | Average Balance |
| ASSETS | | | | |
| Interest-bearing deposits | | | | |
| with other banks | \$ 4,244 | \$ 9 | 0.98% | \$ 3, |
| Securities available for sale | 171,712 | 1,917 | 4.58 | 246, |
| Securities held to maturity | 355,463 | 4,201 | 4.73 | 314, |
| Securities tax-exempt [2] | 31,404 | 583 | 7.37 | 32, |
| Federal funds sold | 2,065 | 5 | 1.00 | 10, |
| Loans, net of unearned discounts [3] | 895,036 | 15,877 | 7.18 | 745, |
| TOTAL INTEREST-EARNING ASSETS | 1,459,924 | 22,592 | 6.22% | 1,352, |
| Cash and due from banks | 60,229 | | | 52, |
| Allowance for loan losses | (15,004) | | | (12, |
| Goodwill | 21,158 | | | 21, |
| Other assets | 62,482 | | | 55, |
| TOTAL ASSETS | \$ 1,588,789 | | | \$ 1,468, |
| LIABILITIES AND SHAREHOLDERS' | | | | |
| EQUITY | | | | |
| Interest-bearing deposits | | | | |
| Domestic | | | | |
| Savings | \$ 27,561 | 24 | 0.34% | \$ 24, |
| NOW | 125,470 | 141 | 0.45 | 120, |
| Money market | 169,220 | 189 | 0.44 | 166, |
| Time | 356,358 | 1,803 | 2.01 | 374, |
| Foreign | | | | |
| Time | 3,000 | 11 | 1.30 | 3, |
| Total interest-bearing deposits | 681,609 | 2,168 | 1.26 | 688, |
| Borrowings | | | | |
| Securities sold under agreements to repurchase - customers | 77,980 | 235 | 1.20 | 58, |
| Securities sold under agreements to repurchase - dealers | 35,266 | 104 | 1.17 | 2, |
| Federal funds purchased | 7,228 | 21 | 1.14 | 2, |
| Commercial paper | 24,285 | 66 | 1.07 | 29, |
| Other short-term debt | 31,114 | 85 | 1.09 | 22, |
| Long-term debt | 115,000 | 1,082 | 3.76 | 125, |
| Total borrowings | 290,873 | 1,593 | 2.19 | 240, |
| TOTAL INTEREST-BEARING LIABILITIES | 972,482 | 3,761 | 1.54% | 928, |
| Noninterest-bearing deposits | 377,624 | | | 314, |
| Other liabilities | 77,606 | | | 76, |
| Total liabilities | 1,427,712 | | | 1,319, |
| Corporation obligated mandatorily | | | | |

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| | | |
|--|--------------|-----------|
| redeemable capital securities | 25,000 | 25, |
| | ----- | ----- |
| Shareholders' equity | 136,077 | 124, |
| | ----- | ----- |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 1,588,789 | \$ 1,468, |
| | ===== | ===== |
| Net interest income/spread | 18,831 | 4.68% |
| | | ===== |
| Net yield on interest-earning assets (margin) | | 5.16% |
| | | ===== |
| Less: Tax equivalent adjustment | 240 | |
| | ----- | |
| Net interest income | \$18,591 | |
| | ===== | |

- [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 2002 amounts 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 collected.

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

| | 2003 | | | 2002 | |
|--------------------------------------|--------------------|----------|-----------------|--------------------|-------|
| | Average Balance | Interest | Average Rate | Average Balance | In |
| | ----- | ----- | ----- | ----- | ----- |
| ASSETS | | | | | |
| Interest-bearing deposits | | | | | |
| with other banks | \$ 3,679 | \$ 21 | 0.76% | \$ 3,405 | \$ |
| Securities available for sale | 162,294 | 6,110 | 5.02 | 252,417 | |
| Securities held to maturity | 378,874 | 14,830 | 5.22 | 309,903 | |
| Securities tax-exempt [2] | 32,222 | 1,794 | 7.44 | 33,884 | |
| Federal funds sold | 5,044 | 45 | 1.18 | 17,791 | |
| Loans, net of unearned discounts [3] | 844,335 | 46,018 | 7.68 | 728,405 | |
| | ----- | ----- | ----- | ----- | ----- |
| TOTAL INTEREST-EARNING ASSETS | 1,426,448 | 68,818 | 6.64% | 1,345,805 | |
| | | ----- | ===== | | |
| Cash and due from banks | 57,391 | | | 49,899 | |
| Allowance for loan losses | (14,579) | | | (14,119) | |
| Goodwill | 21,158 | | | 21,158 | |
| Other assets | 62,856 | | | 52,200 | |
| | ----- | | | ----- | |
| TOTAL ASSETS | \$ 1,553,274 | | | \$1,454,943 | |

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| | ===== | | | ===== |
|------------------------------------|--------------|----------|-------|-------------|
| LIABILITIES AND SHAREHOLDERS' | | | | |
| EQUITY | | | | |
| Interest-bearing deposits | | | | |
| Domestic | | | | |
| Savings | \$ 27,065 | 72 | 0.36% | \$ 26,072 |
| NOW | 118,907 | 438 | 0.49 | 110,514 |
| Money market | 160,835 | 565 | 0.47 | 165,386 |
| Time | 361,343 | 5,571 | 2.06 | 369,001 |
| Foreign | | | | |
| Time | 3,000 | 33 | 1.48 | 2,999 |
| | ----- | ----- | | ----- |
| Total interest-bearing deposits | 671,150 | 6,679 | 1.33 | 673,972 |
| | ----- | ----- | | ----- |
| Borrowings | | | | |
| Securities sold under agreements | | | | |
| to repurchase - customers | 69,057 | 639 | 1.24 | 65,073 |
| Securities sold under agreements | | | | |
| to repurchase - dealers | 40,198 | 384 | 1.28 | 9,019 |
| Federal funds purchased | 6,154 | 56 | 1.21 | 2,486 |
| Commercial paper | 22,758 | 192 | 1.13 | 31,982 |
| Other short-term debt | 30,959 | 416 | 1.80 | 21,014 |
| Long-term debt | 115,000 | 3,244 | 3.76 | 119,552 |
| | ----- | ----- | | ----- |
| Total borrowings | 284,126 | 4,931 | 2.32 | 249,126 |
| | ----- | ----- | | ----- |
| TOTAL INTEREST-BEARING LIABILITIES | 955,276 | 11,610 | 1.62% | 923,098 |
| | | | ===== | |
| Noninterest-bearing deposits | 360,793 | | | 309,486 |
| Other liabilities | 78,893 | | | 76,760 |
| | ----- | | | ----- |
| Total liabilities | 1,394,962 | | | 1,309,344 |
| | ----- | | | ----- |
| Corporation obligated mandatorily | | | | |
| redeemable capital securities | 25,000 | | | 19,780 |
| | ----- | | | ----- |
| Shareholders' equity | 133,312 | | | 125,819 |
| | ----- | | | ----- |
| TOTAL LIABILITIES AND | | | | |
| SHAREHOLDERS' EQUITY | \$ 1,553,274 | | | \$1,454,943 |
| | ===== | | | ===== |
| Net interest income/spread | | 57,208 | 5.02% | |
| | | | ===== | |
| Net yield on interest-earning | | | | |
| assets (margin) | | | 5.51% | |
| | | | ===== | |
| Less: Tax equivalent adjustment | | 737 | | |
| | | ----- | | |
| Net interest income | | \$56,471 | | \$ |
| | | ===== | | ===== |

[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 2002 amounts 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

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has been included to the extent collected.

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STERLING BANCORP AND SUBSIDIARIES
Rate/Volume Analysis [1]

(in thousands)

| | Increase/ (Decrease) Three Months Ended September 30, 2003 to September 30, 2002 | | |
|---|--|-------------------|-------------------|
| | Volume | Rate | Net [2] |
| INTEREST INCOME | | | |
| Interest-bearing deposits with other banks | \$ 2 | \$ 1 | \$ |
| Securities available for sale | (1,020) | (880) | (1,900) |
| Securities held to maturity | 598 | (1,340) | (742) |
| Securities tax-exempt | (26) | 2 | (24) |
| Total investment securities | (448) | (2,218) | (2,666) |
| Federal funds sold | (26) | (13) | (39) |
| Loans, net of unearned discounts [3] | 3,247 | (1,917) | 1,330 |
| TOTAL INTEREST INCOME | \$ 2,775 | \$ (4,147) | \$ (1,372) |
| INTEREST EXPENSE | | | |
| Interest-bearing deposits | | | |
| Domestic | | | |
| Savings | \$ 5 | \$ (20) | \$ (15) |
| NOW | 10 | (99) | (89) |
| Money market | 5 | (111) | (106) |
| Time | (116) | (614) | (730) |
| Foreign | | | |
| Time | -- | (3) | (3) |
| Total interest-bearing deposits | (96) | (847) | (943) |
| Borrowings | | | |
| Securities sold under agreements to repurchase - customers | 75 | (112) | (37) |
| Securities sold under agreements to repurchase - dealers | 98 | (7) | 91 |
| Federal funds purchased | 15 | (5) | 10 |
| Commercial paper | (23) | (68) | (91) |
| Other short-term debt | 40 | (90) | (50) |
| Long-term debt | (94) | 28 | (66) |
| Total borrowings | 111 | (254) | (143) |

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| | | | |
|------------------------|----------|------------|----------|
| TOTAL INTEREST EXPENSE | \$ 15 | \$ (1,101) | \$ (1,08 |
| | ===== | ===== | ===== |
| NET INTEREST INCOME | \$ 2,760 | \$ (3,046) | \$ (28 |
| | ===== | ===== | ===== |

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

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STERLING BANCORP AND SUBSIDIARIES
Rate/Volume Analysis [1]

(in thousands)

| | Increase/ (Decrease) | | |
|--|--|------------|------------|
| | Nine Months Ended | | |
| | September 30, 2003 to September 30, 2002 | | |
| | Volume | Rate | Net [2] |
| | ----- | ----- | ----- |
| INTEREST INCOME | | | |
| Interest-bearing deposits with other banks | \$ 2 | \$ (7) | \$ (5) |
| | ----- | ----- | ----- |
| Securities available for sale | (3,652) | (1,893) | (5,545) |
| Securities held to maturity | 2,943 | (2,856) | 87 |
| Securities tax-exempt | (88) | (1) | (89) |
| | ----- | ----- | ----- |
| Total investment securities | (797) | (4,750) | (5,547) |
| | ----- | ----- | ----- |
| Federal funds sold | (128) | (52) | (180) |
| | ----- | ----- | ----- |
| Loans, net of unearned discounts [3] | 7,504 | (4,445) | 3,059 |
| | ----- | ----- | ----- |
| TOTAL INTEREST INCOME | \$ 6,581 | \$ (9,254) | \$ (2,673) |
| | ===== | ===== | ===== |
| INTEREST EXPENSE | | | |
| Interest-bearing deposits | | | |
| Domestic | | | |
| Savings | \$ 5 | \$ (56) | \$ (51) |
| NOW | 50 | (306) | (256) |
| Money market | (29) | (492) | (521) |
| Time | (159) | (2,065) | (2,224) |
| Foreign | | | |
| Time | - | (12) | (12) |
| | ----- | ----- | ----- |

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| | | | |
|---|----------|------------|------------|
| Total interest-bearing deposits | (133) | (2,931) | (3,064) |
| | ----- | ----- | ----- |
| Borrowings | | | |
| Securities sold under agreements to repurchase - customers | 55 | (355) | (300) |
| Securities sold under agreements to repurchase - dealers | 308 | (50) | 258 |
| Federal funds purchased | 36 | (15) | 21 |
| Commercial paper | (122) | (202) | (324) |
| Other short-term debt | 148 | (105) | 43 |
| Long-term debt | (126) | 36 | (90) |
| | ----- | ----- | ----- |
| Total borrowings | 299 | (691) | (392) |
| | ----- | ----- | ----- |
| TOTAL INTEREST EXPENSE | \$ 166 | \$ (3,622) | \$ (3,456) |
| | ===== | ===== | ===== |
| NET INTEREST INCOME | \$ 6,415 | \$ (5,632) | \$ 783 |
| | ===== | ===== | ===== |

[1] The above table is presented on a tax equivalent basis.

[2] Changes in interest income and interest expense due to a combination of both volume and rate have been allocated to the change due to volume and the change due to rate in proportion to the relationship of the change due solely to each.

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

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STERLING BANCORP AND SUBSIDIARIES
Regulatory Capital and Ratios

Ratios and Minimums
(dollars in thousands)

| As of September 30, 2003 | Actual | | For Capital Adequacy Minimum | |
|--|-----------|--------|------------------------------|-------|
| | Amount | Ratio | Amount | Ratio |
| ----- | ----- | ----- | ----- | ----- |
| Total Capital (to Risk Weighted Assets): | | | | |
| The Company | \$157,239 | 14.92% | \$ 84,320 | 8.00% |
| The bank | 125,886 | 12.45 | 80,886 | 8.00 |
| Tier 1 Capital (to Risk Weighted Assets): | | | | |
| The Company | 144,048 | 13.67 | 42,160 | 4.00 |
| The bank | 113,229 | 11.20 | 40,443 | 4.00 |
| Tier 1 Leverage Capital (to Average Assets): | | | | |
| The Company | 144,048 | 9.19 | 62,705 | 4.00 |
| The bank | 113,229 | 7.42 | 61,000 | 4.00 |

As of December 31, 2002

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| | | | | |
|--|-----------|--------|-----------|-------|
| ----- | | | | |
| Total Capital (to Risk Weighted Assets): | | | | |
| The Company | \$144,054 | 15.34% | \$ 75,134 | 8.00% |
| The bank | 105,265 | 11.76 | 71,632 | 8.00 |
| Tier 1 Capital (to Risk Weighted Assets): | | | | |
| The Company | 132,292 | 14.09 | 37,567 | 4.00 |
| The bank | 94,059 | 10.50 | 35,816 | 4.00 |
| Tier 1 Leverage Capital (to Average Assets): | | | | |
| The Company | 132,292 | 8.95 | 59,153 | 4.00 |
| The bank | 94,059 | 6.55 | 57,437 | 4.00 |

28

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ASSET/LIABILITY MANAGEMENT

The Company's primary earnings source is net interest income; therefore, the Company devotes significant time and has invested in resources to assist in the management of market risk, liquidity risk, capital 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 market risk, liquidity and capital. This risk management process is governed by policies and limits established by senior management which are reviewed and approved by the Asset/Liability Committee ("ALCO"). ALCO, which is comprised of members of senior management and the Board, 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 off-balance sheet 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 on- and off-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 tools including traditional gap analysis and 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 an institution's net interest margin increasing in a rising rate environment and

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decreasing in a falling rate environment. A negative gap (liability sensitive) will generally have the opposite result on an institution's net interest margin. However, the traditional gap analysis does not assess the relative sensitivity of assets and liabilities to changes in interest rates. The Company utilizes the gap analysis to complement its income simulations modeling, primarily focusing on the longer term structure of the balance sheet.

The Company's balance sheet structure is primarily short-term in nature with a substantial portion of assets and liabilities repricing or maturing within one year. The Company's gap analysis at September 30, 2003, is presented on page 32. The results of both the income simulation analysis and the gap analysis, reveal that net interest income would increase during periods of rising interest rates and decrease during periods of falling interest rates.

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As part of its interest rate risk strategy, the Company uses certain financial instruments (derivatives) to hedge the interest rate sensitivity of assets with the corresponding amortization reflected in the yield of the related on-balance sheet assets being hedged. The Company has written policy guidelines, which have been approved by the Board of Directors based on recommendations of the ALCO, governing the use of off-balance sheet 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.

The Company utilizes income simulation models to complement its traditional gap analysis. While the ALCO 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 sensitivity or volatility 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 is not 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 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 can project the impact of changes in interest rates on net interest margin. The estimated effects of the Company's interest rate floors are included in the results of the sensitivity analysis. The Company has established certain 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.

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As of September 30, 2003, the model indicated the impact of a 200 basis point parallel and pro rata rise in rates over twelve months would approximate a 3.15% (\$2,398,000) increase in net interest income, while the impact of a 200 basis

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point decline in rates over the same period would approximate a 5.94 % (\$4,516,000) decline from an unchanged rate environment.

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

Also, as market conditions vary from those assumed in the sensitivity analysis, actual results will also differ due to: prepayment/refinancing levels likely deviating from those assumed, the varying impact of interest rate change "caps" or "floors" on adjustable rate assets, the potential effect of changing debt service levels on customers with adjustable rate loans, depositor early withdrawals and product preference changes, and other internal/external 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.

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 throughout the Company. 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 have significant unused borrowing capacity. Contingency plans exist and could be implemented on a timely basis to minimize the impact of any dramatic change in market conditions.

The parent company generates income from its own operations. Its cash requirements are supplemented from funds maintained or generated by its subsidiaries, principally the bank. Such sources have been adequate to meet the parent company's cash requirements.

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

At September 30, 2003, the parent company's short-term debt, consisting principally of commercial paper used to finance ongoing current business activities, was approximately \$22,846,000. The parent company had cash, interest-bearing deposits with banks and other current assets aggregating \$40,026,000 and back-up credit lines with banks of \$24,000,000. Since 1979, the parent company has had no need to use available back-up lines of credit.

While the Company's past performance is no guarantee of the future, management believes that the Company's funding sources (including dividends from its subsidiaries) and the bank's funding sources will be adequate to meet their liquidity and capital requirements in the future.

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

| | Repricing Date | | | |
|---|---------------------|------------------------------------|-----------------------------------|-----------------|
| | 3 Months or Less | More than 3 Months to 1 Year | More than 1 Year to 5 Years | Over 5 Years |
| ASSETS | | | | |
| Interest-bearing deposits | | | | |
| with other banks | \$ 2,447 | \$ - | \$ - | \$ - |
| Investment securities | 22,701 | 1,946 | 46,524 | 503,552 |
| Loans, net of unearned discounts | | | | |
| Commercial and industrial | 536,223 | 2,258 | 6,563 | 9 |
| Loans to depository institutions | 20,000 | - | - | - |
| Lease financing | 757 | 8,590 | 145,595 | 6,567 |
| Real estate | 152,233 | 14,852 | 42,977 | 25,470 |
| Installment | 12,553 | 88 | 1,237 | 100 |
| Noninterest-earning assets and allowance for loan losses | - | - | - | - |
| Total Assets | 746,914 | 27,734 | 242,896 | 535,698 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Interest-bearing deposits | | | | |
| Savings [1] | - | - | 27,264 | - |
| NOW [1) | - | - | 116,601 | - |
| Money market [1] | 141,605 | - | 33,740 | - |
| Time - domestic | 175,521 | 125,010 | 72,587 | 3 |
| - foreign | 1,355 | 1,645 | - | - |
| Securities sold u/a/r - cust | 79,020 | 543 | - | - |
| Securities sold u/a/r - deal | 64,063 | - | - | - |
| Federal funds purchased | - | - | - | - |
| Commercial paper | 22,759 | - | - | - |
| Other short-term borrowings | 3,142 | 30,000 | - | - |
| Long-term borrowings - FHLB | - | - | 15,000 | 100,000 |
| Noninterest-bearing liabilities and shareholders' equity | - | - | - | - |
| Total Liabilities and Shareholders' Equity | 487,465 | 157,198 | 265,192 | 100,003 |
| Net Interest Rate Sensitivity Gap | \$ 259,449 | \$ (129,464) | \$ (22,296) | \$ 435,695 |
| Cumulative Gap September 30, 2003 | \$ 259,449 | \$ 129,985 | \$ 107,689 | \$ 543,384 |
| Cumulative Gap September 30, 2002 | \$ 156,673 | \$ 81,862 | \$ (19,544) | \$ 464,151 |

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| | ===== | ===== | ===== | ===== |
|-------------------|------------|------------|-----------|------------|
| Cumulative Gap | | | | |
| December 31, 2002 | \$ 260,814 | \$ 167,170 | \$ 98,271 | \$ 522,344 |
| | ===== | ===== | ===== | ===== |

[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.

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ITEM 4. CONTROLS AND PROCEDURES

An evaluation was carried out under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as of the end of the period covered by this report. No changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 5. OTHER EVENTS

In this Form 10-Q, the consolidated balance sheet as of September 30, 2003, the consolidated statements of income, average balance sheets and rate volume analysis for the three month and nine month periods ended September 30, 2003, together with management's discussion and analysis thereto, are different from the Company's earnings press release issued on October 20, 2003 for the three month and nine month periods ended September 30, 2003 due to the Financial Accounting Standards Board decision on November 5, 2003 to indefinitely defer the adoption of SFAS No. 150 with respect to certain mandatorily redeemable capital securities. The revisions had no impact on the Company's financial position or results of operations previously announced in its quarterly earnings release.

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PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

- (a) The following exhibits are filed as part of this report:
 - 11 Statement Re: Computation of Per Share Earnings
 - 31 Certifications of the CEO and CFO pursuant to Exchange Act Rule 13a-14(a)
 - 32 Certifications of the CEO and CFO required by Section

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1350 of chapter 63 of title 18 of the U.S. Code

(b) Reports on Form 8-K:

In a report on Form 8-K dated July 17, 2003 and filed on July 18, 2003, the Company reported, under Item 5. "Other Events" and under Item 7. "Financial Statements, Pro Forma Financial Information and Exhibits", the press release announcing the results of operations for the quarter and six months ended June 30, 2003.

In a report on Form 8-K dated July 22, 2003 and filed on July 22, 2003, the Company reported, under Item 5. "Other Events" and under Item 7. "Financial Statements, Pro Forma Financial Information and Exhibits", the press release announcing a presentation on July 29, 2003 by John C. Millman, President of Sterling Bancorp, as part of the Keefe, Bruyette & Woods, Inc. Honor Roll and Fourth Annual Community Bank Investor Conference.

In a report on Form 8-K dated August 20, 2003 and filed on August 20, 2003, the company reported under Item 5. "Other Events" and under Item 7. "Financial Statements Pro Forma Financial Information and Exhibits", the press release announcing that the Company's Chairman and Chief Executive Officer would ring The Opening Bell (TM) at The New York Stock Exchange on August 21, 2003.

In a report on Form 8-K/A dated August 21, 2003 and filed on August 21, 2003, the Company reported under Item 5. "Other Events" and under Item 7. "Financial Statements Pro Forma Financial Information and Exhibits", the press release announcing the declaration of a five - for - four stock split distributed on September 10, 2003 to shareholders of record on September 1, 2003. The Company also announced the declaration of a quarterly cash dividend of \$0.19 payable September 30, 2003 to shareholders of record on September 19, 2003.

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 11/14/03 /s/ Louis J. Cappelli

Louis J. Cappelli
Chairman and
Chief Executive Officer

Date 11/14/03 /s/ John W. Tietjen

John W. Tietjen

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Executive Vice President, Treasurer
and Chief Financial Officer

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STERLING BANCORP AND SUBSIDIARIES

EXHIBIT INDEX

| Exhibit Number ----- | Description ----- | Incorporated Herein By Reference To ----- | File Here ----- |
|----------------------------|---|--|-----------------------|
| 11 | Statement re: Computation of Per Share Earnings | | X |
| 31 | Certifications of the CEO and CFO pursuant to Exchange Act Rule 13a-14(a) | | X |
| 32 | Certifications of the CEO and CFO required by Section 1350 of chapter 63 of title 18 of the U.S. Code | | X |

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