STERLING BANCORP
Form 10-Q
August 14, 2001

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2001

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.

[X] YES [] NO

AS OF JUNE 30, 2001 THERE WERE 9,250,642 SHARES OF COMMON STOCK, $1.00 PAR VALUE, OUTSTANDING.

STERLING BANCORP

STERLING BANCORP AND SUBSIDIARIES
Consolidated Balance Sheets

ASSETS	June 30, 2001
Cash and due from banks	$ 49,101,280
Interest-bearing deposits with other banks	3,512,688
Securities available for sale	121,067,400
Securities available for sale - pledged	81,321,160
Securities held to maturity	95,419,519
Securities held to maturity - pledged	149,304,989
Total investment securities	447,113,068
Loans, net of unearned discounts	740,685,350
Less allowance for credit losses	13,105,569
Loans, net	727,579,781
Customers' liability under acceptances	1,840,911
Excess cost over equity in net assets of the banking subsidiary	21,158,440
Premises and equipment, net	6,278,899
Other real estate	786,046
Accrued interest receivable	5,252,117
Other assets	14,000,286
	$ 1,276,623,516
LIABILITIES AND SHAREHOLDERS' EQUITY	
Deposits	
Noninterest-bearing deposits	$ 311,780,082
Interest-bearing deposits	570,376,386
Total deposits	882,156,468
Federal funds purchased and securities sold under agreements to repurchase	110,065,492
Commercial paper	40,244,800
Other short-term borrowings	4,941,651
Acceptances outstanding	1,840,911
Accrued expenses and other liabilities	71,993,569
	1,111,242,891
Long-term debt - FHLB	40,350,000
Total liabilities	1,151,592,891
Commitments and contingent liabilities	
Shareholders' equity	
Preferred stock, $5 par value. Authorized 644,389 shares	
Series B, issued -0- and 1,199 shares,respectively	-
Series D, issued 235,778 and 237,878 shares,respectively	2,357,780
	2,357,780
Common stock, $1 par value. Authorized 20,000,000 shares;	

issued 9,777,602 and 9,563,329 shares,respectively	9,777,602
Capital surplus	69,478,871
Retained earnings	53,744,828
Accumulated other comprehensive income(loss), net of tax	718,605
	136,077,686
Less	
Common shares in treasury at cost, 526,960 and 473,125 shares, respectively	9,389,221
Unearned compensation	1,657,840
Total shareholders' equity	125,030,625
	$ 1,276,623,516

See Notes to Consolidated Financial Statements.

STERLING BANCORP AND SUBSIDIARIES
Consolidated Statements of Income

	Three Months Ended June 30, 2001	Three Months Ended June 30, 2000	
INTEREST INCOME			
Loans	$ 16,756,296	$ 16,488,445	$
Investment securities			
Available for sale	3,048,929	2,396,050	
Held to maturity	4,369,768	5,228,184	
Federal funds sold	5,069	9,740	
Deposits with other banks	21,484	23,378	
Total interest income	24,201,546	24,145,797	
INTEREST EXPENSE			
Deposits	4,891,724	5,347,931	
Federal funds purchased and securities sold under agreements to repurchase	1,333,599	2,465,584	
Commercial paper	453,759	340,502	
Other short-term borrowings	26,066	176,545	
Long-term debt	466,773	107,412	
Total interest expense	7,171,921	8,437,974	
Net interest income	17,029,625	15,707,823	
Provision for credit losses	1,527,800	1,626,800	
Net interest income after provision for credit losses	15,501,825	14,081,023	

NONINTEREST INCOME			
Factoring income	1,314,165	1,224,570	
Mortgage banking income	2,133,709	1,695,273	
Service charges on deposit accounts	1,363,578	1,197,647	
Trade finance income	616,920	690,613	
Trust fees	198,815	166,199	
Other service charges and fees	393,541	531,888	
Other income	98,986	33,208	
Total noninterest income	6,119,714	5,539,398	
NONINTEREST EXPENSES			
Salaries and employee benefits	6,879,321	7,172,292	
Occupancy expenses, net	1,071,640	976,208	
Equipment expenses	580,986	585,899	
Advertising and marketing	898,738	708,831	
Professional fees	1,795,820	1,370,336	
Data processing services	328,990	320,733	
Other expenses	2,364,440	1,571,361	
Total noninterest expenses	13,919,935	12,705,660	
Income before income taxes	7,701,604	6,914,761	
Provision for income taxes	2,996,377	2,916,103	
Net income	$ 4,705,227	$ 3,998,658	$
Average number of common shares outstanding			
Basic	9,167,817	9,116,760	
Diluted	9,751,198	9,442,678	
Per average common share			
Basic	$0.51	$0.44	
Diluted	0.49	0.42	
Dividends per common share	0.16	0.14	

See Notes to Consolidated Financial Statements.

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STERLING BANCORP AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income

	Three Months Ended June 30, 2001	2000	
Net Income	$ 4,705,227	$ 3,998,658	$ 9

Other comprehensive income, net of tax:

Unrealized holding (losses)gains arising during the period	(216,084)	284,942	
Comprehensive income	$ 4,489,143	$ 4,283,600	$ 9

See Notes to Consolidated Financial Statements.

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

	Six Month June 2001
Preferred Stock	
Balance at January 1	$ 2,402,760
Conversions of Series B shares	(580)
Redemption of Series B shares	(23,400)
Conversions of Series D shares	(21,000)
Balance at June 30	$ 2,357,780
Common Stock	
Balance at January 1	$ 9,563,329
Conversions of preferred shares into common shares	2,481
Options exercised	211,792
Balance at June 30	$ 9,777,602
Capital Surplus	
Balance at January 1	$ 67,450,110
Conversions of preferred shares into common shares	19,099
Issuance of shares under incentive compensation plan	-
Options exercised	2,009,662
Balance at June 30	$ 69,478,871
Retained Earnings	
Balance at January 1	$ 47,466,602
Net Income	9,241,512
Cash dividends paid - common shares	(2,913,983)
- preferred shares	(49,303)

Balance at June 30	$ 53,744,828
Accumulated Other Comprehensive Income(Loss), Net of Tax	
Balance at January 1	$ (22,652)
Unrealized holding gains arising during the period	
Before tax	1,370,157
Tax expense	(628,900)
Net of tax	741,257
Balance at June 30	$ 718,605
Treasury Stock	
Balance at January 1	$ (7,986,763)
Issuance of shares under incentive compensation plan	-
Surrender of shares issued under incentive compensation plan	(1,402,458)
Purchase of common shares	-
Balance at June 30	$ (9,389,221)
Unearned Compensation	
Balance at January 1	$ (1,857,292)
Issuance of shares under incentive compensation plan	-
Amortization of unearned compensation	199,452
Balance at June 30	$ (1,657,840)
Total Shareholders' Equity	
Balance at January 1	$ 117,016,094
Net changes during period	8,014,531
Balance at June 30	$ 125,030,625

See Notes to Consolidated Financial Statements.

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STERLING BANCORP AND SUBSIDIARIES
Consolidated Statements of Cash Flows

	Six M J
	2001

Operating Activities	
Net Income	$ 9,241,512
Adjustments to reconcile net income to net cash (used in) provided by operating activities:	
Provision for credit losses	3,213,600
Depreciation and amortization of premises and equipment	802,235
Deferred income tax provision	(119,825)
Net change in loans held for sale	(11,463,278)
Amortization of unearned compensation	199,452
Amortization of premiums of securities	588,725
Accretion of discounts on securities	(332,052)
(Decrease)Increase in accrued interest receivable	(56,161)
Increase(Decrease) in accrued expenses and other liabilities	2,381,792
(Decrease)Increase in other assets	(2,098,644)
Other, net	(1,402,458)
Net cash provided by operating activities	954,898
Investing Activities	
Purchase of premises and equipment	(1,611,672)
Increase in interest-bearing deposits	(856,010)
Increase in other real estate	(138,052)
Net decrease in loans	18,882,667
Proceeds from prepayments, redemptions or maturities of securities - held to maturity	36,642,988
Purchases of securities - held to maturity	-
Purchases of securities - available for sale	(67,733,749)
Proceeds from prepayments, redemptions or maturities of securities - available for sale	18,888,037
Net cash provided by investing activities	4,074,209
Financing Activities	
Decrease in noninterest-bearing deposits	(29,259,246)
Increase(Decrease) in interest-bearing deposits	45,133,530
(Decrease)Increase in Federal funds purchased and securities sold under agreements to repurchase	(52,697,517)
Increase(Decrease) in commercial paper and other short-term borrowings	1,797,949
Purchase of treasury stock	-
Redemption of preferred stock	(23,400)
Increase(Decrease) in other long-term debt	29,650,000
Proceeds from exercise of stock options	2,221,454
Cash dividends paid on common and preferred stock	(2,963,286)
Net cash used in financing activities	(6,140,516)
Net (decrease) increase in cash and due from banks	(1,111,409)
Cash and due from banks - beginning of period	50,212,689
Cash and due from banks - end of period	$ 49,101,280

Supplemental schedule of non-cash financing activities:

Issuance of treasury stock	$ -
Preferred stock conversions	21,000
Surrender of treasury shares issued under incentive compensation plan	(1,402,458)
Supplemental disclosure of cash flow information:	
Interest paid	15,459,001
Income taxes paid	6,228,875

See Notes to Consolidated Financial Statements.

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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 June 30, 2001 and 2000 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 2000 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, 2000. The Board announced 10% stock dividends as follows on November 16, 2000, payable on December 11, 2000 to shareholders of record on December 1, 2000. Fractional shares were cashed-out and payments were made to shareholders in lieu of fractional shares. The basic and diluted average number of shares outstanding and earnings per share information for all prior reporting periods have been restated to reflect the effect of the stock dividend.

2. For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks.

3. The Company's outstanding Preferred Shares comprise -0- Series B shares (of 4,389 Series B shares authorized) and 238,961 Series D shares (of 300,000 Series D shares authorized). As of June 29, 2001, all outstanding Series B shares were called for redemption by the Company. 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 1.1561 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).

4. The Financial Accounting Standards Board Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information," established standards for the way that public business enterprises report and disclose selected information about operating segments in interim financial statements issued to stockholders.

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements

The Company provides a full 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 2001 year-to-date average interest-earning assets were 60.6% loans (corporate lending was 77.1% and real estate lending was 19.8% of total loans, respectively) and 39.4% investment securities and money market investments. There are no industry concentrations exceeding 10% of loans, gross, in the corporate loan portfolio. Approximately 75% of loans are to borrowers located in the metropolitan New York area. The Company has determined that it has three reportable operating segments: corporate lending, real estate lending and company-wide treasury.

The following tables provide certain information regarding the Company's operating segments for the three and six month periods ended June 30, 2001 and 2000:

	Corporate Lending	Real Estate Lending	Company-wi Treasury
Three Months Ended June 30, 2001			
Net interest income	$ 7,760,864	$ 3,596,938	$ 5,190,3
Noninterest income	3,094,816	2,246,356	30,5
Depreciation and amortization	45,742	52,198	
Segment profit	4,855,752	2,957,078	6,074,4
Segment assets	564,957,554	152,399,842	516,524,1
Three Months Ended June 30, 2000			
Net interest income	$ 8,932,589	$ 2,657,235	$ 3,379,5
Noninterest income	2,978,498	1,747,675	30,2
Depreciation and amortization	46,559	54,234	1
Segment profit	4,650,488	2,393,846	5,591,8
Segment assets	528,307,089	109,116,551	525,970,1
Six Months Ended June 30, 2001			
Net interest income	$ 15,712,651	$ 6,947,168	$ 9,997,7
Noninterest income	6,382,005	3,567,894	72,2
Depreciation and amortization	86,487	98,583	1
Segment profit	9,514,112	5,554,694	11,793,5
Segment assets	564,957,554	152,399,842	516,524,1
Six Months Ended June 30, 2000			
Net interest income	$ 14,873,362	$ 4,923,907	$ 9,191,1

Noninterest income	5,625,505	3,102,363	76,8
Depreciation and amortization	89,408	97,819	3
Segment profit	8,181,135	4,316,246	11,660,2
Segment assets	528,307,089	109,116,551	525,970,1

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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 June 30, 2001	Three Months Ended June 30, 2000	
Net interest income:			
Total for reportable operating segments	$ 16,548,199	$ 14,969,348	$ 32,
Other [1]	481,426	741,475	1,
Consolidated net interest income	$ 17,029,625	$ 15,710,823	$ 33,
Noninterest income:			
Total for reportable operating segments	$ 5,371,729	$ 4,756,448	$ 10,
Other [1]	747,985	782,950	1,
Consolidated noninterest income	$ 6,119,714	$ 5,539,398	$ 11,
Profit:			
Total for reportable operating segments	$ 13,887,269	$ 12,636,233	$ 26,
Other [1]	(6,185,665)	(5,721,472)	(11,
Consolidated income before income taxes	$ 7,701,604	$ 6,914,761	$ 15,
Assets:			
Total for reportable operating segments	$1,233,881,583	$1,163,393,804	$ 1,233,
Other [1]	42,741,933	44,242,605	42,
Consolidated assets	$1,276,623,516	$1,207,636,409	$ 1,276,

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

5. On September 29, 2000, the Financial Accounting Standards Board issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No. 140 replaces SFAS No. 125 and addresses implementation issues that were identified in applying SFAS No. 125. SFAS No. 140 is effective for transfers of financial assets (including securitizations) occurring after June 30, 2001. However, the provisions of SFAS No. 140 related to the recognition and reclassification of collateral in financial statements and disclosures related to securitization transactions and collateral are effective for fiscal years ending after December 15, 2000.

In accordance with SFAS No. 140, the Company reports securities pledged as collateral separately in the consolidated balance sheets if the secured party has the right by contract or custom to sell or repledge the collateral. Securities are pledged by the Company to secure trust and public deposits, securities sold under agreements to repurchase, advances from the Federal Home Loan Bank of New York and for other purposes required or permitted by law.

6. SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, is effective January 1, 2001 for the Company, and requires the recognition of all derivatives as either assets or liabilities measured at fair value. The accounting for derivative instruments depends on the intended use of the derivative and its classification as a fair value hedge, cash flow hedge, or a hedge of foreign currency exposure.

Special hedge accounting treatment is permitted only if specific criteria are met. One requirement is that the hedging relationship be highly effective both at inception and on an ongoing basis. Hedge accounting is determined based on the type of hedge-fair value, cash flow or foreign currency hedge of a net investment in a foreign operation. Effective hedge results are recognized in current earnings for fair value hedges, in other comprehensive income for cash flow hedges and as part of the cumulative translation adjustment in other comprehensive income for foreign currency net investment hedges. Ineffective portions of hedges are recognized immediately in current earnings.

The Company adopted the provisions of SFAS No. 133 effective January 1, 2001. At adoption, the Company recorded an insignificant loss and believes that SFAS No. 133 will not have a material impact on the Company's 2001 consolidated financial statements since the only derivatives that the Company has are interest rate floor contracts with a notional amount of $75 million.

7. In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other

Intangible Assets." These Statements will change the accounting for business combinations and goodwill in two ways. First, SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Second, SFAS No. 142 changes the accounting for goodwill, including goodwill recorded in past business combinations. The previous accounting principles governing goodwill generated from a business combination will cease upon adoption of SFAS No. 142. The effect of adopting these standards is not expected to have a material impact on the Company's statements of financial condition and results of operations. These standards will become effective for the Company on January 1, 2002.

STERLING BANCORP AND SUBSIDIARIES
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 bank holding company and a financial holding company as defined by the Bank Holding Company Act of 1956, as amended, and its wholly-owned subsidiaries Sterling Banking Corporation and Sterling National Bank. Sterling National Bank, which is the principal subsidiary, owns all of the outstanding shares of Sterling Factors Corporation ("Factors"), Sterling National Mortgage Company, Inc.("SNMC"), Sterling National Servicing, Inc. ("SNS-Virginia") and Sterling Holding Company of Virginia, Inc. Sterling Holding Company of Virginia, Inc. owns all of the outstanding shares of Sterling Real Estate Holding Company, Inc. ("SREHC"). Throughout this discussion and analysis, the term "the Company" refers to Sterling Bancorp and its subsidiaries and the term "the bank" refers to Sterling National Bank and its subsidiaries. This discussion and analysis should be read in conjunction with the Company's annual report on Form 10-K for the year ended December 31, 2000.

FORWARD-LOOKING STATEMENTS

The Company may from time to time make written or oral statements that are considered "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may include, but are not limited to, financial projections, statements of plans and objectives for future operations, estimates of future economic performance and assumptions relating thereto.

The Company may include forward-looking statements in its filings with the Securities and Exchange Commission, including this 10-Q, in reports to stockholders, in other written materials, and in statements made by officers and representatives of the Company to analysts, rating agencies, institutional investors, representatives of the media and others.

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 of 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; 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 economic conditions and in the local economies in which we operate; competitive pressures on loan and deposit pricing and demand; changes in technology and their impact on the marketing of products and services; the timely development and effective marketing of competitive 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 our 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 forwarding-looking statement, whether written or oral, that may be made from time to time.

BUSINESS

The Company provides a wide range of financial products and services, including business and consumer loans, commercial and residential mortgage lending and brokerage, asset-based financing, accounts receivable management services, trade financing, equipment leasing, corporate and consumer deposits services, trust and estate administration, and investment management services. The Company has operations in metropolitan New York area, as well as Virginia 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. In addition to competing with other banks, the Company competes in most areas of its business with other financial institutions. At June 30, 2001, the bank's year-to-date average earning assets (of which loans were 59% and investment securities were 40%) represented approximately 97% of the Company's year-to-date average earning assets.

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.

Results for the Three Months Ended June 30, 2001 and 2000

OVERVIEW

The Company reported net income for the three months ended June 30, 2001 of $4.7 million, representing $0.49 per share, calculated on a diluted basis, compared to $4.0 million, or $0.42 per share, calculated on a diluted basis, for the like period in 2000. This increase reflects higher net interest income and continued growth in noninterest income.

Net interest income, on a tax equivalent basis, increased to $17.3 million for the second quarter of 2001 compared with $16.0 million for the same period in 2000, due to higher average earning assets outstanding coupled with lower average cost of funding. The net interest margin, on a tax equivalent basis, was 6.12% for the second quarter of 2001 compared to 6.03% for the like 2000 period. The net interest margin benefitted from a decrease of 80 basis points in the average cost of funds partially offset by a decrease of 59 basis points in the average yield on earning assets.

Noninterest income rose to $6.1 million for the three months ended June 30, 2001 compared to $5.5 million for the like 2000 period principally due to continued growth in fees from mortgage banking, deposit services and factoring.

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, liabilities and shareholders' equity. The increases (decreases) in the components of interest income and interest expense, expressed in terms of fluctuation in average volume and rate are shown on page 24. Information as to the components of interest income and interest expense and average rates is provided in the Average Balance Sheets shown on page 22.

Net interest income, on a tax equivalent basis, for the three months ended June 30, 2001 increased to $17,286,000 from $15,952,000 for the comparable period in 2000.

Total interest income, on a tax equivalent basis, aggregated $24,458,000 for the second quarter of 2001 up from $24,390,000 for the same period of 2000. The tax equivalent yield on interest earning assets was 8.73% for the three months ended June 30, 2001 compared with 9.32% for the comparable period in 2000. The increase in interest income was due to an increase in income earned on the Company's loan portfolio. Loan balances increased as the result of the continued implementation of business plans designed to increase funds employed in this asset category. The decrease in yield on earning assets was primarily due to lower yields on loans primarily attributable to a lower interest rate environment on average in the 2001 period.

Interest earned on the loan portfolio amounted to $16,756,000 which was up $267,000 when compared to a year ago. Average loan balances amounted to $704,022,000 which were up $82,485,000 from the prior year period. The increase in the average loans was primarily in the commercial and industrial, leasing and real estate loan segments. The decrease in the yield on the domestic loan portfolio to 10.13% for the three months ended June 30, 2001 from 11.36% for the comparable 2000 period was primarily attributable to a lower interest rate environment on average in the 2001 period.

Interest expense on deposits decreased $456,000 for the three months ended June 30, 2001 to $4,892,000 from $5,348,000 for the comparable 2000 period principally due to lower rates paid. Average rate paid on interest-bearing deposits was 3.54% which was 59 basis points lower than the prior year period. The decrease in average cost of deposits reflects the lower interest rate environment during the 2001 period.

Interest expense associated with borrowed funds decreased to $2,280,000 for the second quarter of 2001 from $3,090,000 in the comparable 2000 period as the result of lower average balances and lower funding costs. Average amounts of borrowed funds outstanding decreased $18,284,000 to $200,722,000 for the three months ended June 30, 2001. The average rate paid decreased to 4.55% from 5.73% in the prior year period reflecting the lower interest rate environment during the 2001 period.

Noninterest Income

Noninterest income increased $580,000 for the second quarter of 2001 from $5,539,000 in the like 2000 period primarily as a result of increased fees from mortgage banking, deposit services and factoring.

Noninterest Expenses

Noninterest expenses were $13,920,000 for the second quarter of 2001, an increase of $1,214,000 when compared with the like 2000 period primarily due to increased professional fees, advertising and marketing, occupancy and various other expenses incurred to support growing levels of business activity and continued investment in the business franchise.

Results for the Six Months Ended June 30, 2001 and 2000

OVERVIEW

The Company reported net income for the six months ended June 30,2001 of $9.2 million, representing $0.96 per share, calculated on a diluted basis, compared to $7.9 million, or $0.83 per share calculated on a diluted basis, for the like period in 2000. This increase reflects continued growth in both net interest income and noninterest income as explained below.

Net interest income, on a tax equivalent basis, increased to $34.2 million for the first six months of 2001 compared with $31.0 million for the same period in 2000, due to higher average earning assets outstanding coupled with lower average cost of funding. The net interest margin, on a tax equivalent basis, was 6.24% for the first six months of 2001 compared to 5.92% for the like 2000 period. The net interest margin benefitted from a decrease of 41 basis points in the average costs of funds partially offset by a 6 basis point decrease in the average yield on earning assets.

Noninterest income rose to $11.5 million for the six months ended June 30,2001 compared to $10.1 million for the like 2000 period principally due to continued growth in fees from deposit services, mortgage banking and factoring.

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, liabilities and shareholders' equity. The increases (decreases) in the components of interest income and interest expense for the first six months, expressed in terms of fluctuation in average volume and rate are shown on page 25. Information as to the components of interest income and interest expense and average rates for the first six months is provided in the Average Balance Sheets shown on page 23.

Net interest income, on a tax equivalent basis, for the six months ended June 30,2001 increased $3,167,000 to $34,202,000 from $31,035,000 for the comparable period in 2000.

Total interest income, on a tax equivalent basis, aggregated $49,290,000 up $1,881,000 for the first half of 2001 as compared to $47,409,000 for the same period of 2000. The tax equivalent yield on interest-earning assets was 9.06% for the first six months of 2001 compared with 9.12% for the comparable period in 2000. The increase in interest income was due to increases in income earned on the Company's loan portfolio as a result of the continuation of management's strategy to increase funds employed in this asset category. The decrease in yield on earning assets was due to lower yields on loans primarily attributable to a lower interest rate environment on average in the 2000 period.

Interest earned on the loan portfolio amounted to $34,015,000 up $2,507,000 when compared to a year ago. Average loan balances amounted to $691,206,000 up $80,767,000 from an average of $610,439,000 in the prior year period. The increase in the average loans, primarily in the leasing, real estate and commercial and industrial loan segments, accounted for the increase in interest earned on loans. The decrease in the yield on the domestic loan portfolio to 10.67% for the six months ended June 30,2001 from 11.11% for the comparable 2000 period was primarily attributable to the lower interest rate environment in the 2001 period.

Total interest expense decreased $1,286,000 to $15,088,000 for the first six months of 2001 from $16,374,000 for the comparable period in 2000. The decrease in interest expense was primarily due to lower average rates paid for interest-bearing deposits.

Interest expense on deposits decreased $1,208,000 for the six months ended June 30,2001 to $10,240,000 from $11,448,000 for the comparable 2000 period due to decreases in average outstandings and the cost of funds. Average outstandings decreased $4,679,000 to $545,879,000 in 2001 from $550,558,000 in 2000. The average rate paid on interest-bearing deposits decreased to 3.78% in 2001 compared to 4.18% in the comparable year ago period reflecting the lower rate environment during the 2001 period.

Interest expense associated with borrowed funds decreased to $4,848,000 for the first six months of 2001 from $4,926,000 in the comparable 2000 period as the result of lower rates paid for borrowed funds rates paid partially offset by higher average outstandings. The average rate paid decreased to 4.99% from 5.51% for the six months ended June 30, 2001 reflecting the lower rate environment during the 2001 period. The average amounts outstanding increased $13,766,000 to $195,784,000 for the prior year period.

Noninterest Income

Noninterest income increased $1,354,000 for the first six months of 2001 from $10,115,000 in the like 2000 period primarily as a result of increased fees from deposit services, mortgage banking and factoring.

Noninterest Expense

Noninterest expenses were $26,536,000 for the first six months of 2001, an increase of $2,222,000 when compared with the like 2000 period primarily due to increased advertising and marketing, professional fees, occupancy, salaries and employee benefits and various other expenses incurred to support growing levels of business activity and continued investments in the business franchise.

BALANCE SHEET ANALYSIS

Securities

The Company's securities portfolios are comprised of principally U.S. Government and U.S. Government corporation and agency guaranteed mortgage-backed securities along with other debt and equity securities. At June 30, 2001, the Company's portfolio of securities totalled $447,113,000 of which U.S. Government and U.S. Government corporations and agencies guaranteed mortgage-backed securities having an average life of approximately 3.9 years amounted to $402,314,000.

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:

JUNE 30, 2001	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES
U.S. Treasury securities	$ 2,461,218	$ 9,273	$ 491
Obligations of U.S. government corporations and agencies--mortgage-backed securities	153,977,243	1,016,601	654,416
Obligations of state and political institutions	34,554,027	912,304	4,596
Other debt securities	2,995,642	34,358	--
Federal Reserve Bank and other equity securities	7,072,142	15,255	--
Total	$201,060,272	$ 1,987,791	$ 659,503

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:

JUNE 30, 2001	CARRYING VALUE	GROSS UNREALIZED GAINS	GROSS UNREAL LOSSE
Obligations of U.S. government corporations and agencies--mortgage-backed securities	$242,474,508	$ 3,404,959	$ 867
Debt securities issued by Foreign governments	2,250,000	--	--
Total	$244,724,508	$ 3,404,959	$ 867

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 63% of gross loans. 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 liquid assets, accounts receivable, equipment, inventory or real property. The Company's real estate loan portfolio, which represents approximately 20% of gross loans, is secured by mortgages on real property located principally in the State of New York and the Commonwealth of Virginia.

The Company's leasing portfolio, which consists of finance leases for various types of business equipment, represents approximately 15% of gross loans. The collateral securing any loan may vary in value based on market conditions.

The following table sets forth the composition of the Company's loan portfolio:

	June 30,			
	2001		2000	
	($ in thousands)			
	Balances	% of Gross	Balances	% of Gross
Domestic				
Commercial and industrial	$472,941	62.5%	$442,195	64.6
Equipment lease financing	110,939	14.7	101,134	14.8
Real estate	150,871	19.9	113,058	16.5
Installment - individuals	8,764	1.2	7,783	1.1
Loans to depository institutions	12,000	1.6	20,000	2.9
Foreign				
Government and official institutions	777	0.1	777	0.1
Gross loan	756,292	100.0%	684,947	100.0
Unearned discounts	15,607		13,994	
Loans, net of unearned discounts	$740,685		$670,953	

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 credit losses is maintained through the provision for credit losses, which is a charge to operating earnings. The adequacy of the provision and the resulting allowance for credit 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 June 30, 2001, the ratio of the allowance to loans, net of unearned discounts, was 1.77% and the allowance was $13,106,000. At such date, the Company's non- accrual loans amounted to $1,551,000; $315,000 of such loans were judged to be impaired within the scope of SFAS No. 114 and required valuation allowances of $ 80,000. 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 credit

losses was deemed adequate to absorb all estimable losses on specifically known and other possible credit risks associated with the portfolio as of June 30, 2001. 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 $676,000 at June 30, 2001.

Deposits

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

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

	June 30,			
	2001		2000	
	($ in thousands)			
	Balances	% of Total	Balances	% of Total

Domestic				
Demand	$311,780	35.4%	$275,514	35.0%
NOW	86,826	9.8	69,710	8.8
Savings	28,556	3.2	25,590	3.2
Money market	181,535	20.6	144,305	18.3
Time deposits	270,484	30.7	270,382	34.3
Total domestic deposits	879,181	99.7	785,501	99.6
Foreign				
Time deposits	2,975	0.3	2,830	0.4
Total deposits	$882,156	100.0%	$788,331	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 customer's balance sheet strategies. Historically, however, average balances for deposits have been relatively stable. Information regarding these average balances is presented on pages 22 and 23.

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 26. In addition, the Company and the bank are subject to the provisions of 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 the provisions of FDICIA a "well capitalized" institution must maintain minimum leverage, Tier 1 and Total Capital ratios of 5%, 6% and 10%, respectively. At June 30, 2001, the Company and the bank exceeded the requirements for "well capitalized" institutions. Under the provisions of 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."

STERLING BANCORP AND SUBSIDIARIES

Average Balance Sheets [1]
Three Months Ended June 30,

(dollars in thousands)

	2001			
ASSETS	Average Balance	Interest	Average Rate	Average Balance
Interest-bearing deposits with other banks	$ 2,880	$ 22	3.32%	$ 1,868
Investment securities:				
Available for sale	162,259	2,681	6.61	124,048
Held to maturity	257,103	4,369	6.80	304,323
Tax-exempt [2]	33,825	625	7.41	32,283
Federal funds sold	473	5	4.24	604
Loans, net of unearned discounts				
Domestic [3]	703,245	16,744	10.13	620,755
Foreign	777	12	6.17	782
TOTAL INTEREST-EARNING ASSETS	1,160,562	24,458	8.73%	1,084,663
Cash and due from banks	43,211			39,426
Allowance for credit losses	(13,423)			(12,051)
Goodwill	21,158			21,158
Other assets	27,430			22,013
TOTAL ASSETS	$1,238,938			$1,155,209
LIABILITIES AND SHAREHOLDERS' EQUITY				
Interest-bearing deposits				
Domestic				
Savings	$ 27,217	164	2.42%	$ 24,254
NOW	75,514	400	2.12	69,337
Money market	189,030	1,108	2.35	158,586
Time	259,260	3,185	4.93	265,674
Foreign				
Time	2,975	35	4.77	2,830
Total interest-bearing deposits	553,996	4,892	3.54	520,681
Borrowings				
Federal funds purchased and securities sold under agreements to repurchase	118,299	1,334	4.52	169,115
Commercial paper	39,718	453	4.58	26,463
Other short-term debt	2,355	26	4.44	12,728
Long-term debt	40,350	467	4.63	10,700

Total borrowings	200,722	2,280	4.55	219,006
TOTAL INTEREST-BEARING LIABILITIES	754,718	7,172	3.81%	739,687
Noninterest-bearing deposits	290,139			251,972
Other liabilities	72,372			58,317
Total liabilities	1,117,229			1,049,976
Shareholders' equity	121,709			105,233
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,238,938			$1,155,209
Net interest income/spread		17,286	4.92%	
Net yield on interest-earning assets (margin)			6.12%	
Less: Tax equivalent adjustment		257		
Net interest income		$17,029		

[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 2000 amounts to conform to the current presentation.

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

[3] Nonaccrual loans are included in amounts outstanding and income has been included to the extent earned.

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

(dollars in thousands)

	2001			
ASSETS	Average Balance	Interest	Average Rate	Avera Balan
Interest-bearing deposits with other banks	$ 2,901	$ 58	4.03%	$
Investment securities:				

Available for sale	145,299	4,885	6.72	1
Held to maturity	266,286	9,074	6.82	3
Tax-exempt [2]	33,378	1,233	7.45	
Federal funds sold	928	25	5.26	
Loans, net of unearned discounts				
Domestic [3]	690,429	33,988	10.67	6
Foreign	777	27	6.89	
TOTAL INTEREST-EARNING ASSETS	1,139,998	49,290	9.06%	1,0
Cash and due from banks	44,539			
Allowance for credit losses	(13,317)			(
Goodwill	21,158			
Other assets	26,571			
TOTAL ASSETS	$ 1,218,949			$ 1,1
LIABILITIES AND SHAREHOLDERS' EQUITY				
Interest-bearing deposits				
Domestic				
Savings	$ 26,081	311	2.40%	$
NOW	73,888	835	2.28	
Money market	185,370	2,419	2.63	1
Time	257,565	6,603	5.17	2
Foreign				
Time	2,975	72	4.91	
Total interest-bearing deposits	545,879	10,240	3.78	5
Borrowings				
Federal funds purchased and securities sold under agreements to repurchase	123,898	3,133	5.10	1
Commercial paper	35,717	868	4.90	
Other short-term debt	3,209	85	5.37	
Long-term debt	32,960	762	4.62	
Total borrowings	195,784	4,848	4.99	1
TOTAL INTEREST-BEARING LIABILITIES	741,663	15,088	4.10%	7
Noninterest-bearing deposits	287,665			2
Other liabilities	70,391			
Total liabilities	1,099,719			1,0
Shareholders' equity	119,230			1
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,218,949			$ 1,1

Net interest income/spread	34,202	4.96%
Net yield on interest-earning assets (margin)		6.24%
Less: Tax equivalent adjustment	507	
Net interest income	$ 33,695	

[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 2000 amounts to conform to current presentation.
[2] Interest on tax-exempt securities is presented on a tax equivalent basis.
[3] Nonaccrual loans are included in amounts outstanding and income has been included to the extent earned.

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STERLING BANCORP AND SUBSIDIARIES
Rate/Volume Analysis [1]

(in thousands)

	Increase/(De Three Months June 30, 2001 to J	
	Volume	Rate
INTEREST INCOME		
Interest-bearing deposits with other banks	$ 10	$
Investment securities		
Available for sale	632	
Held to maturity	(806)	
Tax-exempt	30	
Total investment securities	(144)	
Federal funds sold	(2)	
Loans, net of unearned discounts		
Domestic [3]	2,246	(1,
Foreign	--	
Total loans, net of unearned discount	2,246	(1,
TOTAL INTEREST INCOME	$ 2,110	$ (2,

INTEREST EXPENSE		
Interest-bearing deposits		
Domestic		
Savings	$ 18	$
NOW	38	
Money market	214	(
Time	(81)	(
Foreign		
Time	1	
Total interest-bearing deposits	190	(
Borrowings		
Federal funds purchased and securities sold under agreements to repurchase	(642)	(
Commercial paper	156	
Other short-term debt	(121)	
Long-term debt	376	
Total borrowings	(231)	(
TOTAL INTEREST EXPENSE	$ (41)	$ (1,
NET INTEREST INCOME	$ 2,151	$ (

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

[2] The change in interest income and interest expense due to both rate and volume has been allocated to the change due to rate and the change due to volume in proportion to the relationship of the absolute dollar amounts of the changes in each. The effect of one extra day in 2000 has been included in the change in volume.

[3] Nonaccrual loans have been included in the amounts outstanding and income has been included to the extent accrued.

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STERLING BANCORP AND SUBSIDIARIES
Rate/Volume Analysis [1]

(in thousands)

	Increase/(Decreas Six Months Ended June 30, 2001 to June 3	
	Volume	Rate

INTEREST INCOME		
Interest-bearing deposits with other banks	$ 10	$ (11)
Investment securities		
Available for sale	614	96
Held to maturity	(1,234)	(55)
Tax-exempt	93	15
Total investment securities	(527)	56
Federal funds sold	(146)	(8)
Loans, net of unearned discounts		
Domestic [3]	3,896	(1,388)
Foreign	--	(1)
Total loans, net of unearned discount	3,896	(1,389)
TOTAL INTEREST INCOME	$ 3,233	$ (1,352)
INTEREST EXPENSE		
Interest-bearing deposits		
Domestic		
Savings	$ 22	$ 4
NOW	30	(70)
Money market	334	(452)
Time	(911)	(175)
Foreign		
Time	2	8
Total interest-bearing deposits	(523)	(685)
Borrowings		
Federal funds purchased and securities sold under agreements to repurchase	(183)	(302)
Commercial paper	154	(23)
Other short-term debt	(176)	(8)
Long-term debt	518	(58)
Total borrowings	313	(391)
TOTAL INTEREST EXPENSE	$ (210)	$ (1,076)
NET INTEREST INCOME	$ 3,443	$ (276)

[1] The above table is presented on a tax equivalent basis.
[2] The change in interest income and interest expense due to both rate and volume has been allocated to the change due to rate and the change due

to volume in proportion to the relationship of the absolute dollar amounts of the changes in each. The effect of one extra day in 2000 has been included in the change in volume.

[3] Nonaccrual loans have been included in the amounts outstanding and income has been included to the extent accrued.

STERLING BANCORP AND SUBSIDIARIES

REGULATORY CAPITAL AND RATIOS

RATIOS AND MINIMUMS

(dollars in thousands)

	ACTUAL		FOR CAPITAL ADEQUACY MINIM	
AS OF JUNE 30, 2001	AMOUNT	RATIO	AMOUNT	RA
Total Capital (to Risk Weighted Assets):				
The Company	$112,912	14.53%	62,182	
The bank	95,365	12.94	58,941	
Tier 1 Capital (to Risk Weighted Assets):				
The Company	103,154	13.27	31,091	
The bank	86,128	11.69	29,471	
Tier 1 Leverage Capital (to Average Assets):				
The Company	103,154	8.47	48,711	
The bank	86,128	7.32	47,077	
AS OF DECEMBER 31, 2000				
Total Capital (to Risk Weighted Assets):				
The Company	$105,503	13.35%	$63,205	
The bank	86,877	11.44	60,746	
Tier 1 Capital (to Risk Weighted Assets):				
The Company	95,593	12.10	31,602	
The bank	77,367	10.19	30,373	
Tier 1 Leverage Capital (to Average Assets):				
The Company	95,593	8.11	47,141	
The bank	77,367	6.73	46,015	

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 sophisticated income simulation models.

A traditional gap analysis is prepared based on the maturity and repricing characteristics of interest-earning assets and interest-bearing liabilities for selected time bands. The mismatch between repricings or maturities within a time band is commonly referred to as the "gap" for that period. A positive gap (asset sensitive) where interest-rate sensitive assets exceed interest-rate sensitive liabilities generally will result in an institution's net interest margin increasing in a rising rate environment and decreasing in a falling rate environment. A negative gap (liability sensitive) will generally have the opposite result on 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.

The Company's balance sheet structure is primarily short-term in nature with a substantial portion of assets and liabilities repricing or maturing within one year. The Company's gap analysis at June 30, 2001, is presented on page 30. 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.

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 Asset/Liability Committee, governing the use of certain financial instruments (derivatives), 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 purchased interest rate floor contracts to reduce the impact of falling rates on its floating rate commercial loans. Interest rate floor contracts require the counterparty to pay the Company at specified future dates the amount, if any, by which the specified interest rate (3 month LIBOR) falls below the fixed floor rates, applied to the notional amounts. The Company utilizes these financial instruments to adjust its interest rate risk position without exposing itself to principal risk and funding requirements.

At June 30, 2001, the Company utilized three interest rate floor contracts having a notional amount totaling $75 million consisting of a contract with a notional amount of $25 million and a final maturity of November 15, 2001 and two contracts with a notional amount of $25 million each and a final maturity of November 15, 2002. These financial instruments are being used as part of the Company's interest rate risk management and not for trading purposes. At June 30, 2001, all counterparties have investment grade credit ratings from the major rating agencies. Each counterparty is specifically approved for applicable credit exposure.

The Company utilizes income simulation models to complement its traditional gap analysis. While 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 which 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. As of June 30, 2001, the model indicated the impact of a 200 basis point parallel and pro rata rise in rates over twelve months would approximate a 2.48% ($1,635,000) increase in net interest income, while the impact of a 200 basis point decline in rates over the same period would approximate a 2.06% ($1,357,000) 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 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 June 30, 2001, the parent company's short-term debt, consisting principally of commercial paper used to finance ongoing current business activities, was approximately $40,595,000. The parent company had cash, interest-bearing deposits with banks and other current assets aggregating $43,439,000 and back-up credit lines with banks of $19,000,000. Since 1979, the parent company has had no need to use available back-up lines of credit.

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

STERLING BANCORP AND SUBSIDIARIES
Interest Rate Sensitivity

To mitigate the vulnerability of earnings to changes in interest rates, the Company manages the repricing characteristics of assets and liabilities in an attempt to control net interest rate sensitivity. Management attempts to confine significant rate sensitivity gaps predominantly to repricing intervals of a year or less so that adjustments can be made quickly. Assets and liabilities with predetermined repricing dates are placed in a time of 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	$ 3,513	$ --	$ --	$
Investment securities	3,394	2,960	40,698	392,9
Loans, net of unearned discounts	--			
Commercial and industrial	470,971	2,570	2,266	1
Loans to depository institutions	12,000	--	--	
Lease financing	33,966	3,373	64,750	8,8
Real estate	76,502	5,791	29,231	36,3
Installment	5,285	96	2,709	6
Foreign government and official institutions	--	777	--	
Noninterest-earning assets and allowance for credit losses	--	--	--	
Total Assets	605,631	15,567	139,654	438,9
LIABILITIES AND SHAREHOLDERS' EQUITY				
Interest-bearing deposits				
Savings [1]	--	--	28,556	
NOW [1]	--	--	86,826	
Money market [1]	146,664	--	34,871	
Time - domestic	163,922	73,886	32,676	
- foreign	1,795	1,180	--	
Federal funds purchased & securities sold u/a/r	109,552	514	--	
Commercial paper	40,245	--	--	
Other short-term borrowings	4,592	350	--	
Long-term borrowings - FHLB	10,000	20,000	10,350	
Noninterest-bearing liabilities and shareholders' equity	--	--	--	
Total Liabilities and				

Shareholders' Equity	476,770	95,930	193,279	
Net Interest Rate Sensitivity Gap	$ 128,861	$ (80,363)	$ (53,625)	$ 438,9
Cumulative Gap June 30, 2001	$ 128,861	$ 48,498	$ (5,127)	$ 433,8
Cumulative Gap June 30, 2000	$ 47,967	$ (56,055)	$ (102,206)	$ 368,2
Cumulative Gap December 31, 2000	$ 101,033	$ 24,199	$ (9,231)	$ 455,1

[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 runoff experience.

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STERLING BANCORP AND SUBSIDIARIES

PART II - OTHER INFORMATION

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

(a) The Annual Meeting of Shareholders of the Company was held on April 19, 2001.

(b) The following matters were submitted to a vote of the Shareholders of the Company:

(1) Election of Directors

Nominee	Total Votes For	Total V
Robert Abrams	8,081,366	74
Joseph M. Adamko	8,084,140	73
Lillian Berkman	8,141,514	68
Louis J. Cappelli	8,118,617	70
Walter Feldesman	7,977,924	84
Allan F. Hershfield	8,088,277	73
Henry J. Humphreys	8,084,581	73
John C. Millman	8,118,197	70
Maxwell M. Rabb	8,021,030	80
Eugene T. Rossides	8,045,280	77

There were no abstentions or broker nonvotes.

(2) Amendment of Stock Incentive Plan

Total Votes For	5,921,985
Total Votes Against	2,872,445
Total Abstentions	28,416
Total Broker Nonvotes	-0-

(3) Adoption of Key Executive Incentive Bonus Plan

Total Votes For	8,378,441
Total Votes Against	405,249
Total Abstentions	39,156
Total Broker Nonvotes	-0-

STERLING BANCORP AND SUBSIDIARIES

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

(b) No reports on Form 8-K have been filed during the quarter.

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 08/13/01 /s/ Louis J. Cappelli

Louis J. Cappelli
Chairman and
Chief Executive Officer

Date 08/13/01 /s/ John W. Tietjen

John W. Tietjen
Executive Vice President, Treasurer
and Chief Financial Officer

STERLING BANCORP AND SUBSIDIARIES

EXHIBIT INDEX

Exhibit Number	Description	Incorporated Herein By Reference To	Fi Her
11	Computation of Per Share Earnings		